

Circular/Notice to Shareholders

ADVANCECON HOLDINGS BERHAD

Subject CIRCULAR TO SHAREHOLDERS IN RELATION TO THE I. PROPOSED ACQUISITION BY ADVANCECON OF 260,100,006 ORDINARY SHARES IN SPRING ENERGY RESOURCES BERHAD ("SERB"), REPRESENTING 51% EQUITY INTEREST FROM FOOK HUA HOLDINGS SDN BHD ("FHHSB" OR THE "VENDOR") FOR A TOTAL PURCHASE CONSIDERATION OF RM30,400,000 TO BE SATISFIED VIA A COMBINATION OF CASH PAYMENT OF RM15,220,000 AND ISSUANCE OF 33,000,000 NEW ORDINARY SHARES OF ADVANCECON ("CONSIDERATION SHARE(S)") AT THE ISSUE PRICE OF RM0.46 PER CONSIDERATION SHARE ("PROPOSED ACQUISITION"); AND II. PROPOSED DIVERSIFICATION OF THE EXISTING PRINCIPAL ACTIVITIES OF ADVANCECON AND ITS SUBSIDIARIES TO INCLUDE QUARRY OPERATION AND RELATED ACTIVITIES ("PROPOSED DIVERSIFICATION")

Please refer attachment below.

Attachments

[Advancecon - Circular_final.pdf](#)
1.7 MB

Announcement Info

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Stock Name	ADVCON
Date Announced	11 Oct 2021
Category	Document Submission
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THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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ADVANCECON

ADVANCECON HOLDINGS BERHAD

(Registration No. 199701011469 (426965-M))
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

- I. **PROPOSED ACQUISITION BY ADVANCECON OF 260,100,006 ORDINARY SHARES IN SPRING ENERGY RESOURCES BERHAD ("SERB"), REPRESENTING 51% EQUITY INTEREST FROM FOOK HUA HOLDINGS SDN BHD ("FHHSB" OR THE "VENDOR") FOR A TOTAL PURCHASE CONSIDERATION OF RM30,400,000 TO BE SATISFIED VIA A COMBINATION OF CASH PAYMENT OF RM15,220,000 AND ISSUANCE OF 33,000,000 NEW ORDINARY SHARES OF ADVANCECON ("CONSIDERATION SHARE(S)") AT THE ISSUE PRICE OF RM0.46 PER CONSIDERATION SHARE ("PROPOSED ACQUISITION"); AND**
- II. **PROPOSED DIVERSIFICATION OF THE EXISTING PRINCIPAL ACTIVITIES OF ADVANCECON AND ITS SUBSIDIARIES TO INCLUDE QUARRY OPERATION AND RELATED ACTIVITIES ("PROPOSED DIVERSIFICATION")**

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Adviser

UOBKayHian

UOB Kay Hian Securities (M) Sdn Bhd

(Registration No. 199001003423 (194990-K))
(A Participating Organisation of Bursa Malaysia Securities Berhad)

The Notice of the Extraordinary General Meeting of Advancecon ("**EGM**") which will be conducted on a fully virtual basis through live streaming and online meeting platform of TIIH Online provided by Tricor Investor & Issuing House Services Sdn Bhd in Malaysia via Remote Participation and Electronic Voting ("**RPV**") facilities at <https://tiih.online> on Tuesday, 26 October 2021 at 10.00 a.m., or at any adjournment thereof, together with the Proxy Form are enclosed herein.

A member entitled to attend, participate, speak and vote remotely at the EGM via the Remote Participation and Voting facilities provided is entitled to appoint a proxy or proxies (not more than 2) to attend, participate, Poll Administrator office, Tricor Investor & Issuing House Services Sdn Bhd at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur. In the case of an appointment of a proxy made in electronic form, the Proxy Form can be electronically lodged via Tricor's TIIH Online website at <https://tiih.online>. Please refer to the procedures as set out in the Administrative Guide for the electronic lodgement of proxy form, not less than 48 hours before the time appointed for holding the EGM or at any adjournment thereof. The lodging of the Proxy Form shall not preclude you from attending, participating, speaking and voting at the EGM should you subsequently wish to do so.

Last date and time for lodging the Proxy Form : Sunday, 24 October 2021 at 10.00 a.m.

Date and time of the EGM : Tuesday, 26 October 2021 at 10.00 a.m. or at any adjournment thereof

This Circular is dated 11 October 2021

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:-

"Act"	:	The Companies Act, 2016, and any amendments made thereto from time to time
"Advancecon" or our "Company"	:	Advancecon Holdings Berhad (Registration No. 199701011469 (426965-M))
"Advancecon Group" or our "Group"	:	Advancecon and its subsidiaries, collectively
"Advancecon Share(s)" or our "Share(s)"	:	Ordinary share(s) in Advancecon
"Board"	:	Our Board of Directors
"Bursa Securities"	:	Bursa Malaysia Securities Berhad (Registration No. 200301033577 (635998-W))
"Cash Consideration"	:	RM15,220,000 of the Purchase Consideration to be satisfied via cash
"Circular"	:	This circular dated 11 October 2021 in relation to the Proposals
"Consideration Shares"	:	RM15,180,000 of the Purchase Consideration to be satisfied via the issuance of 33,000,000 new Advancecon Shares at an issue price of RM0.46 per Advancecon Share
"COVID-19"	:	Coronavirus disease
"Director(s)"	:	The director(s) of our Company and shall have the meaning given in Section 2(1) of the Capital Markets And Services Act 2007 and includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon:- i. a director of our Company, subsidiary or holding company; or ii. a chief executive of our Company, subsidiary or holding company
"EGM"	:	Extraordinary General Meeting
"EPS/ (LPS)"	:	Earnings per share/ (Loss per share)
"FHHSB" or "Vendor"	:	Fook Hua Holdings Sdn Bhd (Registration No. 199601017339 (389690-P))
"FPE"	:	Financial period ended/ ending
"FYE"	:	Financial year ended/ ending
"GP/ (GL)"	:	Gross Profit/ (Loss)
"Maju Holdings"	:	Maju Holdings Sdn Bhd (Registration No. 197801003468 (40444-V))

DEFINITIONS (CONT'D)

"MEX II Projects"	:	The civil engineering projects awarded by the main contractor of the projects, namely Maju Holdings to SESB as follows:- <ol style="list-style-type: none">i. Construction and completion of site clearance, earthworks and geotechnical works (WP200), drainage works and vehicular box culverts (WP300) and reinforced soil wall (WP400) for proposed Lebuhraya Putrajaya to KLIA (MEX II) – commencing from Putrajaya Interchange and terminating at KLIA, valued at RM205.28 million with project duration from October 2016 to March 2018; andii. Construction and completion of pavement works (WP700) for proposed Lebuhraya Putrajaya to KLIA (MEX II) – commencing from Putrajaya Interchange and terminating at KLIA, valued at RM69.65 million with project duration from August 2018 to August 2019
"Listing Requirements"	:	Main Market Listing Requirements of Bursa Securities
"LPD"	:	4 October 2021, being the latest practicable date prior to the printing and despatch of this Circular
"Maximum Scenario"	:	Assuming all the Treasury Shares are resold on the open market prior to the implementation of the Proposals.
"Minimum Scenario"	:	Assuming all the Treasury Shares are retained prior to the implementation of the Proposals.
"MCO"	:	Movement Control Order which was implemented by the government of Malaysia to contain the spread of the COVID-19 pandemic in Malaysia
"MT"	:	Metric tonne
"NA"	:	Net assets
"PAT/ (LAT)"	:	Profit/ (Loss) after taxation
"PBT/ (LBT)"	:	Profit/ (Loss) before taxation
"PE"	:	Price-to-earnings
"Profit Guarantee"	:	The aggregate cumulative PAT of not less than RM12,000,000 provided by the Vendor to Advancecon for the Profit Guarantee Period <i>For the avoidance of doubt, based on 51% equity interest of SERB to be acquired by Advancecon, the aggregate cumulative PAT attributable to Advancecon for the Profit Guarantee Period is RM6,120,000</i>
"Profit Guarantee Period"	:	The 24-month financial period of SERB (i.e. Year 1 and Year 2) and if so extended, includes additional 24-months period ending 31 December 2025
"Proposals"	:	The Proposed Acquisition and Proposed Diversification, collectively

DEFINITIONS (CONT'D)

"Proposed Acquisition"	:	Proposed acquisition by Advancecon of 260,100,006 ordinary shares in SERB, representing 51% equity interest from FHHSB for a total purchase consideration of RM30,400,000 to be satisfied via a combination of cash payment 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
"Proposed Diversification"	:	Proposed diversification of the existing principal activities of our Group to include quarry operation and related activities
"Purchase Consideration"	:	RM30,400,000, being the purchase consideration for the Proposed Acquisition to be satisfied via a combination of RM15,220,000 in cash and RM15,180,000 via the issuance of 33,000,000 Consideration Shares
"Quarry Operation Business"	:	Quarry operation and related activities
"RM" and "sen"	:	Ringgit Malaysia and cent, respectively
"Sale Share(s)"	:	260,100,006 SERB Shares, representing 51% equity interest in SERB
"SERB"	:	Spring Energy Resources Berhad (Registration No. 20140107649 (1093736-V))
"SERB Group"	:	SERB and its subsidiaries
"SERB Share(s)"	:	Ordinary share(s) in SERB
"SESB"	:	Spring Energy Sdn Bhd (Registration No. 199701030845 (446344-H)).
"Shareholders Agreement"	:	Shareholders agreement dated 17 June 2021 entered into between Advancecon and FHHSB and SERB
"SSA"	:	Conditional shares sale agreement dated 17 June 2021 entered into between Advancecon and the Vendor for the Proposed Acquisition
"UOBKH" or "Adviser"	the	UOB Kay Hian Securities (M) Sdn Bhd (Registration No. 199001003423 (194990-K))
"Year 1"	:	The 12 month financial period of SERB commencing on 1 January 2022 and ending 31 December 2022
"Year 2"	:	The 12 month financial period of SERB commencing on 1 January 2023 and ending 31 December 2023

All references to "our Company" in this Circular are to Advancecon and all references to "our Group" are to our Company and subsidiary collectively. All references to "we", "us", "our" and "ourselves" are to our Company, and where the context requires otherwise, shall include our subsidiary. All references to "you" and "your" in this Circular are to the shareholders of our Company.

Unless otherwise stated and wherever applicable, the amount represented in this Circular has been rounded to the nearest whole cent, for ease of reference. Words incorporating the singular shall, where applicable include the plural and vice versa. Words incorporating the masculine gender shall where applicable, include the feminine and neuter genders and vice versa. Any reference to persons shall include a corporation, unless otherwise specified.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise specified.

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EXECUTIVE SUMMARY

All capitalised terms used in this Executive Summary have the same meaning as those provided in the "Definitions" section and in this Circular, except where the context otherwise requires or where otherwise defined in this Executive Summary.

This Executive Summary highlights only the salient information of the Proposals. Shareholders of our Company are advised to read this Circular in its entirety for further details and not to rely solely on this Executive Summary in forming a decision on the Proposals before voting at our forthcoming EGM.

Key information	Description	Reference to this Circular
Details of the Proposals	<u>Proposed Acquisition</u> <ul style="list-style-type: none">➤ 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. Upon completion of the Proposed Acquisition, SERB will become a 51%-owned subsidiary company of Advancecon.➤ The purchase consideration of RM30,400,000 was arrived at, on a willing-buyer willing-seller basis, after taking into consideration the Profit Guarantee of RM12,000,000 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).	Section 2
	<u>Proposed Diversification</u> <ul style="list-style-type: none">➤ As at the LPD, Advancecon Group is involved in the provision of earthworks and civil engineering services, primarily for property development projects 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.➤ 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.	Section 3

Key information	Description	Reference to this Circular
	<p><u>Key Management Personnel</u></p> <ul style="list-style-type: none"> ➤ 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 Group 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 Group 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. ➤ 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. ➤ Based on the foregoing, our Board believes that, by leveraging on the expertise of the aforesaid key management personnel and with the appointment of additional technical personnel when required, our Group has the capacity, capability and resources to diversify into quarry operation business related activities. 	
<p>Rationale and justification for the Proposals</p>	<p><u>Proposed Acquisition</u></p> <ul style="list-style-type: none"> ➤ In the long run, the Proposed Acquisition is expected to improve the earnings of the enlarged Advancecon Group given that our 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 our Group with additional stream of revenue and contribute positively to our 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. ➤ The Proposed Acquisition would also provide an additional income stream to Advancecon Group moving forward, premised on the 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 	<p>Section 4</p>

Key information	Description	Reference to this Circular
	<p data-bbox="472 277 759 309"><u>Proposed Diversification</u></p> <ul style="list-style-type: none"> <li data-bbox="472 331 1182 416">➤ At present, our Group is primarily involved in the provision of earthworks and civil engineering services, in which our revenue is substantially derived from such activities. <li data-bbox="472 443 1182 636">➤ 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. <li data-bbox="472 663 1182 913">➤ 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 our Board and SERB's management to improve SERB Group's revenue and return SERB Group to profitability. Advancecon's management remains cautiously optimistic of the long-term prospects associated with the expansion of Advancecon Group to include Quarry Operation Business as part of Advancecon Group's business activities. <li data-bbox="472 940 1182 1160">➤ Premised on the above, our 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, green energy as well as property investment) moving forward and at the same time diversify Advancecon Group's existing business portfolios. 	
Risk Factors	<ul style="list-style-type: none"> <li data-bbox="517 1182 743 1214">i. Investment risks <li data-bbox="517 1240 737 1272">ii. Completion risk <li data-bbox="517 1299 877 1330">iii. Business diversification risks <li data-bbox="517 1357 743 1388">iv. Competition risk <li data-bbox="517 1415 1043 1447">v. Dependency on key management personnel <li data-bbox="517 1473 801 1505">vi. Impacts of COVID-19 	Section 6
Approvals required and inter-conditionality of the Proposals	<ul style="list-style-type: none"> <li data-bbox="472 1509 1094 1541">➤ The Proposals are subject to the following approvals:- <ul style="list-style-type: none"> <li data-bbox="517 1568 1182 1630">i. Bursa Securities, which was obtained on 28 September 2021; <li data-bbox="517 1657 1182 1720">ii. The shareholders of our Company at our forthcoming EGM; and <li data-bbox="517 1747 1182 1809">iii. Any other relevant authority and/ or third parties, if required. <li data-bbox="472 1814 1182 1877">➤ The Proposed Acquisition and the Proposed Diversification are inter-conditional upon each other. <li data-bbox="472 1904 1182 1966">➤ The Proposals are not conditional upon any other proposals undertaken or to be undertaken by our Company. 	Section 9

Key information	Description	Reference to this Circular
Interests of directors, major shareholders, chief executive and/or persons connected to them	<ul style="list-style-type: none"> ➤ None of the Directors and/ or major shareholders of our Company and/ or persons connected with them have any interest, whether direct or indirect, in the Proposals. 	Section 10
Estimated timeframe for completion and tentative timetable for implementation	<ul style="list-style-type: none"> ➤ 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 fourth quarter of 2021. ➤ The Proposed Diversification will take immediate effect upon obtaining the approval from the shareholders of our Company at our forthcoming EGM. 	Section 11
Directors' statement and recommendation	<ul style="list-style-type: none"> ➤ Our Board recommends that you vote IN FAVOUR of the resolution pertaining to the Proposals, which will be tabled at our forthcoming EGM, the details of which are set out in the cover page of this Circular, or the Notice of EGM as enclosed. 	Section 13

ADVANCECON

ADVANCECON HOLDINGS BERHAD

(Registration No. 199701011469 (426965-M))
(Incorporated in Malaysia)

Registered Office

Level 5, Block B, Dataran PHB
Saujana Resort, Section U2
40150 Shah Alam, Selangor
Malaysia

11 October 2021

Board of Directors

Yeoh Chong Keat (*Independent Non-Executive Chairman*)
Dato' Phum Ang Kia (*Executive Director/ Group Chief Executive Officer*)
Lim Swee Chai (*Executive Director/ Deputy Group Chief Executive Officer*)
Ir. Yeo An Thai (*Executive Director/ Group Chief Operating Officer*)
Tung Kai Hung (*Executive Director*)
Mohd Zaky Bin Othman (*Independent Non-Executive Director*)
Fathi Ridzuan Bin Ahmad Fauzi (*Independent Non-Executive Director*)

To: Shareholders of our Company

Dear Sir/ Madam,

I. PROPOSED ACQUISITION; AND

II. PROPOSED DIVERSIFICATION

1. INTRODUCTION

On 17 June 2021, UOBKH had on behalf of our Board, announced the following:-

- (i) Advancecon had on 17 June 2021 entered into the following agreements:-
 - (a) a conditional share sales agreement with FHHSB for the proposed acquisition by Advancecon of 260,100,006 SERB Shares, representing 51% equity interest, for a total purchase consideration of RM30,400,000 to be satisfied via a combination of cash payment 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; and
 - (b) a shareholders agreement with FHHSB and SERB 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.
- (ii) proposed diversification of the existing principal activities of Advancecon Group to include Quarry Operation Business.

Details of the Proposals are set out in the ensuing sections of this Circular.

On 28 September 2021, UOBKH had, on behalf of our Board, announced that Bursa Securities had vide its letter dated 28 September 2021, resolved to approve the listing of and quotation for 33,000,000 Consideration Shares pursuant to the Proposed Acquisition on the Main Market of Bursa Securities, subject to the conditions as disclosed in **Section 9** of this Circular

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE THE SHAREHOLDERS OF OUR COMPANY WITH THE RELEVANT INFORMATION ON THE PROPOSALS AS WELL AS TO SEEK THE APPROVAL FROM THE SHAREHOLDERS OF OUR COMPANY FOR THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT OUR FORTHCOMING EGM. THE NOTICE OF THE EGM AND THE PROXY FORM ARE ENCLOSED IN THIS CIRCULAR.

SHAREHOLDERS OF OUR COMPANY ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT OUR FORTHCOMING EGM.

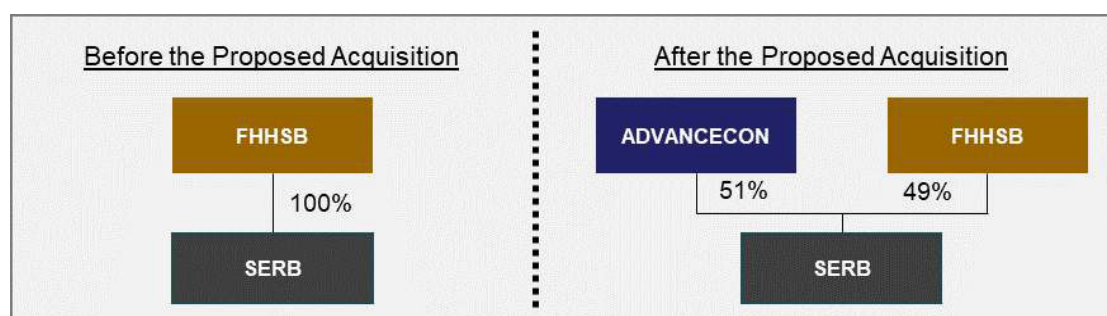
2. DETAILS OF THE PROPOSED ACQUISITION

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.

For the avoidance of doubt, the Proposed Acquisition is not a related party transaction.

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 Circular.

2.1 Information on SERB

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.

As at the LPD, SERB has an issued share capital of RM102,000,002 comprising 510,000,010 SERB Shares.

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

Shareholders	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*3	Malaysian	-	-	510,000,010	100.0*2
Yap Yee Huat*3	Malaysian	-	-	510,000,010	100.0*2
Yap Chai Huat*3	Malaysian	-	-	510,000,010	100.0*2
Yap Ho Huat*3	Malaysian	-	-	510,000,010	100.0*2

Notes:-

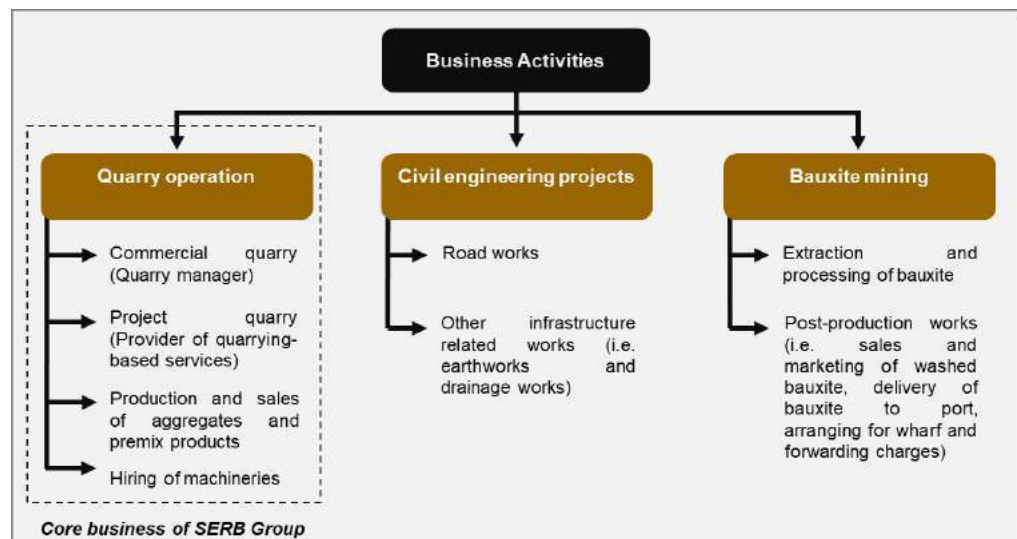
*1 Based on the total issued shares of 510,000,010 in SERB.

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

*3 Being the directors of SERB.

SERB is principally engaged in the investment holding. Through its subsidiaries, SERB is principally engaged in contract quarry operation, marketing and selling of quarry products as well as quarry management.

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 FYE 31 December 2020. In addition to the aforementioned quarry related activities, SERB is also involved in 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 and the latest unaudited consolidated financial statements of SERB Group for the 5-month FPE 31 May 2021 is set out below:-

Revenue by Business Segment	<-----Audited----->								Unaudited	
	FYE		FYE		FYE		FYE		FPE	
	31 December 2017		31 December 2018		31 December 2019		31 December 2020		31 May 2021	
	RM'000	%	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	64,583	88.7
Civil engineering projects	135,802	45.7	116,563	47.5	24,733	13.7	4,103	2.8	4,901	6.7
Bauxite mining	38,417	12.9	-	-	2,172	1.2	3,450	2.4	2,871	3.9
Others	444	0.2	584	0.2	2,527	1.4	1,174	0.8	463	0.7
Total	297,072	100.0	245,360	100.0	180,542	100.0	146,596	100.0	72,818	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 essence, SERB Group leases the quarry sites from the respective land owners and carries out its quarry operations over the tenure of the leases or is appointed to manage and/or carry out the quarry operations on 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 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 (i.e. a binding material made up of mineral aggregates and bitumen primarily used in infrastructure projects to provide smooth and durable surfaces on roads, highways or airport runways). SERB Group also owns its own 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. As an expansion to their integrated quarry operation management and services, 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 Circular for further information on the business activities of SERB Group.

SERB Group's loss making position

A summary of the key financial performance indicators of SERB Group based on its audited consolidated financial statements for the past 4 financial years up to the FYE 31 December 2020 and the latest unaudited 5-month FPE 31 May 2021 is set out below:-

	<-----Audited----->				Unaudited
	FYE 31 December 2017 RM'000	FYE 31 December 2018 RM'000	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	FPE 31 May 2021 RM'000
Revenue	297,072	245,360	180,542	146,596	72,818
Quarry Operation	122,409	128,213	151,110	137,869	64,583
Civil Engineering Projects	135,802	116,563	24,733	4,103	4,901
Bauxite Mining	38,417	-	2,172	3,450	2,871
Others	444	584	2,527	1,174	463
GP/ (GL)	37,682	22,716	7,632	(8,852)	3,670
Quarry Operation	7,954	12,233	11,671	(4,673)	3,853
Civil Engineering Projects	30,994	17,546	597	(3,157)	(38)
Bauxite Mining	(1,347)	(7,102)	(5,002)	(958)	(123)
Others	81	39	366	(64)	(22)
LBT	(352)	(1,960)	(6,989)	(106,422)	(6,069)
LAT	(1,225)	(3,600)	(3,757)	(100,505)	(6,108)

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 two business segments 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 projects 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 MEX II Projects, namely Maju Holdings. SERB Group had carried out construction work for the MEX II Projects 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 MEX II Projects as a result of repeated breaches by Maju Holdings of its payment obligations to SERB Group. SERB Group has ceased all construction works on the MEX II Projects since the FYE 31 December 2019 and had in 2019 commenced legal recourse to recover the unpaid certified claims of SERB Group from the Maju Holdings for the MEX II Projects.

Accordingly, the collection issues for the MEX II Projects had not only affected SERB Group's segmental revenue performance from the civil engineering projects business segment in the FYE 31 December 2019 onwards, but also affected SERB Group's cash flow and performances of other business segments of SERB Group as the cash flow that was supposed to be utilised from the collections of MEX II Projects for other civil engineering projects now had to be taken from the other business segments.

Given the uncertainty on the collection of the certified as well as uncertified claims from Maju Holdings, the management of SERB Group had then decided to undertake a prudent approach to provide full impairment on these claims during the FYE 31 December 2020 amounting to approximately RM67.50 million, as further illustrated in the following table:-

	Total certified claims (A) RM'000	Total uncertified claims (B) RM'000	Total claims (C) = (A) + (B) RM'000	Allowance for expected credit loss (D) RM'000	Amount impaired (C) – (D) RM'000
MEX II Projects	53,950	19,293	73,243	5,742	67,501

For shareholder's information, the legal proceedings involving SERB and Maju Holdings have been discontinued pursuant to the execution of a settlement agreement between Maju Holdings and SERB on 3 August 2021. Please refer to item 1, 2 and 3 of **Appendix III** for further information in relation to the status of the legal proceedings.

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. For clarification purposes, SERB Group's bauxite mining activities are all located in Pahang and accordingly, the entire bauxite mining activities of SERB Group had to be suspended as a result of the aforementioned moratorium on the mining of bauxite in Pahang. For shareholders information, the moratorium on bauxite mining in Pahang was imposed by the Ministry of Natural Resources and Environment on 15 January 2016 and was lifted on 31 March 2019. Despite the uplift of the moratorium, it is uncertain if any licences and approvals have been awarded to any mining operators to resume bauxite mining as at the LPD. Given the uncertainty of the future prospects and the continued suspension of bauxite mining operations, it is the intention of our Board and the management of SERB Group to cease the bauxite mining business segment and remobilise the workforce to the other business segments, namely quarry operations at this juncture.

Despite the decrease in revenue contribution from the civil engineering projects and bauxite mining business segment, SERB Group continues to incur certain fixed operating expenses associated with the aforesaid two 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 almost entirely in quarry operation.

SERB Group's quarry operation business segment

A breakdown of the gross profit/ loss for SERB Group's quarry operation business segment for the past 4 financial years up to the FYE 31 December 2020 and the latest unaudited 5-month FPE 31 May 2021 is set out below:-

	<-----Audited----->				Unaudited
	FYE 31 December 2017 RM'000	FYE 31 December 2018 RM'000	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	5-month FYE 31 May 2021 RM'000
Revenue	122,409	128,213	151,110	137,869	64,583
Cost of Sales	(114,455)	(115,980)	(139,439)	(142,542)	(60,730)
GP/ (GL)	7,954	12,233	11,671	(4,673)	3,853

Based on the table above, we have set out further analysis on the fluctuation in revenue, cost of sale and gross loss for the quarry operation business segment of SERB Group during the FYE 31 December 2020 as follows:-

(i) Commentary on revenue of quarry operation business segment

For the FYE 31 December 2020, quarry operation business segment revenue decreased by approximately RM13.24 million or 8.8% from RM151.11 million in the FYE 31 December 2019 to RM137.87 million in the FYE 31 December 2020. This lower revenue recorded for the quarry operation business segment in the FYE 31 December 2020 was mainly due to decrease in sales of quarry and premix products as a result of temporarily suspension of quarry operations for the purpose of complying with the MCO.

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 albeit with restricted operating capacities. As a result, SERB Group had recognised lower to no sales 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. However, SERB Group still incurred certain fixed costs despite having reduced operations and sales.

(ii) Commentary on cost of sales of quarry operation business segment

Despite the decrease in revenue for the FYE 31 December 2020, quarry operation business segment cost of sales increased by approximately RM3.10 million or 2.2% from RM139.44 million in the FYE 31 December 2019 to RM142.54 million in the FYE 31 December 2020.

The higher cost of sales recorded for the quarry operation business segment in the FYE 31 December 2020 was mainly relating to the operating costs (i.e. maintenance of the heavy machineries, wages and allowances for employees, local and foreign workers who are directly involved in the production and operation for all quarry operations, depreciation of plant and equipment, royalties and tributes, etc) which had to be incurred by SERB Group despite having to cease their quarry activities temporarily

Further, the depreciation expenses of equipment and motor vehicles of SERB Group had increased by approximately RM3.66 million in the FYE 31 December 2020 as SERB Group had acquired new machineries/ equipment and motor vehicles amounting to RM15.19 million to replace certain old machineries. SERB Group had decided to acquire new machineries after conducting assessment on the operating capacities and the conditions of these machineries which necessitate replacement.

(iii) Commentary on GL of quarry operation business segment

Based on the above, the gross loss of RM4.67 million for the quarry operation business segment of SERB Group for FYE 31 December 2020 was mainly due to the following:-

- (a) Lower revenue recorded in the FYE 31 December 2020 mainly due to decrease in sales of quarry and premix products as a result of temporarily suspension of quarry operations for the purpose of complying with the MCO.
- (b) Higher cost of sale recorded in the FYE 31 December 2020 mainly due to fixed operating costs which had to be incurred by SERB Group despite having to cease their quarry activities temporarily, coupled with higher depreciation expenses incurred during the said financial year pursuant to the replacement of old machineries.

Accordingly, the gross loss incurred by the quarry operation business segment in the FYE 31 December 2020 was mainly a one-off event due to the outbreak of COVID-19, where in spite of the temporary suspension of quarry operations, SERB Group still incur certain operating expenses during the MCO period which has a direct impact on the gross profit of the quarry operation business segment.

Notwithstanding the above, the quarry operation business segment has been contributing consistent revenue and gross profit through the financial years under review, save for the FYE 31 December 2020 as set out in the table above. Since then, SERB Group has turned the financial performance around in the unaudited 5-month FPE 31 May 2021, recording gross profit of approximately RM3.85 million.

As such, the management of SERB Group is of the view that, barring any unforeseen circumstances, the gross loss from this business segment in the FYE 31 December 2020 is unlikely to continue as the country is progressively moving towards the later phases of the four-phase National Recovery Plan.

Commentary on LAT of SERB Group

Further analysis on the LAT of SERB Group for the FYE 31 December 2020 as compared to the preceding financial year is set out below:-

	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000
GP/ (GL)	7,632	(8,852)
Other operating income	27,396	2,803
Selling and distribution expenses	(6,894)	(5,838)
Administration expenses	(12,797)	(12,603)
Other operating expenses	(14,327)	(73,366)
One off impairment	-	(67,500)
Net other operating expenses	(14,327)	(5,866)
Share of result of joint venture	13	(7)
Profit/ (Loss) from operations	1,023	(97,863)
Finance costs	(8,012)	(8,559)
LBT	(6,989)	(106,422)
LAT	(3,757)	(100,505)

Based on the table above, the total LAT of SERB Group for the FYE 31 December 2020 was mainly attributable to the one-off impairment of approximately RM67.50 million in receivables made in the FYE 31 December 2020 for the uncertainty of recoverability of the unpaid certified claims of SERB against Maju Holdings for the MEX II Projects as set out in **Section 2.1** of this Circular. The remaining LAT of approximately RM33.00 million (out of the RM100.51 million) incurred in the FYE 31 December 2020 can be further analysed as follows:-

	FYE 31 December 2020 RM'000
GL	(8,852)
Selling and distribution expenses	(5,838)
Administration expenses	(12,603)
Net other operating expenses	(5,866)
Finance costs	(8,559)
Total	(41,718)
Offset by:-	
Other operating income	2,803
Tax income	5,917
LAT	(32,998)

For shareholder's information, the remaining LAT of approximately RM33.00 million is mainly attributable to the gross loss of RM8.85 million, selling and distribution expenses of RM5.84 million, administrative expenses of RM12.60 million, other operating expenses of RM5.87 million and finance costs of RM8.56 million.

