OTHERS ADVANCECON HOLDINGS BERHAD ("ADVANCECON" OR THE "COMPANY") PROPOSED DIVERSIFICATION OF THE EXISTING PRINCIPAL ACTIVITIES OF THE COMPANY AND ITS SUBSIDIARIES TO INCLUDE RENEWABLE ENERGY BUSINESS AND RELATED ACTIVITIES ("PROPOSED DIVERSIFICATION")

ADVANCECON HOLDINGS BERHAD

Type	Announcement
Subject	OTHERS
Description	ADVANCECON HOLDINGS BERHAD ("ADVANCECON" OR THE "COMPANY") PROPOSED DIVERSIFICATION OF THE EXISTING PRINCIPAL ACTIVITIES OF THE COMPANY AND ITS SUBSIDIARIES TO INCLUDE RENEWABLE ENERGY BUSINESS AND RELATED ACTIVITIES ("PROPOSED DIVERSIFICATION")

On behalf of the Board of Directors of Advancecon, UOB Kay Hian Securities (M) Sdn Bhd wishes to announce that the Company intends to undertake a proposed diversification of the existing principal activities of the Company and its subsidiaries to include renewable energy business and related activities.

Further details of the Proposed Diversification are set out in the attachment.

This announcement is dated 9 June 2020.

Please refer attachment below.

Attachments

Advancecon - Announcement (Diversification)_200609 (final).pdf
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ADVANCECON HOLDINGS BERHAD ("ADVANCECON" OR THE "COMPANY")

PROPOSED DIVERSIFICATION OF THE EXISTING PRINCIPAL ACTIVITIES OF THE COMPANY AND ITS SUBSIDIARIES TO INCLUDE RENEWABLE ENERGY BUSINESS AND RELATED ACTIVITIES ("PROPOSED DIVERSIFICATION")

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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 intends to undertake a proposed diversification of the existing principal activities of the Company and its subsidiaries ("**Advancecon Group**" or the "**Group**") to include renewable energy business and related activities.

Further details of the Proposed Diversification are set out in the ensuing sections.

2. DETAILS OF THE PROPOSED DIVERSIFICATION

As at 1 June 2020 being the latest practicable date of this announcement ("**LPD**"), the Group is a specialist provider of earthworks and civil engineering services, primarily for township developments and infrastructure projects in Malaysia. The 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, the Group also undertakes civil engineering services such as road works, drainage works, bridge construction, water supply works and sewerage works. Furthermore, the 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 as well as property investment.

The key financial performance of the Group for the past 4 financial years up to the financial year ended ("**FYE**") 31 December 2019 are as follows:-

	<---- Audited		---->	<----Unaudited---->
	FYE 31 December 2016 RM'000	**FYE 31 December 2017 RM'000**	**FYE 31 December 2018 RM'000**	**12-month FYE 31 December 2019 RM'000**
Revenue	234,668	265,989	272,860	301,657
Profit after tax ("**PAT**")	26,447	18,463	10,618	10,825

In addition, a summary of the Group's revenue based on the existing operating segments for the past 4 financial years up to the FYE 31 December 2019 are as follows:-

	<---- Audited					---->	<----Unaudited--->	
	FYE 31 December 2016		**FYE 31 December 2017**		**FYE 31 December 2018**		**12-month FYE 31 December 2019**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
<u>Earthworks & civil engineering services</u>								
Contract revenue	213,970	91.18	245,435	92.27	249,256	91.35	275,847	91.44
<u>Support services</u>								
Sale of goods	17,111	7.29	19,028	7.15	19,474	7.14	22,988	7.62
Hiring of machinery	205	0.09	535	0.20	1,272	0.47	1,334	0.44
Day work revenue	3,350	1.43	704	0.26	2,513	0.92	845	0.28

	<-------------------------------- Audited					-------------------------------->	<----Unaudited--->	
	FYE 31 December 2016		FYE 31 December 2017		FYE 31 December 2018		12-month FYE 31 December 2019	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Property investment								
Rental income	32	0.01	281	0.12	344	0.12	642	0.22
Others								
Cabin living quarters rental	-	-	6	-[*1]	1	-[*1]	1	-[*1]

Note:-

[*1] *Negligible.*

Based on the table above, the Group has recorded steady increase in terms of the revenue generated for the past 4 financial years up to the FYE 31 December 2019, out of which more than 90% of the revenue is derived from its earthworks and civil engineering services. In addition, the Group is highly dependent on the aforesaid construction services given that the aforesaid business segment has been the Group's main revenue contributor since its inception in 1997.

