**KEJURUTERAAN ASASTERA BERHAD ("KAB" OR THE "COMPANY")**

**PROPOSED ACQUISITION BY KAB ENERGY HOLDINGS SDN BHD, A WHOLLY-OWNED SUBSIDIARY OF KAB, OF 100% EQUITY INTEREST IN PT INPOLA MITRA ELEKTRINDO ("PROPOSED ACQUISITION")**

## 1. INTRODUCTION

Reference is made to the earlier announcement dated 19 January 2022 wherein the Board of Directors of KAB ("**Board**") had announced that KAB Energy Holdings Sdn Bhd ("**KABEH**" or the "**Purchaser**"), a wholly-owned subsidiary of KAB, had entered into a term sheet with Sarawak Cable Berhad ("**SCB**") for the proposed acquisition by KABEH of 100% of the issued and paid-up share capital in PT Inpola Mitra Elektrindo ("**PT IME**").

Following the above, Mercury Securities Sdn Bhd ("**Mercury Securities**" or "**Principal Adviser**") wishes to announce, on behalf of the Board, that KABEH had on 29 July 2022 entered into a conditional share purchase agreement ("**SPA**") with SCB and 3 individuals(1) ("**Minority Shareholders**") (collectively, the "**Vendors**") for the proposed acquisition of 300,000 ordinary shares in PT IME ("**Sale Shares**"), representing 100% equity interest in PT IME, from the Vendors for a cash consideration of RM10,000 ("**Sale Shares Consideration**") ("**Proposed Acquisition**").

Note:-
(1) The Vendors have severally agreed to designate SCB to act as the main contact person and as the authorised representative with authority to bind the Minority Shareholders in relation to all matters pertaining to the SPA.

In addition to the Sale Shares Consideration, KABEH will facilitate the settlement of debts, liabilities and shareholders' advances of PT IME capped at RM74.99 million ("**Debt Sum**") in the manner as set out in Section 2 of this announcement.

The Sale Shares Consideration and Debt Sum shall collectively be referred to as the "**Completion Amount**".

## 2. DETAILS OF THE PROPOSED ACQUISITION

### 2.1 Information on the Proposed Acquisition

The Proposed Acquisition entails the acquisition of the entire equity interest in PT IME, which is 78.33% held by SCB and the remaining 21.67% held by the Minority Shareholders, namely Tiopan Hasudungan Marpaung, Parulian Marpaung and Subari Rudi, for a cash consideration of RM10,000.

The change in the shareholding structure of PT IME pursuant to the Proposed Acquisition is illustrated below:-

| Shareholders of PT IME | % equity interest held in PT IME | |
|---|---|---|
| | **Before the Proposed Acquisition** | **After the Proposed Acquisition** |
| KABEH | - | 100.00 |
| SCB | 78.33 | - |
| Tiopan Hasudungan Marpaung | 20.67 | - |

| Shareholders of PT IME | % equity interest held in PT IME | |
|---|---|---|
| | Before the Proposed Acquisition | After the Proposed Acquisition |
| Parulian Marpaung | 0.50 | - |
| Subari Rudi[(1)] | 0.50 | - |
| **Total** | **100.00** | **100.00** |

Note:-

(1) Subari Rudi is a deceased Indonesian citizen. The SPA has been entered into on his behalf by his heir / estate / personal representative.

KABEH has also undertaken to cause the settlement of the Debt Sum amounting to an aggregate of up to RM74,990,000. The Debt Sum comprises the following:-

(i) the current outstanding loan facility in the sum of United States Dollars ("**USD**") as per redemption statement to be obtained by PT IME from the Bank of China Malaysia Berhad ("**BOC**") pursuant to a facilities agreement entered into between BOC and PT IME dated 19 January 2016 as amended by a restructuring agreement dated 30 November 2020, as verified in the audited accounts of PT IME for the financial year ended ("**FYE**") 31 December 2021 ("**Audited Accounts**") and confirmed by BOC ("**BOC Loan**");

(ii) the amount equal to the accounts payable and accrued expenses (including those due to related parties and liabilities for taxes) and other liabilities of PT IME that would be reflected as liabilities on a balance sheet of PT IME prepared in accordance with the accounting policies (including consistent application of policies in respect of provisioning, classification between short-term and long-term liabilities and management estimation), as verified in the Audited Accounts and the Completion Accounts (as defined below), save and except the BOC Loan and the Shareholders' Advances (as defined below) ("**Total Liabilities**"); and

(iii) the amount of monies advanced and/or loaned by the Vendors to PT IME, as verified in the Audited Accounts ("**Shareholders' Advances**").

"**Completion Accounts**" mean the balance sheet of PT IME as at the date the transfer of Sale Shares have been completed from the Vendors to KABEH (excluding the Sale Shares held by Subari Rudi[(1)]) and a profit and loss account of PT IME in respect of the period from 31 December 2021 to the date on which the conditions precedent of the SPA are fulfilled or waived ("**Unconditional Date**").

Note:-

(1) As Subari Rudi is deceased, the deed of transfer in relation to the Sale Shares held by him shall be executed by his inheritor. In accordance with the terms of the SPA, such deed of transfer shall be executed within 12 months from the date of the SPA or any further dates mutually agreed by both the Vendors and KABEH in writing.