For the avoidance of doubt, save for the gross loss of RM8.85 million and other operating expenses of RM5.87 million, the remaining expense items incurred during the FYE 31 December 2020 such as selling and distribution expenses, administrative expenses are rather consistent with the amount incurred in the preceding financial year, as these operating expenses mainly comprise fixed costs associated with the 3 main business segments of SERB.

The gross loss of RM8.85 million incurred during the FYE 31 December 2020 was mainly due to the decrease in revenue from the quarry operation business segment as a result of 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.

However, SERB Group still incurred certain costs of sale despite having reduced operations and sales. SERB Group recorded other operating expenses of RM5.87 million during the FYE 31 December 2020 mainly attributable to depreciation expenses, insurance expenses and utilities expenses.

In summary, the remaining LAT of approximately RM33.00 million incurred by SERB Group during the FYE 31 December 2020 was mainly attributable to gross loss of RM8.85 million, other operating expenses of RM5.87 million coupled with the remaining operating expenses of RM27.00 million which are mainly fixed costs associated with the 3 main business segments of SERB Group and finance costs. The said costs/ expenses incurred during the FYE 31 December 2020 were partially offset by other operating income and tax income in aggregate of RM8.72 million.

For the avoidance of doubt, our Board takes cognisance of SERB Group's continuous loss-making position over the past 4 financial years up to the FYE 31 December 2020, and as part of our Board's immediate initiatives to improve SERB Group's financial performance pursuant to the completion of the Proposed Acquisition, our 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 Circular.

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 Profit Guarantee (i.e. RM12,000,000) provided by the Vendor to Advancecon for the Profit Guarantee Period (i.e. 24-month financial period of SERB, subject to extension as elaborated herein).

The Profit Guarantee attributable to Advancecon (calculated based on 51% equity interest of SERB to be acquired by Advancecon) is RM6,120,000, which translates to yearly Profit Guarantee attributable to Advancecon of RM3,060,000 per annum. Therefore, the Purchase Consideration (i.e. RM30,400,000) represents a PE multiple of 9.93 times based on the yearly Profit Guarantee attributable to Advancecon of RM3,060,000 per annum.

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 MCO thereby restricting the businesses of the SERB Group, the above profit guarantee period shall be further automatically extended for a further 24 months ending 31 December 2025 if the Profit Guarantee amount has not yet been met as at 31 December 2023. Further details of the aforesaid adverse event and the right of recourse in the event the profit guarantee is not met are set out in **Appendix I** of this Circular.

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 *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, the total Shortfall To Purchaser is RM7,140,000, as illustrated below:-

$$\begin{aligned} \text{Total Shortfall To Purchaser} &= \text{RM6,120,000}^{*1} + (\text{RM2,000,000} \times 51\%)^{*2} \\ &= \text{RM6,120,000} + \text{RM1,020,000} \\ &= \text{RM7,140,000} \end{aligned}$$

Notes:-

^{*1} For clarification purposes, the Profit Guarantee attributable to Advancecon is calculated based on the Profit Guarantee (i.e. RM12,000,000) for the Profit Guarantee Period multiplied with 51% equity interest of SERB attributable to Advancecon.

^{*2} Accordingly, the Shortfall To Purchaser shall also be calculated based on the LAT for the Profit Guarantee Period multiplied with 51% equity interest of SERB attributable to Advancecon.

Our Board is of the opinion that the computation above with respect to the Shortfall to Purchaser pursuant to the salient terms of the SSA as set out in **Appendix I** of this Circular is fair and reasonable.

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

- a. the past losses of SERB Group's was mainly due the loss of receivables and poor recollection in the civil engineering business segment and ceasing of the bauxite mining operations causing SERB Group to incur fixed costs to maintain the machinery and workforce of the business segment;

- b. despite the poor financial performance of civil engineering business segment and bauxite mining business, the revenue and gross profit contribution from the quarry operation business segment has been rather consistent throughout the financial years under review, save for the FYE 31 December 2020 given that SERB Group was temporarily required to suspend most of the quarry operation activities as a result of the outbreak of COVID-19;
- c. our Board and management of SERB have also outlined a turnaround plan to improve SERB Group's earnings and overall operating structure to return SERB Group to profitability including, amongst others:-
 - (i) 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 which has been contributing consistent revenue and gross profit through the financial years under review (save for the FYE 31 December 2020 due to SERB's quarry operations being brought to a standstill from March 2020 to May 2020 as a result of the imposition of the first MCO following the outbreak of COVID-19);
 - (ii) the civil engineering project activities of SERB Group shall be integrated into Advancecon Group in view that Advancecon Group's core expertise has always been in the provision of earthworks and civil engineering services; and
 - (iii) the bauxite mining business segment of SERB Group is intended to be fully ceased after the Proposed Acquisition at this juncture which will lead to the remobilisation or letting off of workforce in this segment as well as the disposal or writing off of any specialised bauxite mining machinery and equipment

Further details on the steps to be taken together by our Board and SERB's management to improve SERB Group's earnings and overall operating structure to return SERB Group to profitability are set out in **Appendix IV** of this Circular. By undertaking the aforementioned measures to improve SERB's earnings and overall operating structure, our 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;

- d. the future prospects of SERB; and
 - e. the outlook of the quarry industry as set out in **Section 5.3** of this Circular and the outlook of the construction industry as set out in **Section 5.2** of this Circular (as the quarry products are used by and sold to downstream players who are companies involved in the construction industry. As such, the performance of SERB Group's quarry operation business segment is heavily reliant on the construction industry and any adverse outlook or performance of the construction sector will directly impact the performance of the quarry operations).
- ii. the rationale and benefits of the Proposed Acquisition as set out in **Section 4.1** of this Circular.

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	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.

The computation of PE multiple is as follows:-

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

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 Profit Guarantee provided by the Vendor to Advancecon.

The revenue contribution from SERB Group's quarry operation business segment can be further segregated into 3 categories as follows:-

	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								
Sales of quarry and premix products (Commercial Quarry)	92,356	75.4	118,866	92.7	139,156	92.1	116,813	84.7
Sub-contract works income in quarrying activities (Project Quarry)	29,740	24.3	4,841	3.8	10,749	7.1	20,072	14.6
Hiring of machineries	313	0.3	4,506	3.5	1,205	0.8	984	0.7
Total	122,409	100.0	128,213	100.0	151,110	100.0	137,869	100.0

Based on the table above, the sales of quarry and premix products (which is a downstream activity) has been contributing more than 75% to SERB Group's quarry operation business segment revenue throughout the financial years under review. The products that are produced by SERB Group are used by and sold to downstream players who are companies involved in the construction industry. As such, the performance of SERB Group's quarry operation business segment is heavily reliant on the construction industry and construction companies.

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 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 as the products that are produced by SERB Group are used by and sold to downstream players who are companies involved in the construction industry.

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 attributable to Advancecon of RM3,060,000 per annum)	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	1.72	159.44	13.02	14.05	12.25	9.18
Chin Hin Group Berhad	Distribution of building materials, manufacturing of AAC and precast concrete products, ready mixed concrete and others	31 December 2020	1.34	1,185.51	21.26	3.87	34.61	25.96
Oka Corporation Berhad	Manufacturing and sale of pre-cast concrete products and trading of ready mixed concrete	31 March 2020	0.845	207.36	11.30	4.60	18.35	13.76
							Low	9.18
							High	25.96
							Simple Average	16.30
							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 within the range of the Adjusted PE multiple of 9.18 times and 25.96 times accorded to the comparable companies and is lower than the simple adjusted average of 16.30 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 this Circular, 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 per share of Advancecon of RM0.46 based on the audited consolidated net tangible assets of Advancecon of RM187,560,712 as at 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 of the Consideration Shares of RM0.46 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 of the Consideration Shares of RM0.46 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

Our Company had, on 28 September 2021 obtained the approval from Bursa Securities for the listing of and quotation for the Consideration Shares 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 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 30 th day after the date the last of the conditions precedent of the SSA 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

For the avoidance of doubt, even though the entire consideration is issued to the Vendor upon completion of the Proposed Acquisition, approximately 64.4% of the total Cash Consideration amounting to RM9,800,000 will be immediately ploughed back by the Vendor into SERB as shareholders' advance for the working capital requirements of the SERB Group in the manner approved by the Board of Directors of SERB from time to time.

The Vendor will not have access to the said advance until the Profit Guarantee has been fully satisfied and only if SERB Group have sufficient cash flow to meet their operational expenses for the following 4 months should such repayment be made pursuant to the salient terms of the Shareholders Agreement as set out in **Part (iv) of Appendix II** of this Circular. Further, based on the historical VWAPs of Advancecon Shares as set out in **Section 2.3** of this Circular, the Consideration Shares are issued at a premium to the Vendor.

Based on the above, our Board is of the view that it is fair to issue the entire consideration to the Vendor upon the completion of the Proposed Acquisition.

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 our 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

For shareholders' information, our Group's cash and bank balances as at the FYE 31 December 2020 stood at approximately RM52.28 million. The potential finance cost arising from the Proposed Acquisition is RM669,900, calculated based on the assumption that an indicative interest rate of approximately 5.50% per annum is imposed on the bank borrowings of RM12.18 million.

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. For shareholder's information, based on the latest audited financial statements of SERB Group for the FYE 31 December 2020 and up to the LPD, there is no amount due by SERB to its directors and/ or shareholders.

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. For clarification purposes, the Shareholders' Advances is intended to be used as a standby financing facility for SERB Group, in order to provide financial flexibility to SERB Group in the event it requires additional funding for its working capital requirements in an expedient manner, after taking into account the financial performance of SERB Group as highlighted in **Section 2.1** of this Circular.

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. DETAILS OF THE PROPOSED DIVERSIFICATION

As at the LPD, Advancecon Group is involved in the provision of earthworks and civil engineering services, primarily for property development projects 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 6-month unaudited FPE 30 June 2021 are as follows:-

	<-----Audited----->			<---Unaudited--->
	FYE 31 December 2018 RM'000	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	6-month FPE 30 June 2021 RM'000
Revenue	272,860	302,337	250,336	125,162
PAT/ (LAT)	10,618	10,825	2,101	(1,421)

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 6-month FPE 30 June 2021 are as follows:-

	<-----Audited----->						<---Unaudited--->	
	FYE 31 December 2018		FYE 31 December 2019		FYE 31 December 2020		6-month FPE 30 June 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	119,680	95.62
<u>Support services</u>								
Sale of goods	19,474	7.14	22,988	7.60	10,776	4.30	2,202	1.76
Hiring of machinery	1,272	0.47	1,334	0.44	1,295	0.52	741	0.59
Day work revenue	2,513	0.92	845	0.28	1,052	0.42	832	0.66
<u>Property investments</u>								
Rental income	344	0.12	642	0.22	489	0.20	298	0.24
Green Energy	-	-	-	-	1,875	0.75	1,392	1.12
<u>Others</u>								
Cabin living quarters rental	1	- ¹	1	- ¹	16	0.01	17	0.01

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, our 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 our Board's immediate initiatives to improve SERB Group's financial performance pursuant to the completion of the Proposed Acquisition, our 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 Circular.

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 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 Circular.

Based on the above, our 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, our Board proposes to seek the approval of shareholders of Advancecon for the Proposed Diversification pursuant to Paragraph 10.13(1) of the 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 Group 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 Group 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 Group Chief Operating Officer of Advancecon Group. He was appointed to our 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 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 SESB as the Managing Director in 2004 where he later acquired the entire equity interest in SESB in 2004 via his equity investment holding company, namely FHHSB.

He holds several responsibilities within the Malaysia Quarries Association since 2013. He is currently the President of Malaysia Quarries Association and the Honorary Chairman of Malaysia Quarries Association'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, our 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, our Board intends to continue with Advancecon Group's existing principal activities in the same manner and our 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 Circular, Advancecon Group is involved in the provision of earthworks and civil engineering services, primarily for property development projects 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 gain immediate access to SERB Group's Quarry Operation Business, enabling Advancecon Group to expand its core business in earthworks and civil engineering services to include Quarry Operation Business. This allows Advancecon Group to enjoy synergistic benefits within the enlarged Group through the utilisation of the quarry products sourced internally from SERB Group for Advancecon Group's earthworks and road-based infrastructure construction activities. Such arrangement would enable us to improve our cost control and thus profit margins for the earthworks and civil engineering services, as we will be able to purchase quarry products from SERB Group at a discount of approximately 15% to the market price of the quarry products. On top of internal usage, the enlarged Advancecon Group will also be able to cross sell SERB Group's quarry products to Advancecon Group's subcontractors who work at the project sites, thereby indirectly improving the revenue and possibly the earnings of SERB Group.

For shareholders information, a breakdown of Advancecon Group's top 5 suppliers of raw materials for the past 3 financial years up to the FYE 31 December 2020 is set out below:-

Suppliers	Type of raw material	-----FYE 31 December----->		
		2018 RM'000	2019 RM'000	2020 RM'000
Supplier A	Earth/ Sand	1,954	5,746	7,966
SERB Group	Premix/ Quarry	-	-	4,794
Supplier B	Earth	-	-	4,803
Supplier C	Earth	-	-	3,006
Supplier D	Earth	-	-	2,578
Supplier E	Precast Concrete	-	6,060	-
Supplier F	Ready Mix Concrete	-	2,892	-
Supplier G	Earth	-	2,878	-
Supplier H	Sand	-	2,701	-
Supplier I	Precast Concrete	5,622	-	-
Supplier J	Blasting Chemicals	2,924	-	-
Supplier K	Earth	2,317	-	-
Supplier L	Ready Mix Concrete	1,715	-	-

In the long run, the Proposed Acquisition is expected to improve the earnings of the enlarged Advancecon Group given that our 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 our Group with additional stream of revenue and contribute positively to our 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 MEX II Projects and SERB Group has ceased all construction works on the MEX II Projects since the FYE 31 December 2019. On the other hand, 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 **Appendix III** of this Circular.

Our 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 our Board's immediate initiatives to improve SERB Group's financial performance pursuant to the completion of the Proposed Acquisition, our 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 Circular.

Our 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 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 Circular.

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.

In view of the expected gradual 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 our Board and SERB's management to improve SERB Group's revenue and return SERB Group to profitability as illustrated in **Appendix IV** of this Circular, our 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 our 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, our 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 OVERVIEW, OUTLOOK AND PROSPECTS OF SERB AND THE ENLARGED ADVANCECON GROUP

5.1 Overview and outlook of the Malaysian economy

The Malaysian economy expanded by 16.1% in the second quarter of 2021 (1Q 2021: -0.5%). Growth was supported mainly by the improvement in domestic demand and continued robust exports performance. The strong growth also reflected continued policy support and the low base from the significant decline in activity during the second quarter of 2020. Economic activity picked up at the start of the second quarter but slowed following the re-imposition of stricter nationwide containment measures, particularly under Phase 1 of the Full Movement Control Order ("**FMCO**"). For the second quarter as a whole, all economic sectors registered an improvement, particularly the manufacturing sector. On the expenditure side, growth was driven by higher private sector spending and strong trade activity. On a quarter-on-quarter seasonally adjusted basis, the economy registered a decline of 2.0% (1Q 2021: 2.7%), due to the containment measures.

Domestic demand turned around to register a positive growth of 12.3% (1Q 2021: -1.0%) in the second quarter of 2021, mainly supported by private sector expenditure. On the external front, demand for Malaysia's exports, particularly for electrical and electronic ("**E&E**") products, continued to remain robust.

Private consumption growth increased by 11.6% during the second quarter of 2021 (1Q 2021: -1.5%), following a broad-based expansion across both necessity and discretionary items, particularly at the start of the quarter, prior to the imposition of FMCO. This was due mainly to less stringent containment measures and mobility restrictions in the first half of the quarter. Labour market conditions also showed signs of improvement in the same period, which lent support to household spending. Furthermore, various policy measures, including the EPF i-Sinar withdrawals and Bantuan Prihatin Rakyat, provided additional lift to consumer expenditure. Public consumption expanded by 9.0% (1Q 2021: 5.9%), mainly on account of higher spending on supplies and services.

Private investment registered a growth of 17.4% (1Q 2021: 1.3%). The higher investment activity was underpinned mainly by the continued capital spending in telecommunication related equipment, as firms' automation and digitalisation efforts gain further traction, as well as the continued progress in national digital infrastructure investments. In addition, further expansions of new and ongoing investment projects amid improving external demand, particularly in the export-oriented industries such as E&E and metal, also provided further impetus to growth.

After 12 quarters of contraction, public investment recorded a positive growth of 12.0% (1Q 2021: -18.6%). The performance mainly reflects the higher spending on fixed assets by the General Government amid continued weak capital spending by public corporations.

(Source: Developments in the Malaysian Economy, Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2021, 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 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 gross domestic product 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 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 strong positive growth of 40.3% (1Q 2021: -10.4%). Growth was supported by the continuation of construction works in large infrastructure projects and on-going implementation of small-scale projects under the 2021 Budget, PEMERKASA and PEMERKASA+ stimulus packages. However, on a seasonally adjusted, quarter-on-quarter basis, construction growth declined by 3.2%. Activity was disrupted by the restrictions under Phase 1 of the FMCO, where only essential construction projects¹ were allowed to operate, albeit at a reduced capacity.

(Source: Developments in the Malaysian Economy, Malaysian Economy Second Quarter 2021, 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.

Employees Provident Fund 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 Overview and outlook of the quarry industry in Malaysia

According to the Department of Statistics Malaysia, the mining & quarrying sector recorded a double-digit growth of 13.9 per cent (Q1 2021: -5.0%) in the second quarter of 2021. The increase was supported by the improvement in Natural gas and Crude oil & condensate sub-sectors which registered a growth of 21.9 per cent and 4.9 per cent respectively. Meanwhile, the quarter-on-quarter performance recorded a decrease of 0.5 per cent.

(Source: Malaysia Economic Performance Second Quarter 2021, Department of Statistics Malaysia)

The Department of Statistics Malaysia further forecasts the mining and quarrying sector's contribution to Malaysia's Real GDP to see an annual of increase of 3.1% in 2021. In 2020, the mining and quarrying sector contributed 6.8% to Malaysia's Real GDP.

Table 1

Real GDP by Kind of Economic Activity (2015=100)					
	2020p	2020p	2021f	2020p	2021f
	% of GDP	Annual change (%)		Contribution to growth (ppt) ¹	
Services	57.7	-5.5	6.6	-3.2	3.8
Manufacturing	23.0	-2.6	8.8	-0.6	2.0
Mining and quarrying	6.8	-10.0	3.1	-0.7	0.2
Agriculture	7.4	-2.2	4.2	-0.2	0.3
Construction	4.0	-19.4	13.4	-0.9	0.5
Real Gross Domestic Product (GDP)	100.0 ¹	-5.6	6.0 ~ 7.5	-5.6	6.0 ~ 7.5

¹ Figures may not necessarily add up due to rounding and exclusion of import duties component

p Preliminary

f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Bank Negara Malaysia expects this growth trajectory to be supported by stronger external demand due to the gradual resumption in economic activities as businesses adapt to the government implemented COVID-19 SOPs.

(Source: Outlook and Policy in 2021, Economic and Monetary Review 2020, Bank Negara Malaysia)

5.4 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 Circular, 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 Proposed Acquisition entails the acquisition by Advancecon of 51% equity interest in SERB. Upon successful completion of the Proposed Acquisition, Advancecon Group will gain immediate access to SERB Group's Quarry Operation Business, enabling Advancecon Group to expand its core business in earthworks and civil engineering services to include Quarry Operation Business. This allows Advancecon Group to enjoy synergistic benefits within the enlarged Group through the utilisation of the quarry products sourced internally from SERB Group for Advancecon Group's earthworks and road-based infrastructure construction activities. Such arrangement would enable us to improve our cost control and thus profit margins for the earthworks and civil engineering services. On top of internal usage, the enlarged Advancecon Group will also be able to cross sell SERB Group's quarry products to Advancecon Group's subcontractors who work at the project sites, thereby indirectly improving the revenue and possibly the earnings of SERB Group.

In the long run, the Proposed Acquisition is expected to improve the earnings of the enlarged Advancecon Group given that our 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 our Group with additional stream of revenue and contribute positively to our 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. Furthermore, Advancecon Group will also be able to gain access to the customers of SERB Group that are operating in the construction industry, thereby increasing our network of customers and our chances of success when it comes to tendering for construction projects.

As highlighted in **Section 2.1** of this Circular, 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 MEX II Projects and SERB Group has ceased all construction works on the MEX II Projects since the FYE 31 December 2019. On the other hand, 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 **Appendix III** of this Circular.

Our 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 our Board's immediate initiatives to improve SERB Group's financial performance pursuant to the completion of the Proposed Acquisition, our 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 our 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 Circular.

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, our 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 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, our 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. Our 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

Our 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 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 Circular.

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

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 Circular. 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, our 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 Loss making position of SERB Group

As highlighted in **Section 2.1** of this Circular, SERB Group had been recording LAT over the past 4 financial years up to the FYE 31 December 2020. SERB Group's loss making position was mainly attributable to the decrease in revenue contribution from the civil engineering projects and bauxite mining business segment and while continuing to incur certain fixed operating expenses associated with the aforesaid two business segments from the FYE 31 December 2017 onwards.

A summary of the current ratio and gearing ratio of SERB Group based on its audited consolidated financial statements for the past 4 financial years up to the FYE 31 December 2020 is set out as follows:-

	FYE 31 December 2017 RM'000	FYE 31 December 2018 RM'000	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000
Current Assets	150,738	184,007	200,852	96,070
Current Liabilities	112,011	135,360	161,535	168,943
Current Ratio	1.35	1.36	1.24	0.57
Gearing (times)	0.43	0.71	0.97	3.84

For clarification purposes, the high net current liabilities and high gearing ratio of SERB Group in the FYE 31 December 2020 is due to the one-off impairment of approximately RM67.50 million in receivables made in the FYE 31 December 2020 for the uncertainty of recoverability of the unpaid certified claims of SERB against Maju Holdings for the MEX II Projects as set out in **Section 2.1** of this Circular.

Our Board and management takes cognisance of SERB Group's continuous loss-making position over the past 4 financial years up to the FYE 31 December 2020 and accordingly, outlined several preliminary strategies to improve SERB Group's earnings and overall operating structure to return SERB Group to profitability. This includes, amongst others, 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 and 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.

Further details on our Board's strategies to return SERB Group to profitability are set out in **Appendix IV** of this Circular.

Notwithstanding the foregoing, there is no assurance that our Board's strategies to improve SERB Group's earnings and overall operating structure to return SERB Group to profitability can be implemented effectively such that SERB Group can return to profitability within the next 1 year after the completion of the Proposed Acquisition.

Additionally, there is also no assurance that Advancecon will be able to improve the business operations of SERB moving forward. Nonetheless, Advancecon will work closely with the management of SERB to take reasonable steps in ensuring such risks are adequately mitigated by leveraging on each other's skillsets and experiences in the quarry industry and construction industry.

6.4 Achievability of Profit Guarantee

The Profit Guarantee is based on various bases and assumptions which our Board deemed reasonable, but nevertheless is subject to certain uncertainties and contingencies, such as failure to extend the expiry date for the operation period with the lessors for SERB's quarry operations in Sungai Buloh, Tanjung Dua Belas 1 and Tanjung Dua Belas 2, which is coming to expiry from April 2022 onwards.

In the event that SERB is unable to extend the operation period for the aforesaid quarry operations, the earnings expected to be derived from the said quarry operations will be materially impacted, which will affect the likelihood that the Profit Guarantee will be met by the Vendor.

Notwithstanding the foregoing, our Group will seek to limit these risks through, amongst others, conducting periodic discussions with the lessors to have a common understanding regarding the terms of extension and to undertake reasonable effort to secure the extension of the operation period for SERB's quarry operations. However, there is no assurance that SERB will be able to extend the expiry date for the operation period with the lessors for SERB's quarry operations in Sungai Buloh, Tanjung Dua Belas 1 and Tanjung Dua Belas 2, failing which may have an adverse effect on the achievability of the Profit Guarantee.

6.5 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.

Our 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.

6.6 Competition risk

Our 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.

6.7 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.

6.8 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. Subsequently in year 2021, the Malaysian Government has announced varying movement restrictions and durations for various states in Malaysia and moved into the National Recovery Plan.

Advancecon Group's operations were affected by the first MCO effective from 18 March 2020 until 4 May 2020 as our 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 our 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. FINANCIAL EFFECTS 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)	(3,249,343)	-	-
	406,431,700	88,683,828	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	103,863,828	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 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)	(3,249,343)
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	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 our 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 19 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.*

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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	-	-
Yap Ho Huat	-	-	-	-	-	-	33,000,000	7.5*5
Yap Yee Huat	-	-	-	-	-	-	33,000,000	7.5*5
Yap Chai Huat	-	-	-	-	-	-	33,000,000	7.5*5
Yap Soon Huat	-	-	-	-	-	-	33,000,000	7.5*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 children pursuant to Section 59(11)(c) of the Act.

*4 Negligible.

*5 Deemed interested by him holding 22.5% direct equity interest in the Vendor.

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	-	-
Yap Ho Huat	-	-	-	-	-	-	-	-	-	-	33,000,000	7.4 ^{*6}
Yap Yee Huat	-	-	-	-	-	-	-	-	-	-	33,000,000	7.4 ^{*6}
Yap Chai Huat	-	-	-	-	-	-	-	-	-	-	33,000,000	7.4 ^{*6}
Yap Soon Huat	-	-	-	-	-	-	-	-	-	-	33,000,000	7.4 ^{*6}

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 children pursuant to Section 59(11)(c) of the Act.

^{*5} Negligible.

^{*6} Deemed interested by him holding 22.5% direct equity interest in the Vendor.

The Proposed Acquisition will not give rise to an emergence of a controlling shareholder in Advancecon who individually or collectively, are entitled to exercise or control the exercise of more than 33.0% of the voting shares of our Company, or who is or are in a position to control the composition of a majority of our Board. For information purposes, our public shareholding spread is not expected to fall below 25% of our enlarged issued shares after the completion of the Proposed Acquisition. As illustrated above, upon completion of the Proposed Acquisition, the Vendor will emerge as new substantial shareholder who holds approximately 7.5% and 7.4% of the enlarged issued Shares under the Minimum Scenario and Maximum Scenario, respectively. Therefore, there is no mandatory take-over offer implication arising from the completion of the Proposed Acquisition.

For illustration purposes, the pro forma effects of the Proposed Acquisition on our public shareholding spread are as follows:-

	As at the LPD		Minimum Scenario After the Proposed Acquisition		Maximum Scenario After the Proposed Acquisition	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Share capital	406,431,700	100.0	439,431,700	100.0	448,813,000	100.0
Less: Directors'/ substantial shareholders'/ associates' shareholdings	206,102,850	50.7	239,102,850	54.4	239,102,850	53.3
Public shareholdings	200,328,850	49.3	200,328,850	45.6	209,710,150	46.7

As illustrated in the table above, upon completion of the Proposed Acquisition under the Minimum Scenario, our public shareholding spread may reduce from approximately 49.3% as at the LPD to approximately 45.6%. Additionally, upon completion of the Proposed Acquisition under the Maximum Scenario, our public shareholding spread may reduce from approximately 49.3% as at the LPD to approximately 46.7%. Therefore, we will still be in compliance with Paragraph 8.02(1) of the Listing Requirements, which requires a listed issuer to have a public shareholding spread of at least 25.0% of the total listed Shares (excluding treasury shares, if any) in the hands of public shareholders, after the completion of the Proposed Acquisition.

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 fourth quarter of 2021. Upon the completion of the Proposed Acquisition in the fourth quarter of 2021, SERB will become a 51%-owned subsidiary company of Advancecon and the financial results of SERB for the FYE 31 December 2021 will be consolidated into Advancecon's earnings and EPS.

The Proposed Acquisition comes with Profit Guarantee. The Profit Guarantee attributable to Advancecon (calculated based on 51% equity interest of SERB to be acquired by Advancecon) is RM6,120,000, which translates to yearly Profit Guarantee attributable to Advancecon of RM3,060,000 per annum. Therefore, the Proposed Acquisition is expected to contribute positively to the future earnings of Advancecon Group after taking into consideration the 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, 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
Less: LAT of SERB in FYE 31 December 2020		(51,257,305) ^{*1}
Less: Estimated expenses for the Proposals and potential finance cost arising from the Proposed Acquisition	-	(1,269,900) ^{*2}
Total PAT/ (LAT)	2,101,045	(50,426,160)
Number of Shares in issue (excluding Treasury Shares)	395,693,700	439,431,700
Basic EPS/ (LPS) (sen)	0.53	(11.48)^{*3}

Maximum Scenario

	Audited FYE 31 December 2020 RM	After the Proposed Acquisition RM
PAT (attributable to shareholders)	2,101,045	2,101,045
Less: LAT of SERB in FYE 31 December 2020		(51,257,305) ^{*1}
Less: Estimated expenses for the Proposals and potential finance cost arising from the Proposed Acquisition	-	(1,269,900) ^{*2}
Total PAT/ (LAT)	2,101,045	(50,426,160)
Number of Shares in issue (excluding Treasury Shares)	395,693,700	448,813,000
Basic EPS (sen)	0.53	(11.24)^{*3}

Notes:

^{*1} After taking into account 51% of SERB's audited LAT for the FYE 31 December 2020 of RM100.50 million.

^{*2} 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).

^{*3} Computed based on of PAT (attributable to shareholders) and the yearly Profit Guarantee attributable to Advancecon of RM3,060,000 per annum divided by the total number of Advancecon Shares in issue after the Proposed Acquisition.

For the avoidance of doubt, the effects of the Proposed Acquisition on the earnings and EPS of Advancecon is purely for illustration purposes only. As set out in **Section 2.2 and Section 10, Appendix III** of this Circular, the significant LAT posted in the FYE 31 December 2020 by SERB was 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 Maju Holdings for the MEX II Projects.

Our Board of Advancecon takes cognisance of SERB Group's continuous loss-making position over the past 4 financial years up to the FYE 31 December 2020, and as part of our Board's immediate initiatives to improve SERB Group's financial performance pursuant to the completion of the Proposed Acquisition, our 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. By undertaking the aforementioned measures, our 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 in the FYE 31 December 2022, wherein the Vendor has also provided a 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). Further details on our Board's strategies to improve SERB Group's earnings and overall operating structure to return SERB Group to profitability are set out in **Appendix IV** of this Circular.

7.5 Convertible securities

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

8. HISTORICAL SHARE PRICES

The monthly highest and lowest market prices of Advancecon Shares as traded on Bursa Securities for the past 12 months from October 2020 to September 2021 are set out below:-

	High RM	Low RM
2020		
October	0.370	0.341
November	0.380	0.336
December	0.435	0.360
2021		
January	0.395	0.335
February	0.395	0.365
March	0.430	0.370
April	0.475	0.385
May	0.420	0.350
June	0.390	0.350
July	0.365	0.330
August	0.345	0.310
September	0.355	0.320

Last transacted market price of Advancecon Shares as at 16 June 2021
(being the latest trading day prior to the announcement on the Proposals) RM0.385

Last transacted market price on the LPD RM0.325

(Source: Bloomberg)

9. APPROVALS REQUIRED AND INTER-CONDITIONALITY OF THE PROPOSALS

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, the approval of which has been obtained vide Bursa Securities' letter dated 28 September 2021 subject to the following conditions:-

Conditions	Status of compliance
a. Compliance of at least 25% of the public shareholding spread requirements pursuant to Paragraph 8.02(1) of the Listing Requirements upon the listing and quotation of the Consideration Shares.	To be complied
b. Advancecon and UOBKH must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Acquisition;	To be complied
c. Advancecon or UOBKH to furnish Bursa Securities with the certified true copy of the resolution passed by shareholders at extraordinary general meeting approving the Proposed Acquisition;	To be complied
d. Advancecon and UOBKH to inform Bursa Securities upon the completion of the Proposed Acquisition; and	To be complied
e. Advancecon and UOBKH to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Acquisition is completed.	To be complied
ii. The shareholders of Advancecon, for the Proposals at the forthcoming EGM For shareholders information, 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; 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 our Company.