As part of the Group's strategy to mitigate the reliance on its existing business portfolio (particularly its earthworks and civil engineering services) as well as to diversify and expand its earnings base, the Group has identified renewable energy business and related activities such as solar energy as a viable business to venture into.

The Company's wholly-owned subsidiary, namely Advancecon Solar Sdn Bhd ("**Advancecon Solar**") had on 18 February 2020 entered into a Memorandum of Understanding ("**MOU**") with Oon Corp Resources (M) Sdn Bhd ("**OCR**") ("**MOU 1**") to develop rooftop solar panel under the net energy metering ("**NEM**") scheme on the rooftop of 2 of OCR's premises located in Senawang Industrial Estate, in the state of Seremban ("**OCR's Premises**") with the adoption, execution and implementation of the Supply Agreement with Renewable Energy ("**SARE**") ("**OCR Project**"). For information purposes, Advancecon Solar is principally a solar photovoltaic ("**PV**") investor registered under Sustainable Energy Development Authority of Malaysia ("**SEDA**") for solar renewable energy projects. As a registered solar PV investor ("**RPVI**"), Advancecon Solar is able to carry out EPCC projects by themselves or award such projects to a Registered PV Service Provider ("**RPVSP**") that is registered with SEDA. On the other hand, OCR is a company engaged in the manufacturing of rubber products (i.e. disposable latex examination gloves).

The salient terms of the aforesaid MOU 1 are as follows:-

i. Advancecon Solar shall fulfil the role of engineering, procurement and construction of a 586.08 kilowatts peak ("**kWp**") solar PV system that will be installed on OCR's Premises;

ii. Advancecon Solar shall invest and own the solar PV system throughout the terms of the SARE;

iii. Advancecon Solar shall fulfil the role of operations and maintenance of the solar PV system throughout the terms of the SARE;

iv. OCR shall give consent and allow Advancecon Solar to install the solar PV system on OCR's Premises during the terms of the SARE period; and

v. Ownership, operations and maintenance of the solar PV system shall be transferred to OCR after the expiration of the terms of the SARE agreement.

For clarification purposes, Advancecon Solar and OCR are in the midst of finalising the terms of the SARE, which is expected to be executed in July 2020. In any event, the Company shall make the necessary announcement in accordance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") ("**Listing Requirements**") as and when the SARE is materialised.

In addition to the above, Advancecon Solar had also on 18 February 2020 entered into a MOU with Solarvest Energy Sdn Bhd ("**Solarvest**") ("**MOU 2**") to jointly cooperate for the purpose of undertaking solar energy projects in Malaysia under the Commercial and Industrial (C&I) category ("**the Project(s)**"). For information purposes, Solarvest was incorporated in Malaysia as a private company limited by shares and it is a wholly-owned subsidiary of Atlantic Blue Sdn Bhd, which in turn is a wholly-owned subsidiary of Solarvest Holdings Berhad ("**Solarvest Group**").

Solarvest Holdings Berhad was incorporated in Malaysia on 20 September 2017 under the Companies Act, 1965 (deemed registered under the Act) as a public limited company. Solarvest Group was listed on the ACE Market of Bursa Securities on 26 November 2019. Solarvest Group is involved in, amongst others, the provision of turnkey solar Engineering, Procurement, Construction and Commissioning ("**EPCC**") services for residential, commercial and industrial properties. This business segment utilizes the solar PV system to generate electricity for client's own consumption and/ or for selling to companies licensed by Energy Commission to distribute electricity through the Feed-in tariff ("**FiT**") mechanism or NEM mechanism.

The MOU 2 expressed the intention of the Advancecon Solar and Solarvest to jointly cooperate for the purpose of the Project(s) whereby Advancecon Solar wishes to engage Solarvest as the exclusive contractor for the EPCC services for the Project(s) ("**EPCC Contractor**") and likewise, Solarvest is willing to act as the EPCC Contractor for the Project(s). For avoidance of doubt, Solarvest is a RPVSP registered with SEDA which allows it to carry out EPCC services for a RPVI (i.e. Advancecon Solar).

The salient terms of the aforesaid MOU 2 are as follows:-

i. Advancecon Solar and Solarvest agree to use their best endeavor to assist and cooperate with each other towards successful implementation and execution of the Project(s), including participation in bidding for the Project(s) (if necessary);

ii. The detailed scope of work and responsibilities between Advancecon Solar and Solarvest shall be further defined in a separate definitive agreement in due course for each of the Project(s) to be executed by them;

iii. Advancecon Solar and Solarvest shall utilise their resources and experiences to establish joint ventures (if necessary) for each of the Project(s) to be undertaken by them;

iv. Advancecon Solar and Solarvest agree to be responsible for and shall bear its own costs and expenses of any kind committed or incurred in the performance of the MOU 2 to the date of termination thereof; and

v. the MOU 2 shall enter into force from the date of signing by Advancecon Solar and Solarvest and shall remain valid until Advancecon Solar and Solarvest agree to mutually terminate the MOU 2 in writing.

