

NEW ISSUE OF SECURITIES (CHAPTER 6 OF LISTING REQUIREMENTS) : FUND RAISING ADVANCECON HOLDINGS BERHAD ("ADVANCECON" OR THE "COMPANY") PROPOSED PRIVATE PLACEMENT OF UP TO 10% OF THE TOTAL NUMBER OF ISSUED SHARES OF ADVANCECON (EXCLUDING TREASURY SHARES) ("PROPOSED PRIVATE PLACEMENT")

ADVANCECON HOLDINGS BERHAD

Type	Announcement
Subject	NEW ISSUE OF SECURITIES (CHAPTER 6 OF LISTING REQUIREMENTS) FUND RAISING
Description	ADVANCECON HOLDINGS BERHAD ("ADVANCECON" OR THE "COMPANY") PROPOSED PRIVATE PLACEMENT OF UP TO 10% OF THE TOTAL NUMBER OF ISSUED SHARES OF ADVANCECON (EXCLUDING TREASURY SHARES) ("PROPOSED PRIVATE PLACEMENT")

On behalf of the Board of Directors of Advancecon ("**Board**"), UOB Kay Hian Securities (M) Sdn Bhd ("**UOBKH**") wishes to announce that the Company intends to undertake a private placement of up to 10% of the total number of issued shares of Advancecon ("**Advancecon Share(s)**" or "**Share(s)**") to third party investor(s) to be identified later ("**Proposed Private Placement**").

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

This announcement is dated 15 October 2021.

Please refer attachment below.

Attachments

[Advancecon_PPGM_Announcement.pdf](#)
661.6 kB

Announcement Info

Company Name	ADVANCECON HOLDINGS BERHAD
Stock Name	ADVCON
Date Announced	15 Oct 2021
Category	General Announcement for PLC
Reference Number	GA1-15102021-00099

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

PROPOSED PRIVATE PLACEMENT OF UP TO 10% OF THE TOTAL NUMBER OF ISSUED SHARES OF ADVANCECON (EXCLUDING TREASURY SHARES) ("PROPOSED PRIVATE PLACEMENT")

Unless otherwise stated and wherever applicable, the amounts represented throughout this announcement have been rounded to the nearest whole number, for ease of reference.

1. INTRODUCTION

On behalf of the Board of Directors of Advancecon ("**Board**"), UOB Kay Hian Securities (M) Sdn Bhd ("**UOBKH**") wishes to announce that the Company proposes to undertake a private placement of up to 10% of the total number of issued shares of Advancecon ("**Advancecon Share(s)**" or "**Share(s)**") to third party investor(s) to be identified later, at issue price(s) to be determined and announced later, pursuant to Sections 75 and 76 of the Companies Act 2016 ("**Act**").

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

2. DETAILS OF THE PROPOSED PRIVATE PLACEMENT

The Company had obtained the approval from its shareholders at the last annual general meeting ("**AGM**") convened on 17 June 2021, whereby pursuant to Sections 75 and 76 of the Act ("**General Mandate**"), the Board has been authorised to issue and allot new Advancecon Shares at any time, at such price as the Directors may, in their absolute discretion, deem fit, provided that the number of new Advancecon Shares to be issued pursuant to the General Mandate does not exceed 20% of the total number of issued shares of the Company. Such authority shall continue to be in force until the conclusion of the next AGM of the Company.

Further to the above, pursuant to Paragraph 6.03 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") ("**Listing Requirements**"), the aggregate number of Shares to be issued under the General Mandate must not exceed 20% of the total number of issued shares of the Company during the preceding 12 months. For avoidance of doubt, Advancecon had not issued any Shares under any General Mandate during the preceding 12 months from the date of this announcement. For clarification purposes, despite having the authorisation to issue up to 20% of the total number of issued shares of the Company, the Board only intends to place out up to 10% of the total number of issued shares of the Company pursuant to the Proposed Private Placement.

For shareholders' information, Bursa Securities had, on 16 April 2020, announced additional relief measures for listed issuers to ease compliance and facilitate their capital raising in a timely and cost-effective manner. In this regard, as an interim measure, a listed issuer is allowed to seek a higher general mandate under Paragraph 6.03 of the Listing Requirements of not more than 20% of the total number of issued shares (excluding treasury shares) for issue of new securities and may be utilised by listed issuer to issue new securities until 31 December 2021. After that, the 10% limit under Paragraph 6.04(1) of the Listing Requirements will be reinstated.