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

None of the Directors, major shareholders, chief executive of our Company and/ or persons connected with them have any interest, whether direct or indirect, in the Proposals.

11. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Proposals are expected to be completed in the fourth quarter of calendar year 2021.

The tentative timetable in relation to the Proposals is as follows:-

Timeline	Events
End October 2021	<ul style="list-style-type: none"> • Convening of EGM to obtain approval for the Proposals • Completion of the Proposed Diversification
End November 2021	<ul style="list-style-type: none"> • Listing of the Consideration Shares on the Main Market of Bursa Securities • Completion of the Proposed Acquisition

12. PROPOSALS ANNOUNCED BUT PENDING COMPLETION

Save for the Proposals (being the subject matter in this Circular), our Board is not aware of any other outstanding corporate exercises which have been announced but not yet completed as at the date of this Circular.

13. DIRECTORS' STATEMENT AND RECOMMENDATION

Our 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.

Accordingly, our Board recommends that you vote in favour of the resolutions pertaining to the Proposals at the EGM.

14. EGM

The EGM, the notice of which is enclosed in this Circular, will be conducted on a fully virtual basis through live streaming and online meeting platform of TIIH Online provided by Tricor Investor & Issuing House Services Sdn Bhd in Malaysia via Remote Participation and Electronic Voting ("**RPV**") facilities at <https://tiih.online> on Tuesday, 26 October 2021 at 10.00 a.m, or at any adjournment thereof, for the purpose of considering and if thought fit, passing with or without modification, the resolutions to give effect to the Proposals.

If you are unable to attend, participate, speak and vote remotely at the EGM via the Remote Participation and Voting facilities provided, you are entitled to appoint a proxy or proxies (not more than 2) to attend, participate, speak and vote on your behalf. As such, you are requested to complete, sign and return the enclosed Proxy Form in accordance with the instructions contained therein, to be deposited at the Share Registrar's office at 11th Floor Menara Symphony, No 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200, Petaling Jaya, Selangor. In the case of an appointment of a proxy made in electronic form, the Proxy Form must be deposited through the Share Registrar's website, Boardroom Smart Investor Portal at <https://investor.boardroomlimited.com>. Please refer to the procedures as set out in the Administrative Guide for the electronic lodgement of proxy form, not less than 48 hours before the time appointed for holding the EGM. The lodging of the Proxy Form shall not preclude you from attending, participating, speaking and voting at the EGM should you subsequently wish to do so.

15. FURTHER INFORMATION

Shareholders of our Company are advised to refer to the appendices set out in this Circular for further information.

Yours faithfully,
For and on behalf of our Board
ADVANCECON HOLDINGS BERHAD

Yeoh Chong Keat
Independent Non-Executive Chairman

APPENDIX I – 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 2.6** of this Circular) 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 Act 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.

APPENDIX I – SALIENT TERMS OF THE SSA (CONT'D)

(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

APPENDIX I – SALIENT TERMS OF THE SSA (CONT'D)

- (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 Act 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 and FYE 31 December 2023 shall be not less than RM12,000,000.00 only in aggregate.

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 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

APPENDIX I – SALIENT TERMS OF THE SSA (CONT'D)

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;

APPENDIX I – SALIENT TERMS OF THE SSA (CONT'D)

- (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 Advancecon. 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 MEX II Projects Dispute

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

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 SERB for the financial year ended 31 December 2020 in respect of certified claims by SESB in connection with works undertaken for the MEX II Projects ("**Impaired Amount**").

APPENDIX I – SALIENT TERMS OF THE SSA (CONT'D)

(We believe that this would ensure that, moving forward, there will not be unanticipated impairments required for the unrecoverable certified claims of SERB against Maju Holdings for the MEX II Projects by Advancecon, should the situation arise).

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 MEX II Projects 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 MEX II Projects 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 MEX II Projects 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 MEX II Projects 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 MEX II Projects 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 MEX II Projects 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 as this amount was fully impaired by the Vendor and for the Vendor's successful management of the MEX II Projects 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.

Based on the above, our Board is of the opinion this clause on Specific Warranty on the MEX II Projects Dispute is fair and reasonable to Advancecon.

(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:

APPENDIX I – SALIENT TERMS OF THE SSA (CONT'D)

- 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.

APPENDIX II – 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 Act, its Constitution and Listing Requirements.

(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 SERB 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 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 the Vendor 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 cash flow 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 up to RM10,200,000.00 only to SERB ("**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 cash flow to meet their operational expenses for the following 4 months should such repayment be made.

APPENDIX II – SALIENT TERMS OF THE SHAREHOLDERS AGREEMENT (CONT'D)

(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.

APPENDIX III – INFORMATION ON SERB

1. HISTORY AND BUSINESS

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 is principally engaged in the investment holding. Through its subsidiaries, SERB Group commenced operations in 1997 pursuant to the incorporation of SESB, the wholly-owned subsidiary of SERB, in Malaysia in September 1997. SESB was established as a quarry operator specialising in rock crushing operation. The principal operating market of SERB Group is Malaysia with revenue derived from Malaysian customers only. SERB Group's principal activities are set out below:-

(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 past 4 financial years up to the FYE 31 December 2020 is set out below:-

	<-----FYE 31 December----->			
	2017	2018	2019	2020
	million MT	million MT	million MT	million MT
Total production output	4.00	3.95	4.75	3.52

For the FYE 31 December 2018, the production output of quarry products of SERB Group decreased by approximately 0.05 million MT or approximately 1.3% from approximately 4.00 million MT during the preceding year of FYE 31 December 2017 to approximately 3.95 million MT. The decrease in production is due to SERB Group's higher stockpile in the FYE 31 December 2018 amounting to approximately 0.72 million MT as compared to approximately 0.67 million MT in the FYE 31 December 2017.

For the FYE 31 December 2019, the production output of quarry products of SERB Group increased by approximately 0.80 million MT or approximately 20.3% from approximately 3.95 million MT during the preceding year of FYE 31 December 2018 to approximately 4.75 million MT. The increase in production is due to SERB Group's higher sales in the FYE 31 December 2019 amounting to approximately RM139.16 million as compared to RM110.08 million in the FYE 31 December 2018.

APPENDIX III – INFORMATION ON SERB (CONT'D)

For the FYE 31 December 2020, the production output of quarry products of SERB Group decreased by approximately 1.23 million MT or approximately 25.9% from approximately 4.75 million MT during the preceding year of FYE 31 December 2019 to approximately 3.52 million MT. The decrease in production is due to 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 at the LPD, the total estimated remaining recoverable rock reserves from the commercial quarries stood at approximately 53.34 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.

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. As the operation period for Sungai Buloh, Tanjung Dua Belas 1 and Tanjung Dua Belas 2 is coming to expiry from April 2022 onwards, it is SERB's intention to continue quarry operations as there are still rock reserves and material that can be extracted. Therefore, SERB Group will commence negotiations with the lessor by February 2022.

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APPENDIX III – INFORMATION ON SERB (CONT'D)

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	Land Owner/ Lessor	Total Land Area (million sq ft)	Tenure	Estimated monthly Output (million MT)	Maximum monthly Capacity (million MT)	Recoverable Reserves (million MT)	Operations Period ^{*1}	Total length of contracts with lessor	Annual Tribute Rate ^{*2} (RM/ MT)	Annual Royalty Rate ^{*3} (RM/ MT)
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	Sin Thian Seng Sdn Bhd	4.71	Freehold	0.04	0.06	1.31 ^{*4}	2003-2033	30 years	1.40	3.00-5.00
ii. Semenyih	HS(D)42828 PT9316 and HS(D)42829 PT 9317, Mukim Semenyih, Daerah Ulu Langat, Selangor Darul Ehsan	Vee Seng Development Sdn Bhd	3.49	Freehold	0.11	0.15	6.86 ^{*4}	2019-2028	9 years	2.70	3.90
iii. Sungai Buloh	Kompatmen 9, Hutan Simpan Bukit Lagong, Mukim Rawang, Daerah Hulu Selangor, Selangor	Perkuat Kuari Sdn Bhd	3.66	Minor licence under the National Forestry Act 1984 with right to use for 30 years expiring on 20 October 2023 (with the remaining period of approximately 2 years)	0.14	0.16	6.10 ^{*4}	2008-2022	14 years	1.80	3.90
iv. Tanjung Dua Belas 1	PN 11513, Lot 6269, Mukim, Tanjung Duabelas, Kuala Langat, Selangor	Swasta Rasmi Enterprise Sdn Bhd	8.76	Leasehold for 99 years expiring on 11 December 2099 with a remaining leasehold period of approximately 78 years	0.08	0.10	6.61 ^{*4}	2011-2022	11 years	5.40	3.90

APPENDIX III – INFORMATION ON SERB (CONT'D)

No Quarry Site	Location	Land Owner/ Lessor	Total Land Area (million sq ft)	Tenure	Estimated monthly Output (million MT)	Maximum monthly Capacity (million MT)	Recoverable Reserves (million MT)	Operations Period ^{*1}	Total length of contracts with lessor	Annual Tribute Rate ^{*2} (RM/ MT)	Annual Royalty Rate ^{*3} (RM/ MT)
v. Tanjung Dua Belas 2	Lot 12287, Mukim Tanjung Duabelas, Kuala Langat, Selangor	Bandar Tanming Sdn Bhd	19.50	Leasehold for 99 years expiring on 11 December 2099 with a remaining leasehold period of approximately 78 years	0.16	0.18	14.46 ^{*5}	2019-2022	3 years	1.50	3.90
vi. Kuantan	Bukit Penggorak Mukim Sg. Karang, Kuantan, Pahang Darul Makmur	KDYTM Tengku Abdullah Ibni Sultan Haji Ahmad Shah	3.68	Lease of reserved land under the National Land Code for 5 years expiring on 12 April 2025 with a remaining lease period of approximately 4 years	0.03	0.06	18.00 ^{*4}	2016-2036	20 years	-	3.00

Notes:-

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

^{*2} Tribute rate proposed by land owner/ lessor and agreed upon negotiation.

^{*3} Royalty rate set by state government.

^{*4} Based on the information provided by Kenep Consultancy & Services Sdn Bhd ("**Kenep**") which was obtained by multiplying estimated volume of the quarry reserves by the specific gravity of granite. Further details of Kenep are set out below.

Kenep was incorporated on 21 April 2011 in Malaysia under the Companies Act, 1965 as a private limited company. Kenep is principally engaged in the consultancy, environmental services, application, preparation of relevant report and licensing for relevant authorities of mining, quarry and others industries and commenced operations pursuant to its incorporation.

APPENDIX III – INFORMATION ON SERB (CONT'D)

Kenep's consultancy engagements in the past 5 years include, amongst others:-

Details	Date
<i>Quarry Operational Scheme For The Proposed Granite Quarry Operation On PT101179 And PT 101180 With An Area Of 13.629 Hectares (33.678 Acres) In Mukim Kuala Nerus, District Of Kuala Nerus, Terengganu Darul Iman</i>	<i>June 2020</i>
<i>Environment Impact Assessment For Mining Of Iron Ore On Lot 110548, Kawasan Bukit Besi, Mukim Besul, Daerah Dungun, Terengganu. (ML 4/2013)</i>	<i>September 2019</i>
<i>Environmental Impact Assessment For The Proposed Quarry Operation On Parts Of Compartment 24 And 26 With An Area Of 18 Hectares (44.479 Acres) In Segari Melintang Forest Reserve, Forest District Of Kinta Manjung, Perak Darul Ridzuan</i>	<i>January 2019</i>
<i>Environmental Impact Assessment For The Proposed Granite Quarry Operation On Part Of Compartment 8 & 9, Hutan Simpan Bukit Lagong With An Area Of 40.5 Hectares (100.8 Acres) In District Of Hulu Selangor, Selangor Darul Ehsan</i>	<i>June 2018</i>
<i>Operational Mining Scheme for the Cadangan Operasi Melombong Bijih Besi Di Atas Lesen Melombong Tuan Punya (PML) 1/2014 Lot 1118 Di Mukim Kuala Nal, Daerah Batu Mengkebang Jajahan Kuala Krai, Kelantan Darul Naim</i>	<i>May 2017</i>

The substantial shareholders and directors of Kenep and their respective directive and indirect shareholdings in Kenep as at the LPD is set out as follows:-

Substantial shareholders/ Directors	Years of Working Experience	Qualifications	<-----Direct----->		<-----Indirect----->	
			No. of shares	%[@]	No. of shares	%[@]
<i>Ir Fakhru Zakee Bin Abdul Kadir</i>	<i>22</i>	<i>BEng (Hons) Mineral Resources</i>	<i>60,000</i>	<i>33.33</i>	<i>-</i>	<i>-</i>
<i>Eng Kim Mun</i>	<i>27</i>	<i>BEng Electronic</i>	<i>60,000</i>	<i>33.33</i>	<i>-</i>	<i>-</i>
<i>Wong Guan Lee</i>	<i>25</i>	<i>Diploma in Electromechanical Engineering</i>	<i>60,000</i>	<i>33.33</i>	<i>-</i>	<i>-</i>

Notes:-

[@] *Based on the total issued shares of 180,000 in Kenep.*

Senior Management	Years of Working Experience	Qualifications
<i>Mohd Nasir Abd Rahman</i>	<i>32</i>	<i>BEng Civil Engineering</i>
<i>Mohd Shubaili Bin Haris</i>	<i>15</i>	<i>BEng Electrical & Electronic</i>
<i>Ir Nur Ain Binti Shaari</i>	<i>11</i>	<i>BEng Civil Engineering</i>
<i>Wong Yuen Key</i>	<i>10</i>	<i>Bs. Hons Env. Science</i>

APPENDIX III – INFORMATION ON SERB (CONT'D)

⁵ Based on the information provided by Jurukur Suasa Sepakat ("**JSS**") which was obtained by multiplying estimated volume of the quarry reserves by the specific gravity of granite. Further details of JSS are set out below.

JSS was incorporated on 1 September 1998 in Malaysia solely by Sr. Hj. Rosli Bin Ahmad and registered under the Land Surveyors Board (Licence No.: LJT 176/2021). JSS is principally engaged in the surveying field and commenced operations pursuant to its incorporation.

JSS's consultancy engagements in the past 5 years include, amongst others:-

Details	Date
Kerja-kerja Ukur Topografi dan Demarkasi Tanah Seluas 256 Ekar di Wilayah Kg. Pisang, Mukim Sg. Terap, Daerah Kinta, Perak.	October 2020
Kerja Ukur Menaiktaraf Jalan K.Kangsar-Manong, Daerah Kuala Kangsar, Perak.	July 2020
Kerja Ukur Perimeter dan Kejuruteraan Penempatan Orang Asli Pos Kuala Mu, Sungai Siput, Perak.	October 2019
Kerja-Kerja Ukur Topografi Serta Penyediaan Pelan Pinta Ukur Dan Ukuran Hakmilik Untuk Permohonan Pemberilikan Tanah Kerajaan Tanah Kerajaan Seluas Kira-Kira 2.283 Hektar (5.64 Ekar) Di Wilayah Gunung Rapat, Mukim Hulu Kinta, Daerah Kinta Untuk Skim Perumahan.	August 2019
Kerja Ukur Kejuruteraan Sungai Nyior, Daerah Larut Matang & Selama	December 2018

The sole owner of JSS is Sr. Hj Rosli Bin Ahmad. Details of the Sr. Hj Rosli Bin Ahmad and the senior management of JSS are set out as follows:-

Senior Management	Years of Working Experience	Qualifications
Sr. Hj Rosli Bin Ahmad	41	Licensed Land Surveyor under Act 458
Ahmad Nazmi Bin Rosli	10	Sijil Pelajaran Malaysia
Richard Tay Hua Chai	35	Diploma in Civil Engineering

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APPENDIX III – INFORMATION ON SERB (CONT'D)

For shareholders information, a breakdown of SERB Group's top 5 customer for the last 4 financial years up to the FYE 31 December 2020 is set out as below:-

		<-----FYE 31 December----->			
Services Provided		2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Customer A	Sale of quarry product	-	-	-	5,055
Advancecon Infra Sdn Bhd	Sale of quarry product and premix products	-	-	-	4,794
Customer B	Sale of quarry product and premix products	-	-	4,714	4,617
Customer C	Sale of quarry product	-	-	-	3,976
Customer D	Sale of quarry product	5,424	3,129	8,380	3,161
Customer E	Sale of quarry product and premix products	-	-	3,306	-
Customer F	Sale of quarry product	-	-	2,692	-
Customer G	Sale of quarry product	4,503	4,207	2,471	-
Customer H	Sale of quarry product	2,521	8,977	-	-
Customer I	Sale of quarry product and premix products	4,201	4,609	-	-
Customer J	Sale of quarry product	-	3,075	-	-
Customer K	Sale of quarry product	2,668	-	-	-

SERB Group does not enter into any long-term contracts with their customers for the purchase of aggregates and premix products and relies only on the monthly purchase order received for sales.

For shareholders information, SERB Group's revenue from commercial quarry for the last 4 financial years up to the FYE 31 December 2020 is set out as below:-

		<-----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	%
Commercial quarry		92,356	84.9	118,866	86.8	139,156	91.9	116,813	91.1

For shareholders' information purposes, for the commercial quarry segment, all upstream activities are undertaken entirely by SERB and its subsidiaries, namely Semenyih Quarry and Kuantan Quarry. As such, there is no external revenue recorded for the upstream activities after adjusted for inter-company transactions. We have disclosed the total external revenue contributed by the commercial quarry segment, which comprises entirely the downstream activities.

APPENDIX III – INFORMATION ON SERB (CONT'D)

For shareholders information, the average selling prices of SERB Group's premix products for the last 4 financial years up to the FYE 31 December 2020 is set out as below:-

	FYE 31 December 2017 RM/ MT	FYE 31 December 2018 RM/ MT	FYE 31 December 2019 RM/ MT	FYE 31 December 2020 RM/ MT
Average selling prices	126.72	138.49	141.99	130.91

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 2 project quarries being:-

- i. 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.
- ii. Located at Dungun, Terengganu with a contract period from 2021 to 2022 and the estimated monthly output of quarry products is 0.03 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.

APPENDIX III – INFORMATION ON SERB (CONT'D)

As at the LPD, SERB Group owns and operates 5 asphalt mixing plants for the purpose of producing premix products, with 1 batch plant and 1 drum 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. For the FYE 31 December 2020, SERB's machineries and equipment were primarily sourced from local suppliers.

(ii) Civil engineering projects

SERB Group expanded its business activities into civil engineering services in 2001. 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	Date of award	Project awarded by	Commencement/ Completion date	Contract value ^{*1*2} RM'000
Construction, completion and maintenance of landside civil infrastructure at phase 1 NDWT Kuantan Port and main drain for Kuantan Port, Pahang.	October 2016	IJM Construction Sdn Bhd	November 2016/ January 2019	45,540
Duta - Ulu Kelang Expressway (DUKE) Phase 2 Section 1 – Sri Damansara Link - Construction and completion of pavement works at Menjalara (at grade)	September 2016	Pembinaan Sahabatjaya Sdn Bhd	September 2016/ June 2020	4,573
Pavement rehabilitation 2018 along the Grand Sepadu Highway	November 2018	Grand Sepadu (NK) Sdn Bhd	November 2018/ January 2019	2,705

APPENDIX III – INFORMATION ON SERB (CONT'D)

Project details	Date of award	Project awarded by	Commencement/ Completion date	Contract value ^{*1*2} RM'000
Pavement rehabilitation 2019 along the Grand Sepadu Highway	August 2019	Grand Sepadu (NK) Sdn Bhd	September 2019/ October 2019	314

Notes:-

^{*1} Total contract value includes variation orders.

^{*2} Payment has been fully collected for all completed projects.

As at the LPD, SERB Group has an outstanding order book of approximately RM45.18 million from the following on-going civil engineering projects:-

Project details	Date of award	Project awarded by	Commencement/ Expected completion date	Contract value ^{*1} RM'000	Outstanding amount to be collected RM'000
Projek Penswastaan Lebuhraya Bertingkat Damansara-Shah Alam Package DASH-CA3- Construction and completion of mainline and other associated works from CH 2650 to CH 4983 - Sub-contract for Pavement Works	15 July 2019	BBSB Holdings Sdn Bhd	July 2019/ Jan 2020 ^{*2}	Awarded 15,588 Remaining 502	- ^{*3}
Projek Penswastaan Lebuhraya Bertingkat Sungai Besi – Ulu Kelang Package SUKE CB5 – Construction and completion of mainline and other associated works from CH 21200 to CH 24000 - Sub-contract for Pavement Works	11 July 2019	BBSB Holdings Sdn Bhd	July 2019/ Feb 2020 ^{*2}	Awarded 5,566 Remaining 330	1,986 ^{*4}
Privatisation of Lebuhraya Persisiran Pantai Barat (Taiping to Banting) Section 7 - Assam Jawa Interchange to Tanjung Karang Interchange (Part 1) - Sub-contract for Pavement Works	26 April 2021	Gabungan Cekapbina Sdn Bhd	May 2021/ August 2022	Awarded 37,018 Remaining 32,888	753 ^{*5}
Construction and Completion of Phase A10 Earthworks and Other Ancillary Works for Package 2F, Serenia City, Mukim Dengkil, Daerah Sepang, Selangor Darul Ehsan	17 June 2021	Advancecon Infra Sdn Bhd	July 2021/ June 2022	Awarded 2,720 Remaining 2,720	-
East Coast Rail Link Project – Section 6 – Sub contract for construction of subgrade, drainage works and culvert works	2 July 2021	Advancecon Infra Sdn Bhd	July 2021/ November 2022	Awarded 9,288 Remaining 8,735	251 ^{*6}

Notes:-

^{*1} Total contract value includes variation orders.

^{*2} This project is facing delays caused by the customer with no period of time fixed for completion.

APPENDIX III – INFORMATION ON SERB (CONT'D)

- ³ Fully collected.
- ⁴ This amount has been billed to BBSB Holdings Sdn Bhd and is awaiting payment.
- ⁵ This amount has been billed to Gabungan Cekapbina Sdn Bhd and is awaiting payment.
- ⁶ This amount has been billed to Advancecon Infra Sdn Bhd and is awaiting payment.

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 expanded its business activities into bauxite mining in 2014. 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 Circular, 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.

2. SHARE CAPITAL

As at the LPD, SERB has an issued share capital of RM102,000,002 comprising 510,000,010 SERB Shares.

3. SHAREHOLDERS

The substantial shareholders of SERB and their respective directive and indirect shareholdings in SERB as at the LPD is set out 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 Act by virtue of his shareholding in FHHSB, which in turn holds 100.0% equity interest in SERB.

4. DIRECTORS

The directors of SERB and their respective direct and indirect shareholdings as at the LPD are set out as follows:-

APPENDIX III – INFORMATION ON SERB (CONT'D)

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 Act by virtue of his shareholding in FHHSB, which in turn holds 100.0% equity interest in SERB.

5. SUBSIDIARIES 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
SESB	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
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

APPENDIX III – INFORMATION ON SERB (CONT'D)

As at the LPD, the details of the associate 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

6. MATERIAL LITIGATION, CLAIMS OR ARBITRATION

Save as disclosed below, as at the LPD, SERB Group is not engaged in any other material litigation, claims or arbitration, either as plaintiff or defendant, and the Board of Directors of SERB is not aware and does not have any knowledge of any proceedings pending or threatened against SERB Group, or of any facts likely to give rise to any proceedings, which might materially or adversely affect the financial position or business of SERB Group:-

1. "PAVEMENT WORKS (WP700) FOR PROPOSED LEBUHRAYA PUTRAJAYA TO KLIA (MEX II)" ENTERED BETWEEN SESB (AS SUB-CONTRACTOR) AND MAJU HOLDINGS (AS MAIN CONTRACTOR)

(A) Part One

Construction Industry Payment and Adjudication Act 2012 ("CIPAA 2012") - Claim by SESB against Maju Holdings

On 21 May 2019, Adjudication Proceedings was commenced by SESB against Maju Holdings by way of Notice of Adjudication and registered as Adjudication No. AIAC/D/ADJ-2535-2019 at the Asian International Arbitration Centre ("**AIAC**") to claim for unpaid interim payment certificates numbers 2 to 7 pursuant to the above works.

Adjudication Decision dated 21 August 2019 was given in favour of SESB for the total sum of RM8,848,865.04 together with interests and costs.

Kuala Lumpur High Court – (Construction Court 2), Originating Summons No. WA-24C-191-09/2019 SESB ("Plaintiff") vs. Maju Holdings ("Defendant")

SESB by way of Originating Summons applied to the Court to enforce the above Adjudication Decision. Maju Holdings by way of Originating Summonses No. i) WA-24C-198-10/2019; and ii) WA-24C-199-10/2019 applied to the Court to set aside and to stay the Adjudication Decision respectively ("**Maju Applications**").

On 4 February 2020, the Adjudication Decision was enforced as the High Court's judgment and Maju Applications were dismissed. Maju Holdings did not appeal against the High Court's decision.

Kuala Lumpur High Court (Enforcement Court) – Garnishee Application – Notice of Application No. WA-37G-16-03/2020 SESB ("Plaintiff") vs. Maju Holdings ("Defendant")

On 16 June 2020, the total sum of RM1,053,782.70 (inclusive of total costs of RM500.00 awarded to the garnishee banks) was recovered by way of a garnishee application.

Kuala Lumpur High Court Enforcement Proceedings No. WA-37G-58-07/2020
SESB ("Plaintiff") vs. Maju Holdings ("Defendant")

SESB filed a garnishee application to garnish the judgment sum due and owing by the Judgment Debtor vide the Kuala Lumpur High Court Originating Summons No. WA-24C-191-09/2019, WA-24C-198-10/2019 and WA-24C-199-10/2019. SESB had successfully garnished the sum of RM13,846.30 from CIMB Bank Berhad and RM518.76 from Malayan Banking Berhad. The Court has awarded the costs of RM1,500.00 to be paid by the Judgment Debtor to SESB.

Kuala Lumpur High Court, Judgment Debtor Summons No. WA-37J-44-09/2020 SESB ("Plaintiff") vs. Maju Holdings ("Defendant")

On 21 September 2020, SESB had filed an application for Judgment Debtor Summons against Maju Holdings to examine Maju Holdings on the mode to satisfy the judgment sum of RM8,848,865.04.

(B) Part Two

CIPAA 2012 - Claim by SESB against Maju Holdings

On 22 August 2019, Adjudication Proceedings was commenced against Maju Holdings by way of Notice of Adjudication dated 21 August 2019 and registered as Adjudication No. AIAC/D/ADJ-2776-2019 at the AIAC for unpaid interim payment certificates numbers 8 and 9 pursuant to the above works.

Adjudication Decision dated 17 January 2020 was given in favour of SESB for the total sum of RM1,869,914.08 together with interests and costs.

Kuala Lumpur High Court - (Construction Court 2), Originating Summons No. WA-24C-115-06/2020
SESB ("Plaintiff") vs. Maju Holdings ("Defendant")

SESB by way of Originating Summons applied to the Court to enforce the above Adjudication Decision. Maju Holdings by way of Originating Summonses No. i) WA-24C-170-07/2020; and ii) WA-24C-169-07/2020 applied to the Court to set aside and to stay the Adjudication Decision respectively ("**Maju Applications 2**").

On 6 November 2020, the Adjudication Decision was enforced as the High Court's judgement and Maju Applications 2 were dismissed.

Court of Appeal

- (i) **W-02(C)(A)-1843-12/2020 (from OS 169 – stay);**
 - (ii) **W-02(C)(A)-1852-12/2020 (from OS 115 – Enforcement); and**
 - (iii) **W-02(C)(A)-1853-12/2020 (from OS 170 – Setting Aside).**
- Maju Holdings ("Appellant") vs SESB ("Respondent")**

Maju Holdings appealed to the Court of Appeal and the Grounds of Judgment was not made available at the High Court as at the case management on 6 May 2021.

2. **"SITE CLEARANCE, EARTHWORKS AND GEOTECHNICAL WORKS (WP200), DRAINAGE WORKS AND VEHICULAR BOX CULVERTS (WP300) AND REINFORCED SOIL WALL (WP400) FOR PROPOED LEBUHRAYA PUTRAJAYA TO KLIA (MEX II)" ENTERED BETWEEN SESB (AS SUB-CONTRACTOR) AND MAJU HOLDINGS (AS MAIN CONTRACTOR)**

(A) Part One

CIPAA 2012- Claim by SESB against Maju Holdings

On 21 May 2019, Adjudication Proceedings was commenced against Maju Holdings by way of Notice of Adjudication and registered as Adjudication No. AIAC/D/ADJ-2532-2019 at the AIAC pursuant to unpaid interim payment certificates 23 to 29 in respect of the above works.

Adjudication Decision dated 7 November 2019 was given in favour of SESB for the total sum of RM28,036,817.88 together with interests and costs.

**Kuala Lumpur High Court - (Construction Court 1), Originating Summons No. WA-24C-8-01/2020
SESB ("Plaintiff") vs. Maju Holdings ("Defendant")**

SESB by way of Originating Summons applied to the Court to enforce the above Adjudication Decision.

Maju Holdings by way of Originating Summonses No. i) WA-24C-48-02/2020; and ii) WA-24C-47-02/2020 applied to the Court to set aside and to stay the above Adjudication Decision respectively.

On 17 June 2020, the Adjudication Decision was enforced as the High Court's judgment and Maju Holdings' setting aside application was dismissed.

Maju Holdings' stay application was dismissed on 1 July 2020.

Maju Holdings applied for stay of enforcement of the High Court's decisions pending its appeal and the stay application was dismissed on 14 September 2020.

Court of Appeal

- (i) W-02(C)(A)-761-07/2020 (from OS 48 – Setting Aside);**
 - (ii) W-02(C)(A)-763-07/2020 (from OS 8 – Enforcement); and**
 - (iii) W-02(C)(A)-907-07/2020 (form OS 47 – Stay)**
- Maju Holdings ("Appellant") vs SESB ("Respondent")**

Maju Holdings appealed to the Court of Appeal.

**Kuala Lumpur High Court Enforcement Proceedings No. WA-37G-103-10/2020
SESB ("Plaintiff") vs. Maju Holdings ("Defendant")**

SESB filed a garnishee application to garnish the judgment sum due and owing by the Judgment Debtor vide the Kuala Lumpur High Court Originating Summons No. WA-24C-8-01/2020. SESB has successfully garnished the sum of RM837.15 from CIMB Bank Berhad and RM7,122.65 from Malayan Banking Berhad. The Court has awarded the costs of RM1,500.00 to be paid by the Judgment Debtor to SESB,

(B) **Part Two**

CIPAA 2012 – Claim by SESB against Maju Holdings

On 22 August 2019, Adjudication Proceedings was commenced against Maju Holdings by way of Notice of Adjudication and registered as Adjudication No. AIAC/D/ADJ-2777-2019 at the AIAC in respect of interim payment certificates numbers 30 and 31.

Adjudication Decision dated 17 January 2020 was given in favour of SESB for the total sum of RM5,252,803.18 together with interests and costs.

**Kuala Lumpur High Court – (Construction Court 1), Originating Summons No. WA-24C-130-06/2020
SESB ("Plaintiff") vs. Maju Holdings ("Defendant")**

SESB by way of Originating Summons applied to the Court to enforce the Adjudication Decision.

Maju Holdings by way of Originating Summonses No. i) WA-24C-165-07/2020; and ii) WA-24C-164-07/2020 applied to the Court to set aside and to stay the Adjudication Decision respectively ("**Maju Applications 3**").

On 8 February 2021, the Adjudication Decision was enforced as the High Court's judgement and Maju Applications 3 were dismissed.

Court of Appeal

- (i) **W-02(C)(A)-465-03/2021 (from OS 164 – Stay);**
 - (ii) **W-02(C)(A)-466-03/2021 (from OS 165 – Setting Aside); and**
 - (iii) **W-02(C)(A)-467-03/2021 (from OS 130 – Enforcement).**
- Maju Holdings ("Appellant") vs SESB ("Respondent")**

Maju Holdings appealed to the Court of Appeal.