PT IME is the owner and operator of a mini hydroelectric power plant located in Sumatera Utara, Indonesia ("**Mini Hydro**"). In the event that the Mini Hydro is able to achieve a net export energy of 61.13 gigawatt hours ("**GWh**") within 1 year from the Unconditional Date ("**Target Production**"), an earned out profit of RM3,000,000 shall be payable to SCB ("**Earned Out Profit**"). In the event the Mini Hydro is unable to achieve the Target Production, the Earned Out Profit shall be automatically waived.

For the purpose of clarity, a summary of the Completion Amount's breakdown as at 31 December 2021 is set out below:-

| No. | Completion Amount | RM |
|---|---|---|
| **(a)** | **Sale Shares Consideration** | |
| (i) | To SCB (78.3%) | 7,833 |
| (ii) | To Minority Shareholders (21.7%) | 2,167 |
| | | **10,000** |
| **(b)** | **Settlement of Debt Sum** | |
| (i) | BOC Loan | 27,894,288 |
| (ii) | Total Liabilities | 4,686,339 |
| (iii) | Shareholders' Advances | 42,409,373 |
| | | **74,990,000** |
| **Total (a) + (b)** | | **75,000,000** |

Please refer to Appendix II of this announcement for the salient terms of the SPA.

## 2.2 Information on PT IME

### 2.2.1 Incorporation and business activities

PT IME was incorporated in Medan, Indonesia on 5 November 2008 approved by the Minister of Law and Human Rights of the Republic of Indonesia.

PT IME owns and operates a Mini Hydro in the District of Pakpak Bharat, North Sumatera, Indonesia with an installed capacity of 11-megawatts. On 23 September 2010, PT IME signed a power purchase agreement with PT Perusahaan Listrik Negara (Persero) ("**PLN**") for the installation, operation and maintenance of the Mini Hydro ("**PPA**"). Under the PPA, PT IME was required to build, own and operate an 8-megawatts hydroelectric power plant for an initial period of 20 years from the commercial operation date of the plant, which was achieved on 12 October 2021.

Apart from the Mini Hydro, PT IME does not have any other major fixed assets that are revenue generating.

### 2.2.2 Share capital

As at 22 July 2022, being the latest practicable date before this announcement ("**LPD**"), the issued share capital of PT IME is 30,000,000,000 Indonesian Rupiah ("**IDR**") comprising 300,000 ordinary shares.

### 2.2.3 Directors and major shareholders

The commissioners, directors and major shareholders of PT IME together with their respective direct and indirect shareholdings as at the LPD are as follows:-

| | | | Shareholding as at the LPD | | | |
|---|---|---|---|---|---|---|
| | | | Direct | | Indirect | |
| Name | Designation | Nationality / Country of incorporation | No. of shares | [(1)]% | No. of shares | % |
| Dato' Ahmad Redza Bin Abdullah | President Director | Malaysian | - | - | - | - |

| Name | Designation | Nationality / Country of incorporation | Shareholding as at the LPD | | | |
|---|---|---|---|---|---|---|
| | | | Direct | | Indirect | |
| | | | No. of shares | (1)% | No. of shares | % |
| Surya Sugandi | Director | Indonesian | - | - | - | - |
| Woon Wai En | President Commissioner | Malaysian | - | - | - | - |
| Yek Siew Liong | Commissioner | Malaysian | - | - | - | - |
| SCB | Major shareholder | Malaysia | 235,000 | 78.33 | - | - |
| Tiopan Hasudungan Marpaung | Major shareholder | Indonesian | 62,000 | 20.67 | - | - |

Note:-
(1) Based on 300,000 issued shares in PT IME.

PT IME does not have any subsidiary and/or associate companies.

Please refer to Appendix I of this announcement for a summary of the financial information of PT IME.

## 2.3 Information on SCB

### 2.3.1 Incorporation and business activities

SCB was incorporated in Malaysia under the Companies Act, 1965 as a public limited company under the name of UCS Holdings Berhad. SCB is listed on the Main Market of Bursa Malaysia Securities Berhad (“**Bursa Securities**”).

SCB is principally involved in the sales of cable and wire, galvanised products and steel structures and construction related activities.

### 2.3.2 Share capital

As at the LPD, the issued share capital of SCB is RM267.22 million, comprising 398,985,000 ordinary shares.

### 2.3.3 Directors

As at the LPD, the directors of SCB are as follows:-

| Name | Designation | Nationality |
|---|---|---|
| Dato Sri Mahmud Abu Bekir Taib | Independent Non-Executive Chairman | Malaysia |
| Dato Sri Fong Joo Chung | Non-Independent Non-Executive Deputy Chairman | Malaysia |
| Dato’ Ahmad Redza bin Abdullah | Group Managing Director | Malaysia |
| Tan Sri Dato’ Seri H’ng Bok San | Non-Independent Non-Executive Director | Malaysia |

| Name | Designation | Nationality |
|---|---|---|
| Yek Siew Liong | Non-Independent Non-Executive Director | Malaysia |
| Datuk Kevin How Kow | Independent Non-Executive Director | Malaysia |
| Erman bin Radin | Independent Non-Executive Director | Malaysia |
| Datuk Rozimi bin Remeli | Independent Non-Executive Director | Malaysia |
| Redzuan bin Rauf | Independent Non-Executive Director | Malaysia |
| Goh Jen-Ni | Alternate Director to Tan Sri Dato' Seri H'ng Bok San | Malaysia |