Based on the above, the Board anticipates that, barring any unforeseen circumstances, the Group's new business activities in the renewable energy sector may contribute 25% or more of the net profits of the Group and/ or result in a diversion of more than 25% of the net assets of the Group towards the aforesaid new business activities moving forward. Furthermore, the Board anticipates that the renewable energy business segment will largely contribute to the Group's earnings in the future as it will continue to identify and secure additional solar energy projects resulting in further expansion of this business segment in the long term. As such, the Board proposes to seek the approval from the shareholders of Advancecon for the Proposed Diversification pursuant to Paragraph 10.13 of the Listing Requirements at an EGM to be convened.

Notwithstanding the Proposed Diversification, the Board intends to continue with the Group's existing principal activities in the same manner and the Board will review the Group's business operations from time to time with the intention to further improve the Group's financial performance.

Key management personnel

Premise on the renewable energy sector that the Group intends to venture into, the Group has identified existing experienced personnel of the Group, namely Teh Heng Wee, the Chief Financial Officer and Phum Boon Lim, the Project Manager of the Group, as the key management personnel to lead and oversee the operations pertaining to the Group's solar energy activities as well as other renewable energy activities (if any) moving forward. For the avoidance of doubt, Teh Heng Wee's involvement in the renewable energy business activities will not affect the discharge of his duty as the Chief Financial Officer of the Group. It will be an additional role to be undertaken by him and he will be supported by a separate set of working group that focuses on the operational matters (such as project execution) of the renewable energy business activities.

Further details of the qualification and experience of the key management personnel are set out below:-

i. **Teh Heng Wee** (Male), a Malaysian aged 40, is the Chief Financial Officer of the Group since 2015. He will be responsible for overseeing long-term business expansion and strategic planning of the renewable energy business.

   He graduated with a Bachelor of Accounting & Financial Management with Honours Degree from the University of Sheffield, United Kingdom in 2002. He has been a Fellow Member of the Association of Chartered Certified Accountants, United Kingdom since 2010 and a member of the Malaya Institute of Accountants since 2014.

   He has approximately 18 years of working experience in finance related operations. He began his career as an accounts assistant with Bina Goodyear Berhad in 2002 where he was responsible for financial reporting and accounting as well as corporate finance related matters. In 2009, he left Bina Goodyear Berhad as finance manager and joined Crest Builder Holding Berhad as a risk manager where he was responsible for corporate finance related matters until 2010.

   In 2010, he left Crest Builder Holding Berhad and joined the Group as financial controller where he was responsible for the Group's financial management, taxation, financial accounting and reporting as well as financial operations. He was subsequently promoted to his current role, the Chief Financial Officer of the Group in 2015.

   Teh Heng Wee does not have any family relationship with any director and/ or major shareholder of the Group.

ii. **Phum Boon Lim** (Male), a Malaysian aged 30, is the Project Manager in the Project Department: Infrastructure and Highway Division of the Group since 2015. He will be responsible for managing the overall resources and operations of the Group's renewable energy business.

He graduated with Bachelor of Science in Quantity Surveying from University of Salford, Manchester, United Kingdom in 2013 and subsequently obtained his Master in Business Administration from SEGi University Malaysia in 2018. Upon graduation, he joined EK Build Sdn Bhd from 2013 to 2015 as Assistant Project Manager. Subsequently, he left EK Build Sdn Bhd in December 2015 and joined the Group as the Contracts Manager in the Contracts Department where he was mainly responsible for reviewing and assessing invitation of the tender document issued by the potential client(s) and to prepare and verify pre-qualifications and tender documents to ensure completeness and timeliness of the submissions. In 2018, he transferred to his current role and where he is mainly responsible to manage, plan and oversee project implementation of the Group.

Phum Boon Lim is the son of Dato' Phum Ang Kia, who is a director and major shareholder of the Group.

Moving forward, upon successful implementation of the Proposed Diversification as well as the intended expansion of the Group to include renewable energy as part of its business segment, the Board intends to appoint additional technical personnel to assist and support the Group in its renewable energy business activities. In line with complementing the present management team and the expansion of the renewable energy business segment in the future, the Board may also consider undertaking a more comprehensive role in the implementation of its solar energy projects by recruiting the qualified skilled workers and obtaining the required specialised equipment for the purpose of undertaking the EPCC services of such projects. This strategy will possibly mitigate the risk of dependency on external contractors/ third parties involved in such activities.