2.1 Placement size

The Proposed Private Placement entails an issuance of up to 10% of the total number of issued shares of Advancecon.

As at 11 October 2021 (being the latest practicable date prior to the date of this announcement) ("**LPD**"), the total issued share capital of Advancecon was approximately RM91,933,171 comprising 415,813,000 Advancecon Shares (including 9,381,300 treasury shares).

On 17 June 2021, the Company announced a multiple proposals which involve, amongst others, the 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 ("**Cash Consideration**") and the remaining purchase consideration of RM15,180,000 to be satisfied via an issuance and allotment of 33,000,000 new Advancecon Shares ("**Consideration Shares**") ("**Proposed Acquisition**"). The shareholders' approval for the Proposed Acquisition will be sought in the extraordinary general meeting to be held on 26 October 2021. For clarification purposes, it is the intention of the Board to implement the Proposed Private Placement after the completion of the Proposed Acquisition.

Assuming all the Consideration Shares are issued and all the treasury shares are resold on the open market prior to the implementation of the Proposed Private Placement, the Company's enlarged number of issued Shares will be 448,813,000 Shares. As such, a total of up to 44,881,300 new Advancecon Shares ("**Placement Share(s)**") may be issued pursuant to the Proposed Private Placement.

Minimum Scenario : Assuming the Proposed Acquisition is completed and all the treasury shares are retained prior to the implementation of the Proposed Private Placement.

Maximum Scenario : Assuming the Proposed Acquisition is completed and all the treasury shares are resold on the open market prior to the implementation of the Proposed Private Placement.

The actual number of Placement Shares to be issued pursuant to the Proposed Private Placement will depend on the total issued shares of the Company on a date to be determined and announced later, after receipt of all relevant approvals for the Proposed Private Placement.

2.2 Basis of determining the issue price of the Placement Shares and implementation of the Proposed Private Placement

The issue price of the Placement Shares will be determined and fixed by the Board at a later date after receipt of all relevant approvals for the Proposed Private Placement.

Pursuant to Paragraph 6.04(a) of the Listing Requirements, the Placement Shares may be issued based on a discount of up to 10% to the 5-day volume-weighted average market price ("**VWAP**") of Advancecon Shares immediately preceding the price-fixing date.

The Proposed Private Placement will be implemented in tranches within 6 months from the date of approval of Bursa Securities for the Proposed Private Placement or any extended period as may be approved by Bursa Securities. The issue price of the Placement Shares will be determined for each tranche of the Proposed Private Placement. In any event, the Company will ensure payments for the Placement Shares are made by the placees to the Company within 5 market days from the price-fixing date for each tranche of the Proposed Private Placement.

For illustrative purpose only, the indicative issue price of the Placement Shares is assumed at RM0.295 per Placement Share, which represents a discount of approximately 9.51% to the 5-day VWAP of Advancecon Shares up to and including the LPD of RM0.326 per Share.

2.3 Ranking of the Placement Shares

The Placement Shares will, upon allotment and issuance, rank equally and carry the same rights with the current existing Shares, save and except that the Placement Shares will not be entitled to any dividends, rights, allotments and/ or any other forms of distribution ("**Distributions**") where the entitlement date of such Distributions precedes the relevant date of allotment and issuance of the Placement Shares.

2.4 Listing of and quotation for the Placement Shares

An application will be made to Bursa Securities for the listing of and quotation for the Placement Shares on the Main Market of Bursa Securities.

2.5 Allocation to placees

The Placement Shares will be placed out to third-party investor(s) to be identified at a later stage, where such investor(s) shall be person(s) who/ which qualify under Schedules 6 and 7 of the Capital Markets and Services Act, 2007.

In accordance with Paragraph 6.04(c) of the Listing Requirements, the Placement Shares will not be placed out to the following parties:-

- (i) The director, major shareholder, chief executive of Advancecon or person connected with a director, major shareholder or chief executive of Advancecon; and
- (ii) Nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

In any event that the Board is unable to identify sufficient placees to subscribe for the entire portion of the Placement Shares at one time, the Proposed Private Placement may be implemented in tranches within 6 months from the date of approval of Bursa Securities for the Proposed Private Placement or any extended period as may be approved by Bursa Securities.