The Board of Directors of SERB is of the opinion that the above legal proceedings in items 1 and 2 above are not material and will not have any material adverse effect on SERB Group or on their financial position or business, as the above claims have been impaired in the consolidated audited financial statements of SERB for the financial year ending 31 December 2021 and form part of the Impaired Amount. Further, Maju Holdings and SESB have on 3 August 2021 entered into a settlement agreement to resolve their disputes whereby Maju Holdings shall pay SESB the sum of RM48,000,000 within 6 months from the date of the settlement agreement as full and final settlement of the above legal proceedings (including the legal proceedings in item 3 below) ("**Settlement Agreement**") and a consent order has been recorded and sealed at the Court of Appeal on 3 August 2021. Consequently, notices of discontinuance of the above suits and arbitration proceedings have been filed to discontinue the above suits and arbitration proceedings (without liberty to file afresh). As at LPD, SESB is pending receipt of the full settlement sum.

3. **KUALA LUMPUR HIGH COURT, ORIGINATING SUMMONS NO. WA-24C-225-11/2020
SESB ("Plaintiff") vs. MEX II Sdn Bhd ("Defendant")**

SESB by way of Originating Summons applied to the Court to ask for direct payment from MEX II Sdn Bhd for debt due and owing by Maju Holdings in the sum of RM46,571,279.17 as at 6 November 2020.

APPENDIX III – INFORMATION ON SERB (CONT'D)

The Decision is fixed on 29 July 2021 but has been rescheduled to 6 August 2021 for a case management.

The Board of Directors of SERB is of the opinion that the above legal proceedings are not material and will not have any material adverse effect on SERB Group or on their financial position or business, as the above claims are to claim for direct payment from the owner of the project in which Maju Holdings has failed to pay as stated in items 1 and 2 above. The claims against Maju Holdings have been impaired in the consolidated audited financial statements of SERB for the financial year ending 31 December 2021 and form part of the Impaired Amount. Further, Maju Holdings and SESB have on 3 August 2021 entered into the Settlement Agreement and a consent order has been recorded and sealed at the Court of Appeal on 3 August 2021. Consequently, notice of discontinuance of the above suit has been filed on 4 August 2021 to discontinue the above suit. As at LPD, SESB is pending receipt of the full settlement sum.

**4. KUALA LUMPUR HIGH COURT, WRIT SUMMONS NO. WA-22NCC-515-10/2020
Orica-CCM Energy Systems Sdn Bhd ("Plaintiff") vs. SESB ("Defendant")**

Orica-CCM Energy Systems Sdn Bhd ("**Orica**") is claiming from SESB for the sum of RM1,535,785.54 being the alleged outstanding invoices and administrative charges.

On 26 November 2020, SESB has raised a counterclaim in the sum of RM1,950,051.80 against Orica being the losses and damages suffered by SESB as a result of Orica's breach of the agreement dated 28 January 2020 and/or fraud and/or misrepresentation by Orica.

The Parties have agreed to settle this dispute amicably by entering into a Consent Judgment. The draft Consent Judgment dated 20 May 2021 provides as follows:

- a. SESB shall pay to Orica the sum of RM1,410,270.00 by way of twelve (12) monthly installments vide twelve (12) post-dated cheques as follows:
 - (1) Cheque dated 1 June 2021 for the sum of RM117,522.50;
 - (2) Cheque dated 1 July 2021 for the sum of RM117,522.50;
 - (3) Cheque dated 1 August 2021 for the sum of RM117,522.50;
 - (4) Cheque dated 1 September 2021 for the sum of RM117,522.50;
 - (5) Cheque dated 1 October 2021 for the sum of RM117,522.50;
 - (6) Cheque dated 1 November 2021 for the sum of RM117,522.50;
 - (7) Cheque dated 1 December 2021 for the sum of RM117,522.50;
 - (8) Cheque dated 1 January 2022 for the sum of RM117,522.50;
 - (9) Cheque dated 1 February 2022 for the sum of RM117,522.50;
 - (10) Cheque dated 1 March 2022 for the sum of RM117,522.50;
 - (11) Cheque dated 1 April 2022 for the sum of RM117,522.50; and
 - (12) Cheque dated 1 May 2022 for the sum of RM117,522.50;
- b. SESB shall pay to Orica the sum of RM294,735.00 by way of three (3) monthly installments vide three (3) post-dated cheques as follows:
 - (1) Cheque dated 1 June 2022 for the sum of RM98,245.00;
 - (2) Cheque dated 1 July 2022 for the sum of RM98,245.00; and
 - (3) Cheque dated 1 August 2022 for the sum of RM98,245.00.
- c. The aforesaid payment shall be the full and final settlement of the disputes arising between the Parties under the Credit Facility Agreement dated 14 December 2010 and Credit Facilities Agreement dated 30 April 2012.
- d. All the post-dated cheques abovementioned have been handed over to Orica's lawyers on 24 May 2021.

APPENDIX III – INFORMATION ON SERB (CONT'D)

- e. In the event any of the post-dated cheques abovementioned is dishonoured, Orica shall be at liberty to forthwith execute on the Consent Judgment (the entire sums of which shall be immediately due and payable by SESB).
- f. SESB's Counterclaim against Orica dated 26 November 2020 is withdrawn and struck out without liberty to file afresh.
- g. No order as to costs.

The Board of Directors of SERB is of the opinion that the above legal proceeding is not material as it is deemed settled.

**5. SHAH ALAM HIGH COURT, WRIT SUMMONS NO. BA-23NCVC-20-03/2021
BH Builders Sdn Bhd ("Plaintiff") vs. Semenyih Quarry Sdn Bhd ("Defendant")**

Semenyih Quarry Sdn Bhd ("**SQSB**") is an indirect 60% owned subsidiary of SERB held through SESB which is SERB's direct wholly owned subsidiary. SQSB, is carrying out quarry operations on Vee Seng Development Sdn Bhd's ("**VSD**") land, which is adjacent to BH Builders Sdn Bhd's land ("**BH Land**").

BH is claiming from, amongst others, SQSB that whilst carrying out quarry operations on VSD's land, SQSB had allegedly trespassed and/or encroached on BH Land, either on its own accord or with the consent, encouragement and/or representation of VSD. Further, BH also claims that SQSB had stored heavy machinery and large vehicle as well as dumped and piled rocks, debris and quarry materials on part of BH Land.

On 16 April 2019 and 18 April 2019, BH had issued letters to SQSB demanding SQSB to forthwith cease its encroachment and its trespass over BH Land as well as requested SQSB to remove the machinery stored on BH Land.

BH is seeking the following from SQSB:

- a. Declaration that SQSB whether by themselves or through their tenants, lessees, agents, and/or servants are not entitled to encroach and/or trespass BH Land through the access road or any other roads and/or paths;
- b. Declaration that SQSB whether by themselves or through their tenants, lessees, agents, and/or servants are not entitled to construct or place chattels or machineries or any items on BH Land or any parts thereof;
- c. Mandatory injunction directing SQSB to remove, dispose and/or destroy any structures, chattels and machinery belonging to SQSB on BH Land;
- d. Mandatory injunction directing SQSB to vacate any portion of BH Land on which SQSB has encroached and/or trespassed;
- e. Mandatory injunction directing SQSB to level and restore BH Land to its position before the encroachment and trespass by SQSB; and
- f. Injunction restraining SQSB whether by themselves, or through their tenants, lessees, agents, and/or servants from removing any structures placed and/or erected by BH on BH Land with a view of preventing any trespass and/or encroachment on to or over BH Land;
- g. General damages;
- h. Interests;
- i. Costs; and
- j. Any other relief as the Court deems fit.

SQSB have filed the Statement of Defence on 12 July 2021.

The Plaintiff have filed the Reply to the Defence.

APPENDIX III – INFORMATION ON SERB (CONT'D)

The next Case Management is fixed on 18 October 2021. SQSB is to file Interlocutory Application (to strike out the writ filed against SQSB) on or before 18 October 2021.

The Board of Directors of SERB is of the opinion that SEQB has a good arguable case against BH Land's claims.

**6. SHAH ALAM HIGH COURT CIVIL SUIT NO. BA-23NCVC-24-04/2021
Zeti Ismrizan Binti Isa & 5 Ors ("Plaintiffs") vs. SESB ("Defendant")**

Zeti Ismrizan Binti Isa and 5 others ("**Plaintiffs**") are claiming from SESB for the sum of RM3,966,065.18 being the alleged specific damages suffered by the Plaintiffs due to the purported damages and/or variation to the quality or nature caused to their lands by SESB who has carried out construction work without the consent of the Plaintiffs.

SESB has raised a Third Party Claim against Persatuan Penduduk Bukit Damar Dengkil, Dato' Mohamad Hussin bin Semail and Muhammad Faizal bin M. Hairi to indemnify SESB for any losses and/or damages suffered by SESB as a result of the Plaintiffs' claim as the Third Parties have breached the agreement and/or failed to obtain the consent from the Plaintiffs and/or have fraudulently or negligently misrepresented SESB that they have obtained the consent from all the landowners of Lot 281 and Lot 282 for SESB to commence the work. The Third Parties has filed application to strike out SESB's Third Party Claim on 6 August 2021 ("**Strike Out Application**"). The Court has directed the parties to file relevant bundle of documents, pleadings and written submission and fixed 3 November 2021 for hearing of the Strike Out Application and next case management for the main suit.

The solicitors on record is of the opinion that SESB has a good chance in this case based on the evidence and fact.

7. MATERIAL CONTRACTS

Save as disclosed below, SERB Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the 2 years immediately preceding the LPD.

- (i) Letter agreement dated 19 December 2019 between Kuari Pati Sdn Bhd and SESB in respect of proposed acquisition by SESB of the 40% equity interest, equivalent to 2,400,000 ordinary shares in Semenyih Quarry Sdn Bhd, from Kuari Pati Sdn Bhd for a total purchase consideration of RM6,400,000 of which RM3,906,261 owing by Kuari Pati Sdn Bhd to Semenyih Quarry Sdn Bhd will be set off against the purchase consideration. As at LPD, the proposed acquisition is pending completion. This acquisition is pending completion as SESB has yet to fully pay the purchase consideration with RM273,434.00 remaining to complete the acquisition as the Board of SERB Group has decided to hold off the payment to conserve cash flow of SERB Group.
- (ii) Settlement Agreement dated 3 August 2021 between Maju Holdings and SESB to resolve their disputes arising from the Mex II Projects whereby Maju Holdings shall pay SESB the sum of RM48,000,000 within 6 months from the date of the settlement agreement as full and final settlement of the legal proceedings between them. As at LPD, this settlement is pending completion as Maju Holdings has yet to fully pay the settlement sum of RM48,000,000.

APPENDIX III – INFORMATION ON SERB (CONT'D)

8. MATERIAL COMMITMENTS

Save as disclosed below, as at the LPD, the Board of Directors of SERB is not aware of any material commitments incurred or known to be incurred by SERB Group that has not been provided for which, upon becoming enforceable, may have a material impact on SERB Group's financial results/ position:-

	RM'000
Authorised and contracted for:-	
Investment in subsidiary company	10,000
	<u>10,000</u>

9. CONTINGENT LIABILITIES

Save as disclosed below, as at the LPD, the Board of Directors of SERB is not aware of any contingent liabilities incurred or known to be incurred by SERB Group which, upon becoming enforceable, may have a material impact on the financial results/ position of SERB Group.

	RM'000
Contingent liabilities of SERB Group as at the LPD	
Bankers' guarantees issued	
- Secured	12,204
- Unsecured	80
	<u>12,284</u>

10. 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 and the latest unaudited 5-month FPE 31 May 2021 is set out below:-

	<-----Audited----->				<-----Unaudited----->	
	FYE 31 December 2017 RM'000	FYE 31 December 2018 RM'000	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	5-month FPE 31 May 2020 RM'000	5-month FPE 31 May 2021 RM'000
Revenue	297,072	245,360	180,542	146,596	39,144	72,818
GP/ (GL)	37,682	22,716	7,632	(8,852)	(8,188)	3,670
LBT	(352)	(1,960)	(6,989)	(106,422)	(19,789)	(6,069)
LAT	(1,225)	(3,600)	(3,757)	(100,505)	(19,821)	(6,108)
LAT attributable to the owners of the company	(1,954)	(604)	(486)	(96,806)	(18,987)	(5,295)
NA	146,509	145,904	144,685	28,488	125,698	23,194
Total equity	170,353	168,753	158,696	38,800	138,875	32,692
Total borrowings	73,799	120,285	153,925	149,004	157,025	136,646
Total issued shares (number)	510,000,010	510,000,010	510,000,010	510,000,010	510,000,010	510,000,010
Current Assets	150,738	184,007	200,852	96,070	187,159	88,664
Current Liabilities	112,011	135,360	161,535	168,943	141,467	165,941
Cash and bank balances	13,531	12,010	10,556	7,218	11,741	6,561
GP/ (GL) margin (%)	12.7	9.3	4.2	(6.0)	(20.9)	5.0
LBT margin (%)	(0.1)	(0.8)	(3.9)	(72.6)	(50.6)	(8.3)
LAT margin (%)	(0.4)	(1.5)	(2.1)	(68.6)	(50.6)	(8.4)
EPS (sen)	(0.38)	(0.12)	(0.10)	(18.98)	(3.72)	(1.04)
NA per share (RM)	0.29	0.29	0.28	0.06	0.25	0.05
Current Ratio	1.35	1.36	1.24	0.57	1.32	0.53
Gearing (times)	0.43	0.71	0.97	3.84	1.24	4.18

APPENDIX III – INFORMATION ON SERB (CONT'D)

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 MEX II Projects 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.

APPENDIX III – INFORMATION ON SERB (CONT'D)

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 MEX II Projects. SERB Group has ceased all construction works on the MEX II Projects since the FYE 31 December 2019 and pursued legal recourse to recover the unpaid certified claims of SERB Group from Maju Holdings, being the main contractor of the MEX II Projects. The MEX II Projects 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 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 Maju Holdings for the MEX II Projects 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 MEX II Projects and SERB Group has ceased all construction works on the MEX II Projects since the FYE 31 December 2019. On the other hand, 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 two 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.

APPENDIX III – INFORMATION ON SERB (CONT'D)

5-month FPE 31 May 2021

For the 5-month FPE 31 May 2021, the revenue of SERB Group increased by approximately RM33.67 million or approximately 86.0% from approximately RM39.15 million during the preceding financial period to approximately RM72.82 million. This higher revenue was mainly due to the increase in revenue from the quarry operation business segment which was attributable to the higher sales of premix and quarry products as compared to 5-month FPE 31 May 2020. As highlighted in **Section 2.1** of this Circular, due to 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 to no sales in the month of March 2020 to May 2020.

For the 5-month FPE 31 May 2021, lower LBT was recorded by approximately RM13.72 million from approximately RM19.79 million from the preceding financial year to approximately RM6.07 million during the 5-month FPE 31 May 2021 mainly attributable to the higher GP contribution from quarry operation business segment which was in tandem with the increase in revenue from the said business segment.

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APPENDIX III – INFORMATION ON SERB (CONT'D)

**11. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF SERB GROUP FOR THE FYE
31 DECEMBER 2020**

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD

201401017649 (1093736-V)

(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD
201401017649 (1093736-V)
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD

201401017649 (1093736-V)

(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors hereby submit their report together with the audited financial statements of the Group and of the Company for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other details of the subsidiary companies are as disclosed in Note 9 to the financial statements.

There has been no significant change in the nature of these activities during the year.

FINANCIAL RESULTS

The financial results of operations during the year are as follows :-

	Group RM	Company RM
(Loss)/Profit before taxation	(106,421,628)	20,292,852
Taxation	5,917,108	(38)
	<u>(100,504,520)</u>	<u>20,292,814</u>
(Loss)/Profit for the year	<u>(100,504,520)</u>	<u>20,292,814</u>
Attributable to :		
- Owners of the Company	(96,805,782)	20,292,814
- Non-controlling interests	(3,698,738)	-
	<u>(100,504,520)</u>	<u>20,292,814</u>

DIVIDENDS

Since the end of the previous financial year, the following dividend was declared and paid :-

For the financial year ended 31 December 2020**RM**

Interim single tier tax exempt dividend of 3.80 sen per ordinary share, paid on 30 September 2020 pursuant to the directors' resolution of 30 September 2020	<u>19,390,842</u>
--	-------------------

The directors do not recommend any final dividend for the year ended 31 December 2020.

RESERVES AND PROVISIONS

There were no material transfers made to or from reserves or provisions accounts during the year other than those disclosed in the financial statements.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

HOLDING COMPANY

The immediate and ultimate holding company of the Company is Fook Hua Holdings Sdn Bhd, a company incorporated in Malaysia.

DIRECTORS

The names of the directors of the Company in office during the financial year and during the period from the end of the financial year to the date of this report are as follows :-

Dato' Yap Soon Huat *
Yap Yee Huat *
Yap Chai Huat *
Yap Ho Huat *

* These directors also serve as directors of subsidiary companies

Other than the abovenamed directors, the names of directors of subsidiary companies who served during the financial year and during the period from the end of the financial year to the date of this report are as follows :-

Azlan Shah bin Mohd Yusoh
Lim Chin Khuan
Lim Ten Fong
Nor Hashim bin Abdul Aziz
Suhaimi bin Badrul Jamil (Appointed on 10 February 2021)
Tengku Zubir bin Tengku Ubaidillah (Resigned on 10 February 2021)
Thandayithabani a/l Appasamy (Resigned on 1 December 2020)

None of the directors of the Company in office at the end of the financial year has any direct interest in the shares of the Company.

The following represents the interests of directors of the Company in office at the end of the financial year in shares in the Company's holding company, Fook Hua Holdings Sdn Bhd, a company incorporated in Malaysia :-

Shareholdings in the holding company, Fook Hua Holdings Sdn Bhd	As at 1.1.2020	Number of Ordinary Shares During the year		As at 31.12.2020
		Acquired	Disposed	
Dato' Yap Soon Huat	225,008	-	-	225,008
Yap Yee Huat	225,009	-	-	225,009
Yap Chai Huat	225,009	-	-	225,009
Yap Ho Huat	225,009	-	-	225,009

By virtue of their shareholdings in the holding company, Dato' Yap Soon Huat, Yap Yee Huat, Yap Chai Huat and Yap Ho Huat are deemed to be interested in the shares in the Company and all other subsidiary companies of the holding company to the extent of interest held by the holding company.

As at the end of the financial year and during the year, there did not subsist any arrangement to which the Company was a party, whereby the directors or their nominees might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive any benefits (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors) by reason of a contract made by the Company or a related corporation with the director or his nominees or with a firm of which he is a member or with a company in which he has a substantial financial interest other than by virtue of transactions entered into in the ordinary course of business.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

The details of the remuneration provided to the directors of the Group and of the Company during the financial year are set out in Note 26 to the financial statements.

No indemnity was given to nor were there any insurance effected for the directors, officers or auditors of the Group and of the Company during the financial year.

OTHER STATUTORY INFORMATION

(a) Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps :-

- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and
- (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected so to realise.

(b) As at the date of this report, the directors are not aware of any circumstances :-

- (i) which would render it necessary to write off any bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent;
- (ii) which would render the values of current assets in the financial statements of the Group and of the Company misleading;
- (iii) which have arisen which render adherence to the existing method of valuation of assets and liabilities of the Group and of the Company misleading or inappropriate; and
- (iv) not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(c) As at the date of this report, there does not exist :-

- (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; and
- (ii) any contingent liability in respect of the Group and of the Company which has arisen since the end of the financial year.

(d) In the opinion of the directors :-

- (i) no contingent or other liabilities have become enforceable or are likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Company to meet their obligations when they fall due;
- (ii) the results of the Group's and of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (iii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of operations of the Group and of the Company for the financial year in which this report is made.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

AUDITORS

- (a) Details of auditors' remuneration in respect of the Group and of the Company are set out in Note 26 to the financial statements.
- (b) The auditors, Messrs. Folks DFK & Co., have expressed their willingness to continue in office.

Signed in accordance with a resolution of the directors,



YAP YEE HUAT
Director



YAP HO HUAT
Director

Kuala Lumpur

Date: - 3 MAY 2021

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD

201401017649 (1093736-V)

(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

(Pursuant to Section 251(2) of the Companies Act 2016)

We, YAP YEE HUAT and YAP HO HUAT, being two of the directors of SPRING ENERGY RESOURCES BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements together with the notes attached thereto are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial positions of the Group and of the Company as at 31 December 2020 and of the financial performance and cash flows of the Group and of the Company for the year ended on that date.

Signed in accordance with a resolution of the directors,



YAP YEE HUAT
Director



YAP HO HUAT
Director

Kuala Lumpur

Date : - 3 MAY 2021

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

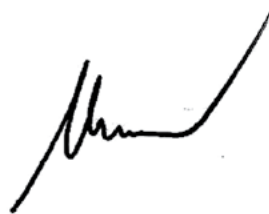
SPRING ENERGY RESOURCES BERHAD
201401017649 (1093736-V)
(Incorporated in Malaysia)

STATUTORY DECLARATION
(Pursuant to Section 251(1)(b) of the Companies Act 2016)

I, YAP YEE HUAT, being the director primarily responsible for the financial management of SPRING ENERGY RESOURCES BERHAD, do solemnly and sincerely declare that the accompanying financial statements together with the notes attached thereto, are to the best of my knowledge and belief, correct.

And I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
the abovenamed YAP YEE HUAT at)
Kuala Lumpur in the Federal Territory)
this **- 3 MAY 2021**)



No. 22-A, Jalan Telawi Lima,
Rangsar Baru, 59100 Kuala Lumpur.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD
201401017649 (1093736-V)
(Incorporated in Malaysia)
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	NOTES	2020 RM	2019 RM
ASSETS			
Non-Current Assets			
Property, plant and equipment	6	141,836,930	160,082,806
Intangible asset	7	1,500,000	1,600,000
Right-of-use assets	8	19,227,977	20,717,758
Joint venture	10	16,225	23,733
		<u>162,581,132</u>	<u>182,424,297</u>
Current Assets			
Inventories	11	15,832,422	16,807,392
Contract assets	12	143,755	150,958
Trade and other receivables	13	72,243,846	155,056,707
Tax recoverable		631,655	328,712
Amount owing by holding company	14	-	17,951,752
Fixed deposits with licensed banks	15	3,657,637	3,421,934
Cash and bank balances		3,560,509	7,134,141
		<u>96,069,824</u>	<u>200,851,596</u>
Total Assets		<u>258,650,956</u>	<u>383,275,893</u>
EQUITY AND LIABILITIES			
Equity Attributable to Owners of the Company			
Share capital	16	102,000,002	102,000,002
(Accumulated losses)/Retained profit		<u>(73,511,745)</u>	<u>42,684,879</u>
		28,488,257	144,684,881
Non-controlling interests		<u>10,311,935</u>	<u>14,010,673</u>
Total Equity		<u>38,800,192</u>	<u>158,695,554</u>

The notes on pages 17 to 70 form an integral part of these financial statements.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD
201401017649 (1093736-V)
(Incorporated in Malaysia)
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020 (CONT'D)

	NOTES	2020 RM	2019 RM
Non-Current Liabilities			
Term loans (Secured)	17	26,097,169	30,752,614
Deferred taxation	18	17,800	5,942,300
Hire purchase payables	19	23,190,623	24,099,657
Lease liabilities	20	1,602,597	2,250,595
		<u>50,908,189</u>	<u>63,045,166</u>
Current Liabilities			
Trade and other payables	21	88,636,352	76,601,427
Contract liabilities	12	580,615	82,388
Amount owing to a director	22	-	6,900,000
Amount owing to a shareholder	23	3,839,817	2,180,868
Bank borrowings (Secured)	24	74,989,833	73,973,091
Lease liabilities	20	893,808	1,695,761
Taxation		2,150	101,638
		<u>168,942,575</u>	<u>161,535,173</u>
Total Liabilities		<u>219,850,764</u>	<u>224,580,339</u>
Total Equity and Liabilities		<u>258,650,956</u>	<u>383,275,893</u>

The notes on pages 17 to 70 form an integral part of these financial statements.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD
201401017649 (1093736-V)
(Incorporated in Malaysia)
AND ITS SUBSIDIARY COMPANIES**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	2020 RM	2019 RM
Revenue	25	146,596,263	180,542,326
Cost of sales		<u>(155,448,284)</u>	<u>(172,910,161)</u>
Gross (loss)/profit		(8,852,021)	7,632,165
Other operating income		2,803,452	27,396,403
Selling and distribution expenses		(5,838,061)	(6,893,758)
Administration expenses		(12,602,864)	(12,797,632)
Other operating expenses		(73,365,938)	(14,326,707)
Share of result of joint venture		<u>(7,508)</u>	<u>13,087</u>
(Loss)/Profit from operations		(97,862,940)	1,023,558
Finance costs		<u>(8,558,688)</u>	<u>(8,012,270)</u>
Loss before taxation	26	(106,421,628)	(6,988,712)
Taxation	27	<u>5,917,108</u>	<u>3,231,703</u>
Loss for the year		(100,504,520)	(3,757,009)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive loss for the year		<u>(100,504,520)</u>	<u>(3,757,009)</u>
Loss for the year attributable to :			
Owners of the Company		(96,805,782)	(485,653)
Non-controlling interests		<u>(3,698,738)</u>	<u>(3,271,356)</u>
		<u>(100,504,520)</u>	<u>(3,757,009)</u>
Total comprehensive loss for the year attributable to :			
Owners of the Company		(96,805,782)	(485,653)
Non-controlling interests		<u>(3,698,738)</u>	<u>(3,271,356)</u>
		<u>(100,504,520)</u>	<u>(3,757,009)</u>

The notes on pages 17 to 70 form an integral part of these financial statements.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD
201401017649 (1093736-V)
(Incorporated in Malaysia)
AND ITS SUBSIDIARY COMPANIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

	<u>Attributable to owners of the Company</u>			Non-controlling interests RM	Total equity RM
	Share capital RM	Retained profit/ (Accumulated losses) RM	Total RM		
Balance at 1 January 2019	102,000,002	43,904,489	145,904,491	22,848,068	168,752,559
Issuance of new shares to non-controlling interest	-	-	-	100,004	100,004
Acquisition of additional equity in a subsidiary company from non-controlling interest	-	(733,957)	(733,957)	(5,666,043)	(6,400,000)
Loss for the year representing total comprehensive loss for the year	-	(485,653)	(485,653)	(3,271,356)	(3,757,009)
Balance at 31 December 2019	102,000,002	42,684,879	144,684,881	14,010,673	158,695,554
Dividend (Note 28)	-	(19,390,842)	(19,390,842)	-	(19,390,842)
Loss for the year representing total comprehensive loss for the year	-	(96,805,782)	(96,805,782)	(3,698,738)	(100,504,520)
Balance at 31 December 2020	102,000,002	(73,511,745)	28,488,257	10,311,935	38,800,192

The notes on pages 17 to 70 form an integral part of these financial statements.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD
201401017649 (1093736-V)
(Incorporated in Malaysia)
AND ITS SUBSIDIARY COMPANIES**CONSOLIDATED STATEMENT OF CASH FLOWS**
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	RM	RM
Cash Flows From Operating Activities		
Loss before taxation	(106,421,628)	(6,988,712)
Adjustments for:-		
Amortisation of intangible asset	100,000	100,000
Allowance for impairment losses on receivables	67,634,032	6,214,820
Allowance for impairment losses on contract asset	-	1,763,463
Depreciation of property, plant and equipment	33,418,391	29,760,830
Depreciation of right-of-use assets	1,604,276	1,867,497
Forfeited deposit written off	1,500,000	-
Gain on derecognition of leases	(28,278)	(375)
Interest expenses	8,558,015	8,011,721
Property, plant and equipment written off	122,432	4,141
Loss on disposal of property, plant and equipment	56,442	199,833
Gain on disposal of property, plant and equipment	(581,864)	(6,349,121)
Gain on disposal of an associated company	-	(20,000,000)
Interest income	(347,792)	(156,389)
Reversal of allowance for impairment losses on receivables	(932,959)	(25,404)
Share of result of joint venture	7,508	(13,087)
Operating profit before working capital changes	4,688,575	14,389,217
Decrease/(Increase) in inventories	974,970	(307,969)
Decrease/(Increase) in trade and other receivables	14,611,788	(36,523,097)
Decrease in contract assets	7,203	19,881,544
Increase in contract liabilities	498,227	69,083
Increase in trade and other payables	12,408,909	12,055,005
(Decrease)/Increase in amount owing to a director	(6,900,000)	6,900,000
Increase in amount owing to a shareholder	1,658,949	2,180,868
Cash generated from operations	27,948,621	18,644,651
Interest paid	(8,410,140)	(8,011,721)
Interest received	347,792	156,364
Tax paid	(409,823)	(2,518,843)
Tax refunded	-	10,324,622
Net cash from operating activities	19,476,450	18,595,073

The notes on pages 17 to 70 form an integral part of these financial statements.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD
201401017649 (1093736-V)
(Incorporated in Malaysia)
AND ITS SUBSIDIARY COMPANIES**CONSOLIDATED STATEMENT OF CASH FLOWS**
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONT'D)

	2020	2019
	RM	RM
Cash Flows From Investing Activities		
Purchase of property, plant and equipment [Note 29(a)]	(2,553,049)	(21,333,390)
Receipts from joint venture	-	150,000
Proceeds from disposal of property, plant and equipment	847,524	14,460,800
Interest received	-	25
	<hr/>	<hr/>
Net cash used in investing activities	(1,705,525)	(6,722,565)
Cash Flows From Financing Activities		
Issuance of shares to non-controlling interests	-	100,004
Acquisition of additional equity in a subsidiary company from non-controlling interest	-	(6,400,000)
Hire purchase financing received	5,354,400	-
Net repayment/advances from holding company	17,951,752	837,480
Net repayment of short term bank borrowings	(10,659,508)	(2,754,889)
Payment of hire purchase liabilities	(19,849,293)	(20,521,783)
Placement of fixed deposits pledged	(235,703)	(224,761)
Dividend paid to owners of the Company	(19,390,842)	-
Drawdown of term loans	19,700,548	27,451,625
Repayment of term loans	(11,962,654)	(4,133,167)
Payment of lease liabilities	(1,536,168)	(1,543,592)
	<hr/>	<hr/>
Net cash used in financing activities	(20,627,468)	(7,189,083)
Net (Decrease)/Increase In Cash and Cash Equivalents	(2,856,543)	4,683,425
Cash and cash equivalents at beginning of year	<hr/>	<hr/>
	4,255,490	(427,935)
Cash And Cash Equivalents At End Of Year [Note 29(c)]	<hr/> <hr/>	<hr/> <hr/>
	1,398,947	4,255,490

The notes on pages 17 to 70 form an integral part of these financial statements.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD

201401017649 (1093736-V)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	NOTES	2020 RM	2019 RM
ASSETS			
Non-Current Asset			
Investment in subsidiary company	9	<u>102,000,000</u>	<u>102,000,000</u>
Current Assets			
Tax recoverable		1,360	1,203
Cash and bank balances		<u>24,215</u>	<u>30,634</u>
		<u>25,575</u>	<u>31,837</u>
Total Assets		<u><u>102,025,575</u></u>	<u><u>102,031,837</u></u>
EQUITY AND LIABILITIES			
Equity Attributable to Owners of the Company			
Share capital	16	102,000,002	102,000,002
Accumulated losses		<u>(69,193)</u>	<u>(971,165)</u>
Total Equity		<u>101,930,809</u>	<u>101,028,837</u>
Current Liabilities			
Other payables	21	94,766	23,000
Amount owing to subsidiary company	14	<u>-</u>	<u>980,000</u>
Total Liabilities		<u>94,766</u>	<u>1,003,000</u>
Total Equity and Liabilities		<u><u>102,025,575</u></u>	<u><u>102,031,837</u></u>

The notes on pages 17 to 70 form an integral part of these financial statements.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD

201401017649 (1093736-V)

(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020**

	NOTES	2020 RM	2019 RM
Revenue	25	20,820,842	-
Other income		174	502
Administration expenses		<u>(527,486)</u>	<u>(563,194)</u>
Profit/(Loss) from operations		20,293,530	(562,692)
Finance costs		<u>(678)</u>	<u>(549)</u>
Profit/(Loss) before taxation	26	20,292,852	(563,241)
Taxation	27	<u>(38)</u>	<u>(116)</u>
Profit/(Loss) for the year		20,292,814	(563,357)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income/(loss) for the year		<u><u>20,292,814</u></u>	<u><u>(563,357)</u></u>

The notes on pages 17 to 70 form an integral part of these financial statements.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD

201401017649 (1093736-V)

(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Share capital RM	Accumulated losses RM	Total RM
Balance at 1 January 2019	102,000,002	(407,808)	101,592,194
Loss for the year representing total comprehensive loss for the year	-	(563,357)	(563,357)
Balance at 31 December 2019	102,000,002	(971,165)	101,028,837
Profit for the year representing total comprehensive income for the year	-	20,292,814	20,292,814
Dividend (Note 28)	-	(19,390,842)	(19,390,842)
Balance at 31 December 2020	<u>102,000,002</u>	<u>(69,193)</u>	<u>101,930,809</u>

The notes on pages 17 to 70 form an integral part of these financial statements.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD

201401017649 (1093736-V)

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020**

	2020 RM	2019 RM
Cash Flows From Operating Activities		
Profit/(Loss) before taxation	20,292,852	(563,241)
Adjustments for :-		
Interest income	(174)	(502)
Dividend income	(20,820,842)	-
Operating loss before working capital changes	(528,164)	(563,743)
Decrease in other receivables	-	43
Increase in other payables	71,766	3,000
(Decrease)/Increase in amount owing to subsidiary company	(980,000)	530,000
Cash used in operations	(1,436,398)	(30,700)
Interest received	174	502
Tax paid	(195)	(647)
Net cash used in operating activities	(1,436,419)	(30,845)
Cash Flows From Investing Activity		
Dividend received representing net cash from investing activity	20,820,842	-
Cash Flows From Financing Activity		
Dividend paid representing net cash used in financing activity	(19,390,842)	-
Net Decrease In Cash And Cash Equivalents	(6,419)	(30,845)
Cash and cash equivalents at beginning of year	30,634	61,479
Cash And Cash Equivalents At End Of Year [Note 29(c)]	24,215	30,634

The notes on pages 17 to 70 form an integral part of these financial statements.