Based on the above, the Board believes that, by leveraging on the expertise of the aforesaid key management personnel, the Group has the capacity, capability and resources to diversify into renewable energy business related activities.

3. RATIONALE FOR THE PROPOSED DIVERSIFICATION

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

In order to mitigate the reliance on its existing activities as well as to diversify and expand its earnings base moving forward, the Group has been continuously seeking opportunities to diversify into other viable businesses. In line with its strategy, the Group has identified renewable energy business and related activities such as solar energy as a viable business to venture into, as further elaborated below.

As highlighted in **Section 4.2** of this announcement, solar energy has been in the forefront of energy development in many developed countries and a potential source of energy to developing countries like Malaysia. The Malaysian government is keen to develop solar energy as one of the significant sources of energy in the country. With Tenaga Nasional Berhad (TNB) proposing an internal restructuring of its generation, transmission and retail divisions – which is expected to be completed in the third quarter of 2020 – the increasing liberalisation is set to improve competition and grow investments in the solar PV sector.

(Source: News article entitled "CIMB launches renewable energy financing for SMEs", 2 October 2019, https://www.seda.gov.my)

Nurhafiza Binti Mohamed Hasan, the Energy Commission's Director, Industry Planning and Development has emphasized that Malaysia has progressed to Large Scale Solar ("**LSS**") with its efforts of moving towards solar energy as the preferred renewable energy choice. Further, solar energy seems to be the most promising renewable energy source as it is the easiest to be implemented, compared to other technologies such as biogas, biomass and others.

(Source: Volume 19, 2019, Energy Commission Malaysia)

In view of the growing demand within the renewable energy sector, the Proposed Diversification is expected to improve the financial performance and allow the enlarged Advancecon Group to be in a better financial footing in the long run and the management remains cautiously optimistic of the long term prospects associated with the expansion of the Group to include solar energy as part of its business activities.

Premised on the above, the Group is of the view that the Proposed Diversification (into the business of renewable energy) provides the Group with additional stream of revenue and cash flow with no significant risk to the Group financially or otherwise. The Proposed Diversification is expected to augur well in the overall structure of the Group's existing business (i.e. construction and support services as well as property investment) moving forward and at the same time reduce its reliance on the Group's existing business portfolios.

Barring any unforeseen circumstances, the Board believes that the Proposed Diversification will potentially contribute positively to the Group's future earnings. Notwithstanding the above, upon completion of the Proposed Diversification, the Group's existing business would remain and continue as part of the core business of the Group.

4. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS

4.1 Overview and outlook of the Malaysian economy

The Malaysian economy registered a lower growth of 0.7% in the first quarter of 2020, which was the lowest growth since the third quarter of 2009 of -1.1%, reflecting the early impact of measures taken both globally and domestically to contain the spread of the COVID-19 pandemic, including the introduction of the Movement Control Order ("**MCO**") in Malaysia. On the supply side, the services and manufacturing sectors moderated, while the other sectors contracted. From the expenditure side, domestic demand moderated, while exports of goods and services recorded a sharper decline. On a quarter-on-quarter seasonally-adjusted basis, the economy declined by 2.0% (4Q 2019: 0.6%).

Essential services include telecommunications, finance, production and the provision of food supplies, healthcare, utilities, electrical and electronics, as well as selected industries in the primary and consumer clusters in the manufacturing sector. Sectors which were more labour intensive and require face-to-face interaction were more impacted by the MCO. In particular, construction activity was completely prohibited during the MCO phase. In contrast, the production capacity in industries which were more capital intensive, such as mining and the electrical and electronics manufacturing subsector, were affected to a lesser extent. The MCO also led to weaker private sector activity given mobility restrictions, closures of non-essential services, such as retail subsectors, and a temporary halt in ongoing investments.

Domestic demand registered a modest growth of 3.7% in the first quarter of 2020 (4Q 2019: 4.8%), due mainly to weaker capital spending by both the private and public sectors. The subdued investment activity was mainly attributable to the containment measures undertaken by authorities both globally and domestically. Domestic demand was also affected by weaker consumer sentiments and business confidence, given the heightened uncertainty surrounding COVID-19. In addition, net exports performance was also a large drag to growth during the quarter.