2.6 Utilisation of proceeds

The actual gross proceeds to be raised from the Proposed Private Placement is dependent on the issue price and the number of Placement Shares to be issued. Based on the indicative issue price of RM0.295 per Placement Share as set out in **Section 2.2** of this announcement, the Proposed Private Placement is expected to raise gross proceeds of up to approximately RM13.24 million. The proceeds are intended to be utilised by Advancecon and its subsidiaries ("**Advancecon Group**" or the "**Group**") in the manner as follows:-

Details of utilisation	Timeframe for utilisation of proceeds	<-----Amount of proceeds----->	
		Minimum Scenario RM'000	Maximum Scenario RM'000
Shareholders' advances to SERB pursuant to the Proposed Acquisition ^{*1}	Upon completion of the Proposed Private Placement	10,200	10,200
Working capital of the Group ^{*2}	Within 24 months upon receipt of the placement funds	2,673	2,950
Estimate expenses for the Proposed Private Placement ^{*3}	Upon completion of the Proposed Private Placement	90	90
Total		12,963	13,240

Notes:-

*1 On 17 June 2021, the Company announced the Proposed Acquisition. 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'000	%
Advancecon	10,200	50.1
Vendor	9,800	49.9
Total	20,000	100.0

The Shareholders' Advances shall be utilised for working capital requirements of SERB and its subsidiaries ("**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.

*2 The proceeds of up to approximately RM2.95 million are earmarked to finance the day-to-day operational expenses and/ or general working capital expenses of Advancecon Group, the indicative breakdown of which is as follows:-

Detail of utilisation	Percentage allocation %	Minimum Scenario RM'000	Maximum Scenario RM'000
Staff-related costs including, amongst others, staff salaries, wages, overtime and statutory payments such as Employees' Provident Fund and Social Security Organisation contribution	70	1,871	2,065
Other general administrative expenses including, amongst others, rental, utilities, office upkeep, insurance and other miscellaneous items such as audit fees, consultancy fees, professional fees and secretarial fees	30	802	885
Total	100	2,673	2,950

The actual breakdown of the above expenses is subject to the Group's operating requirements at the time of utilisation and as such can only be determined at a later stage.

*3 The proceeds earmarked for estimated expenses in relation to the Proposed Private Placement will be utilised as set out below:-

	RM'000
Professional fees	40
Regulatory fees	40
Other incidental expenses in relation to the Proposed Private Placement	10
Total	90

Any variation in the actual amount of the expenses will be adjusted in the portion of the proceeds to be utilised for working capital expenses of the Group.

As mentioned above, the actual gross proceeds to be raised from the Proposed Private Placement is dependent on the issue price and the number of Placement Shares to be issued. Any variance in the actual gross proceeds raised and the intended gross proceeds to be raised will be adjusted against the amount allocated for the working capital requirement of the Group.

Any proceeds raised will be allocated up to its respective maximum allocation in the following priority:-

- i. Estimate expenses for the Proposed Private Placement;
- ii. Shareholders' advances to SERB pursuant to the Proposed Acquisition; and
- iii. Working capital of the Group.

Pending the utilisation of proceeds from the Proposed Private Placement for the above purposes, the proceeds would be placed as deposits with licensed financial institutions or short-term money market instruments. Any interest income earned from such deposits or instruments will be used as general working capital of the Group.

2.7 Other fund raising exercises in the past 12 months

Save for the Proposed Private Placement, the Company has not undertaken any other fund raising exercises in the 12 months prior to the date of this announcement.

3. RATIONALE AND JUSTIFICATIONS FOR THE PROPOSED PRIVATE PLACEMENT

The Proposed Private Placement was undertaken by the Company to raise the requisite funds to meet the Group's immediate funding requirements as set out in **Section 2.6** of this announcement.