201401017649 (1093736-V)

SPRING ENERGY RESOURCES BERHAD

201401017649 (1093736-V)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2020

1. GENERAL INFORMATION

The Company is a public company limited by shares, incorporated and domiciled in Malaysia.

Its registered office is located at 2F-12 IOI Business Park, Persiaran Puchong Jaya Selatan, Bandar Puchong Jaya, 47100 Puchong, Selangor. The principal place of business of the Company is located at No. 76, Jalan SS22/25, Damansara Jaya, 47400 Petaling Jaya, Selangor Darul Ehsan.

The principal activity of the Company is investment holding. The principal activities of the subsidiary companies are as disclosed in Note 9 to the financial statements.

The financial statements of the Group and of the Company are presented in Ringgit Malaysia (RM).

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 03 May 2021.

2. GOING CONCERN BASIS OF ACCOUNTING

The Group has incurred loss of RM100,504,520 (2019 : RM3,757,009) for the year ended 31 December 2020 resulting in accumulated losses of RM73,511,745 for the Group as at 31 December 2020. In addition, the Group's current liabilities has exceeded its current assets by RM72,872,751 as at 31 December 2020.

Notwithstanding, the financial statements of the Group and of the Company have been prepared on a going concern basis premised on the Group will be able to continue to operate its businesses and achieve profitable results and generate positive cash flows, and obtain support of its suppliers, bankers and shareholders to enable the Group and the Company to continue as a going concern and to meet their obligations as and when they fall due.

Should the Group be unable to do so, the going concern basis on which the financial statements of the Group and of the Company have been prepared may not be appropriate and adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary would have to be made to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the provisions of the Companies Act 2016 in Malaysia.

The financial statements of the Group and of the Company are prepared under the historical cost convention unless otherwise indicated in this summary of significant accounting policies.

The accounting policies applied by the Group are consistent with those applied in the previous financial year other than the amendments to MFRSs adopted as disclosed in Note 3.2 below, where applicable.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

3.2 Adoption of Amendments to MFRSs

During the financial year, the Group has adopted the following amendments to MFRS issued by the Malaysian Accounting Standards Board ("MASB") which are effective for accounting period beginning on or after 1 January 2020 :-

Amendments to MFRS 3 - Definition of a Business
Amendments to MFRS 101 and Amendments to MFRS 108 - Definition of Material
Amendments to MFRS 9, MFRS 139 and MFRS 7 - Interest Rate Benchmark Reform

The adoption of the abovementioned amendments to MFRS have no significant effect on the financial statements of the Group and of the Company.

3.3 Amendments to MFRSs That Are In Issue But Not Yet Effective and Have Not Been Early Adopted

The Group has not early adopted the following amendments to MFRSs that have been issued by the MASB but are not yet effective :-

Effective for annual periods beginning on or after 1 June 2020

Amendment to MFRS 16 - Covid-19-Related Rent Concessions

Effective for annual periods beginning on or after 1 January 2021

Amendments to MFRS 9, MFRS 139 and MFRS 7, MFRS 4 and MFRS 16 - Interest Rate Benchmark Reform (Phase 2)

Effective for annual periods beginning on or after 1 April 2021

Amendment to MFRS 16 - Covid-19-Related Rent Concessions beyond 30 June 2021

Effective for annual periods beginning on or after 1 January 2022

Amendments to MFRS 1, MFRS 9, MFRS 16 and MFRS 141 contained in the document entitled "Annual Improvements to MFRS Standards 2018-2020"
Amendments to MFRS 3 - Reference to the Conceptual Framework
Amendments to MFRS 116 - Property, Plant and Equipment – Proceeds before Intended Use
Amendments to MFRS 137 - Onerous Contracts – Cost of Fulfilling a Contract

Effective for annual periods beginning on or after 1 January 2023

Amendments to MFRS 101 - Classification of Liabilities as Current or Non-current
Amendments to MFRS 101 - Disclosure of Accounting Policies
Amendments to MFRS 108 - Definition of Accounting Estimates

Effective for annual periods beginning on or after a date to be determined by MASB

Amendments to MFRS 10 and MFRS 128 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group will adopt the above amendments to MFRSs that are applicable when they become effective. The initial application of the amendments is not expected to have any significant impact on the financial statements of the Group and of the Company.

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3.4 Basis of Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and entities controlled by the Company. The financial statements of the subsidiaries are prepared for the same reporting date as the Company. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group:

- has power over the entity;
- is exposed, or has rights, to variable returns from its involvement with the entity; and
- has the ability to affect those returns through its power over the entity.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of controls listed above.

Consolidation of a subsidiary begins from the date the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

In preparing consolidated financial statements, intra-group balances and transactions and the resulting unrealised profits are eliminated on consolidation. Unrealised losses are eliminated on consolidation and the relevant assets are assessed for impairment. The consolidated financial statements reflect external transactions and balances only. When necessary, adjustments are made to the financial statements of subsidiaries to ensure conformity with the Group's accounting policies. The total comprehensive income of a subsidiary is attributed to the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received by the Group is recognised directly in equity and attributed to owners of the Company. If the Group loses control of a subsidiary, the assets (including any goodwill) and liabilities of the subsidiary and non-controlling interests will be derecognised at their carrying amounts at the date when control is lost. Any investment retained in the former subsidiary is recognised at its fair value at the date when control is lost. The resulting difference between (i) the aggregate of the fair value of consideration received and investment retained and (ii) the amounts of assets (including any goodwill) and liabilities of the subsidiary and non-controlling interests derecognised, is recognised as gain or loss in profit or loss attributable to the Group.

3.5 Business Combinations

Acquisitions of businesses are accounted for using the acquisition method except for combinations of entities or businesses under common control. The consideration transferred for the acquisition of an acquiree is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred, equity interests issued and contingent consideration given. Acquisition-related costs are recognised as an expense in the periods in which the costs are incurred.

APPENDIX III – INFORMATION ON SERB (CONT'D)

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Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their acquisition-date fair values, except for non-current assets (or disposal group) that are classified as held for sale which shall be measured at fair value less costs to sell.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests and the acquisition-date fair value of any previously held equity interest over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. The excess of the Group's interest in the net amounts of the identifiable assets, liabilities and contingent liabilities over the aggregate of the consideration transferred, the amount of any non-controlling interests and the acquisition-date fair value of any previously held equity interest is recognised immediately in profit or loss.

Subsidiaries arising from common control combinations are consolidated using the principles of merger accounting. The common control combinations are business combinations in which all the combining entities have common ultimate controlling parties prior to and immediately after such combinations. Under the principles of merger accounting, the assets and liabilities of the combining entities are consolidated using the existing book values from the controlling parties' perspective and the results of each of the combining entity are presented as if the combination had been effected throughout the current and previous comparative periods presented. On consolidation, the cost of investment is matched against the nominal value of ordinary shares acquired and any resulting credit difference (merger reserve) is classified under equity as a non distributable reserve and any resulting debit difference (merger deficit) is adjusted against suitable consolidated reserves.

Non-controlling interests represent that portion of profit or loss and net assets of a subsidiary not attributable, directly or indirectly, to the Group. For each business combination, non-controlling interests are measured either at their fair value at the acquisition date or at the non-controlling interests' proportionate share of the subsidiary's identifiable net assets. Non-controlling interests in the net assets of consolidated subsidiaries comprised the amount of non-controlling interests at the date of original combination and their share of changes in equity since the date of combination.

In a business combination achieved in stages, any previously held equity interest is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in profit or loss.

3.6 Goodwill

Goodwill arising on the acquisitions of subsidiaries is recognised as an asset and carried at cost as established at the acquisition date less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill from acquisition date is allocated to each of the Group's cash-generating unit ("CGU") or groups of CGUs that are expected to benefit from the synergies of the combination in which the goodwill arose. The test for impairment of goodwill on consolidation is in accordance with the Group's accounting policy for impairment of non-financial assets as set out in Note 3.13. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a CGU or groups of CGUs and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation and the portion of the CGU retained.

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3.7 Associates

An associate is an entity, including an unincorporated entity, over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under the equity method, the investments in associates are initially recognised at cost and adjusted thereafter for the Group's share of the profit or loss and changes in the associates' other comprehensive income after the date of acquisition. Equity accounting is discontinued when the Group's share of losses of an associate equals or exceeds its interest in the associate. Once the Group's interest in such associate is reduced to zero, additional losses are provided for and a liability recognised, only to the extent that the Group's has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group's resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are eliminated on consolidation and the relevant assets are assessed for impairment.

On the acquisition of an investment in an associate, any excess between the cost of the investment and the Group's share of net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill and is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

After the application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The Group determines at the end of each reporting date whether there is any objective evidence that the investments in associates are impaired. If such evidence exists, the Group determines the amount of impairment by comparing the investment's recoverable amount with its carrying amount (including goodwill) and the impairment loss is recognised to profit or loss as part of the Group's share of results of associates.

In applying the equity method of accounting, the latest audited financial statements of the associate are used. Where the reporting dates of the Group and the associate are not coterminous, equity accounting is applied on the management accounts made to the financial year end of the Group. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

When the Group reduces its equity interest in an associate but continues to apply the equity method, the Group reclassifies to profit or loss the proportion of gain or loss that had previously been recognised in other comprehensive income.

The Group discontinues the use of equity method from the date when its investment ceases to be an associate. If the Group retains interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date. The Group recognises in profit or loss the difference between (i) the fair value of any retained interest and any proceeds from disposing of a part interest in the associate; and (ii) the carrying amount of the investment at the date the equity method was discontinued.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

3.8 Investments in Subsidiary Companies

In the separate financial statements, investments in subsidiary companies are stated at cost less impairment losses. The investments are reviewed for impairment in accordance with the Group's accounting policy for impairment of non-financial assets as set out in Note 3.13.

3.9 Property, Plant and Equipment and Depreciation

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Freehold land is not depreciated. Capital work-in-progress is not depreciated until the asset is ready for its intended use.

Depreciation on other items of property, plant and equipment is calculated on the straight line basis so as to write down the costs of the assets to their residual values over their estimated useful lives.

The principal annual rates used are as follows :-

Motor vehicles	12.5% - 15%
Plant, machineries and equipment	10% - 15%
Office equipment, furniture and fittings and renovation	10% - 15%
Site office and building	12.5% - 16.67%
Workshop	12.5% - 15%
Port storage facility	12.5% - 15%
Electrical fittings	12.5% - 15%
Quarry access road	3 - 10 years

The residual values and useful lives of assets are reviewed at each financial year end and adjusted prospectively, if appropriate, where expectations differ from previous estimates.

Property, plant and equipment are reviewed for impairment in accordance with the Group's accounting policy for impairment of non-financial assets as set out in Note 3.13.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in profit or loss and the unutilised portion of the revaluation surplus on that item is taken directly to retained profits.

3.10 Intangible Assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

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Intangible assets with finite useful lives are amortised over their estimated useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

3.11 Quarry and Mining Production Stripping Costs

Production stripping costs incurred in the removal of waste materials (overburden) on quarry and mining sites which provide improved access to the quarry and mining body but do not meet the criteria for recognition as a non-current stripping activity asset are recognised in profit or loss as part of quarry and mining operating costs.

3.12 Leases

(a) The Group as a lessee

The Group assesses whether a contract is, or contains a lease at the inception of the contract. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Where applicable, the Group applies, by class of underlying asset, the practical expedient of not separating non-lease components from lease components and instead accounts for them as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the commencement date for all leases except for short-term leases with lease term of 12 months or less and leases of low value assets. The Group recognises the lease payments in respect of short-term leases and leases of low value assets as an expense on a straight-line basis over the term of the leases.

At the lease commencement date, the right-of-use asset is initially measured at cost which comprises the initial amount of the corresponding lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs incurred and an estimate of costs to be incurred to dismantle and remove the underlying asset or to restore the site on which it is located or to restore the underlying asset to the condition required by the terms of the lease.

Right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment loss. The right-of-use asset is depreciated on a straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the right-of-use asset shall be depreciated from the commencement date to the end of the useful life of the underlying asset. The right-of-use asset is also assessed for impairment in accordance with the Group's accounting policy for impairment of non-financial assets and adjusted for any remeasurement of corresponding lease liability.

The lease term is determined as the non-cancellable period plus periods covered by an extension or termination option when the lease is reasonably certain to be extended or not to be terminated after considering all facts and circumstances that create an economic incentive for the Group to exercise an extension option or not to exercise a termination option.

APPENDIX III – INFORMATION ON SERB (CONT'D)

201401017649 (1093736-V)

Lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, at the incremental borrowing rate of the Group entity.

Lease payments included in the measurement of the lease liability comprise :-

- fixed payments, including in-substance fixed payments, less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under residual value guarantees;
- exercise price of a purchase option if the lessee is reasonably certain to exercise; and
- payments of penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments that are linked to future performance or usage of the underlying asset are excluded from the measurement of the lease liability and these payments are recognised in profit or loss in the period in which the event or condition that triggers the payments occurs.

Lease liability is subsequently measured at amortised cost through increasing its carrying amount to reflect accretion of interest on the lease liability using the effective interest method and reducing the carrying amount by the lease payments made.

The carrying amount of the lease liability is remeasured to reflect changes to lease payments arising from a change in the lease term, a change in linked index or rate, a change in the estimated amount payable under a residual value guarantee, a change in the assessment of an option to purchase the underlying asset or a lease modification that is not accounted for as a separate lease. The amount of remeasurement is adjusted to the carrying amount of the associated right-of-use asset or recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) The Group as a lessor

When the Group enters into a leasing arrangement as a lessor, it determines at the lease inception whether the lease is a finance lease or an operating lease. If the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee, the lease is classified as a finance lease. If not, the lease is an operating lease.

If the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. The sublease is classified as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease. If the head lease is a short term lease not recognised, the sublease shall be classified as an operating lease.

The Group recognises an asset held under a finance lease as a receivable at an amount equal to the net investment in the lease. The net investment in the lease is measured as the sum of the present value of the lease payments receivable from the lessee using the interest rate implicit in the lease. If the interest rate implicit in a sublease is not readily determined, the discount rate used for the head lease is applied to measurement of the net investment in the sublease. The attributable finance lease income is recognised over the lease term to reflect a constant periodic rate of return on the net investment in the lease. The net investment in the lease is subject to impairment in accordance with the Group's accounting policy for impairment of financial assets as disclosed in Note 3.28.

The Group recognises lease payments from an operating lease as income on a straight-line basis over the lease term.

When a lease contract contains lease and non-lease components, the Group applies MFRS 15 to allocate the consideration in the contract to each component.

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3.13 Impairment of Non-Financial Assets

The carrying amounts of non-financial assets (other than deferred tax assets) are reviewed for impairment at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss. An impairment loss is recognised in profit or loss in the period in which it arises. For goodwill recognised in a business combination and that has an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually or more frequently when indicators of impairment are identified.

An impairment loss is recognised if the carrying amount of an asset or a cash generating unit ("CGU") exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Impairment losses recognised in respect of CGUs (or groups of CGUs) are allocated first to reduce the carrying amount of any goodwill arising from a business combination allocated to the units (or groups of units) and then to reduce the carrying amount of the other assets in the units (or groups of units) on a pro rata basis.

The recoverable amount of an asset or CGU is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss.

3.14 Joint Arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities that significantly affect the returns of the arrangement require the unanimous consent of the parties sharing control.

The classification of a joint arrangement into a joint operation and a joint venture is determined based on the rights and obligations of parties to the joint arrangement and such rights and obligations are assessed by considering the structure and legal form of the arrangement, the terms agreed by the parties to the arrangement and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group's interest in joint ventures are accounted for using the equity method of accounting based on the audited financial statements of the joint ventures. Under the equity method, the Group's investments in joint ventures are initially recognised at cost and adjusted thereafter for the Group's share of the profit or loss and other comprehensive income of the joint ventures after the date of their acquisition. For unincorporated joint ventures, the Group's share of profit or loss and other comprehensive income is set-off with the current account maintained with the joint ventures.

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3.15 Inventories

Inventories representing stockpile of quarry products, raw materials and spare parts are valued at the lower of cost and net realisable value. Cost of stockpile of quarry products is determined on the weighted average cost basis and the cost includes the cost of materials, royalties, direct labour and an appropriate proportion of production overheads. Cost of spare parts and raw materials is determined on First-in-First-out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.16 Provisions

Provisions are recognised when the Group has a present legal and constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Where the effect of time value of money is material, the amount of provision is measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the amount of a provision due to passage of time is recognised as finance cost.

3.17 Share Capital

Ordinary shares are classified as equity. Distributions to holders of ordinary shares are debited directly to equity and dividends declared at or before the end of the reporting period are recognised as liabilities. Costs directly attributable to equity transactions are accounted for as a deduction, net of tax, from equity.

3.18 Revenue from Contracts with Customers

The Group recognises revenue from a contract with customer when it satisfies a performance obligation by transferring control of a promised good or service to the customer. Performance obligations may be satisfied over time or at a point in time. Revenue is measured based on the consideration specified in the contract which the Group expects to be entitled in exchange for transferring the good or service, excluding the amounts collected on behalf of third parties.

The Group recognises revenue from the following business activities :-

(a) Sales of quarry products and premix from quarry operations

Revenue from sales of quarry products and premix from quarry operations is recognised at a point in time when the goods are delivered and accepted by the customers. Billings are rendered on twice a month basis.

(b) Sub-contract works income

The Group operates bauxite mines and quarries for mines and quarry owners and satisfies its performance obligations when the requisite bauxite and quarry products have been produced and ready for use or sales by the owners. The Group's customary obligations under such contracts include provision of the necessary plant and equipment and labour to operate the mines and quarries. Revenue from such services is recognised over time by reference to the amount determined based on contracted rates that the Group has the right to invoice the customers, which correspond directly with the value of services transferred to the customers for the Group's performance to-date. Billings are rendered on a monthly basis.

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(c) Hiring of machinery and transportation income

Revenue from hiring of machinery and provision of transportation is recognised over time as and when the services are rendered and accepted by the customers. The amount of revenue recognised is based on that the Group has the right to invoice the customers under the contracts, which correspond directly with the value of services transferred to the customers for the Group's performance to-date. Billings are rendered on a monthly basis.

(d) Washing bay income

Revenue from washing bay services are recognised at a point in time where the performance obligations are satisfied being when the services are rendered and accepted by the customer. Billings are rendered when services are rendered.

(e) Construction contracts

The Group's performance obligation under such contracts is considered a single distinct service to construct work customised based on the customers' specifications and requirements and the customers obtain control of the work produced over time as the Group performs its obligations under the contracts. Revenue from the contract work is recognised by the Group over time by reference to their stage of completion based on performance to-date. The stage of completion is determined by reference to the proportion that contract costs incurred to date bear to the estimated total contract costs. Progress billings are rendered monthly based on work certified to-date under the terms of the contracts.

Foreseeable losses on a construction contract are recognised in accordance with the provisions for onerous contracts under MFRS 137, *Provisions, Contingent Liabilities and Contingent Asset*. In this respect, the unavoidable costs to be incurred by the Group in meeting its obligations under the contract which exceed the economic benefits expected to be received from the contract shall be a present obligation recognised as a provision.

(f) Stevedore income

Revenue from stevedore services are recognised at a point in time where the performance obligations are satisfied being when the services are rendered and accepted by the customer. Billings are rendered on a monthly basis.

3.19 Revenue from Other Sources and Other Income

(a) Rental income

Rental income from operating leases is recognised as disclosed in Note 3.12(b).

(b) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(c) Dividend income

Dividend income is recognised when the right to receive payment has been established.

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3.20 Contract Assets and Contract Liabilities

A contract asset is the Group's right to consideration for goods or services transferred to a customer when the right is subject to conditions other than passage of time. Contract assets are reviewed for impairment on the same basis as financial assets in accordance with the Group's accounting policy on impairment of financial assets as disclosed in Note 3.28.

A contract liability is the Group's obligation to transfer goods or services to customers for which the Group has received the consideration or has billed the customers for the consideration due under the contracts with the customers.

3.21 Contract Costs

Contract costs are recognised as an asset when the following criteria are met :-

- (a) In relation to incremental costs of obtaining a contract, the Group recognises the costs as an asset if the Group expects to recover those costs.
- (b) In relation to costs to fulfil a contract, the Group recognises the contract costs as an asset if (i) they relate directly to a contract or to an anticipated contract that the Group can specifically identify; (ii) when the costs generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; and (iii) the costs are expected to be recovered.

These assets are initially measured at cost and are subsequently amortised on a systematic basis that is consistent with the transfer to the customers of the goods or services to which the assets relate. An impairment loss is recognised in profit or loss to the extent that the carrying amount of the asset exceeds the remaining amount of consideration expected to be received less the remaining costs expected to be incurred. A reversal of impairment loss is recognised in profit or loss when the impairment conditions no longer exist or have improved. The increased carrying amount after reversal of impairment loss shall not exceed the amount that would have been determined (net of amortisation) if no impairment loss had been recognised previously.

3.22 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction, production or preparation of assets until they are ready for their intended use or sale are capitalised as part of the cost of those assets. Other borrowing costs are recognised as expenses in the period in which they are incurred.

3.23 Income Taxes

Tax expense is the aggregate amount of current and deferred taxation. Current and deferred taxes are recognised as income or expense in profit or loss except to the extent that the taxes relate to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period.

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the carrying amounts of assets and liabilities and the amounts attributed to those assets and liabilities for taxation purposes.

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Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unabsorbed tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the assets can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Tax rates enacted or substantively enacted at the end of the reporting period are used to determine deferred tax.

3.24 Cash and Cash Equivalents

Cash and cash equivalents in the statements of cash flows comprise cash and bank balances, deposits and short term investments which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, reduced by bank overdrafts. The statements of cash flows are prepared using the indirect method.

3.25 Foreign Currencies Transactions and Translation

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates i.e. the entity's functional currency. The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each reporting date, foreign currency monetary assets and liabilities are translated at exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the transactions. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are recognised in profit or loss.

Exchange differences arising on the translation of foreign currency non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains or losses are recognised in other comprehensive income. Exchange differences arising from such non-monetary items are recognised in other comprehensive income.

3.26 Employee Benefits

(i) Short Term Benefits

Wages, salaries, bonuses, paid annual leave, social security contributions and non-monetary benefits are recognised as an expense or included in the costs of assets where applicable, in the period which the associated services are rendered by employees of the Group.

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(ii) Post Employment Benefits - Defined Contribution Plans

The Group provides post-employment benefits by way of contribution to defined contribution plans operated by the relevant authorities at the prescribed rates.

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The Group's contributions are recognised as an expense in the period to which the contributions relate or included in the costs of assets where applicable.

(iii) Termination benefit

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for those benefits. The Group recognises termination benefits at the earlier of (i) when the Group can no longer withdraw the offer of those benefits; and (ii) when the Group recognises costs for a restructuring that is within the scope of MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits.

Termination benefits falling over more than twelve (12) months after the end of the reporting period are discounted to present value.

3.27 Financial Assets

The Group recognises all financial assets in its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instruments.

All regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting. A regular way purchase or sale is a purchase or sale of a financial asset that requires delivery of asset within the time frame established generally by regulation or convention in the marketplace concerned. Trade date accounting refers to :-

- the recognition of an asset to be received and the liability to pay for it on the trade date i.e. the date the Group commits itself to purchase or sell an asset; and
- derecognition of an asset that is sold, the recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Classification

The Group classifies its financial assets into the following measurement categories depending on the business models used for managing the financial assets and the contractual cash flow characteristics of the financial assets :-

- (a) at amortised cost;
- (b) fair value through other comprehensive income; and
- (c) fair value through profit or loss.

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Financial assets are reclassified when and only when the Group changes its business model for managing the financial assets and the reclassification of all affected financial assets is applied prospectively from the reclassification date i.e. on the first day of the first reporting period following the change in business model.

Measurement

At initial recognition, trade receivables without a significant financing component are measured at their transaction price when they are originated.

Other financial assets are initially measured at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Transaction costs of financial assets at fair value through profit or loss are expensed to profit or loss when incurred.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business models for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Group's debt instruments are categorised into the following measurement categories:-

(i) Amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met and it is not designated as at fair value through profit or loss at initial recognition :-

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

These financial assets are measured at amortised cost using the effective interest method less any impairment losses. Interest income, gains or losses on derecognition, foreign exchange gains or losses and impairment gains or losses are recognised in profit or loss.

(ii) Fair value through other comprehensive income ("FVOCI")

A financial asset is measured at FVOCI if both of the following conditions are met and it is not designated as at FVTPL at initial recognition :-

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Changes in fair value of these financial assets are recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gains or losses previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income calculated using the effective interest method, foreign exchange gains or losses and impairment gains or losses are recognised in profit or loss.

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(iii) Fair value through profit or loss ("FVTPL")

A financial asset is measured at FVTPL if it does not meet the criteria for amortised cost or FVOCI. This includes all derivative financial assets.

The Group may, at initial recognition, irrevocably designate a financial asset as measured at FVTPL that otherwise meets the criteria for amortised cost or FVOCI if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair value of financial assets at FVTPL and interest or dividend income are recognised in profit or loss.

(b) Equity instruments

The Group subsequently measures all equity investments at fair value.

For equity investments at FVTPL, changes in fair value are recognised in profit or loss. Where the Group has elected to present the changes in fair value in other comprehensive income, the amounts presented are not subsequently transferred to profit or loss when the equity investments are derecognised. The cumulative gains or losses is transferred to retained profits instead. The election is made on an instrument-by-instrument basis and it is irrevocable. The amount presented in other comprehensive income includes the related foreign exchange gains or losses.

Dividend income from equity investments at FVTPL and FVOCI is recognised in profit or loss when the Group's right to receive payment has been established.

Changes in the fair value of equity investments at FVTPL are recognised in other income or expenses, as applicable, in the profit or loss. Impairment losses or reversal of impairment losses on equity instruments measured at FVOCI are recognised in other comprehensive income and are not reported separately from other changes in fair value.

Derecognition of financial assets

The Group derecognises a financial asset when, and only when, the contractual rights to the cash flows from the financial asset expires or it transfers the financial asset without retaining control or transfers substantially all the risks and rewards of ownership of the financial asset to another party.

On derecognition of a financial asset in its entirety, the difference between the carrying amount measured at the date of derecognition and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

3.28 Impairment of Financial Assets

The Group recognises loss allowance for expected credit losses ("ECLs") on the following items, where applicable :-

- financial assets measured at amortised cost
- debt instruments measured at fair value through other comprehensive income ("FVOCI")
- contract assets

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ECLs are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months i.e. a 12-month ECL. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default i.e. a lifetime ECL. In making the assessment of whether there has been a significant increase in credit risk, a comparison is made between the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition of the asset, taking into consideration of reasonable and supportable information including forward-looking information that are available without undue cost and effort.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Under this approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience and past due information on debtors, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows in its entirety or a portion thereof.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of a loss allowance account.

An impairment loss in respect of debt instruments measured at FVOCI is recognised in profit or loss and the loss allowance account is recognised in other comprehensive income.

3.29 Financial Liabilities

The Group recognises all financial liabilities in its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instruments.

Classification and measurement

Financial liabilities are initially measured at fair value minus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs. Transaction costs of financial liabilities at fair value through profit or loss are expensed to profit or loss when incurred.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities measured at amortised cost.

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(a) Fair value through profit or loss ("FVTPL")

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL upon initial recognition or derivatives that are liabilities.

A financial liability is classified as held for trading if :-

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

After initial recognition, financial liabilities at FVTPL are measured at fair value with any gains or losses arising from changes in fair value recognised in profit or loss. If a financial liability is designated as at FVTPL, the change in fair value that is attributable to changes in the credit risk of that liability is presented in other comprehensive income and the remaining change in fair value of the liability is presented in profit or loss. The net gains or losses recognised in profit or loss do not include any exchange differences or interest paid on the financial liability. Exchange differences and interest expense on financial liabilities at FVTPL are recognised separately in profit or loss as part of other income or expenses and finance cost respectively.

(b) Amortised cost

All financial liabilities, other than those categorised as at FVTPL are subsequently measured at amortised cost using the effective interest method.

A gain or loss on financial liabilities at amortised cost is recognised in profit or loss when the liabilities are derecognised and through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when, and only when, the obligation specified in the contract is extinguished. When an existing financial liability is exchanged with the same lender on substantially different terms or the terms of an existing liability are substantially modified, they are accounted for as an extinguishment of the original financial liability and a new financial liability is recognised. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3.30 Offsetting Financial Instruments

Financial assets and financial liabilities are offset when the Group has a legally enforceable right to offset and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

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3.31 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are measured at the higher of (i) the amount determined in accordance with the expected credit loss model; and (ii) the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of MFRS 15 *Revenue from Contracts with Customers*.

3.32 Fair Value Measurements

Fair value of an asset or a liability, except for share-based payment and leasing transactions, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial assets, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring fair value, the Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Fair value measurements are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows :

Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 : Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with the Malaysian Financial Reporting Standards and International Financial Reporting Standards requires the directors to exercise their judgement in the process of applying the Group's accounting policies and which may have significant effects on the amounts recognised in the financial statements. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results reported for the reporting period and that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Although these judgements and estimates are based on the directors' best knowledge of current events and actions, actual results may differ.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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(a) Significant judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 3, the directors are of the opinion that any instances of application of judgement, apart from those involving estimations which are dealt with in Note 4(b), are not expected to have a significant effect on the amounts recognised in the financial statements except as follows :-

(i) Classification of joint ventures

The Group's interest in SE-SJK JV is classified as a joint venture based on its contractual arrangement evidenced by a joint venture agreement entered into between the parties to the joint arrangement. The agreement provides a joint management committee for the joint arrangement, and based on the terms of the agreement and other facts and circumstances, neither parties have rights to the assets and obligations for the liabilities relating to the joint arrangement.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Impairment losses of receivables

The Group made impairment loss allowances for receivables based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculations, based on the Group's past history of credit loss experience, existing market conditions as well as forward looking estimates at the end of the reporting period.

Where expectations differ from the original estimates, such difference will impact the carrying value of the receivables.