### 2.3.4 Substantial shareholders

As at the LPD, the substantial shareholders of SCB are as follows:-

| | Shareholding as at the LPD | | | |
|---|---|---|---|---|
| | Direct | | Indirect | |
| Name | No. of shares | (1)% | No. of shares | (1)% |
| Dato Sri Mahmud Abu Bekir Taib | 58,264,896 | 14.60 | (1)26,082,000 | 6.54 |
| Sarawak Energy Berhad | 52,397,996 | 13.13 | - | - |
| HNG Capital Sdn Bhd | 31,356,900 | 7.86 | - | - |
| Central Paragon Sdn Bhd | 26,082,000 | 6.54 | - | - |
| Yek Siew Liong | 5,855,000 | 1.47 | (2)31,682,000 | 7.94 |
| UF Jaya Sdn Bhd | 5,600,000 | 1.40 | (3)26,082,000 | 6.54 |
| Tan Sri Dato' Seri H'ng Bok San | 237,240 | 0.06 | (4)36,448,400 | 9.14 |
| Dato' H'ng Chun Hsiang | 2,620,750 | 0.66 | (5)31,356,900 | 7.86 |
| Datin H'ng Hsieh Ling | 2,470,750 | 0.62 | (6)31,356,900 | 7.86 |
| Sarawak State Financial Secretary | - | - | (7)52,397,996 | 13.13 |
| Delegateam Sdn Bhd | - | - | (7)52,397,996 | 13.13 |
| Baodi Development Sdn Bhd | - | - | (8)31,682,000 | 7.94 |
| Yek Min Ek Sdn Bhd | - | - | (9)31,682,000 | 7.94 |
| Petra Transit Sdn Bhd | 63,410,000 | 15.89 | - | - |

Notes:-

(1) Deemed interested by virtue of his interest in Central Paragon Sdn Bhd pursuant to Section 8(4) of the Companies Act, 2016 of Malaysia, as amended from time to time and any re-enactment thereof ("**Act**").
(2) Deemed interested by virtue of his interest in Central Paragon Sdn Bhd and UF Jaya Sdn Bhd via Yek Min Ek Sdn Bhd and Baodi Development Sdn Bhd respectively pursuant to Section 8(4) of the Act.
(3) Deemed interested by virtue of its interest in Central Paragon Sdn Bhd pursuant to Section 8(4) of the Act.
(4) Deemed interested by virtue of his interest in HNG Capital Sdn Bhd and his children's interest respectively pursuant to Section 8(4) and Section 59(11)(c) of the Act.
(5) Deemed interested by virtue of his interest in HNG Capital Sdn Bhd pursuant to Section 8(4) of the Act.
(6) Deemed interested by virtue of her interest in HNG Capital Sdn Bhd pursuant to Section 8(4) of the Act.
(7) Deemed interested by virtue of its interests in Sarawak Energy Berhad pursuant to Section 8(4) of the Act.
(8) Deemed interested by virtue of its interests in Central Paragon Sdn Bhd via UF Jaya Sdn Bhd and UF Jaya Sdn Bhd pursuant to Section 8(4) of the Act.
(9) Deemed interested by virtue of its interests in Central Paragon Sdn Bhd and UF Jaya Sdn Bhd via Baodi Development Sdn Bhd pursuant to Section 8(4) of the Act.

## 2.4 Mode of settlement

The Completion Amount will be satisfied in the following manner:-

| Mode of settlement | Timing of settlement | RM |
|---|---|---|
| Sale Shares Consideration | Paid prior to the SPA on 20 January 2022 in cash | 10,000 |
| Settlement of Debt Sum | Within 3 months from the Unconditional Date in cash | 74,990,000 |
| **Total** | | **75,000,000** |

## 2.5 Basis and justification for the Completion Amount

The Completion Amount of RM75.00 million was arrived after taking into consideration, amongst others, the following:-

(i) the firm valuation of PT IME which amounts to IDR267.41 billion (equivalent to RM79.42 million based on the exchange rate of IDR100:RM0.0297 as published by Bank Negara Malaysia ("**BNM**") as at the LPD), as detailed in the valuation report dated 27 July 2022 prepared by Kantor Jasa Penilai Publik Niboyo Adiputro, Dewi Apriyanti & Rekan ("**KJPP NDR**"), an independent valuer; and

(ii) the rationale and benefits for the Proposed Acquisition as set out in Section 3 of this announcement, taking into account the future prospects of PT IME vis-à-vis in the small hydropower industry in Indonesia as set out in Section 5.2 of this announcement.

### 2.6 Liabilities which remain with and guarantees to be assumed

Save for the liabilities[(1)] stated in the statement of financial position of PT IME which will be consolidated into the financial statements of the Company following completion of the Proposed Acquisition, as well as the obligation and liabilities in and arising from, pursuant to or in connection with the SPA, there are no other liabilities including contingent liabilities and/or guarantees to be assumed by KAB arising from the Proposed Acquisition.

Note:-

(1) The liabilities of PT IME are expected to reduce upon settlement of the Debt Sum.

Further to the above, assuming part of the Completion Amount and Earned Out Profit is to be funded partly through a loan of USD15.00 million[(1)] (equivalent to RM66.83 million based on the exchange rate of USD1:RM4.4550 as published by BNM as at the LPD), the total liabilities of the enlarged Group will be increased by the said amount after completion of the Proposed Acquisition.

Note:-

(1) As at the LPD, the Group is in the midst of obtaining a bank loan of USD15.00 million.