Nonetheless, growth was supported by continued expansion in private and public consumption. During the first quarter, private consumption growth moderated to 6.7% (4Q 2019: 8.1%). In January and February, retail and financing data indicated continued strength in consumption spending growth. The MCO in the second half of March affected spending to some extent, but mainly for big-ticket and leisure-related items such as car purchases and recreational services. Amid soft labour market conditions, stimulus measures such as bringing forward the Bantuan Sara Hidup disbursement from the second quarter to March, and the cut in the Overnight Policy Rate particularly in January provided important support to spending. The availability of online delivery platforms also cushioned the impact of movement restrictions. Public consumption expanded at a faster pace of 5.0% (4Q 2019: 1.3%), supported by higher spending on both emoluments and supplies and services.

Gross fixed capital formation registered a larger contraction of 4.6% (4Q 2019: -0.7%), weighed by lower capital spending from both the private and public sectors. This reflected weaker global demand conditions and disruptions to supply chains, which led to slower progress in capital spending. Furthermore, ongoing investment projects were temporarily halted during the MCO. By type of assets, the weakness was broad-based, as investment in structures as well as machinery and equipment declined by 4.0% (4Q 2019: 0.1%) and 6.2% (4Q 2019: -2.6%), respectively.

Private investment growth registered its first contraction of -2.3%, since the fourth quarter of 2010 (4Q 2019: 4.3%), as subdued external conditions and heightened uncertainty affected business sentiments and investment intentions. In addition, the MCO had resulted in some disruption to ongoing construction projects and delivery of machinery and equipment. Public investment recorded a larger decline of 11.3% (4Q 2019: -8.0%). This was due to a larger contraction in capital spending by both general government and public corporations during the quarter.

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

Against a highly challenging global economic outlook, Malaysia's Gross Domestic Product (GDP) growth is projected to be between -2.0 to 0.5% in 2020. The domestic economy will be impacted by the necessary global and domestic actions taken to contain the COVID-19 outbreak. Of significance, tourism-related sectors are expected to be affected by broad-based travel restrictions and travel risk aversion, while production disruptions in the global supply chain will weigh on the manufacturing sector and exports. The implementation and subsequent extension of the MCO, while critical, will dampen economic activity following the suspension of operations by non-essential service providers and lower operating capacity of manufacturing firms.

Beyond the MCO period, reduced social and recreational activities until the pandemic is fully controlled globally and domestically will continue to dampen consumption and investment activity. Apart from the pandemic, the domestic economy will also be affected by the sharp decline and volatile shifts in crude oil prices and continued supply disruption in the commodities sector. Unfavourable weather conditions and maintenance works will weigh on the production of oil palm, crude oil and natural gas.

Given the significant headwinds to growth arising from COVID-19, the Government and Bank Negara Malaysia have introduced large countercyclical policy measures to mitigate the economic impact of the pandemic. Two economic stimulus packages amounting to RM250 billion were introduced to provide immediate relief to affected households and businesses. These packages also include loan guarantees and an automatic 6-month moratorium on loan repayments for individuals and SMEs. The economic stimulus measures were complemented by two consecutive Overnight Policy Rate (OPR) reductions early this year and measures to provide additional liquidity in the banking system.

Private consumption is expected to be dampened by weak labour market conditions, mobility restrictions and subdued sentiments. Nonetheless, policy measures introduced in the two economic stimulus packages, including cash transfers to vulnerable households, flexibility to withdraw from Employees Provident Fund (EPF) savings and the moratorium on loan repayments will increase disposable income and improve cash flow for households. In addition to supporting household spending, these broad-based measures will facilitate a gradual recovery in private consumption as labour market conditions eventually stabilise following the projected improvement in global and domestic economic activities.

Domestic growth prospects are expected to improve towards the end of the year, in line with the projected recovery in global demand and amid continued support from policy measures. Recovering external demand will lift growth in the export-oriented sectors. Consumer sentiments are also expected to gradually improve following the easing of travel restrictions and resumption of tourism activities as risks from the pandemic subside. In addition, the anticipated recovery from supply disruptions in the commodities sector and higher public sector expenditure will support the gradual improvement in the Malaysian economy in the latter part of the year. Public sector spending will be underpinned by the continuation of large-scale transport-related projects by public corporations and the implementation of more small-scale projects worth RM4 billion by the Federal Government.

Overall risks to the domestic growth outlook are tilted to the downside, mainly due to the risk of a prolonged and wider spread of COVID-19 and its effects on the global and domestic economy. Domestic growth also remains susceptible to a recurrence of commodities supply shocks and continued low commodity prices which could pose additional risks to production in the commodities sector, exports and income growth. In addition, heightened financial market volatility due to ongoing external uncertainties may lead to tighter domestic financial market conditions. The baseline growth projection could, however, be lifted by a stronger-than-expected impact from the various stimulus measures by the Federal Government and additional measures implemented by several state governments.