(ii) Estimated useful lives of property, plant and equipment

The Group reviews annually the estimated useful lives of property, plant and equipment based on various factors such as level of usage and business plans. The estimated useful lives are as disclosed in Note 3.9. Changes in the expected level of usage and business plan could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(iii) Revenue recognition

The Group recognises revenue from contracts with customers which are performed over time based on the stage of completion of the services rendered at the reporting date. Significant judgement based on past experiences of similar type of services is required in this revenue recognition method as it involves estimation of costs allocation to budgets and recoverability of contract costs incurred as well as variation work recoverable from customers.

5. HOLDING COMPANY

Fook Hua Holdings Sdn Bhd, a company incorporated in Malaysia is the immediate and ultimate holding company of the Company.

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6. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM	Motor vehicles RM	Plant, machineries and equipment RM	equipment, furniture and fittings and renovation RM	Access road RM	Site office and building RM	Workshop RM	Port storage facility RM	Electrical fittings RM	Capital work-in- progress RM	Total RM
2020											
Cost											
As at 1.1.2020	13,442,430	54,687,877	273,018,510	2,473,519	7,343,332	1,840,637	1,410,245	1,453,724	2,193,895	577,077	358,441,246
Additions	-	4,264,000	11,016,968	114,660	-	23,400	63,340	-	-	134,681	15,617,049
Disposals	-	(1,342,500)	(1,640,307)	-	-	-	-	-	-	-	(2,982,807)
Write off	-	(155,638)	(75,000)	-	-	-	-	-	-	-	(230,638)
As at 31.12.2020	13,442,430	57,453,739	282,320,171	2,588,179	7,343,332	1,864,037	1,473,585	1,453,724	2,193,895	711,758	370,844,850
Accumulated Depreciation											
As at 1.1.2020	-	29,421,920	161,227,322	2,016,694	1,538,030	1,189,167	735,515	705,190	1,524,602	-	198,358,440
Charge for the year	-	6,306,962	24,696,599	163,179	1,471,786	163,004	180,943	181,714	254,204	-	33,418,391
Disposals	-	(1,342,489)	(1,318,216)	-	-	-	-	-	-	-	(2,660,705)
Write off	-	(33,207)	(74,999)	-	-	-	-	-	-	-	(108,206)
As at 31.12.2020	-	34,353,186	184,530,706	2,179,873	3,009,816	1,352,171	916,458	886,904	1,778,806	-	229,007,920
Net Book Value	13,442,430	23,100,553	97,789,465	408,306	4,333,516	511,866	557,127	566,820	415,089	711,758	141,836,930

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6. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group	Short term leasehold land RM	Freehold land RM	Motor vehicles RM	Plant, machineries and equipment RM	Office equipment, furniture and fittings and renovation RM	Access road RM	Site office and building RM	Workshop RM	Port storage facility RM	Electrical fittings RM	Capital work-in-progress RM	Total RM
2019												
Cost												
As at 1.1.2019	2,602,897	13,442,430	55,832,963	248,909,988	2,561,371	3,977,279	1,506,420	1,100,264	1,453,724	2,193,895	984,471	334,565,702
Additions	-	-	4,546,900	48,522,248	1,900	3,366,053	74,196	309,981	-	-	5,854,241	62,675,519
Disposals	-	-	(5,613,384)	(30,303,301)	-	-	-	-	-	-	-	(35,916,685)
Write off	(2,602,897)	-	(78,602)	(112,039)	(89,752)	-	-	-	-	-	-	(2,883,290)
Transfer	-	-	-	6,001,614	-	-	260,021	-	-	-	(6,261,635)	-
As at 31.12.2019	-	13,442,430	54,687,877	273,018,510	2,473,519	7,343,332	1,840,637	1,410,245	1,453,724	2,193,895	577,077	358,441,246
Accumulated Depreciation												
As at 1.1.2019	2,602,896	-	28,002,164	161,006,485	1,914,716	739,069	1,044,147	596,743	523,477	1,270,398	-	197,700,095
Charge for the year	-	-	6,512,053	22,924,340	187,604	798,961	145,020	138,772	181,713	254,204	-	31,142,667
Disposals	-	-	(5,013,698)	(22,591,475)	-	-	-	-	-	-	-	(27,605,173)
Write off	(2,602,896)	-	(78,599)	(112,028)	(85,626)	-	-	-	-	-	-	(2,879,149)
As at 31.12.2019	-	-	29,421,920	161,227,322	2,016,694	1,538,030	1,189,167	735,515	705,190	1,524,602	-	198,358,440
Net Book Value	-	13,442,430	25,265,957	111,791,188	456,825	5,805,302	651,470	674,730	748,534	669,293	577,077	160,082,806

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- (a) Property, plant and equipment of the Group included the following assets acquired under hire purchase arrangements :-

Group 2020	Cost RM	Accumulated depreciation RM	Net book value RM	Current depreciation RM
Motor vehicles	8,787,199	1,458,656	7,328,543	914,277
Plant and equipment	89,747,711	32,928,091	56,819,620	10,950,070
	<u>98,534,910</u>	<u>34,386,747</u>	<u>64,148,163</u>	<u>11,864,347</u>
Group 2019				
Motor vehicles	18,173,555	4,759,788	13,413,767	2,275,497
Plant and equipment	102,124,097	27,294,511	74,829,586	9,402,270
	<u>120,297,652</u>	<u>32,054,299</u>	<u>88,243,353</u>	<u>11,677,767</u>

- (b) The carrying amount of the short term leasehold land for quarrying activities attributable to a subsidiary company was derecognised at the beginning of the previous financial year upon expiry of its lease term.
- (c) Included in the costs incurred and capitalised as quarry access road for the previous financial year were depreciation amounting to RM1,381,837 on plant and equipment utilised for the construction of the access road and employee benefit expense amounting to RM546,730 for that financial year.
- (d) The freehold land is charged as security for a term loan granted to the Group as disclosed in Note 17.

7. INTANGIBLE ASSET

	Group	
Quarrying right	2020 RM	2019 RM
Cost		
At beginning of the year/At end of the year	<u>2,000,000</u>	<u>2,000,000</u>
Accumulated amortisation		
At beginning of the year	400,000	300,000
Charge for the year	<u>100,000</u>	<u>100,000</u>
At end of the year	<u>500,000</u>	<u>400,000</u>
Net carrying amount	<u>1,500,000</u>	<u>1,600,000</u>

The Group's acquired quarrying right granted a subsidiary company the exclusive right to operate a quarry for a contracted period of 20 years. The cost of the quarrying right is amortised on a straight line basis to the Group's cost of sales in profit or loss over the contracted period of 20 years.

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8. RIGHT-OF-USE ASSETS

Group	Leasehold land RM	Leasehold shop office RM	Leased land RM	Premises RM	Total RM
2020					
Cost					
At beginning of year	17,590,006	-	1,837,633	3,638,324	23,065,963
Additions	-	216,749	125,171	454,391	796,311
Derecognition	-	-	(1,760,104)	(192,256)	(1,952,360)
At end of year	17,590,006	216,749	202,700	3,900,459	21,909,914
Accumulated depreciation					
At beginning of year	736,291	-	803,500	808,414	2,348,205
Charge for the year	241,214	1,555	442,863	918,644	1,604,276
Derecognition	-	-	(1,156,999)	(113,545)	(1,270,544)
At end of year	977,505	1,555	89,364	1,613,513	2,681,937
Carrying amount					
At end of year	16,612,501	215,194	113,336	2,286,946	19,227,977
2019					
Cost					
At beginning of year	17,590,006	-	1,837,633	2,206,564	21,634,203
Additions	-	-	-	1,466,807	1,466,807
Derecognition	-	-	-	(35,047)	(35,047)
At end of year	17,590,006	-	1,837,633	3,638,324	23,065,963
Accumulated depreciation					
At beginning of year	495,074	-	-	-	495,074
Charge for the year	241,217	-	803,500	822,780	1,867,497
Derecognition	-	-	-	(14,366)	(14,366)
At end of year	736,291	-	803,500	808,414	2,348,205
Carrying amount					
At end of year	16,853,715	-	1,034,133	2,829,910	20,717,758

The Group leases land used for quarry workshop and premises used as offices and staff hostel in respect of the operations of the Group. The leased land are under lease terms of 3 years. The lease terms taken up for the premises range from 2 to 6 years including option periods.

Leasehold land and shop office of the Group are on lease terms ranging from 51 years to 99 years.

The leasehold land are charged as securities for term loans granted to the Group as disclosed in Note 17.

Lease payments for the leasehold land and shop office have been settled upfront upon inception of the leases. Obligations for other lease payments are recognised as lease liabilities as disclosed in Note 20.

9. INVESTMENT IN SUBSIDIARY COMPANY

	Company	
	2020 RM	2019 RM
Unquoted shares - at cost	102,000,000	102,000,000

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(a) Composition of the Group

Details of the subsidiary companies, all of which are incorporated in Malaysia and have their principal place of business in Malaysia are as follows :-

Name of subsidiary companies	Principal activities	Effective equity interest	
		2020 %	2019 %
Direct : -			
Spring Energy Sdn Bhd	Quarry operator, sale of quarry and premix products, and contractor in civil engineering works	100	100
Indirect : -			
SE Premix Sdn Bhd	Supply of labour and premix plants for production of premix products	100	100
Semenyih Quarry Sdn Bhd	Quarry operator (ceased operations)	100	100
SE Satu Sdn Bhd	Bauxite mining operator and contractor in civil engineering work	51	51
SE Sinaran Sdn Bhd	Provision of port services including forwarding and stevedoring of cargo onto vessels	41	41
SE Quarry Sdn Bhd	Quarry operator	55	55
Spring Energy Construction Sdn Bhd	Contractor in civil engineering (presently dormant)	100	100
Spring Energy Mining Sdn Bhd	Mining operator (presently dormant)	100	100
Bukit Tinggi Infra Sdn Bhd	Quarry operator (presently dormant)	51	51
Semenyih Rock Sdn Bhd	Quarry operator	60	60

(b) Information on subsidiary companies with material non-controlling interests

Information on the subsidiary companies of the Group that have material non-controlling interests are as follows :-

Name of subsidiary companies	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(Loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	2020	2019	2020	2019	2020	2019
	%	%	RM	RM	RM	RM
Semenyih Quarry Sdn Bhd	-	-	-	206,876	-	-
SE Satu Sdn Bhd	49	49	(3,648,956)	(3,967,106)	8,494,833	12,143,789
SE Sinaran Sdn Bhd	59	59	78,724	165,378	1,500,460	1,421,736
SE Quarry Sdn Bhd	45	45	(77,621)	(26,361)	(79,490)	(1,869)
Bukit Tinggi Infra Sdn Bhd	49	49	(2,345)	(2,289)	(7,478)	(5,133)
Semenyih Rock Sdn Bhd	40	40	(48,540)	352,146	403,610	452,150
			<u>(3,698,738)</u>	<u>(3,271,356)</u>	<u>10,311,935</u>	<u>14,010,673</u>

APPENDIX III – INFORMATION ON SERB (CONT'D)

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Summarised financial information of the subsidiary companies before intra-group elimination :-

	SE Satu Sdn Bhd RM	SE Sinaran Sdn Bhd RM	SE Quarry Sdn Bhd RM	Bukit Tinggi Infra Sdn Bhd RM	Semenyih Rock Sdn Bhd RM
2020					
Assets and liabilities					
Non-current assets	27,451,884	21,528	1,518,956	-	192,588
Current assets	10,284,869	5,790,469	6,644,653	1,588	6,068,260
Non-current liabilities	(5,652,696)	(2,400)	-	-	-
Current liabilities	(14,747,660)	(3,275,037)	(8,340,254)	(16,851)	(5,251,824)
Net assets/(liabilities)	<u>17,336,397</u>	<u>2,534,560</u>	<u>(176,645)</u>	<u>(15,263)</u>	<u>1,009,024</u>
Financial Results					
Revenue	3,450,472	676,941	2,363,224	-	14,825,565
Profit/(Loss) for the year	(7,446,849)	132,979	(172,492)	(4,786)	(121,350)
Total comprehensive income/(loss)	<u>(7,446,849)</u>	<u>132,979</u>	<u>(172,492)</u>	<u>(4,786)</u>	<u>(121,350)</u>
Cash Flows					
Cash flows from/(used in) operating activities	1,868,702	(159,194)	(548,489)	(410)	(43,603)
Cash flows used in investing activities	(95,900)	-	-	-	-
Cash flows from/(used in) financing activities	(2,110,152)	(7,000)	336,737	-	-
Net decrease in cash and cash equivalents	<u>(337,350)</u>	<u>(166,194)</u>	<u>(211,752)</u>	<u>(410)</u>	<u>(43,603)</u>

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	SE Satu Sdn Bhd RM	SE Sinaran Sdn Bhd RM	SE Quarry Sdn Bhd RM	Bukit Tinggi Infra Sdn Bhd RM	Semenyih Rock Sdn Bhd RM
2019					
Assets and liabilities					
Non-current assets	29,982,530	42,221	1,622,796	-	214,110
Current assets	15,416,201	4,476,543	6,405,517	1,998	4,020,094
Non-current liabilities	(6,814,332)	(10,390)	(4,200)	-	-
Current liabilities	(13,801,153)	(2,106,793)	(8,028,266)	(12,475)	(3,103,830)
Net assets/(liabilities)	<u>24,783,246</u>	<u>2,401,581</u>	<u>(4,153)</u>	<u>(10,477)</u>	<u>1,130,374</u>
Financial Results					
Revenue	2,171,928	2,447,489	2,735,699	-	15,202,935
Profit/(Loss) for the year/period	(8,096,132)	279,354	(58,580)	(4,672)	880,364
Total comprehensive income/(loss)	<u>(8,096,132)</u>	<u>279,354</u>	<u>(58,580)</u>	<u>(4,672)</u>	<u>880,364</u>
Cash Flows					
Cash flows from operating activities	3,658,295	24,478	128,707	1,598	63,201
Cash flows used in investing activities	-	-	-	-	(214,271)
Cash flows from/(used in) financing activities	(3,601,728)	(8,400)	4,121	-	250,010
Net increase in cash and cash equivalents	<u>56,567</u>	<u>16,078</u>	<u>132,828</u>	<u>1,598</u>	<u>98,940</u>

APPENDIX III – INFORMATION ON SERB (CONT'D)

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(c) Changes in equity interest in a subsidiary company that did not result in loss of control

In the previous financial year, the Company had acquired the remaining 2,400,000 ordinary shares, representing 40% equity interest in Semenyih Quarry Sdn Bhd ("SMQ") from its non-controlling interest for a cash consideration of RM6,400,000. Upon completion of the acquisition, SMQ became a wholly-owned subsidiary company of the Group. The difference between the consideration paid and the carrying amount of interest acquired in SMQ amounting to RM733,957 was reflected as a loss attributed to owners of the Company within equity of the Group as tabulated below :-

	RM
Cash consideration	6,400,000
Net assets in SMQ	(5,666,043)
	<u>733,957</u>
Difference representing decrease in equity attributable to owners of the Company	<u>733,957</u>

10. JOINT VENTURE

	Group	
	2020 RM	2019 RM
Current account with joint venture	(2,040,321)	(2,040,321)
Accumulated share of profit	2,056,546	2,064,054
	<u>16,225</u>	<u>23,733</u>

Details of the joint venture which has its principal place of business in Malaysia are as follows:-

Name of joint venture	Legal form	Principal activity	Effective interest	
			2020 %	2019 %
SE-SJK-JV	Joint venture agreement	Quarrying and sales of quarry products (ceased operation)	50	50

The Group's interest in the above joint venture is accounted for using the equity method of accounting in these financial statements.

The summarised financial information for the joint venture based on its financial statements are as follows:-

	2020 RM	2019 RM
Assets and Liabilities		
Non-current assets	-	1,022
Current assets	35,390	55,764
Current liabilities	(2,940)	(9,320)
Net assets	<u>32,450</u>	<u>47,466</u>
Bank balance included in current assets	<u>35,216</u>	<u>41,570</u>
Financial Results		
Revenue	-	55
(Loss)/Profit for the year / Total comprehensive (loss)/income	<u>(15,016)</u>	<u>26,174</u>
(Loss)/Profit for the year is after charging :-		
Depreciation	<u>999</u>	<u>4,225</u>

The carrying amount of the joint venture as at the end of the financial year reflects the Group's 50% proportionate interest in the net assets of the joint venture on that date as disclosed in the above summarised financial information.

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11. INVENTORIES

	Group	
	2020 RM	2019 RM
At cost :-		
Stockpile of quarry products	14,170,851	14,285,874
Raw materials	208,379	341,020
Spare parts	1,453,192	2,180,498
	<u>15,832,422</u>	<u>16,807,392</u>

12. CONTRACT ASSETS/CONTRACT LIABILITIES

	Group	
	2020 RM	2019 RM
Contract assets	<u>143,755</u>	<u>150,958</u>
Contract liabilities	<u>580,615</u>	<u>82,388</u>

Contract assets relate to the Group's rights to consideration for services rendered which have been recognised as revenue from contract customers but not yet billed at the reporting date pending verification and agreement by the customers.

Contract liabilities relate to the progress billings to customers, for which the related obligations for services have not been performed at the reporting date.

Revenue recognised for the current year from amount included in contract liabilities at the beginning of the year amounted to RM82,388 (2019 : RM13,305).

13. TRADE AND OTHER RECEIVABLES

	Group	
	2020 RM	2019 RM
Trade receivables	110,703,799	114,897,742
Retention fund receivables (Trade)	12,158,685	12,893,832
	122,862,484	127,791,574
Allowance for impairment losses	<u>(73,650,285)</u>	<u>(6,476,806)</u>
Trade receivables, net	49,212,199	121,314,768
Other receivables, deposits and prepayments	21,684,254	24,772,929
Amount owing by related companies		
- Trade balances	1,293,633	6,456,628
Allowance for impairment losses	-	(318,607)
	1,293,633	6,138,021
- Non-trade balances	55,732	2,986,760
Allowance for impairment losses	(1,972)	(155,771)
	<u>53,760</u>	<u>2,830,989</u>
Amount owing by related companies, net	<u>1,347,393</u>	<u>8,969,010</u>
	<u>72,243,846</u>	<u>155,056,707</u>

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Trade receivables

The Group's normal trade credit terms range from 30 to 90 days (2019 : 30 to 90 days). Other credit terms are assessed and approved on a case by case basis.

Credit risk exposure

Information about the exposure to credit risk and allowance for expected credit losses ("ECLs") in respect of trade receivables are as tabulated below :-

Group	Gross carrying amount	Loss allowance	Net carrying amount
As at 31 December 2020	RM	RM	RM
Current	21,102,130	-	21,102,130
Past due 1 to 30 days	7,491,604	-	7,491,604
Past due 31 to 90 days	1,238,278	-	1,238,278
Past due 91 to 120 days	11,411,759	(27,854)	11,383,905
Past due more than 120 days	8,359,544	(363,262)	7,996,282
	49,603,315	(391,116)	49,212,199
<u>Credit impaired</u>			
Balance past due more than 120 days	73,259,169	(73,259,169)	-
	<u>122,862,484</u>	<u>(73,650,285)</u>	<u>49,212,199</u>
Group			
As at 31 December 2019			
Current	32,398,485	-	32,398,485
Past due 1 to 30 days	9,801,746	-	9,801,746
Past due 31 to 90 days	79,480	-	79,480
Past due 91 to 120 days	10,438,448	(26,813)	10,411,635
Past due more than 120 days	12,393,355	(636,581)	11,756,774
	65,111,514	(663,394)	64,448,120
<u>Credit impaired</u>			
Balance past due more than 120 days	62,680,060	(5,813,412)	56,866,648
	<u>127,791,574</u>	<u>(6,476,806)</u>	<u>121,314,768</u>

Allowance for impairment losses

Movements in allowance for impairment losses on trade receivables are as follows :-

	Group	
	2020	2019
	RM	RM
At beginning of year	6,476,806	628,130
Loss allowance recognised for the year	67,632,060	5,865,233
Reversal of loss allowance	(458,581)	(16,557)
	<u>73,650,285</u>	<u>6,476,806</u>

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Amount owing by related companies

Non-trade balances owing by the related companies are unsecured, interest free and repayable on demand. The trade balances owing by related companies are unsecured and interest free. The Group's normal trade credit terms with its related companies range from 30 to 60 days (2019 : 30 to 60 days).

Credit risk exposure

Information about the exposure to credit risk and allowance for ECLs in respect of trade balances owing by related companies are as tabulated below :-

Group	Gross carrying amount RM	Loss allowance RM	Net carrying amount RM
As at 31 December 2020			
Current	1,091,262	-	1,091,262
Past due 1 to 30 days	190,594	-	190,594
Past due 31 to 90 days	11,777	-	11,777
	<u>1,293,633</u>	<u>-</u>	<u>1,293,633</u>
Group As at 31 December 2019			
Current	699,916	-	699,916
<u>Credit impaired</u>			
Balance past due 1 to 360 days	5,756,712	(318,607)	5,438,105
	<u>6,456,628</u>	<u>(318,607)</u>	<u>6,138,021</u>

Allowance for impairment losses

Movements in allowance for impairment losses on trade and non-trade balances owing by related companies are as follows :-

	Group	
	2020 RM	2019 RM
At beginning of year		
- Trade balances	318,607	221,967
- Non-trade balances	155,771	-
	474,378	221,967
Loss allowance recognised for the year		
- Trade balances	-	105,487
- Non-trade balances	1,972	155,771
	1,972	261,258
Reversal of loss allowance		
- Trade balances	(318,607)	(8,847)
- Non-trade balances	(155,771)	-
	(474,378)	(8,847)
At end of year	<u>1,972</u>	<u>474,378</u>
Comprising :-		
Trade	-	318,607
Non-trade	1,972	155,771
	<u>1,972</u>	<u>474,378</u>

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Further information on credit risk exposure together with the recognition and measurement of allowance for ECLs are disclosed in Note 34(b)(i).

Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments of the Group is a deposit of RM6,000,000 (2019 : RM6,000,000) for the acquisition of the entire equity interest in Bakat Serimas Sdn Bhd which is pending completion as disclosed in Note 30.

14. AMOUNT OWING BY/(TO) HOLDING COMPANY/SUBSIDIARY COMPANY

Balances owing by/(to) the holding company and subsidiary company are unsecured, interest free and repayable on demand.

15. FIXED DEPOSITS WITH LICENSED BANKS

Fixed deposits of the Group are pledged as securities for banking facilities granted to the Group.

16. SHARE CAPITAL

	Group and Company	
	2020	2019
	RM	RM
Issued and fully paid :-		
510,000,010 ordinary shares	<u>102,000,002</u>	<u>102,000,002</u>

Pursuant to Section 74 of the Companies Act 2016 ("Act"), all shares issued before or upon commencement of the Act shall have no par or nominal value.

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17. TERM LOANS (SECURED)

	Group	
	2020 RM	2019 RM
Term loans comprise :-		
RM6,000,000 drawdown in November 2015 and repayable by 60 instalments commencing December 2015 (TL 1)	200,000	1,100,000
RM202,924 drawdown in November 2017 and repayable by 120 instalments commencing December 2017 (TL 2)	163,412	174,009
RM5,200,000 drawdown in June 2018 and repayable by 84 instalments commencing June 2018 (TL 3)	3,694,000	4,022,000
RM10,000,000 drawdown in July 2018 and repayable by 84 instalments commencing August 2018 (TL 4)	7,215,000	7,977,000
RM2,600,000 drawdown in August 2019 and repayable by 36 instalments commencing July 2019 (TL 5)	1,525,554	2,342,660
RM3,000,000 drawdown in July 2019 and repayable by 36 instalments commencing August 2019 (TL 6)	1,683,479	2,629,991
RM12,630,000 drawdown in July 2019, January 2020, February 2020 and June 2020 and repayable by 60 instalments commencing February 2020 (TL 7)	11,855,728	9,380,000
RM4,250,000 drawdown in December 2019 and repayable by 60 instalments commencing January 2021 (TL 8)	4,250,000	4,250,000
RM2,983,500 drawdown in June 2019 and repayable by 60 instalments commencing July 2020 (TL 9)	2,544,000	2,983,500
RM5,238,125 drawdown in September 2019 and repayable by 60 instalments commencing October 2020 (TL 10)	4,473,125	5,238,125
RM5,100,000 drawdown in October 2020 and repayable by 15 instalments commencing October 2020 (TL 11)	4,050,000	-
RM2,046,904 drawdown in July 2020 and repayable by 30 instalments commencing December 2020 (TL 12)	1,985,043	-
RM2,688,124 drawdown in November 2020 and repayable by 3 instalments commencing November 2020 (TL 13)	888,124	-
RM6,615,520 drawdown in October 2020 and repayable by 6 instalments commencing October 2020 (TL 14)	3,307,714	-
	47,835,179	40,097,285
Amount repayable within one year (included under bank borrowings [Note 24])	(21,738,010)	(9,344,671)
Amount repayable after one year (included under non-current liabilities)	26,097,169	30,752,614

- (a) TL 1 is for financing the purchase of a leasehold land and is secured by a fixed charge over the leasehold land together with a joint and several guarantee by all the directors of a subsidiary company. Interest is charged at the lending bank's effective cost of funds plus 1.5% per annum. The effective interest rate for the year is 4.24% (2019 : 5.10%) per annum.

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- (b) TL 2 is for the financing of a single premium charge on a life assurance policy cover for a director in connection with the grant of a revolving contract financing facilities by the bank to a subsidiary company. The loan is secured by way of an assignment over the rights and interest to the proceeds payable from the assurance policy for all monies outstanding under the financing facilities to the bank as the policyowner. Interest is charged on the loan based on the bank's base lending rate. The effective interest rate for the year is 6.51% (2019 : 7.01%) per annum.
- (c) TL 3 is for financing the purchase of a leasehold land and is secured by way of a lien over the leasehold land together with a corporate guarantee from the holding company and a joint and several guarantee by all the directors of a subsidiary company. Interest is charged at the lending bank's effective cost of funds plus 2% per annum. The effective interest rate for the year is 5.65% (2019 : 6.92%) per annum.
- (d) TL 4 is for financing the purchase of a freehold land and is secured by a way of a lien over the freehold land together with a corporate guarantee from the holding company and a joint and several guarantee by all directors of a subsidiary company. Interest is charged at the lending bank's effective cost of funds plus 2% per annum. The effective interest rate for the year is 6.25% (2019 : 6.21%) per annum.
- (e) TL 5 is for the purpose of financing working capital. The loan is secured by a joint and several guarantee and indemnity by all directors of the Company. Interest is charged on the loan at the rate of 8.51% per annum.
- (f) TL 6 is for the purpose of financing working capital. The loan is secured by a joint and several guarantee and indemnity by all directors of the Company and corporate guarantee from the holding company. Interest is charged on the loan at the rate of 9.00% per annum.
- (g) TL 7 is for the financing of purchase of a quarry plant. The loan is secured by a corporate guarantee from the holding company and jointly and severally guaranteed by all directors of the Company. Interest is charged on the loan at the rate of 1.25% below bank's base lending rate. The effective interest rate for the year is 5.20% (2019 : 5.45%) per annum.
- (h) TL 8, TL 9 and TL 10 are for the financing of development cost, tributes and purchase of crusher plant for a quarry operation. The loan is secured by a corporate guarantee from the holding company and jointly and severally guaranteed by all directors of the Company. Interest is charged on the loan at the rate of 2% above effective cost of funds of the lending bank. The effective interest rate for the year is 6.22 (2019 : 4.92%) per annum.
- (i) TL 11 is for the purpose of financing working capital. The loan is secured by a joint and several guarantee by all of the directors of the Company. Interest is charged on the loan at the rate of 1% above effective cost of funds of the lending bank. The effective interest rate for the year is 3.23% per annum.
- (j) TL 12 is for the purpose of financing working capital. The loan is secured by a joint and several guarantee and indemnity by all directors of the Company and corporate guarantee from the holding company. Interest is charged on the loan at the rate of 8.00% per annum.
- (k) TL 13 is for the purpose of financing working capital. The loan is secured by a joint and several guarantee by all the directors of the Company. Interest is charged on the loan at the rate of 2.20% above effective cost of funds of the lending bank. The effective interest rate for the year is 4.15% per annum.
- (l) TL 14 is for the purpose of financing working capital. The loan is secured by a corporate guarantee from the holding company and jointly and severally guaranteed by all the directors of the Company. Interest is charged on the loan at the rate of 2% above effective cost of funds of the lending bank. The effective interest rate for the year is 4.04% per annum.

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18. DEFERRED TAXATION

	Group	
	2020 RM	2019 RM
At beginning of year	5,942,300	10,120,400
Recognised in profit or loss (Note 27)	<u>(5,924,500)</u>	<u>(4,178,100)</u>
At end of year	<u><u>17,800</u></u>	<u><u>5,942,300</u></u>

- (a) The components and movements of deferred tax liabilities/(assets) recognised in the financial statements are as follows :-

Deferred tax liabilities/(assets):-	At beginning of year RM	Recognised in profit and loss RM	At end of year RM
Group 2020			
Accelerated capital allowances	13,685,663	(1,458,492)	12,227,171
Right-of-use assets	927,370	(351,302)	576,068
Unutilised capital allowances	(7,722,081)	(4,458,562)	(12,180,643)
Lease liabilities	(947,125)	347,988	(599,137)
Unabsorbed tax losses	<u>(1,527)</u>	<u>(4,131)</u>	<u>(5,658)</u>
	<u>5,942,300</u>	<u>(5,924,500)</u>	<u>17,800</u>

Deferred tax liabilities/(assets):-	At beginning of year RM	Recognised in profit and loss RM	At end of year RM
Group 2019			
Accelerated capital allowances	12,602,027	1,083,636	13,685,663
Right-of-use assets	970,607	(43,237)	927,370
Unutilised capital allowances	(2,470,246)	(5,251,835)	(7,722,081)
Lease liabilities	(970,607)	23,482	(947,125)
Unabsorbed tax losses	<u>(11,381)</u>	<u>9,854</u>	<u>(1,527)</u>
	<u>10,120,400</u>	<u>(4,178,100)</u>	<u>5,942,300</u>

- (b) Deferred tax assets have not been recognised in respect of the following deductible temporary differences and unabsorbed tax losses which are available for set-off against future taxable profit :-

	Group	
	2020 RM	2019 RM
Unutilised capital allowances	13,413,022	1,451,085
Unabsorbed tax losses	<u>17,722,666</u>	<u>13,091,448</u>
	<u><u>31,135,688</u></u>	<u><u>14,542,533</u></u>

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19. HIRE PURCHASE PAYABLES

	Group	
	2020 RM	2019 RM
Future minimum payments:-		
Payable within one year	27,185,793	27,162,187
Payable between two to five years	24,527,462	25,027,762
	<u>51,713,255</u>	<u>52,189,949</u>
Future finance charges	(3,796,536)	(2,990,212)
Present value	47,916,719	49,199,737
Payable within one year (included under current liabilities - Trade and other payables [Note 21])	<u>(24,726,096)</u>	<u>(25,100,080)</u>
Payable between two to five years (included under non-current liabilities)	<u>23,190,623</u>	<u>24,099,657</u>

20. LEASE LIABILITIES

	Group	
	2020 RM	2019 RM
Non-current	1,602,597	2,250,595
Current	893,808	1,695,761
Total lease liabilities	<u>2,496,405</u>	<u>3,946,356</u>
Balance attributable to holding company	1,373,006	1,798,076
Balance attributable to a related company	-	8,795
Maturity analysis of the undiscounted lease payments is as follows :-		
Not later than 1 year	1,097,700	1,870,350
Later than 1 year and not later than 2 years	785,710	1,149,610
Later than 2 years and not later than 5 years	933,720	1,300,980
Total outstanding lease payments	<u>2,817,130</u>	<u>4,320,940</u>
Total cash outflow for leases for the year	<u>1,791,751</u>	<u>2,064,090</u>

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2020 RM	2019 RM	2020 RM	2019 RM
Trade payables	43,562,006	37,284,096	-	-
Retention fund payables (Trade)	2,574,661	3,609,735	-	-
Other payables	46,136,667	40,893,831	-	-
Amount owing to a related company	17,382,287	10,607,516	94,766	23,000
Hire purchase payables (Note 19)	391,302	-	-	-
	<u>24,726,096</u>	<u>25,100,080</u>	<u>-</u>	<u>-</u>
	<u>88,636,352</u>	<u>76,601,427</u>	<u>94,766</u>	<u>23,000</u>

The Group's normal trade credit terms with trade payables range from 30 to 120 days (2019 : 30 to 120 days).