### 2.7 Source of funding

The Completion Amount and Earned Out Profit are intended to be funded via bank borrowings and internally generated funds, the proportions of which will be determined later.

For illustrative purposes, assuming the Completion Amount is to be funded partly through a loan of USD15.00 million (equivalent to RM66.83 million based on the exchange rate of USD1:RM4.4550 as published by BNM as at the LPD), the proportions of the source of funding shall be in the following manner:-

| Source of funding | RM | % |
|---|---:|---:|
| Bank borrowings | 66,825,000 | 85.63 |
| Internally generated funds | 11,175,000 | 14.37 |
| **Total** | **78,000,000** | **100.00** |

### 2.8 Additional financial commitment

At this juncture, the Company does not foresee any additional financial commitment required to put the assets of PT IME on-stream immediately after completion of the Proposed Acquisition.

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## 3. RATIONALE AND BENEFITS OF THE PROPOSED ACQUISITION

The Proposed Acquisition represents part of the Group's business strategy to expand into the sustainable energy solutions segment in tandem with the Group's recent forays into the same as detailed in Section 5.2 of this announcement. These are intended to provide an additional source of income to the Group to complement the income from its existing mechanical and electrical ("**M&E**") engineering business.

Upon completion of the Proposed Acquisition, the Group is expected to benefit from a stable stream of recurring income from PT IME's Mini Hydro via the PPA. Under the PPA, PT IME shall supply and PLN shall purchase electricity generated from the Mini Hydro at specified tariff rates for an initial period of 20 years from its commercial operation date of 12 October 2021. PLN is a state-owned company involved in the supply of electricity in Indonesia.

## 4. POLICIES ON THE FOREIGN INVESTMENTS AND REPATRIATION OF PROFITS IN JURISDICTIONS WHERE PT IME OPERATES IN

### 4.1 Indonesia

**<u>Policies on foreign investment in Indonesia</u>**

Foreign investment must be in the form of a limited liability company based on Indonesian law and domiciled within the territory of the Republic of Indonesia. Foreign investment ("**PMA**") is mainly regulated under the Law No. 25 of 2007 on Investment as lastly amended by the Law No. 11 of 2020 on Job Creation ("**Capital Investment Law**").

When an Indonesia company has one or more foreign shareholder(s) then it shall be constituted as a PMA company and must adhere the provisions governing foreign investment under the Capital Investment Law and its implementing regulations.

A PMA company must engage in certain areas of business lines based on the business field standard classification ("**KBLI**") that is classifying scopes of business lines under 5 digits of numerical code. The description of the business activities are stipulated in the PMA company's constitutive documents, including but not limited in its: (i) articles of association and deed of establishment; (ii) primary business number; (iii) tax licenses; and (iv) other relevant business permits.

*<u>Exemption on the applicability of foreign capital ownership limitation</u>*

Based on the Presidential Regulation No. 10 of 2021 on Capital Investment Business Lines as lastly amended by Presidential Regulation No. 49 of 2021 ("**PR 49/2021**"), investment requirements with restrictions on foreign capital ownership do not apply to investments or a company that have obtained approval for certain business lines prior to the promulgation of the PR 49/2021, which is 25 May 2021, unless that the new provisions are more favourable for them.

On restrictions of foreign capital ownership, PR 49/2021 also provides that a company which business lines have investment requirements with restrictions on foreign capital ownership, and will conduct change of foreign capital ownership due to acquisition, the limits of foreign capital ownership in the target company is as stated in its business license.

*Business licenses – OSS RBA licencing regime*

In third quarter of 2021, Indonesian government has implemented new capital investment regime by adopting a risk based licencing scheme pursuant to Government Regulation Number 5 of 2021 concerning Implementation of Risk-Based Business Licensing ("**GR 5/2021**") and launching a risk-based assessment online single submission ("**OSS**") ("**OSS RBA**"). Under GR 5/2021, each business line will have its own risk level (from low to high risk) which will determine the applicable business licencing requirement for such business line.

**Policies on repatriation of profits**

In accordance with the Law No. 40 of 2007 concerning limited liability company as amended by the Law No. 11 of 2020 on Job Creation ("**Company Law**"), when the company has a positive retained earnings, meaning the company's net profit in the current financial year has covered the company's accumulated losses from the previous financial year ("**Positive Retained Earnings**"), the profit for the current year after deducting taxes ("**Net Profit**") of a company may be distributed to the shareholders as dividend after the mandatory reserve fund as required by applicable law has been allocated.

In general, under the Company Law, a company with a Positive Retained Earnings is required to set aside a certain amount of the Net Profit of each financial year for reserve fund. Allocation of the Net Profit is conducted until the reserve fund reaches minimum 20% of the total issued and paid-up capital of the company.

The 20% quota of reserve fund does not have to be reached in 1 financial year.

Reserve fund allocation is mandatory and to be conducted by the company in every financial year as long as (i) the company has Positive Retained Earnings and (ii) the company's reserve fund has not covered 20% of the total issued and paid-up capital of the company.

The utilisation of the Net Profit, including with regards to the reserve fund allocation amount and distribution of dividend shall be approved by the shareholders in the annual general meeting of shareholders of the company ("**GMS**").

The GMS may decide that part or all of the Net Profit will be used for dividends distribution to the shareholders, reserves fund, and/or other distributions such as tantiem for members of the board of directors and board of commissioners, as well as bonuses for employees.