Headline inflation is forecasted to average within the range of -1.5 to 0.5% in 2020, mainly reflecting significantly lower global oil and commodity prices. Without the direct downward impact from lower global oil prices, underlying inflation, as measured by core inflation, is projected to remain positive, averaging between 0.8 to 1.3%. This reflects subdued demand pressures, expectations for a negative output gap this year, as well as weak labour market conditions.

(Source: Executive Summary, Economic and Monetary Review 2019, Bank Negara Malaysia)

4.2 Overview and outlook of the renewable energy sector in Malaysia

Energy efficiency and renewable energy are the main pillars of the energy transition, and together they can provide over 90% of the energy-related carbon emissions reduction that is required, by using technologies that are safe, reliable, affordable and widely available. As one of the fastest developing regions in the world, the countries of South East Asia could see a 40% rise in regional primary energy demand up to 2040, according to the International Energy Agency. To meet this sizeable increase in demand, The Association of South East Asian Nations (ASEAN) countries are rapidly scaling up their generation capacity with large renewable projects making it well positioned to become a renewable energy hub.

A 2019 report published by the global auditing firm, KPMG entitled "*The Renewable Energy Transition*" states that there are still about 70 million people in ASEAN without access to reliable electricity supply, which has presented opportunities for these governments to tap into the region's vast renewable energy resources. In the past, the high cost of producing renewable energy discouraged governments from tapping this resource. However, with increasing public awareness of sustainable energy and a newfound openness to pay higher rates for clean energy, ASEAN governments are being motivated to invest more state funds into renewable energy projects. ASEAN member states are now focused on increasing their share of renewable energy in their energy mix as part of their sustainable energy growth and climate change commitments. As a region, ASEAN has also set a target for member countries to increase the component of renewable energy in the ASEAN energy mix to 23% by 2025, up from 9% in 2014. These targets are becoming more achievable with declining production costs and technological innovations such as better solar power efficiency and floating solar panels.

Malaysia harbours a wealth of resources capable of generating renewable energy. In 2019, the country taps into about 2%, which the Government targets to increase to 20% by the year 2025. The key objective is to transform our current energy mix into one that comprises more renewable energy sources, not only for the continuity of supply but for the pressing environmental concerns that come with a dependency on fossil fuels. With the threat of climate change and fossil fuels being a finite resource, new ways of generating and supplying energy are needed to secure a sustainable future for the global energy ecosystem. For Malaysia, the energy transition is already underway, and it is focused on expanding the renewable energy capacity in the national energy mix and improving energy efficiency.

Technology advancements in recent years have led to the steady decline in the overall cost of wind and solar energy production, making renewable energy an increasingly viable option for public and private sector decision makers. In line with the government’s target to achieve 20% renewable energy in the capacity mix, the Energy Commission is implementing renewable energy related programmes such as LSS, NEM and Self Consumption for solar installations. The current opportunities are in the solar industry. Malaysia wants to develop a skilled workforce in solar PV installation and services. In Malaysia, the new solar average capacity factor is at 17%, compared to 14% previously because of more efficient and cost-effective technologies.

Malaysia's gas component makes up about 35% of the total energy mix in 2018 with coal holding steady at 57% in the coming years. The remaining percentage is currently contributed by a relatively smaller share of renewable energy sources, which needs to be increased in the coming years. While certain conventional fuels such as coal and gas will be retained in the future energy mix, the task at hand is to expand the renewable energy capacity in the national energy mix as well as improving energy efficiency and to see a much larger contribution from renewable energy sources. The main ones that show potential are solar, hydro, biomass, biogas, and geothermal in which many listed companies have diversified into renewable energy business namely solar, mini-hydro and biogas to take advantage of earning concession revenue income from the FiT system in Malaysia.

The Energy Commission, being Malaysia's energy regulatory authority works closely with SEDA to develop a renewable energy transformation roadmap up to 2035, where it intends to explore other types of renewable energy and the potential capacity Malaysia can achieve. Besides, solar energy, the Commission also licenses biogas, biomass and mini hydro projects in the country. In 2019, Malaysia have generated 393G watt-hour (Wh) of energy from LSS out of the national capacity of 24,132 megawatt (MW).