After due consideration of the amount intended to be raised, optimal timing and various methods of fundraising, the Board is of the view that the Proposed Private Placement is the most appropriate avenue of fundraising as the Proposed Private Placement:-

- (i) enables the Company to raise additional funds without incurring interest costs as compared to conventional bank borrowings;
- (ii) provides the Company with an expeditious fundraising alternative from the capital market as opposed to other forms of fundraising such as rights issue as the approval for the General Mandate from the shareholders had already been obtained; and
- (iii) strengthen the Company's shareholders' funds and capital base pursuant to the Proposed Private Placement.

4. INDUSTRY OVERVIEW AND OUTLOOK AND FUTURE PROSPECTS OF ADVANCECON GROUP

4.1 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)

4.2 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 FMO, 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)

4.3 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)

4.4 Prospects of the Advancecon Group

As mentioned in the announcement made on 17 June 2021, SERB Group is mainly involved in upstream activity of quarry operation as well as the downstream activity of production and sales of aggregates and premix products ("**Quarry Operation Business**"). 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 4.2** of this announcement, the construction sector is expected to rebound by 13.9% in 2021 on account of the acceleration and revival of major infrastructure projects, coupled with affordable housing projects. The civil engineering subsector will continue to be the main driver of the construction sector.

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 Advancecon Group to improve its 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.

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 their network of customers and chances of success when it comes to tendering for construction projects.

Part of the proceeds from the Proposed Private Placement is earmarked for Advancecon's contribution to the Shareholders' Advances which shall be utilised for working capital requirements of SERB Group and provide financial flexibility to SERB Group in the event it requires additional funding for its working capital requirements in an expedient manner. In the long run, the Proposed Acquisition is expected to improve the earnings of the enlarged Advancecon Group as the new Quarry Operation Business will potentially provide Advancecon Group with additional stream of revenue and contribute positively to Advancecon Group's future earnings.

The Board also takes cognisance of SERB Group's continuous loss-making position over the past 4 financial years up to the FYE 31 December 2020. As part of the Board's immediate initiatives to improve SERB Group's financial performance pursuant to the completion of the Proposed Acquisition, the Board will work with the management of SERB to put in place plans and steps together to improve SERB Group's earnings and overall operating structure to return SERB Group to profitability. Further details of the turnaround plan has been highlighted in the circular to the shareholders of Advancecon dated 11 October 2021. By undertaking the aforementioned measures, the Board is confident that, barring any unforeseen circumstances, SERB Group is expected to return to profitability in the FYE 31 December 2022, wherein the Vendor has also provided a total profit guarantee of RM12.00 million for 2 financial years of FYE 31 December 2022 and FYE 31 December 2023 of SERB, which translates to a profit guarantee of RM6.00 million per financial year (RM3.06 million per financial year attributable to Advancecon based on 51% equity interest to be acquired).

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

Premised on the above and barring any unforeseen circumstances, the Board is positive on the business strategy of the Group and remains optimistic of its future prospects.

(Source: Management of Advancecon)

5. EFFECTS OF THE PROPOSED PRIVATE PLACEMENT

5.1 Issued share capital

The pro forma effects of the Proposed Private Placement on the issued share capital of the Company are set out below:-

	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
Add: Consideration Shares to be issued pursuant to the Proposed Acquisition	33,000,000	15,180,000 ^{*1}	33,000,000	15,180,000 ^{*1}
Less: Treasury shares	(9,381,300)	(3,249,343)	-	-
	439,431,700	103,863,828	448,813,000	107,113,171
No. of Shares to be issued pursuant to the Proposed Private Placement	43,943,170	12,963,235 ^{*2}	44,881,300	13,239,984 ^{*2}
Enlarged issued share capital	483,374,870	116,827,063	493,694,300	120,353,155

Notes:-

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

^{*2} Assuming that the Placement Shares are placed out at indicative issue price of RM0.295 per Placement Share.