The GMS in adopting its resolutions must pay attention to the interests of the company and fairness.

Accordingly, when the company has a Positive Retained Earnings, the company (by way of a GMS decision) may decide to allocate part of the Net Profit in the current financial year (in any percentage) for Reserve Fund and part of it for dividend.

*Interim dividends*

The Company Law allows the distribution of interim dividends before the end of the book year, subject to the fulfilment of following terms and conditions:

(i) it will not cause the total net worth of the company becoming smaller than the total issued and paid-up capital plus mandatory reserves;

(ii) it will not interfere or cause the company to be unable to fulfil its obligations to its creditors or interfere with the company's activities;

(iii) it is determined/decided based on the decision of the board of directors after obtaining the approval of the board of commissioners;

(iv) in the event that after the end of the book year the company suffers a loss, the interim dividend that has been distributed must be returned by the shareholders to the company; and

(v) the board of directors and the board of commissioners are jointly and severally liable for the company's losses, in the event that the shareholders cannot return the interim dividend.

Under the Capital Investment Law, investors are granted with the rights to transfer and repatriate in foreign currencies for profits, bank interest, dividends, and other, subject to the condition that it shall be exercised in accordance with provisions of laws and regulations.

**Policies on taxation**

*Income Tax*

Under article 9 of Law of Republic of Indonesia Number 7 of 1983 of Income Tax as lastly amended with Law Number 7 of 2021 ("**Income Tax Law**"), repatriation of profits as dividends by an Indonesian company to its shareholders will not be considered deductible expenses for corporate income tax purposes.

Under article 26 of Income Tax Law, dividend payments by an Indonesian company to its foreign shareholders will be subject to a withholding tax of 20%, assuming the foreign shareholders do not have a permanent establishment ("**PE**") in Indonesia.

If the foreign shareholders are residents of a country with an effective double tax agreement ("**DTA**") with Indonesia, the withholding tax rate for dividends may be reduced.

The DTA between Indonesia and Malaysia provides that where a resident of Indonesia pays dividends to a resident of Malaysia, and the recipient is the beneficial owner of the dividends, the tax charged shall not exceed 15% of the gross amount of the dividends, as per Article 10 (2) DTA between Indonesia and Malaysia.

Therefore, payment of dividends by PT IME to KABEH will be subject to 15% withholding tax assuming KABEH meets the requirements under the DTA.

The withholding tax on dividends is required to be withheld by the Indonesian company when the distribution of dividends is approved by the shareholders in GMS.

However, if the dividends are paid before the approval at the GMS, the withholding tax on dividends is required to be withheld when the dividends are paid.

A withholding tax slip must be issued by the Indonesian company and provided to the shareholders receiving the dividends.

The Indonesian Company must pay the withholding tax to the Government of Indonesia by the 10th of the following month after the dividends are announced or paid. The tax filing must be complete by the 20th day of the same month.

To obtain the benefits under the DTA, the resident of Malaysia is required to complete a DGT Form and attached with a certificate of residence ("**COR**") issued by Malaysian tax authorities.

The DGT Form attached with COR is required to be delivered to the Indonesian company.

*<u>Value Added Tax (“**VAT**”)</u>*

Under the Law of Republic of Indonesia Number 8 of 1983 concerning Value Added Tax and Sales Tax on Luxury Goods, as amended with Law Number 7 of 2021, payments of dividends will not be subject to VAT in Indonesia.

## 5. INDUSTRY OVERVIEW AND PROSPECTS

### 5.1 Malaysian economy

The Malaysian economy registered a positive growth of 5.0% in the first quarter of 2022 (fourth quarter of (“**Q4**”) 2021: 3.6%). This was mainly supported by improving domestic demand as economic activity continued to normalise with the easing of containment measures. The improvement also reflects the recovery in the job market, with the unemployment rate declining further to 4.1% (Q4 2021: 4.3%), as well as continued policy support. Strong external demand amid the continued upcycle in global technology provided further lift to growth. On the supply side, services and manufacturing sectors continued to drive economic growth, expanding by 6.5% and 6.6% respectively. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 3.9% (Q4 2021: 4.6%).

(Source: Economic and Financial Developments in Malaysia in the First Quarter of 2022, Bank Negara Malaysia, 13 May 2022)

The Malaysian economy experienced the full adverse impact of the COVID-19 pandemic in 2020, with real GDP contracting by 5.6%. However, signs of recovery emerged in late 2020, followed by a significant increase in GDP growth of 16.1% in the second quarter of 2021 compared to a plunge of 17.2% in the corresponding quarter last year. The growth was attributed to the low base effect, recovery in external demand and the gradual reopening of economic sectors amid various MCOs to contain the viral infections. The implementation of eight stimulus and assistance packages totalling RM530 billion since 2020 and 2021 Budget measures to mitigate the impact on households and businesses also contributed to the growth. The growth momentum is expected to continue in the second half of the year with the implementation of the National Recovery Programme (“**NRP**”), an exit strategy from the health and economic crisis. The NRP entails opening up the economy in stages in line with the progress made in managing the pandemic. The acceleration of the National COVID-19 Immunisation Programme, an integral component of the NRP, is expected to enable the economy to fully open in the fourth quarter. With the favourable outlook for the fourth quarter, the economy is expected to grow between 3% – 4% in 2021.