Malaysia has set its goal to reach 6,000MW of total installed capacity or 20% coming from renewable energy by 2025. To commit to the adoption of renewable energy on a global scale, Malaysia has aligned its targets with the United Nations Framework Convention on Climate Change (UNFCCC) 21st Conference of Parties (COP21). This aims at cutting down emission intensity by 35 percent to 45 percent based on 2005 GDP, by the year 2030.

(Source: Volume 18 & 19, 2019, Energy Commission Malaysia)

In the race to increase the nation's renewable energy mix from 2% to 20% by 2030, the Ministry is targeting commercial and industrial buildings to go solar and be early adopters of the revised NEM scheme.

(Source: Press article entitled "Malaysia can generate more electricity if all roofs use solar panels, says Yeo", 14 May 2019, https://www.thestar.com.my)

According to renowned economist Jomo Kwame Sundaram, the country should move aggressively to embrace renewable energy, singling out PV solar energy and palm oil-based biodiesel as ways forward. Further, in accordance with official statistics, Malaysia is currently the number one exporter of PV solar panels to the US, which could be used extensively to spur renewable energy trends locally.

(Source: Press article entitled "Weak oil price amid Covid-19 pandemic an invitation for Malaysia to reinvent its economy, say experts", 11 May 2020, https://www.malaymail.com)

4.3 Prospects of the Proposed Diversification

As highlighted in the previous sections of this announcement, the Group is primarily engaged in earthworks and civil engineering services, being the Group's main revenue contributor.

In view that the renewable energy sector in Malaysia has been steadily growing and given the Government's support in providing an economically viable platform for investments in the power and energy sector (as highlighted in **Section 4.2** of this announcement), the Board expects the renewable energy business to continue its robust, resilient and sustainable growth. Upon the completion of the Proposed Diversification, barring any unforeseen circumstances, the enlarged Advancecon Group would be able to diversify its operations and interests in the renewable energy sector allowing it to secure/ generate a larger balance sheet as well as a more diversified asset base.

In addition, the Proposed Diversification may possibly in the long run reduce the Group's current significant reliance on its earthworks and civil engineering services considering it has been the main revenue contributor of the Group since its inception in 1997.

Moving forward, the Group may also in the future embark on additional viable ventures into the renewable energy sector through organic approaches or otherwise, including but not limited to, strategic businesses/ investments, joint ventures, collaborative arrangements, business agreements, and/ or mergers and acquisitions of suitable businesses/ investments in the renewable energy sector such as solar energy subject to applicable compliance/ rules required under the Listing Requirements and other relevant acts or authorities applicable at the material times. Notwithstanding the above, the Group will undertake feasibility studies to provide risk-reward assessment on the viability of such organic/ inorganic growth strategies prior to implementing such strategies.

Premised on the above as well as the outlook of the renewable energy industry as set out in **Section 4.2** of this announcement, the Board believes that the Proposed Diversification may enhance the Group's future prospects as it represents an opportunity for the Group to obtain additional stream of revenue and income in the future financial years.

(Source: Management of Advancecon)

5. RISK FACTORS

The potential risks pertaining to the Proposed Diversification that may have an impact on the Group, which may not be exhaustive are as follows:-

5.1 Business diversification risk

Pursuant to the Proposed Diversification, the Group's business is now subject to risks inherent in the renewable energy industry. These include but not limited to, adverse changes in supply and demand conditions, outbreaks of diseases, fire or other natural disasters, adverse climate conditions, downturns in the global, regional and/ or national economies, changes in law and tax regulations, cost of equipments, availability of technical expertise, availability of financing and the existence of other alternatives in the renewable energy industry.

There can be no assurance that the Group may be able to successfully mitigate the various risks inherent in the renewable energy industry, and if unable to do so, the business operation and financial performance of the Group may be adversely affected. Nevertheless, the Group seeks to limit these risks, through, inter alia, conduct a periodic review of its business operations as well as implement prudent financial management to improve efficiency and ensure proper due diligence are implemented during the period between planning, construction and eventual delivery of renewable energy.

5.2 Licensing and registration risks

In order to operate the Group's renewable energy business (i.e. solar energy), the Group is required to obtain and hold valid approvals, permits and licenses such as the RPVI certificate issued by SEDA and other regulatory authorities. The Group must comply with the restrictions and conditions imposed by the relevant authorities in order to maintain such approvals, permits and licenses. The approvals, permits and licenses may be suspended or cancelled if the Group fail to comply with the applicable requirements or any required conditions.

In the event that the Group fails to retain any of the required licenses or registrations, or obtain renewals thereof, in a timely manner or at all, the Group will not be able to carry out EPCC projects by themselves or award such projects to a RPVSP that is registered with SEDA, and in turn, the renewable energy business and financial performance of the enlarged Group may be adversely affected. Notwithstanding the above, the Group seeks to limit these risks through the implementation of strict compliance procedures for any of its business operations.