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5.2 Net Asset ("NA") per Share and gearing level

Based on the latest audited consolidated statements of financial position of the Group for the FYE 31 December 2020, the pro forma effects of the Proposed Private Placement on the NA per Share and gearing level of the Group are set out as follows:-

Minimum Scenario

		I	II	III
	Audited as at FYE 31 December 2020 RM	Subsequent adjustments up to the LPD ^{*1} RM	After I and the Proposed Acquisition RM	After II and the Proposed Private Placement RM
Share capital	87,101,071	91,933,171 ^{*1}	107,113,171 ^{*2}	120,076,406 ^{*5}
Treasury shares	(3,249,343)	(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}	101,275,284 ^{*6}
Shareholders' funds/ NA	187,560,712	191,319,012	205,229,112	218,102,347
Number of Shares in issue (excluding Treasury Shares)	395,693,700	406,431,700 ^{*1}	439,431,700 ^{*2}	483,374,870 ^{*5}
NA per Share (RM)	0.47	0.47	0.47	0.45
Total borrowings (RM)	133,151,034	133,151,034	145,331,034 ^{*4}	145,331,034
Gearing level (times)	0.71	0.70	0.71	0.67

Notes:-

^{*1} After adjusting for the issuance and allotment of 10,738,000 new Advancecon Shares pursuant to the conversion of the Company's ESOS options at the exercise price of RM0.35 and the corresponding reversal of share option reserve amounting to approximately RM1.07 million to the share capital. For information purposes, the remaining ESOS options had expired at 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 Proposed Acquisition and Proposed Diversification as well as the 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} After the issuance and allotment of 43,943,170 Placement Shares at an indicative issue price of RM0.295 per Placement Share.

^{*6} After deducting the estimated expenses of RM90,000 for the Proposed Private Placement.

Maximum Scenario

		I	II	III
	Audited as at FYE 31 December 2020 RM	Subsequent adjustments up to the LPD ^{*1} RM	After I and the Proposed Acquisition RM	After II and the Proposed Private Placement RM
Share capital	87,101,071	91,933,171 ^{*1}	107,113,171 ^{*2}	120,353,155 ^{*6}
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}	101,275,284 ^{*7}
Shareholders' funds/ NA	187,560,712	191,319,012	208,478,455	221,628,439
Number of Shares in issue (excluding Treasury Shares)	395,693,700	406,431,700 ^{*1}	448,813,000 ^{*2}	493,694,300 ^{*6}
NA per Share (RM)	0.47	0.47	0.46	0.45
Total borrowings (RM)	133,151,034	133,151,034	145,331,034 ^{*4}	145,331,034
Gearing level (times)	0.71	0.70	0.70	0.66

Notes:-

- ^{*1} After adjusting for the issuance and allotment of 10,738,000 new Advancecon Shares pursuant to the conversion of the Company's ESOS options at the exercise price of RM0.35 and the corresponding reversal of share option reserve amounting to approximately RM1.07 million to the share capital. For information purposes, the remaining ESOS options had expired at 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 Proposed Acquisition and Proposed Diversification as well as the 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.
- ^{*6} After the issuance and allotment of 44,881,300 Placement Shares at an issue price of RM0.295 per Placement Share.
- ^{*7} After deducting the estimated expenses of RM90,000 for the Proposed Private Placement.

5.3 Substantial shareholders' shareholding structure

The pro forma effects of the Proposed Private Placement on the substantial shareholders' shareholding of the Company are set out below:-

Minimum Scenario

	I								II			
	Shareholdings as at the LPD				After the Proposed Acquisition				After I and the Proposed Private Placement			
	<-----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	22.2	150,000 ^{*4}	- ^{*5}	97,563,750	20.2	150,000 ^{*4}	- ^{*5}
Lim Swee Chai	54,038,250	13.3	-	-	54,038,250	12.3	-	-	54,038,250	11.2	-	-
Pham Soon Kok	28,600,250	7.0	-	-	28,600,250	6.5	-	-	28,600,250	5.9	-	-
FHHSB	-	-	-	-	33,000,000	7.5	-	-	33,000,000	6.8	-	-
Yap Ho Huat	-	-	-	-	-	-	33,000,000	7.5 ^{*6}	-	-	33,000,000	6.8 ^{*6}
Yap Yee Huat	-	-	-	-	-	-	33,000,000	7.5 ^{*6}	-	-	33,000,000	6.8 ^{*6}
Yap Chai Huat	-	-	-	-	-	-	33,000,000	7.5 ^{*6}	-	-	33,000,000	6.8 ^{*6}
Yap Soon Huat	-	-	-	-	-	-	33,000,000	7.5 ^{*6}	-	-	33,000,000	6.8 ^{*6}

Notes:-

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

^{*2} Based on the enlarged issued Shares of 439,431,700 in Advancecon.