The growth trajectory for 2022 is based on further expansion in global and domestic economic activities, fuelled by broader vaccine coverage and a further improvement in goods trade amid a slower recovery in services trade. The domestic demand recovery is projected to continue in 2022, anchored by private consumption, following the gradual improvement in labour market conditions amid a relaxation of containment measures, improved consumer sentiments and spending from the vaccine rollout as well as targeted policy support for vulnerable households. Rapid progress in the vaccination programme is also expected to release pent-up demand, particularly for domestic travel and leisure, further supporting the recovery. Stronger external demand, especially for E&E products and major commodities, is expected to support the surge in exports, thus helping to maintain a surplus in the current account of the balance of payments (“**BOP**”).

Almost all economic sectors are projected to expand on the supply side, led by the services and manufacturing sectors, accounting for more than 80% of the economy. However, the mining sector is forecast to decline partly due to scheduled maintenance works. The normalisation of economic activities underpinned by mass vaccination is anticipated to boost wholesale and retail trade subsector and domestic tourism-related activities. The projected higher volume of manufactured products is also in line with the expected rising demand from export- and domestic-oriented industries. Positive consumer and business sentiments and expected improvement in earnings will support the recovery in the labour market, albeit at a more modest level than the pre-pandemic period.

The continuation of various initiatives to stabilise the labour market and high vaccination rates are expected to provide some relief for employers in retaining their workers. Thus, the nation's GDP is forecast to expand in the range of 5.5% – 6.5% in 2022.

(Source: Economic Outlook 2022, Ministry of Finance Malaysia, 29 October 2021)

**5.2 Small hydropower industry in Indonesia**

Hydropower is generated by using the kinetic energy of flowing water as it moves downstream from dams or diversion structures built within rivers and streams. It utilises turbines and generators to convert the kinetic energy into electricity, which is then fed into the electrical grid. There are generally 3 types of hydropower plant, namely, large hydropower plant, small hydropower plant and micro hydropower plant.

Traditionally, electricity supply in Indonesia is provided by a single vertically-integrated utility company, namely PLN. PLN is a state-owned company that dominates the electricity supply sector in Indonesia and is involved in all three phases of electricity supply chain from generation to transmission to distribution. However, with the increase in demand for electricity, the industry has been liberalised and decentralised to cater to the need for additional generation capacity, which has resulted in the emergence of independent power producers ("**IPPs**") and other captive power generators.

The Indonesian archipelago is made up of approximately 17,500 islands that spreads over a vast area of approximately 1,91 million square kilometres. This increases the challenge of extending rural electrification from a centralised grid due to inadequate transmission and distribution infrastructure. To address this issue, the Government of Indonesia has turned to the installation of small power plants and micro power plants to support the demand for electricity from rural islands on the archipelago.

In order to ensure that the demand for electricity is adequately met, through the enactment of Law No.30/2009, the Government of Indonesia has allowed for the development, generation and distribution of electricity by private companies, including the development of small hydropower plants by IPPs. As a result of the initiative, Indonesia's electrification ratio had achieved 99.20% in 2020 and 99.45% in 2021, and is projected to achieve 100% by end of 2022.

**<u>Feed-in-tariff mechanism</u>**

The growth of the small hydropower industry in Indonesia is driven by the establishment of the feed-in-tariff mechanism under Regulation No.12 of 2014 (Reg. 12/2014) and Regulation No.22 of 2014 (Reg. 22/2014), issued by the Ministry of Energy and Mineral Resources, Indonesia on 2 May 2014. Through the feed-in-tariff mechanism, companies which develop, build, own and operate power plants, namely the IPPs will enter into power purchase agreements with PLN, the sole power distribution company in Indonesia, to sell the electricity generated to the national electricity grid at a predetermined electricity purchase prices over a predetermined concession period.

The Regulation No.12 of 2014 (Reg. 12/2014) and Regulation No.22 of 2014 (Reg. 22/2014) also sets out the rates of the feed-in-tariff by taking into consideration the installed capacity and location of the small hydropower plants, as well as the usage of water resources. The rates of the feed-in-tariff applicable for small hydropower plants are as follows:-

<table>
<tr><th rowspan="2">Installed capacity</th><th rowspan="2">Factor to be multiplied when calculating the rate of feed-in- tariff, which depends on the location of the small hydropower plant (“F”)</th><th colspan="2">Electricity purchase prices (Rupiah/kilowatt hour)</th></tr>
<tr><th>Small hydropower plants that utilise rivers and streams</th><th>Small hydropower plants that utilise small dams and irrigation channel water resources</th></tr>
<tr><td rowspan="2">251 kilowatt (“kW”) – 10MW</td><td rowspan="4">• Java, Bali and Madura: 1<br>• Sumatera: 1.1<br>• Kalimantan and Sulawesi: 1.2<br>• West Nusa Tenggara and East Nusa Tenggara: 1.25<br>• Maluku and North Maluku: 1.3<br>• Papua and West Papua: 1.6</td><td>Year 1 – 8 : 1,075 × F</td><td>Year 1 – 8 : 967.5 × F</td></tr>
<tr><td>Year 9 – 20 : 750 × F</td><td>Year 9 – 20 : 675 × F</td></tr>
<tr><td rowspan="2">Equal or less than 250kW</td><td>Year 1 – 8 : 1,270 × F</td><td>Year 1 – 8 : 1,143 × F</td></tr>
<tr><td>Year 9 – 20 : 770 × F</td><td>Year 9 – 20 : 693 × F</td></tr>
</table>