5.3 Dependency on key management personnel

Moving forward, the Group's success in the renewable energy business (i.e. solar energy) is largely dependent on the skills, experience, competency and continued efforts of the Group's key management personnel, as well as the Group's ability to attract more qualified personnel who have relevant industry experience. The loss of any key management personnel without timely replacement or the Group's inability to attract and retain other qualified personnel may adversely affect the Group’s new business operations and hence, its revenue and profitability.

Recognising the importance of the key management personnel, the Group will continuously adopt appropriate measures to attract and retain them by offering, amongst others, competitive remuneration packages and ongoing training and development programmes. The Company will strive to retain qualified experienced personnel who are essential to the Group's succession plan to ensure continuity and competency in the management team.

5.4 Political, economic and regulatory risk

With the participation of the Group in renewable energy business and related activities, its business, prospects, financial condition and level of profitability are now subject, to a certain extent, the developments in the economic, political and regulatory environment of Malaysia. Such risks include economic uncertainties, changes in rules and regulations particularly those governing the environmental impact or sustainability issues, trade policy, unfavourable monetary and fiscal policy, changes in political leadership and changes in tax laws.

There can be no assurance that any adverse development in the economic, political and regulatory environment in Malaysia will not have any material adverse effect on the business operations and financial performance of the Group. Notwithstanding that, the Group will constantly keep abreast with the political, economic and regulatory developments through various media, events and/ or seminars, and may also engage in discussion or meeting with the relevant stakeholders to evaluate, introduce and/ or undertake measures with the aim of mitigating impact of the aforementioned risks.

5.5 Implications of COVID-19 on the Group's existing and new business

The recent outbreak of COVID-19 has negatively impacted economic conditions globally. As part of its efforts to tackle the COVID-19 pandemic, the Malaysian government announced that all government and private premises except for those involved in essential services are to remain closed during the period that the MCO takes effect. Given that the Group's principal activities (i.e. provision of construction services) are not within the business of providing essential services, the Group's operations has been temporarily suspended throughout the MCO period. As such, it was mandatory for the Group to temporary cease its operations for the ongoing projects, thereby resulting in possible delays to the implementation and completion of its ongoing projects.

Further, the renewable energy sector such as solar energy is also inevitably affected by this pandemic, as a result of global supply constraints for low-cost PV modules and cells which will cause inevitable delay to the completion of renewable energy projects. The extent of the impact of COVID-19 on the Group's renewable energy business (which will contribute to the results of the Group only upon completion of the Proposed Diversification) will depend on the length of time required for the recovery of the economic environment of globally.

Notwithstanding the above, the Board will continue to monitor the status and progress of COVID-19 and shall endeavour, to the extent possible, to review the performance and progress of the Group's operations and financial performance as well as introduce measures to minimise its operating costs where required.

6. FINANCIAL EFFECTS

6.1 Issued share capital and substantial shareholders' shareholdings

The Proposed Diversification will not have any effect on the issued share capital and the substantial shareholders' shareholdings in the Company as it will not involve any issuance of new shares.

6.2 Earnings and earnings per share

The Proposed Diversification is not expected to have any immediate material effect on the earnings of the Group. However, the Proposed Diversification may contribute positively to the future earnings of the Group as and when it is able to make profit from its renewable energy activities.

6.3 NA per share and gearing

Barring any unforeseen circumstances, the Proposed Diversification is not expected to have any immediate material effect on the NA and gearing of the Group. However, the future NA and/ or gearing of the Group will depend on the manner of funding for the expenditure involved in its renewable energy related activities, as well as the future profit contribution arising from the renewable energy business as and when profit is made from the Group's renewable energy activities.

7. APPROVALS REQUIRED

The Proposed Diversification is subject to the following approvals:-

i. The shareholders of the Company at a general meeting to be convened; and

ii. Any other relevant authority and/ or third parties, if required.

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

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/ OR PERSONS CONNECTED TO THEM

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

9. DIRECTORS' STATEMENT

The Board, after having considered the relevant aspects of the Proposed Diversification including but not limited to the rationale and prospects, is of the opinion that the Proposed Diversification is in the best interest of the Company.

10. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposed Diversification will take immediate effect upon obtaining the approval from the shareholders of the Company at a general meeting to be convened.

11. ADVISER

UOBKH has been appointed as the Adviser for the Proposed Diversification.

This announcement is dated 9 June 2020.