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22. AMOUNT OWING TO A DIRECTOR

Amount owing to a director was interest free, unsecured and repayable on demand.

23. AMOUNT OWING TO A SHAREHOLDER

	Group	
	2020 RM	2019 RM
Trade balance	3,359,817	1,700,868
Non-trade balance	480,000	480,000
	<u>3,839,817</u>	<u>2,180,868</u>

The shareholder refers to a corporate shareholder in a subsidiary company as disclosed in Note 32(b)(i).

The Group's trade credit term with the shareholder is 15 days (2019 : 15 days).

Non-trade balance is unsecured, interest free and repayable on demand.

24. BANK BORROWINGS (SECURED)

	Group	
	2020 RM	2019 RM
Bankers' acceptances	21,211,000	28,188,000
Bill and invoice financing	19,918,390	23,668,117
Other trade bills financing	9,960,871	9,893,652
	51,090,261	61,749,769
Bank overdrafts [(Note 29(c))]	2,161,562	2,878,651
Term loans - Repayable within one year (Note 17)	21,738,010	9,344,671
	<u>74,989,833</u>	<u>73,973,091</u>

The bankers' acceptances and bank overdrafts are secured by way of pledge of fixed deposits together with joint and several guarantees from all the directors of the Company and corporate guarantees from the holding company.

Bill and invoice financing facilities are mainly for financing of specific contracts and are secured by assignment and fixed charge over contract receivables, designated bank account, fixed deposit and purchased goods for contracts together with joint and several guarantees from all the directors of the Company and corporate guarantees from the holding company.

Other trade bills financing facility is obtained together with the term loan facility of RM5,200,000 (TL3) as disclosed in Note 17 and has the same security arrangements as disclosed thereunder. Interest is charged at 1.25% per annum above the lending bank's cost of funds. The effective interest rate for the year ranged from 5.55% to 5.64% (2019: 5.12% to 5.18%) per annum.

Interest on bankers' acceptances is charged at rates ranging from 3.67% to 6.85% (2019 : 5.12% to 5.18%) per annum.

The bank overdrafts bear interest at the base lending rate of the lending bank. The effective interest rates for the year ranged from 6.45% to 7.40% (2019: 6.70% to 7.51%) per annum.

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Interest on bill and invoice financing is charged at rates ranging from 1.25% to 2.00% (2019 :1.25% to 2.00%) per annum above the lending banks' cost of funds or base lending rate. The effective interest rates for the year ranged from 3.70% to 4.30% (2019 : 5.00% to 5.79%) per annum.

The contractual terms and security arrangement of the term loans are disclosed in Note 17 to the financial statements.

25. REVENUE

	Group		Company	
	2020 RM	2019 RM	2020 RM	2019 RM
Revenue from contracts with customers :-				
Sales of quarry products and premix	116,812,904	139,155,546	-	-
Sub-contract works income				
- civil engineering activities	-	1,168,429	-	-
- mining activities	3,450,472	2,171,928	-	-
- quarrying activities	20,071,824	10,748,869	-	-
Construction contract income	4,102,889	23,564,475	-	-
Hiring of machinery income	984,026	1,205,919	-	-
Stevedore income	-	1,468,439	-	-
Transportation income	1,174,148	1,058,721	-	-
	<u>146,596,263</u>	<u>180,542,326</u>	<u>-</u>	<u>-</u>
Revenue from other sources :-				
Dividend income	-	-	20,820,842	-
	<u>146,596,263</u>	<u>180,542,326</u>	<u>20,820,842</u>	<u>-</u>
Timing of recognition of revenue from contracts with customers :-				
At a point in time	118,971,078	142,888,625	-	-
Over time	27,625,185	37,653,701	-	-
	<u>146,596,263</u>	<u>180,542,326</u>	<u>-</u>	<u>-</u>

Revenue expected to be recognised in the future relating to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date, are as follows :-

Group 2020	2021 RM
Construction contract income	<u>7,649,504</u>
Group 2019	2020 RM
Construction contract income	<u>28,659,901</u>

The amount disclosed above does not include variable consideration which is constrained.

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26. PROFIT/(LOSS) BEFORE TAXATION

	Group		Company	
	2020 RM	2019 RM	2020 RM	2019 RM
(a) Profit/(Loss) before taxation is stated after charging :-				
Auditors' remuneration				
- Statutory audit				
<i>Current year</i>	156,500	165,550	24,000	23,000
<i>(Over)/Under provision in prior year</i>	(8,500)	1,000	1,000	3,000
- Other services	-	5,000	-	-
Allowance for impairment losses on receivables				
- third parties	67,632,060	5,865,233	-	-
- a shareholder	-	88,329	-	-
- related companies	1,972	261,258	-	-
	67,634,032	6,214,820	-	-
Allowance for impairment loss on contract asset	-	1,763,463	-	-
Compensation of produce	-	1,406,163	-	-
Amortisation of intangible asset	100,000	100,000	-	-
Banker acceptance interest	704,435	1,037,005	-	-
Bank overdraft interest	280,562	633,174	-	-
Bill and invoice financing interest	1,589,534	2,386,564	-	-
Contract costs	7,260,224	23,235,039	-	-
Depreciation of property, plant and equipment	33,418,391	29,760,830	-	-
Depreciation of right-of-use assets	1,604,276	1,867,497	-	-
Directors' remuneration :-				
- directors of the Company	4,207,923	4,463,265	492,480	526,400
- director of a subsidiary company	232,960	268,800	-	-
Forfeited deposit written off	1,500,000	-	-	-
Hiring of machineries	311,082	1,510,896	-	-
Hire purchase interest	2,980,168	2,685,807	-	-
Interest on lease liabilities	177,683	224,778	-	-
Loss on disposal of property, plant and equipment	56,442	199,833	-	-
Overdue interest	191,133	248	-	-
Property, plant and equipment written off	122,432	4,141	-	-
Rental of staff accomodation				
- short-term lease	77,900	270,635	-	-
Rental of land				
- short-term lease	-	25,085	-	-
Royalties and tributes	21,085,905	26,977,896	-	-
Term loans interest	2,634,500	1,044,145	-	-
and crediting :-				
Gain on disposal of property, plant and equipment	(581,864)	(6,349,121)	-	-
Gain on derecognition of leases	(28,278)	(375)	-	-
Management fee income	(36,000)	(36,000)	-	-
Gain on disposal of associated company	-	(20,000,000)	-	-
Fixed deposit interest income	(91,073)	(95,324)	-	-

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	Group		Company	
	2020 RM	2019 RM	2020 RM	2019 RM
Interest income - others	(256,719)	(61,065)	(174)	(502)
Insurance claim received	(187,595)	(43,926)	-	-
Rental income - operating leases	(90,000)	(90,000)	-	-
Reversal of allowance for impairment losses on receivables				
- third parties	(458,581)	(16,557)	-	-
- related companies	(474,378)	(8,847)	-	-
	<u>(932,959)</u>	<u>(25,404)</u>	<u>-</u>	<u>-</u>
(b) Estimated cash value of directors' benefits-in-kind	<u>201,198</u>	<u>229,840</u>	<u>-</u>	<u>-</u>

27. TAXATION

	Group		Company	
	2020 RM	2019 RM	2020 RM	2019 RM
Malaysian taxation				
- current year	143,140	933,416	40	116
- (over)/under provision in prior year	(135,748)	12,981	(2)	-
Transfer from deferred taxation (Note 18)	<u>(5,924,500)</u>	<u>(4,178,100)</u>	<u>-</u>	<u>-</u>
	<u>(5,917,108)</u>	<u>(3,231,703)</u>	<u>38</u>	<u>116</u>

(a) The statutory tax rate applicable to the Group and the Company is 24% (2019 : 24%).

Reconciliations of the tax expense/(income) applicable to profit/(loss) before taxation at the statutory tax rate to the tax expense/(income) at the effective tax rate of the Group and of the Company are as follows :-

	Group		Company	
	2020 RM	2019 RM	2020 RM	2019 RM
Profit/(Loss) before taxation	<u>(106,421,628)</u>	<u>(6,988,712)</u>	<u>20,292,852</u>	<u>(563,241)</u>
Tax at the statutory rate of 24% (2019 : 24%)	(25,541,191)	(1,677,291)	4,870,284	(135,178)
Tax effects of expenses not deductible for tax purposes	22,231,381	3,694,832	126,759	135,294
Tax effects of income not subject to tax	(5,719,800)	(6,592,196)	(4,997,003)	-
Deferred tax liabilities overprovided in prior years	(1,146,879)	(580,247)	-	-
Deferred tax assets not recognised for the year	4,396,029	1,910,218	-	-
Realisation of deferred tax assets not recognised in prior years	(900)	-	-	-
(Over)/Under provision of taxation in prior year	<u>(135,748)</u>	<u>12,981</u>	<u>(2)</u>	<u>-</u>
	<u>(5,917,108)</u>	<u>(3,231,703)</u>	<u>38</u>	<u>116</u>

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- (b) The following are estimated unutilised capital allowances and unabsorbed tax losses which subject to agreement with the Inland Revenue Board, are available for set-off against future taxable income :-

	Group	
	2020 RM	2019 RM
Unutilised capital allowances	64,165,701	33,626,422
Unabsorbed tax losses	17,746,241	13,097,811
	<u>81,911,942</u>	<u>46,724,233</u>

In accordance with the provisions of the Finance Act 2018, any unabsorbed tax losses for the year of assessment 2019 onwards shall be available for utilisation for a maximum period of seven consecutive years of assessment immediately following that year of assessment and any excess at the end of the seventh year shall be disregarded. In this respect, the unabsorbed tax losses of the Group at the end of the reporting period shall expire in the year of assessment as tabulated below :-

	Group	
	2020 RM	2019 RM
Year of Assessment		
2025	6,579,143	6,579,143
2026	4,762,843	6,518,668
2027	6,404,255	-
	<u>17,746,241</u>	<u>13,097,811</u>

28. DIVIDEND

Group and Company	
2020 RM	2019 RM

In respect of financial year ended 31 December 2020 :-

Interim single tier tax exempt dividend of 3.80 sen per ordinary share	19,390,842	-
	<u>19,390,842</u>	<u>-</u>

29. NOTES TO STATEMENTS OF CASH FLOWS

(a) Purchase of property, plant and equipment

Property, plant and equipment of the Group were acquired by the following means:-

	Group	
	2020 RM	2019 RM
Cash payment	2,553,049	21,333,390
Hire purchase financing	13,064,000	39,960,292
	<u>15,617,049</u>	<u>61,293,682</u>
Depreciation capitalised [Note 6(c)]	-	1,381,837
	<u>15,617,049</u>	<u>62,675,519</u>

Property, plant and equipment acquired by hire purchase financing are reflected as cash flows from financing activities based on the principal amount of instalments made.

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(b) Liabilities arising from financing activities

Changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes, during the financial year are analysed in the reconciliation below :-

Group 2020	Short term bank borrowings RM	Term loans RM	Hire purchase payables RM	Lease liabilities RM	Total RM
At 1 January 2020	61,749,769	40,097,285	49,199,737	3,946,356	154,993,147
Non-cash changes :-					
- New hire purchase financing obtained for purchase of property, plant and equipment	-	-	13,064,000	-	13,064,000
- Hire purchase restructuring	-	-	147,875	-	147,875
- Additions/Remeasurement of lease liabilities due to lease modification	-	-	-	796,311	796,311
- Derecognition	-	-	-	(710,094)	(710,094)
Net non-cash changes	-	-	13,211,875	86,217	13,298,092
Drawdown of term loans	-	19,700,548	-	-	19,700,548
Repayment of term loans	-	(11,962,654)	-	-	(11,962,654)
Net repayment of short term bank borrowings	(10,659,508)	-	-	-	(10,659,508)
Hire purchase financing received	-	-	5,354,400	-	5,354,400
Payment of hire purchase liabilities	-	-	(19,849,293)	-	(19,849,293)
Payment of lease liabilities	-	-	-	(1,536,168)	(1,536,168)
Net changes in cash flows	(10,659,508)	7,737,894	(14,494,893)	(1,536,168)	(18,952,675)
At 31 December 2020	51,090,261	47,835,179	47,916,719	2,496,405	149,338,564

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Group 2019	Short term bank borrowings RM	Term loans RM	Hire purchase payables RM	Lease liabilities RM	Total RM
At 1 January 2019	64,504,658	16,778,827	29,761,228	4,044,197	115,088,910
Non-cash changes :-					
- New hire purchase financing obtained for purchase of property, plant and equipment	-	-	39,960,292	-	39,960,292
- Additions/Remeasurement of lease liabilities due to lease modification	-	-	-	1,466,807	1,466,807
- Derecognition	-	-	-	(21,056)	(21,056)
Net non-cash changes	-	-	39,960,292	1,445,751	41,406,043
Drawdown of term loans	-	27,451,625	-	-	27,451,625
Repayment of term loans	-	(4,133,167)	-	-	(4,133,167)
Net repayment of short term bank borrowings	(2,754,889)	-	-	-	(2,754,889)
Payment of hire purchase liabilities	-	-	(20,521,783)	-	(20,521,783)
Payment of lease liabilities	-	-	-	(1,543,592)	(1,543,592)
Net changes in cash flows	(2,754,889)	23,318,458	(20,521,783)	(1,543,592)	(1,501,806)
At 31 December 2019	61,749,769	40,097,285	49,199,737	3,946,356	154,993,147

Short term bank borrowings comprise bankers' acceptance, bills and invoice financing and other trade bills financing as disclosed in Note 24.

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(c) Cash and cash equivalents at end of year

	Group		Company	
	2020 RM	2019 RM	2020 RM	2019 RM
Cash and bank balances	3,560,509	7,134,141	24,215	30,634
Fixed deposits with licensed banks	3,657,637	3,421,934	-	-
Bank overdrafts (Note 24)	(2,161,562)	(2,878,651)	-	-
	5,056,584	7,677,424	24,215	30,634
Less :				
Fixed deposits with licensed bank pledged	(3,657,637)	(3,421,934)	-	-
	1,398,947	4,255,490	24,215	30,634

30. CAPITAL AND OTHER COMMITMENTS

	Group	
	2020 RM	2019 RM
Authorised and contracted for :-		
Purchase of plant and equipment	-	11,589,000
Investment in subsidiary company	10,000,000	10,000,000
	10,000,000	21,589,000

On 13 October 2015, the Company's subsidiary company, Spring Energy Sdn Bhd executed a Share Sales Agreement ("SSA") with third parties ("vendors") to acquire a 100% equity interest in Bakat Serimas Sdn Bhd ("BS"), a company incorporated in Malaysia for a total cash consideration of RM16,000,000. BS is principally involved in mining activities. A deposit of RM6,000,000 (2019 : RM6,000,000) for the aforesaid acquisition has been paid by the subsidiary company as disclosed in Note 13. The subsidiary company has entered into a supplemental agreement dated 27 February 2017 to amend certain salient terms of the SSA. The acquisition of BS has yet to be completed as at the date of this report pending fulfilment of the amended terms by the vendors. Upon completion, BS shall become a wholly owned subsidiary company of the Group.

31. CONTINGENT LIABILITIES

	Group	
	2020 RM	2019 RM
Bankers' guarantees issued		
- secured	12,624,000	17,362,969
- unsecured	79,750	27,136
	12,703,750	17,390,105

The secured bank guarantee facilities are part of the blanket facilities provided by the banks as referred to in Note 24 to the financial statements and have the same security arrangements as disclosed thereunder.

APPENDIX III – INFORMATION ON SERB (CONT'D)

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32. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party or one party controls both.

(a) Transactions and year-end outstanding balances with holding company, subsidiary company, related companies and a joint venture

(i) Transactions

	Group	
	2020 RM	2019 RM
Rental of premises charged by holding company	503,760	503,760
Rental of premises charged by a related company	10,000	12,000
Sub-contract wages charged to :		
- joint venture	-	12,352
- related company	82,740	286,457
Purchases from a related company	31,385	261,666
Sales to a related company	3,444,937	4,825,686
Supervisory fee charged to a joint venture	-	6,530
Hiring of machinery charged to a related company	267,887	526,344
Rental of land charged to related companies	-	90,000
Management fee charged to a related company	36,000	36,000
Transportation charged to a related company	42,678	215,790
Road maintenance charged to related companies	11,565	14,160
Security deposits paid to a shareholder of a subsidiary company or his nominee	320,000	500,000
Disposal of associated company to holding company	-	20,000,000
	20,820,842	-
	Company	
	2020 RM	2019 RM
Dividend income from a subsidiary company	20,820,842	-

Related companies refer to fellow subsidiary companies of the holding company.

The Group leases part of a quarry site to its related company under operating lease term of 3 years. The lease income recognised in profit or loss is included in other income of the Group as disclosed in Note 26(a).

Maturity analysis of the undiscounted lease payments receivable is as follows :-

	Group	
	2020 RM	2019 RM
Within one year	10,000	10,000

(ii) Year-end outstanding balances

	Group	
	2020 RM	2019 RM
Amount owing by related companies	1,347,393	8,969,010
Amount owing by holding company	-	17,951,752
Amount owing to a related company	391,302	-

APPENDIX III – INFORMATION ON SERB (CONT'D)

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	Company	
	2020 RM	2019 RM
Amount owing to subsidiary company	<u>-</u>	<u>980,000</u>

The terms and conditions of the abovementioned balances are disclosed in Notes 13, 14 and 21 to the financial statements.

(b) Transactions and year-end outstanding balances with other related parties**(i) Transactions**

	Group	
	2020 RM	2019 RM
Overdue interest charged by a company in which certain directors of a subsidiary company have substantial financial interest	52,829	-
Sales to a shareholder in a subsidiary company	-	825,105
Tribute payable to a shareholder in a subsidiary company	<u>2,232,889</u>	<u>1,984,695</u>

A subsidiary company of the Group, as the quarry operator, has an existing quarry agreement dated 29 February 2019 with its shareholder, as owner of the quarry, which grants exclusive right to the subsidiary company to carry out quarry operation on the quarry land for an initial term of 3 years with options to extend for further two successive terms of 3 years each. In return for the grant of right, the subsidiary company shall pay tributes to the shareholder at the contracted rate based on the volume of quarry products to be sold from quarry operation.

(ii) Year-end outstanding balances

	Group	
	2020 RM	2019 RM
Amount owing by a company in which certain directors of a subsidiary company have substantial financial interest, included in trade receivables (Note 13)	<u>2,880,847</u>	<u>3,881,820</u>
Amount owing to a company in which certain directors of a subsidiary company have substantial financial interest, included in other payables (Note 21)	1,052,829	1,000,000
Amount owing to a shareholder (Note 23)	<u>3,839,817</u>	<u>2,180,868</u>

The terms and conditions of the abovementioned balances are disclosed in Notes 13, 21 and 23 to the financial statements.

APPENDIX III – INFORMATION ON SERB (CONT'D)

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(c) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Company either directly or indirectly. The key management personnel of the Group and the Company are the directors of the Company and certain subsidiary company and their remuneration for the financial year were as follows :-

	Group		Company	
	2020 RM	2019 RM	2020 RM	2019 RM
Short-term employee benefits	3,794,623	4,041,265	456,000	480,000
Post-employment benefits - contribution to Employees Provident Fund	646,260	690,800	36,480	46,400
Benefits-in-kind	201,198	229,840	-	-
	<u>4,642,081</u>	<u>4,961,905</u>	<u>492,480</u>	<u>526,400</u>

33. STAFF COSTS

	Group		Company	
	2020 RM	2019 RM	2020 RM	2019 RM
Staff costs comprised :-				
Staff salaries, bonus and allowances	29,671,753	34,979,350	456,000	480,000
Amount contributed under defined contribution plan - Employees Provident Fund (EPF)	3,052,843	3,466,041	36,480	46,400
Social security (SOCSO) contribution	359,936	389,882	1,516	1,516
Staff welfare, amenities and others	327,076	846,847	-	-
	<u>33,411,608</u>	<u>39,682,120</u>	<u>493,996</u>	<u>527,916</u>
Staff costs are recognised as follows :-				
Charged to profit or loss	33,411,608	39,135,390	493,996	527,916
Capitalised to property, plant and equipment [Note 6(c)]	-	546,730	-	-
	<u>33,411,608</u>	<u>39,682,120</u>	<u>493,996</u>	<u>527,916</u>

APPENDIX III – INFORMATION ON SERB (CONT'D)

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34. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Financial assets of the Group include trade and other receivables, amount owing by holding company and related companies, fixed deposits with licensed banks, and cash and bank balances. Financial liabilities of the Group include hire purchase payables, bank borrowings, amount owing to holding company and trade and other payables. In respect of the Company, financial liabilities include amount owing to subsidiary company.

(a) Categories of financial instruments

The financial instruments of the Group and of the Company are categorised as follows :-

2020**Financial Assets as per Statement of Financial Position**

Group	Carrying amount RM	Financial assets at amortised cost RM
Trade and other receivables	67,792,197	67,792,197
Amount owing by related companies	1,347,393	1,347,393
Deposits, cash and bank balances	7,218,146	7,218,146
	<u>76,357,736</u>	<u>76,357,736</u>

Company

Cash and bank balances	<u>24,215</u>	<u>24,215</u>
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Financial Liabilities as per Statement of Financial Position

Group	Carrying amount RM	Financial liabilities at amortised cost RM
Hire purchase payables	47,916,719	47,916,719
Term loans	47,835,179	47,835,179
Trade and other payables	63,518,954	63,518,954
Amount owing to a related company	391,302	391,302
Amount owing to a shareholder	3,839,817	3,839,817
Bank borrowings (exclude term loans)	53,251,823	53,251,823
	<u>216,753,794</u>	<u>216,753,794</u>

Company

Other payables	<u>94,766</u>	<u>94,766</u>
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2019**Financial Assets as per Statement of Financial Position**

Group	Carrying amount RM	Financial assets at amortised cost RM
Trade and other receivables	142,835,447	142,835,447
Amount owing by holding company	17,951,752	17,951,752
Amount owing by related companies	8,969,010	8,969,010
Deposits, cash and bank balances	10,556,075	10,556,075
	<u>180,312,284</u>	<u>180,312,284</u>

Company

Cash and bank balances	<u>30,634</u>	<u>30,634</u>
------------------------	---------------	---------------

Financial Liabilities as per Statement of Financial Position

Group	Carrying amount RM	Financial liabilities at amortised cost RM
Hire purchase payables	49,199,737	49,199,737
Term loans	40,097,285	40,097,285
Trade and other payables	51,501,347	51,501,347
Amount owing to a director	6,900,000	6,900,000
Amount owing to a shareholder	2,180,868	2,180,868
Bank borrowings (exclude term loans)	64,628,420	64,628,420
	<u>214,507,657</u>	<u>214,507,657</u>

Company

Other payables	23,000	23,000
Amount owing to subsidiary company	980,000	980,000
	<u>1,003,000</u>	<u>1,003,000</u>

(b) Financial risk management

The Group's financial instruments are subject to a variety of financial risks including credit risk, interest rate risk, market risk, and liquidity and cash flow risks.

The Group's overall financial risk management objective is to seek to address and control the risks to which the Group is exposed and to minimise or avoid the incidence of loss that may result from its exposure to such risks and to enhance returns where appropriate.

The Board is primarily responsible for the management of these risks and to formulate policies and procedures for the management thereof. The risks are managed or controlled by regular risk reviews, internal control systems, on-going formulation and adherence to financial risk policies and mitigated by insurance coverage where appropriate.

APPENDIX III – INFORMATION ON SERB (CONT'D)

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(i) Credit Risk

Credit risk is the risk of financial loss attributable to default on obligations by parties contracting with the Group. The Group's main exposure to credit risk is in respect of its trade receivables.

New customers are subject to a credit evaluation process and existing customers' risk profiles are reviewed regularly with a view to setting appropriate terms of trade and credit limits. Where appropriate, further sales and contract works may be suspended and legal actions are taken to attempt recoveries and mitigate losses.

The Group assesses changes in its exposure to credit risk of its customers based primarily on past due information for customers' balances, their past payment trend and historical defaults experience, if any, together with other relevant credit risk related information affecting the financial standing of the customers which are available to management. The Group also considers macroeconomic information in respect of current market development and industry outlook that may affect its credit risk exposure.

The Group measures its exposure to credit risk by way of an allowance for expected credit losses ("ECLs"). ECLs take into consideration the probability of a default in payment of trade receivables before they become credit impaired. The Group uses the simplified approach, i.e. lifetime ECLs in determining the allowance for ECLs on trade receivables which are grouped together as they are perceived to have similar credit risk characteristics. In this respect, the ECLs are computed by way of estimating the present value of the receivables based on the expected timing of receipts of their cash flows, and the difference with their carrying amount is recognised as credit loss. For any trade receivables which are determined as credit impaired at the reporting date, ECLs are assessed and measured on an individual basis. Trade receivables are determined as credit impaired when they have defaulted on their payments and are considered to have financial difficulties in repaying their debts.

Information on the exposure to credit risk exposure and impairment of the Group's trade receivables as at the end of the reporting period are as disclosed in Note 13.

Contract assets have substantially the same risk characteristics as the trade receivables for contracts which they relate to and are subject to assessment for impairment for ECL under the simplified approach at the reporting date.

The Group's other receivables have low credit risk exposure due to their short maturities. Cash and cash equivalents are placed with major financial institutions with high credit ratings, and assessed to have low credit risk. The Group views that any expected credit losses arising on these financial assets are insignificant.

The Group considers non-trade balances owing by its holding company and related companies generally have low credit risk and monitors the financial position of the companies in managing their credit risk exposure. Appropriate loss allowance has been made for outstanding balances owing by related companies as disclosed in Note 13 using the general approach under MFRS 9 based on management's assessment of changes in credit risk at the reporting date.

At the end of the reporting period, the Group has significant concentration of credit risk attributable to an amount of RM73,242,617 (2019: RM74,272,960) owing by a trade customer which represents approximately 60% (2019: 58%) of total gross carrying amount of trade receivables as at end of the reporting period. Full allowance for impairment loss (2019 : RM5,795,942) has been provided on the balance owing by the trade customer.

The Group's maximum exposure to credit risk at the end of the reporting period is represented by the carrying amount of the financial assets recognised in the statement of financial position.

None of the Group's financial assets are secured by collateral or other credit enhancements.

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(ii) Interest Rate Risk

The Group's interest-bearing financial instruments that are exposed to interest rate risk are segregated into fixed and floating interest rates profile as follows :-

	Group	
	2020 RM	2019 RM
Fixed rate instruments		
Financial assets		
Fixed deposits with licensed banks	3,657,637	3,421,934
	<u>3,657,637</u>	<u>3,421,934</u>
Fixed rate instruments		
Financial liabilities		
Hire purchase payables	47,916,719	49,199,737
Bankers' acceptances	21,211,000	28,188,000
Bill and invoice financing	19,918,390	23,668,117
Other trade bills financing	9,960,871	9,893,652
Term loans (secured)	5,194,076	4,972,651
	<u>104,201,056</u>	<u>115,922,157</u>
	<u>104,201,056</u>	<u>115,922,157</u>
	Group	
	2020 RM	2019 RM
Floating rate instruments		
Financial liabilities		
Bank overdrafts	2,161,562	2,878,651
Term loans (secured)	42,641,103	35,124,634
	<u>44,802,665</u>	<u>38,003,285</u>
	<u>44,802,665</u>	<u>38,003,285</u>

The Group has interest rate risk in respect of its borrowings and fixed deposits with licensed banks.

The Group's bank borrowings are subject to interest based on fixed and floating rates while hire purchase financing and interest bearing deposits are subject to interest based on fixed rates.

Market interest rates movements are monitored with a view to ensuring that the most competitive rates are secured and where appropriate interest bearing instruments and borrowings arrangements are restructured or reduced.

Interest rate risk sensitivity analysis

The Group's profit or loss and equity are sensitive to the change in the market interest rate as at the end of the reporting period due to its floating rate bank borrowings. An increase in the market interest rate would have unfavourable effects on the profit or loss and equity of the Group. A reasonably possible increase of 50 basis points in the market interest rate at 31 December 2020 would have decreased the profit or loss for the year then ended and equity of the Group as at that reporting date by RM68,398 (2019 : RM76,339). The profit or loss and equity would have increased by the same amount with a reasonably possible decrease of 50 basis points in the market interest rate at the end of the reporting period. This sensitivity analysis assumes that all other risk variables as at the end of the reporting period remain constant.

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As the Group's fixed rate financial instruments are not accounted for at fair value through profit or loss, they would not affect the profit or loss and equity if there is a change in the market interest rate at the end of the reporting period.

(iii) Market Risk

Market risk is the risk that the value of the financial instrument will fluctuate due to changes in market prices.

The Group's main market risk exposure is in respect of interest rate fluctuations and which is discussed under the interest rate risk heading.

(iv) Liquidity and Cash Flow Risks

Liquidity or funding risk is the risk of the inability to meet commitments associated with financial instruments while cash flow risk is the risk of uncertainty of future cash flow amount associated with a monetary financial instrument.

Liquidity and cash flow risks are addressed by annual and continuous review and forward planning of cash flow in relation to business plans to ensure a balanced and prudent portfolio of cash and other liquid assets and credit facilities is maintained. The proper management of interest rate and credit risks has the effect of further minimising the incidence and effects of liquidity and cash flow risks.

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments are as follows :-

Group 2020 Financial Liabilities	Maturity Profile			Total RM	Effective interest rate %
	Less than one year RM	More than one year and less than five years RM	More than five years RM		
Hire purchase payables	27,185,793	24,527,462	-	51,713,255	3.45 to 8.25
Term loans	22,870,703	26,824,737	-	49,695,440	3.23 to 9.00
Trade and other payables	63,518,954	-	-	63,518,954	-
Amount owing to related companies	391,302	-	-	391,302	-
Amount owing to a shareholder	3,839,817	-	-	3,839,817	-
Bank borrowings (exclude term loans)	53,251,823	-	-	53,251,823	3.67 to 7.40
	<u>171,058,392</u>	<u>51,352,199</u>	<u>-</u>	<u>222,410,591</u>	

APPENDIX III – INFORMATION ON SERB (CONT'D)

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Group 2019	Maturity Profile			Total RM	Effective interest rate %
	Less than one year RM	More than one year and less than five years RM	More than five years RM		
Financial Liabilities					
Hire purchase payables	27,162,187	25,027,762	-	52,189,949	4.59 to 7.73
Term loans	10,566,390	31,110,465	2,130,440	43,807,295	4.92 to 9.00
Trade and other payables	51,501,347	-	-	51,501,347	-
Amount owing to a director	6,900,000	-	-	6,900,000	-
Amount owing to a shareholder	2,180,868	-	-	2,180,868	-
Bank borrowings (exclude term loans)	64,628,420	-	-	64,628,420	4.64 to 7.51
	<u>162,939,212</u>	<u>56,138,227</u>	<u>2,130,440</u>	<u>221,207,879</u>	
Company 2020					
Financial Liabilities					
Other payables	<u>94,766</u>	<u>-</u>	<u>-</u>	<u>94,766</u>	-
Company 2019					
Financial Liabilities					
Other payables	23,000	-	-	23,000	-
Amount owing to subsidiary company	980,000	-	-	980,000	-
	<u>1,003,000</u>	<u>-</u>	<u>-</u>	<u>1,003,000</u>	

(c) Fair values of financial instruments

- (i) The carrying amounts of fixed deposits, cash and bank balances, trade and other receivables, trade and other payables and short term bank borrowings approximate their fair values due to the relatively short term nature of these financial instruments.
- (ii) The carrying amounts of balances with holding company, related companies, subsidiary company, and a director and a shareholder approximate their fair values due to the relatively short term nature of their trade balances and their repayable on demand settlement terms on non-trade advances.
- (iii) The carrying amounts of term loans and hire purchase payables approximate their fair values.