^{*3} Based on the enlarged issued Shares of 483,374,870 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.

Maximum Scenario

	Shareholdings as at the LPD				I Assuming all treasury shares are resold				II After I and the Proposed Private Placement				III After II and the Proposed Private Placement			
	<----Direct----->		<--Indirect-->		<----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	No. of Shares	%*4	No. of Shares	%*4
Dato' Phum Ang Kia	97,563,750	24.0	150,000 ^{*5}	- ^{*6}	97,563,750	23.5	150,000 ^{*5}	- ^{*6}	97,563,750	21.7	150,000 ^{*5}	- ^{*6}	97,563,750	19.8	150,000 ^{*5}	- ^{*6}
Lim Swee Chai	54,038,250	13.3	-	-	54,038,250	13.0	-	-	54,038,250	12.0	-	-	54,038,250	11.0	-	-
Pham Soon Kok	28,600,250	7.0	-	-	28,600,250	6.9	-	-	28,600,250	6.4	-	-	28,600,250	5.8	-	-
FHHSB	-	-	-	-	-	-	-	-	33,000,000	7.4	-	-	33,000,000	6.7	-	-
Yap Ho Huat	-	-	-	-	-	-	-	-	-	-	33,000,000	7.5 ^{*7}	-	33,000,000	6.7 ^{*7}	-
Yap Yee Huat	-	-	-	-	-	-	-	-	-	-	33,000,000	7.5 ^{*7}	-	33,000,000	6.7 ^{*7}	-
Yap Chai Huat	-	-	-	-	-	-	-	-	-	-	33,000,000	7.5 ^{*7}	-	33,000,000	6.7 ^{*7}	-
Yap Soon Huat	-	-	-	-	-	-	-	-	-	-	33,000,000	7.5 ^{*7}	-	33,000,000	6.7 ^{*7}	-

Notes:-

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

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

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

^{*4} Based on the enlarged issued Shares of 493,694,300 in Advancecon.

^{*5} Deemed interested through his children pursuant to Section 59(11)(c) of the Companies Act 2016.

^{*6} Negligible.

^{*7} Deemed interested by him holding 22.5% direct equity interest in the Vendor.

For the avoidance of doubt, the pro forma effects of the Proposed Private Placement on the substantial shareholding structure of the Company is based on the assumption that the Proposed Private Placement does not give rise to the emergence of any new substantial shareholder(s) in the Company.

5.4 Earnings and EPS

The Proposed Private Placement is not expected to have any material effect on the earnings and EPS of Advancecon Group for the FYE 31 December 2021. However, there will be a dilution in the EPS of the Group for the FYE 31 December 2021 due to the increase in the number of Placement Shares in issue arising from the Proposed Private Placement.

5.5 Convertible Securities

As at the LPD, the Company does not have any existing convertible securities.

6. APPROVALS REQUIRED

The Proposed Private Placement is subject to the following approvals:-

- (i) Bursa Securities, for the listing of and quotation for the Placement Shares on the Main Market of Bursa Securities; and
- (ii) Any other relevant authority, if required.

As set out in **Section 2** of this announcement, the General Mandate has been obtained by the Company from its shareholders at its last AGM held on 17 June 2021. Such authority shall continue to be in force until the next AGM of the Company. Such authority shall continue to be in force until the conclusion of the next AGM of the Company.

The Proposed Private Placement is not conditional upon any other proposals undertaken or to be undertaken by the Company.

7. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVES AND/ OR PERSONS CONNECTED

None of the Directors, major shareholders, chief executive of Advancecon and/ or persons connected with them has any interest, whether direct or indirect, in the Proposed Private Placement.

8. DIRECTORS' STATEMENT

The Board, after having considered all aspects of the Proposed Private Placement, including the rationale and justification as well as the effects of the Proposed Private Placement, is of the opinion that the Proposed Private Placement is in the best interest of the Company.

9. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Proposed Private Placement is expected to be completed by the first quarter of 2022.

10. APPLICATION TO THE AUTHORITIES

The application to the relevant authorities shall be made within 1 month from the date of this announcement.

11. ADVISER AND PLACEMENT AGENT

UOBKH has been appointed as the Adviser and Placement Agent for the Proposed Private Placement.

This announcement is dated 15 October 2021.