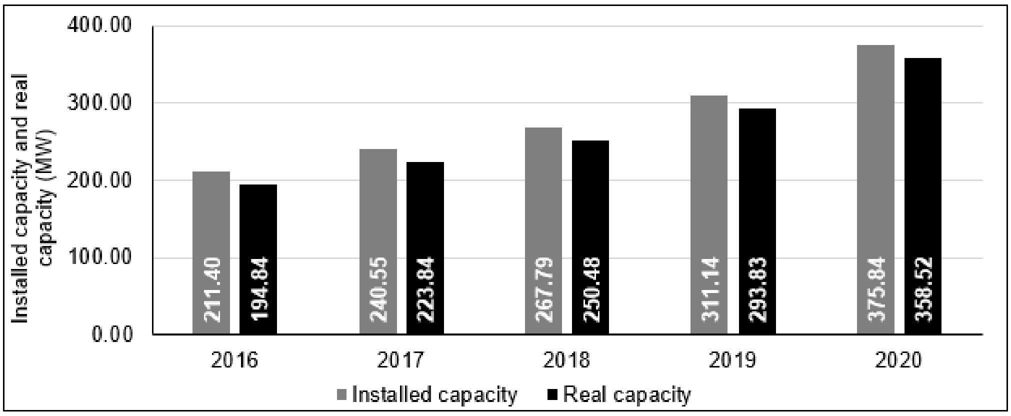
Small hydropower plants which utilise small dams and irrigation channel water resources to generate electricity have relatively lower electricity purchase prices as compared to small hydropower plants that utilise rivers and streams to generate electricity. Under the feed-in-tariff mechanism, electricity purchase prices will be reduced by about 30% to 40% from the 9th year of power generation.

The small hydropower industry in Indonesia is represented by the installed capacity (i.e. the amount of energy that a small hydropower plants (inclusive of commissioned and non-commission) can produce); real capacity (i.e. the amount of energy that a commissioned small hydropower plants can produce based on the examination and testing outlined in the Operation Worthy Certificate); and the annual power generation of commissioned small hydropower plants owned by PLN and IPPs.

The installed capacity for small hydropower plants grew from 211.40 MW in 2016 to 375.84 MW in 2020 at a compound annual growth rate (“**CAGR**”) of 15.47%. Nevertheless, the real capacity for commissioned small hydropower plants grew from 194.84 MW in 2016 to 358.52 MW in 2020 at a CAGR of 16.47%.

The average real capacity is 93.72% of the installed capacity for small hydropower plants, indicating minimal non-commissioned small hydropower plants in Indonesia or small hydropower plants that do not achieve the intended installed capacity after examination and testing outlined in the Operation Worthy Certificate.

**Total installed capacity and real capacity of small hydropower plants, 2016 – 2020**



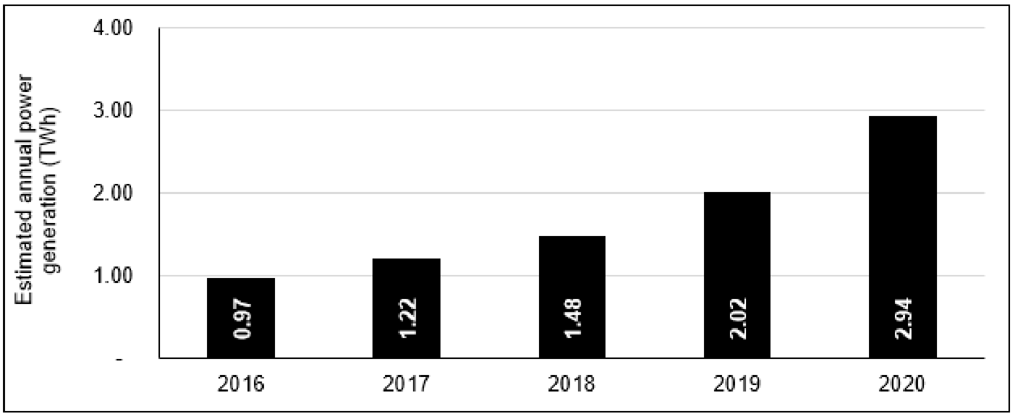

Note:

- Latest available data as at 27 July 2022.

(Source: The independent market research report dated 27 July 2022 prepared by SMITH ZANDER ("**IMR Report**"))

The estimated annual power generation for commissioned small hydropower plants increased from 0.97 terawatt hour ("**TWh**") in 2016 to 2.94 TWh in 2020 at a CAGR of 31.95%.

**Estimated annual power generation for commissioned small hydropower plants, 2016 – 2020**




(Source: IMR Report)

On 30 January 2020, the World Health Organisation ("**WHO**") declared a public health emergency of international concern on COVID-19. Later, on 11 March 2020, the WHO made the assessment that COVID-19 can be characterised as a pandemic due to the alarming levels of spread and severity and levels of inaction. Due to the outbreak of COVID-19, the Government of Indonesia imposed travel bans and movement restrictions where non-essential business premises and schools were closed, and business and social events were not allowed. As electricity is essential to fuel economic activities and for the consumption of households, private and public sectors, the operations of the small hydropower industry in Indonesia were not affected during the COVID-19 pandemic.