APPENDIX III – INFORMATION ON SERB (CONT'D)

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35. CAPITAL MANAGEMENT

The Group's objectives in capital management are to ensure that the Group has a strong shareholders' equity to ensure its ability to continue as a going concern and to support and grow its business in order to maximise shareholders' value. The capital of the Group comprises a mix of equity and debt. The debt portion consists of bank borrowings and hire purchase financing. The Group reviews and manages its capital structure to maintain the debt-to-equity ratio at an optimal level based on the business requirements and prevailing economic conditions.

The debt-to-equity ratio of the Group are as follows :-

	2020	2019
	RM	RM
Total debts	<u>149,003,721</u>	<u>153,925,442</u>
Total equity	<u>38,800,192</u>	<u>158,695,554</u>
Debt-to-equity ratio (times)	<u>3.84</u>	<u>0.97</u>

There have been no changes to the Group's approach to capital management during the financial year under review.

36. SIGNIFICANT EVENT DURING THE YEAR

The outbreak of the COVID-19 as a global pandemic as declared by the World Health Organisation on 11 March 2020 has resulted in countries, including Malaysia, imposing various travel restrictions, lockdowns and other containment measures to curb the spread of COVID-19 infections. These containment measures have caused disruptions to the business operations of most entities including the Group.

As the pandemic situation is fluid, the Group will continue to monitor and manage its activities and operations to mitigate any adverse impact that may arise from COVID-19 and will assess and revise, where appropriate, the estimates and assumptions used in the preparation of the financial statements of the Group and of the Company to reflect the financial effects that COVID-19 may have on its activities.

37. EVENT SUBSEQUENT TO YEAR END

On 21 January 2021, the Group acquired 1 ordinary share representing 50% equity interest in SE Endau Sdn Bhd for a total cash consideration of RM1.00. SE Endau Sdn Bhd, a company incorporated in Malaysia, is involved in mining activities.

Folks DFK & Co. (No. AF 0502)
Chartered Accountants



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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SPRING ENERGY RESOURCES BERHAD
(Incorporated in Malaysia)**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Spring Energy Resources Berhad, which comprise the statements of financial position as at 31 December 2020 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 7 to 70.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2020, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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Responsibilities of the Directors for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also :-

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.



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- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

FOLKS DFK & CO.
NO. : AF 0502
CHARTERED ACCOUNTANTS

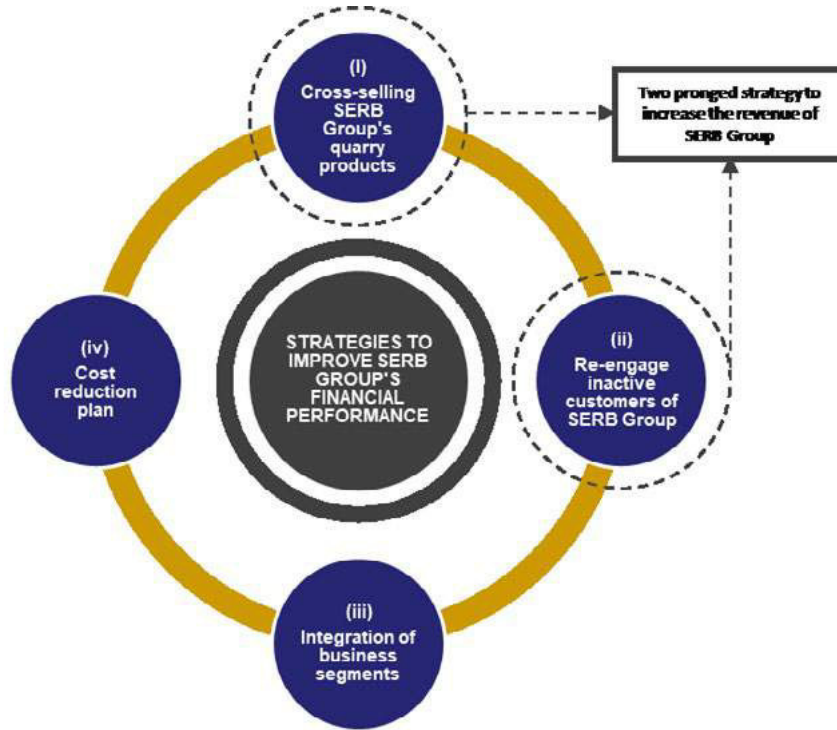
Kuala Lumpur

Date : 03 May 2021

NG YONG CHIN
NO. : 03051/05/2023 J
CHARTERED ACCOUNTANT

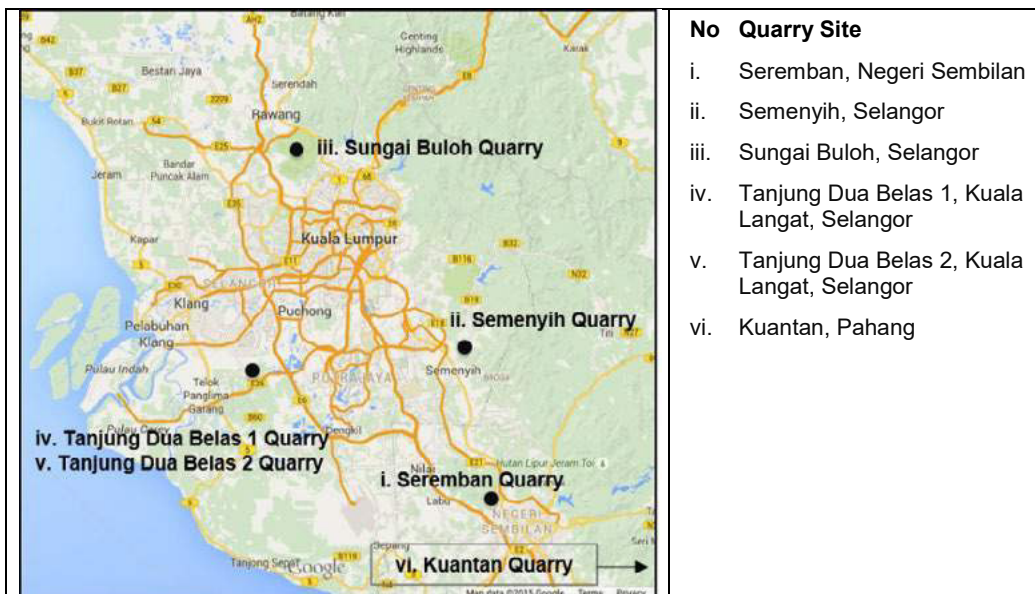
APPENDIX IV – ADDITIONAL INFORMATION

As part of our Board's immediate initiatives to improve SERB Group's financial performance pursuant to the completion of the Proposed Acquisition, our 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 Circular, 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:-



APPENDIX IV – ADDITIONAL INFORMATION (CONT'D)

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 railway, 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 our 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 result, 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.

Our 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, our 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

Our Board intends to integrate 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.

APPENDIX IV – ADDITIONAL INFORMATION (CONT'D)

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 personnel 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, our 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, our Board foresees that there would not be significant costs involved to undertake such plans. For the avoidance of doubt, the exact breakdown of the utilisation for each plan 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, our 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.

SPRING ENERGY RESOURCES BERHAD

(Company No. 1093736-V)

Date: 04 OCT 2021

The Board of Directors of
ADVANCECON HOLDINGS BERHAD


Dear Sir/ Madam,

On behalf of the Board of Directors of Spring Energy Resources Berhad ("**Board**"), I wish to report that after due inquiries in relation to Spring Energy Resources Berhad and its subsidiaries ("**SERB Group**") during the period from 31 December 2020 (being the date to which the last audited consolidated financial statements of SERB Group had been made up) and up to the date of this letter, being a date not earlier than 14 days before the issuance of this Circular, in the opinion of the Board:-

- i. the business of SERB Group has been satisfactorily maintained;
- ii. since the last audited consolidated financial statements of SERB Group, there has been no circumstances which have adversely affected the trading or the value of the assets of SERB Group;
- iii. the current assets of SERB Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- iv. there are no contingent liabilities which have arisen by reason of any guarantees or indemnities given by SERB Group;
- v. since the last audited consolidated financial statements of SERB Group, the Board is not aware of any default or any known event that could give rise to a default situation, in respect of payment of either interest and/or principal sums in relation to any borrowings; and
- vi. Since the last audited consolidated financial statements of SERB Group, there have been no material changes in the published reserves or any unusual factors affecting the profits of SERB Group.

Yours faithfully,

For and on behalf of the Board of
SPRING ENERGY RESOURCES BERHAD


DATO' YAP SOON HUAT
Director

APPENDIX VI – FURTHER INFORMATION

1. DIRECTORS' RESPONSIBILITY STATEMENT

This Circular has been seen and approved by our Board, and our Directors collectively and individually accept full responsibility for the accuracy of the information contained herein and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading.

2. CONSENT

UOBKH, being the Adviser for the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

Kenep Consultancy & Services Sdn Bhd and Jurukur Suasa Sepakat Sdn Bhd, have given and have not subsequently withdrawn their written consent to the inclusion in this Circular of their names and all references thereto in the form and context in which they appear in this Circular.

3. DECLARATION OF CONFLICT OF INTERESTS

UOBKH has given its written confirmation that as at the date of this Circular, there is no situation of conflict of interests that exists or likely to exist in relation to its role as the Adviser for the Proposals.

4. MATERIAL COMMITMENTS

Save as disclosed below, as at the LPD, our Board is not aware of any material commitments incurred or known to be incurred by our Group that has not been provided for which, upon becoming enforceable, may have a material impact on our Group's financial results/ position:-

	RM'000
Contracted but not provided for:-	
Purchase of:	
- investment properties under construction	258
- property, plant and equipment	4,395
	<u>4,653</u>

5. CONTINGENT LIABILITIES

As at the LPD, our Board is not aware of any contingent liabilities incurred or known to be incurred by our Group which, upon becoming enforceable, may have a material impact on the financial results/ position of our Group.

6. MATERIAL LITIGATION, CLAIMS OR ARBITRATION

As at the LPD, our Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and our Board is not aware and has no knowledge of any proceedings pending or threatened against our Group, or of any facts likely to give rise to any proceedings, which might materially or adversely affect the financial position or business of our Group.

APPENDIX VI – FURTHER INFORMATION (CONT'D)

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of our Company at Level 5, Block B, Dataran PHB, Saujana Resort, Section U2, 40150 Shah Alam, Selangor during normal business hours from Monday to Friday (except public holidays) from the date of this Circular up to the date of our forthcoming EGM of our Company:-

- i. The Constitution of our Company and SERB;
- ii. Audited consolidated financial statements of our Group for the past 2 financial years up to the FYE 31 December 2019 and the latest unaudited consolidated financial statements of our Group for the 6-month FPE 30 June 2021;
- iii. The letters of consent and declaration of conflict of interests referred to in **Sections 2 and 3** above, respectively;
- iv. The Shareholders Agreement;
- v. The SSA;
- vi. Audited consolidated financial statements of SERB Group for the past 2 financial years up to the FYE 31 December 2020 and the latest management accounts of SERB for the 5-month FPE 31 May 2021;
- vii. The material contracts referred in **Section 7 of Appendix III** of this Circular; and
- viii. Relevant cause papers in respect of SERB Group's material litigation set out in **Section 6 of Appendix III** of this Circular.

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ADVANCECON

ADVANCECON HOLDINGS BERHAD

(Registration No. 199701011469 (426965-M))

(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Extraordinary General Meeting ("**EGM**") of Advancecon Holdings Berhad ("**Advancecon**" or the "**Company**") will be conducted on a fully virtual basis through live streaming and online meeting platform of TIIH Online provided by Tricor Investor & Issuing House Services Sdn Bhd in Malaysia via Remote Participation and Electronic Voting ("**RPV**") facilities at <https://tiih.online> on Tuesday, 26 October 2021 at 10.00 a.m., or at any adjournment thereof, for the purpose of considering and if thought fit, passing with or without modifications the following resolutions:-

ORDINARY RESOLUTION I

PROPOSED ACQUISITION BY ADVANCECON OF 260,100,006 ORDINARY SHARES IN SPRING ENERGY RESOURCES BERHAD ("SERB"), REPRESENTING 51% EQUITY INTEREST FROM FOOK HUA HOLDINGS SDN BHD ("FHHSB" OR THE "VENDOR") FOR A TOTAL PURCHASE CONSIDERATION OF RM30,400,000 TO BE SATISFIED VIA A COMBINATION OF CASH PAYMENT OF RM15,220,000 AND ISSUANCE OF 33,000,000 NEW ORDINARY SHARES OF ADVANCECON ("CONSIDERATION SHARE(S)" OR "SHARE(S)") AT THE ISSUE PRICE OF RM0.46 PER CONSIDERATION SHARE ("PROPOSED ACQUISITION")

"**THAT**, subject to the approvals of all relevant authorities in respect of the listing and quotation for 33,000,000 Consideration Shares on the Main Market of Bursa Malaysia Securities Berhad, and/ or parties being obtained, approval be and is hereby given to the Company to acquire 260,100,006 ordinary shares in SERB, representing 51% equity interest from FHHSB for a total purchase consideration of RM30,400,000 to be satisfied via a combination of RM15,220,000 in cash and RM15,180,000 via the issuance and allotment of 33,000,000 Consideration Shares to the Vendor at an issue price of RM0.46 per Consideration Share, in accordance with the terms and conditions of the conditional share sale agreement dated 17 June 2021 entered into between the Company and the Vendor pursuant to the Proposed Acquisition.

THAT such Consideration Shares shall, upon allotment and issuance, rank equally in all respects with the existing Shares, save and except that the Consideration Shares will not be entitled to any dividends, rights, allotment and/ or other forms of distributions where the entitlement date of such dividends, rights, allotments and/ or any other forms of distribution precedes the date of allotment and issuance of the Consideration Shares.

AND THAT the Board be and is hereby authorised to sign and execute all documents, do all things and acts as may be required to give effect to the aforesaid Proposed Acquisition with full power to assent to any conditions, variations, modifications and/ or amendments in any manner as may be required or permitted by any relevant authorities and to deal with all matters relating thereto and to take all such steps and do all acts and things in any manner as they may deem necessary or expedient to implement, finalise and give full effect to the Proposed Acquisition."

ORDINARY RESOLUTION II

PROPOSED DIVERSIFICATION OF THE EXISTING PRINCIPAL ACTIVITIES OF ADVANCECON AND ITS SUBSIDIARIES TO INCLUDE QUARRY OPERATION AND RELATED ACTIVITIES ("PROPOSED DIVERSIFICATION")

"**THAT**, subject to the approvals of the relevant authorities and/ or parties being obtained, approval be and is hereby given to the Company and its subsidiaries to diversify its existing principal activities to include quarry operation and related activities as described in the Circular to the shareholders dated 11 October 2021.

AND THAT the Board be and is hereby authorised to sign and execute all documents, do all things and acts as may be required to give effect to the Proposed Diversification with full power to assent to any conditions, variations, modifications, and/ or amendments in any manner as may be required or permitted by any relevant authorities and to deal with all matter relating thereto and to take all such steps to do all acts and things in any manner as they may deem necessary or expedient to implement, finalise and give full effect to the Proposed Diversification."

By order of the Board

TAN TONG LANG (MAICSA 7045482 / SSM PC No. 201908002253)

THIEN LEE MEE (LS0009760 / SSM PC No. 201908002254)

Company Secretaries

Selangor Darul Ehsan

11 October 2021

Notes:-

1. *In respect of deposited securities, only member whose names appear in the Company's Record of Depositors as at 18 October 2021 shall be eligible to attend, participate, speak and vote at this meeting or appoint proxy(ies) to attend, participate, speak and vote on his/ her behalf.*
2. *A member shall not be entitled to appoint more than (2) proxies. Where a member appoints more than one (1) proxy, he/she shall specify the proportions of his/ her shareholdings to be represented by each proxy, failing which the appointment shall be invalid.*
3. *A proxy may but need not be a shareholder of the Company. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at the meeting shall have the same rights as the shareholder to speak at the meeting.*
4. *Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("Central Depositories Act"), it may appoint at least one proxy in respect of each securities account it holds with ordinary shares to the credit of the said securities account.*
5. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
6. *The instrument appointing a proxy shall be in writing under the hand of the appointer or his/ her attorney duly authorised in writing, or if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised.*
7. *The appointment of a proxy may be made in a hard copy form or by electronic means in the following manner and must be received by the Company not less than 48 hours before the time appointed for holding the EGM or at any adjournment thereof at which the person named in the appointment proposes to vote:*
 - (a) *In hard copy form*
In the case of an appointment made in hard copy form, the original Proxy Form must be deposited at the Poll Administrator office, Tricor Investor & Issuing House Services Sdn Bhd (Tricor) at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur.
 - (b) *By electronic means*
The Proxy Form can be electronically lodged via Tricor's TIH Online website at <https://tiah.online>. Please follow the procedure for the electronic lodgement of proxy form as set out in the Administrative Guide for the EGM.
8. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in this Notice will be put to vote by way of poll.*

Personal data privacy:-

By submitting an instrument appointing a proxy(ies) and/ or representative(s) to attend, participate, speak and vote at this meeting, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for this meeting and the preparation and compilation of the attendance lists, minutes and other documents relating to this meeting, and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/ or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/ or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/ or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/ or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

ADVANCECON

Registration No. 199701011469 (426965-M)
(Incorporated in Malaysia)

ADMINISTRATIVE GUIDE FOR THE EXTRAORDINARY GENERAL MEETING (“EGM”)

- Day, Date and Time** : Tuesday, 26 October 2021 at 10.00 a.m.
- Venue** : Online Meeting Platform provided by Tricor Investor & Issuing House Services Sdn Bhd in Malaysia
- Meeting Platform** : TIIH Online website at <https://tiih.online>

MODE OF MEETING

In line with the Government’s directive and the revised Guidance Note and Frequently Asked Questions on the Conduct of General Meetings for Listed Issuers issued by the Securities Commission Malaysia (“SC”) on 16 July 2021, the EGM of the Company will be conducted fully virtual through live streaming and online voting via Remote Participation and Voting (“RPV”) facilities via TIIH Online website at <https://tiih.online>. An online meeting platform used to conduct the meeting can be recognized as the meeting venue as required under Section 327(2) of the Companies Act 2016, provided that the online platform located in Malaysia. Pursuant to the SC’s Guidance, all meeting participants including the Chairman of the Meeting, board members, senior management and shareholders are to participate in the meeting online.

We strongly encourage you to attend the EGM via the RPV facilities. You may consider appointing the Chairman of the Meeting as your proxy to attend and vote on your behalf at the EGM.

REMOTE PARTICIPATION AND VOTING (“RPV”) FACILITIES

The RPV facilities are available on Tricor’s **TIIH Online** website at <https://tiih.online>.

Shareholders are to attend, speak (in the form of real time submission of typed texts) and vote (collectively, “participate”) remotely at the EGM using RPV facilities from Tricor.

A shareholder who has appointed a proxy(ies) or attorney(s) or authorized representative(s) to attend, participate, speak and vote at this EGM via RPV must request his/ her proxy(ies) or attorney(s) or authorized representative(s) to register himself/ herself for RPV at TIIH Online website at <https://tiih.online>.

Kindly refer to Procedures for RPV as set out below for the requirements and procedures.

PROCEDURES TO REMOTE PARTICIPATION AND VOTING VIA RPV FACILITIES

Please read and follow the procedures below to engage in remote participation through live streaming and online remote voting at the EGM using the RPV facilities:

Before the EGM Day

	Procedure	Action
i	Register as a user with TIIH Online	<ul style="list-style-type: none"> Using your computer, access the website at https://tiih.online. Register as a user under the “e-Services”, select the “Sign Up” button and followed by “Create Account by Individual Holder”. Refer to the tutorial guide posted on the homepage for assistance. Registration as a user will be approved within one (1) working day and you will be notified via e-mail. If you are already a user with TIIH Online, you are not required to register again. You will receive an e-mail to notify you that the remote participation is available for registration at TIIH Online.
ii	Submit your registration for RPV	<ul style="list-style-type: none"> Registration is open from Monday, 11 October 2021 until the day of EGM on Tuesday, 26 October 2021. Shareholder(s) or proxy(ies) or corporate representative(s) or attorney(s) are required to pre-register their attendance for the EGM to ascertain their eligibility to participate in the EGM using the RPV. Login with your user ID (i.e. email address) and password and select the corporate event: “(REGISTRATION) ADVANCECON HOLDINGS BERHAD EGM”. Read and agree to the Terms & Conditions and confirm the Declaration. Select “Register for Remote Participation and Voting” Review your registration and proceed to register System will send an e-mail to notify that your registration for remote participation is received and will be verified. After verification of your registration against the General Meeting Record of Depositors as at 18 October 2021, the system will send you an e-mail after 24 October 2021 to approve or reject your registration for remote participation. <p><i>(Note: Please allow sufficient time for approval of new user of TIIH Online and registration for the RPV).</i></p>
On the EGM Day		
(c)	Login to TIIH Online	<ul style="list-style-type: none"> Login with your user ID and password for remote participation at the EGM at any time from 9.00 a.m. i.e. 1 hour before the commencement of the EGM on Tuesday, 26 October 2021 at 10.00 a.m.
(d)	Participate through Live Streaming	<ul style="list-style-type: none"> Select the corporate event: “(LIVE STREAM MEETING) ADVANCECON HOLDINGS BERHAD EGM” to engage in the proceedings of the EGM remotely. If you have any question for the Chairman/ Board, you may use the query box to transmit your question. The Chairman/ Board will endeavor to respond to questions submitted by remote participants during the EGM. If there is time constraint, the responses will be e-mailed to you at the earliest possible, after the meeting.

(e)	Online Remote Voting	<ul style="list-style-type: none"> • Voting session commences from 10.00 a.m. on Tuesday, 26 October 2021 until a time when the Chairman announces the end of the session. • Select the corporate event: “(REMOTE VOTING) ADVANCECON HOLDINGS BERHAD EGM” or if you are on the live stream meeting page, you can select “GO TO REMOTE VOTING PAGE” button below the Query Box. • Read and agree to the Terms & Conditions and confirm the Declaration. • Select the CDS account that represents your shareholdings. • Indicate your votes for the resolutions that are tabled for voting. • Confirm and submit your votes.
(f)	End of remote participation	<ul style="list-style-type: none"> • Upon the announcement by the Chairman on the closure of the EGM, the Live Streaming will end.

Note to users of the RPV facilities:

1. Should your registration for the RPV facilities be approved, we will make available to you the rights to join the live stream meeting and to vote remotely. Your login to TIIH Online on the day of meeting will indicate your presence at the virtual meeting.
2. The quality of your connection to the live broadcast is dependent on the bandwidth and stability of the internet at your location and the device you use.
3. In the event you encounter any issues with logging-in, connection to the live stream meeting or online voting, kindly call Tricor Help Line at 011-40805616 / 011-40803168 / 011-40803169 / 011-40803170 or e-mail to tiih.online@my.tricorglobal.com for assistance.

Entitlement to Participate and Appointment of Proxy

- Only members whose names appear on the Record of Depositors as at 18 October 2021 shall be eligible to participate, speak and vote at the EGM or appoint a proxy(ies) and/ or the Chairman of the Meeting to attend and vote on his/ her behalf.
- In view that the EGM will be conducted on a fully virtual basis, a member can appoint the Chairman of the Meeting as his/ her proxy and indicate the voting instruction in the Form of Proxy.
- If you wish to participate in the EGM yourself, please do not submit any Proxy Form for the EGM. You will not be allowed to participate in the EGM together with a proxy appointed by you.
- Accordingly, proxy forms and/ or documents relating to the appointment of proxy/ corporate representative/attorney for the EGM whether in hard copy or by electronic means shall be deposited or submitted in the following manner not later than **Sunday, 24 October 2021 at 10.00 a.m.:**

(i) In Hard copy:

By hand or post to the office of the Poll Administrator, Tricor Investor & Issuing House Services Sdn Bhd at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur.

(ii) By Electronic form:

All shareholders can have the option to submit Proxy Form electronically via TIIH Online and the steps to submit are summarised below:

PROCEDURES FOR ELECTRONIC SUBMISSION OF PROXY FORM

Procedure	Action
<u>i. Steps for Individual Shareholders</u>	
Register as a User with TIIH Online	<ul style="list-style-type: none"> • Using your computer, please access the website at https://tiih.online. Register as a user under the “e-Services”. Please refer to the tutorial guide posted on the homepage for assistance. • If you are already a user with TIIH Online, you are not required to register again.
Proceed with submission of Proxy Form	<ul style="list-style-type: none"> • After the release of the Notice of Meeting by the Company, login with your user name (i.e. email address) and password. • Select the corporate event: “ADVANCECON HOLDINGS BERHAD EGM – SUBMISSION OF PROXY FORM”. • Read and agree to the Terms and Conditions and confirm the Declaration. • Insert your CDS account number and indicate the number of shares for your proxy/ proxies to vote on your behalf. • Appoint your proxy/proxies and insert the required details of your proxy/ proxies or appoint the Chairman as your proxy. • Indicate your voting instructions – FOR or AGAINST, otherwise your proxy will decide on your votes. • Review and confirm your proxy/ proxies' appointment. • Print the form of proxy for your record.
<u>ii. Steps for corporation or institutional shareholders</u>	
Register as a User with TIIH Online	<ul style="list-style-type: none"> ▪ Access TIIH Online at https://tiih.online ▪ Under e-Services, the authorised or nominated representative of the corporation or institutional shareholder selects the “Sign Up” button and followed by “Create Account by Representative of Corporate Holder”. ▪ Complete the registration form and upload the required documents. ▪ Registration will be verified, and you will be notified by email within one (1) to two (2) working days. ▪ Proceed to activate your account with the temporary password given in the email and re-set your own password. <p><i>(Note: The representative of a corporation or institutional shareholder must register as a user in accordance with the above steps before he/she can subscribe to this corporate holder electronic proxy submission. Please contact Tricor Investor & Issuing House Services Sdn Bhd if you need clarifications on the user registration.)</i></p>
Proceed with submission of Proxy Form	<ul style="list-style-type: none"> ▪ Login to TIIH Online at https://tiih.online ▪ Select the corporate event: “ADVANCECON HOLDINGS BERHAD EGM – SUBMISSION OF PROXY FORM” ▪ Agree to the Terms & Conditions and Declaration. ▪ Proceed to download the file format for “Submission of Proxy Form” in accordance with the Guidance Note set therein. ▪ Prepare the file for the appointment of proxy/ proxies by inserting the required data. ▪ Login to TIIH Online, select corporate event: “ADVANCECON HOLDINGS BERHAD EGM – SUBMISSION OF PROXY FORM”. ▪ Proceed to upload the duly completed proxy appointment file. ▪ Select “Submit” to complete your submission. ▪ Print the confirmation report of your submission for your record.

POLL VOTING

The voting at the EGM will be conducted by poll in accordance with Paragraph 8.29A(1) of Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The Company has appointed Tricor Investor & Issuing House Services Sdn Bhd as Poll Administrator to conduct the poll voting electronically.

Shareholders or proxy/ proxies or corporate representative(s) or attorney(s) can proceed to vote on the resolutions at any time from **10.00 a.m. on Tuesday, 26 October 2021** but before the end of the voting session which will be announced by the Chairman of the meeting. Please refer to the Procedures for Remote Participation and Voting via RPV Facilities provided above for guidance on how to vote remotely via TIH Online.

Upon completion of the voting session for the EGM, the Scrutineers will verify the poll results followed by the Chairman's declaration whether the resolutions are duly passed.

PRE-MEETING SUBMISSION OF QUESTION TO THE BOARD OF DIRECTORS

Shareholders may submit questions for the Board in advance of the EGM via Tricor's TIH Online website at <https://tiih.online> by selecting "e-Services" to login, pose questions and submit electronically no later than **Sunday, 24 October 2021 at 10.00 a.m.** The Board will endeavor to answer the questions received at the EGM.

NO DOOR GIFT/ FOOD VOUCHER

There will be no distribution of door gift or food voucher for the EGM.

We thank you for your continuous support to the Company.

ENQUIRY

If you have any enquiry prior to the meeting, you may contact the following persons during office hours on Mondays to Fridays from 9:00 a.m. to 5:30 p.m. (except on public holidays):

Tricor Investor & Issuing House Services Sdn Bhd <i>Registration No. 197101000970 (11324-H)</i> Unit 32-01, Level 32, Tower A Vertical Business Suite, Avenue 3, Bangsar South No. 8, Jalan Kerinchi 59200 Kuala Lumpur, Malaysia		Telephone Number
	General Line	603-2783 9299
	Ms Nur Qaisara Naaila	603-2783 9272 Nur.Qaisara.Naaila@my.tricorglobal.com
	Pn Nor Faeayzah	603-2783 9274 Nor.Faeayzah@my.tricorglobal.com
	Fax Number	603-2783 9222
	Email	is.enquiry@my.tricorglobal.com

ADVANCECON

ADVANCECON HOLDINGS BERHAD
 (Registration No. 199701011469 (426965-M))
 (Incorporated in Malaysia)

PROXY FORM

No. of Shares held	CDS Account No.

*I/ We *NRIC No./ Passport No./ Company No.
 of.....
 and telephone no./ email address.....being a *member/members of
 Advancecon Holdings Berhad (the "Company"), hereby appoint

Proxy 1 Full Name and Address (in Block Letters)	NRIC/Passport No.	No. of Shares	% of Shareholding
Email Address/ Contract No.			

and

Proxy 2 Full Name and Address (in Block Letters)	NRIC/Passport No.	No. of Shares	% of Shareholding
Email Address/ Contract No.			

or failing *him/ her, the CHAIRMAN OF THE MEETING as *my/ our *proxy/ proxies, to vote for *me/ us and on *my/ our behalf at the Extraordinary General Meeting ("**EGM**") of the Company which is to be conducted on a fully virtual basis through live streaming and online Remote Participation and Voting ("**RPV**") facilities via TIIH Online website at <https://tiih.online> on Tuesday, 26 October 2021 at 10.00 a.m., or at any adjournment thereof.

Please indicate with an "X" in the appropriate space(s) provided below on how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain from voting at *his/ her discretion.

ORDINARY RESOLUTIONS	FOR	AGAINST
I. Proposed Acquisition		
II. Proposed Diversification		

**Strike out whichever not applicable*

Dated this _____ day of _____ 2021

.....
 Signature of Member/ Common Seal

**Strike out whichever is not desired.*

.....
 Signature of Shareholder(s)

Notes:-

1. *In respect of deposited securities, only member whose names appear in the Company's Record of Depositors as at 18 October 2021 shall be eligible to attend, participate, speak and vote at this meeting or appoint proxy(ies) to attend, participate, speak and vote on his/ her behalf.*
2. *A member shall not be entitled to appoint more than two (2) proxies. Where a member appoints more than one (1) proxy, he shall specify the proportions of his shareholdings to be represented by each proxy, failing which the appointment shall be invalid.*
3. *A proxy may but need not be a shareholder of the Company. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at the meeting shall have the same rights as the shareholder to speak at the meeting.*
4. *Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("Central Depositories Act"), it may appoint at least one proxy in respect of each securities account it holds with ordinary shares to the credit of the said securities account.*
5. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
6. *The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing, or if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised.*
7. *The appointment of a proxy may be made in a hard copy form or by electronic means in the following manner and must be received by the Company not less than 48 hours before the time appointed for holding the EGM or at any adjournment thereof at which the person named in the appointment proposes to vote:*
 - (a) *In hard copy form*
In the case of an appointment made in hard copy form, the original Proxy Form must be deposited at the Poll Administrator office, Tricor Investor & Issuing House Services Sdn Bhd (Tricor) at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur.
 - (b) *By electronic means*
The Proxy Form can be electronically lodged via Tricor's TIH Online website at <https://tiih.online>. Please follow the procedure for the electronic lodgement of proxy form as set out in the Administrative Guide for EGM.
8. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in this Notice will be put to vote by way of poll.*

Personal Data Privacy:-

By submitting an instrument appointing a proxy(ies) and/ or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of EGM dated 11 October 2021.

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AFFIX
STAMP

The Poll Administrator for the Meeting of
ADVANCECON HOLDINGS BERHAD
(Registration No. 199701011469 (426965-M))
Tricor Investor & Issuing House Services Sdn Bhd
Unit 32-01, Level 32, Tower A, Vertical Business Suite,
Avenue 3, Bangsar South, No. 8, Jalan Kerinchi,
59200 Kuala Lumpur

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