Despite the outbreak of the COVID-19 pandemic and the disruption to business operations, the estimated annual power generation for commissioned small hydropower plants continued to record a healthy year-on-year growth of 45.71%. Further, as the COVID-19 situation gradually becomes a norm, and commercial and industrial activities returning back to normal in 2021 and 2022, the demand for electricity is expected to increase, thus driving increased needs for power generation. SMITH ZANDER estimates the annual power generation for commissioned small hydropower plants to increase from 2.94 TWh in 2020 to 5.27 TWh in 2022, at a CAGR of 33.88%.

The small hydropower industry in Indonesia is expected to be driven by the following:-

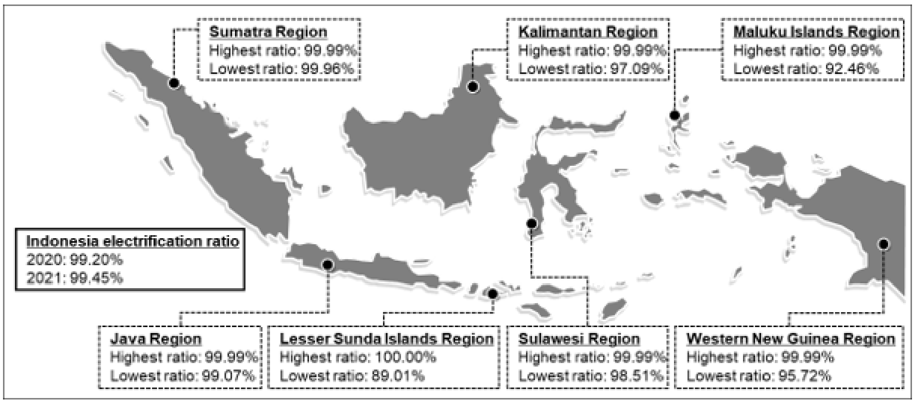
**(i)** **Government-driven initiatives to promote renewable energy and to achieve and maintain electrification ratio of 100% -** To promote investment and development of renewable energy in Indonesia, the Government of Indonesia has put in place fiscal incentives such as income tax deduction, accelerated depreciation of tangible assets, and accelerated amortisation of intangible assets. Further, to encourage the growth of renewable energy in Indonesia, the Government has established the feed-in-tariff mechanism through the Regulation No.12 of 2014 (Reg. 12/2014) and Regulation No.22 of 2014 (Reg. 22/2014). The growth in small hydropower installations is largely driven by attractive feed-in-tariff rates for the electricity generated by IPPs over a period of 20 years. This arrangement provides a secure revenue stream for IPPs, encouraging development of small hydropower plants and increasing the attractiveness of small hydropower ventures.

Further, PLN had released the Electricity Business Plan 2021 – 2030 which sets out Indonesia's future power capacity and network development plans over the next 10 years. It entails that the power capacity addition for non-renewable sources will decrease, but power capacity addition for renewable sources including small hydropower will increase, indicating the market for new small hydropower ventures by IPPs.

These initiatives are in line with Indonesia's targets to generate 23% of its energy consumption from renewable energy sources by 2025 and 31% of its energy consumption from renewable energy sources by 2050, thereby ensuring energy security for the nation, and to drive lower dependency on non-renewable sources while maintaining the nation's power generation capacity. All the above-mentioned initiatives towards achieving green and sustainable energy going forward is expected to bode well for the small hydropower industry in Indonesia.

The Government of Indonesia also projects that electrification ratio for all provinces in Indonesia to achieve 100% by end of 2022, as compared to the actual electrification ratio of 99.20% in 2020 and 99.45% in 2021. The electrification ratio is also expected to be maintained at 100% from 2022 onwards. This will in turn drive the demand for electricity in Indonesia including electricity generated from small hydropower plants, thereby supporting the growth of the small hydropower industry in Indonesia.

**Indonesia's electrification ratio, 2021**

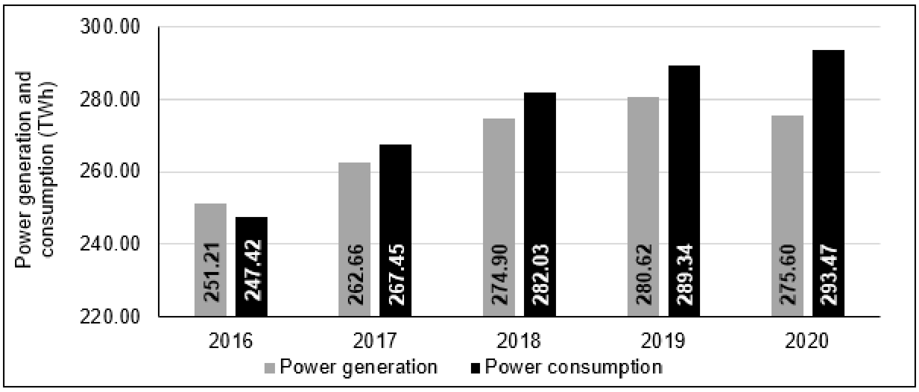



Notes:-
- *Highest refers to the highest electrification ratio in the region, in 2021.*
- *Lowest refers to the lowest electrification ratio in the region, in 2021.*

(Source: IMR report)

(ii) **Future growth in the economy to drive increasing demand for electricity -** Electricity is an integral infrastructural element for economic growth and a main input for commercial and production activities. Electricity underpins a wide range of products and services that improve the quality of life, increases productivity and promotes entrepreneurial activity. Continued economic development of a country as well as population growth generally leads to increased power consumption.

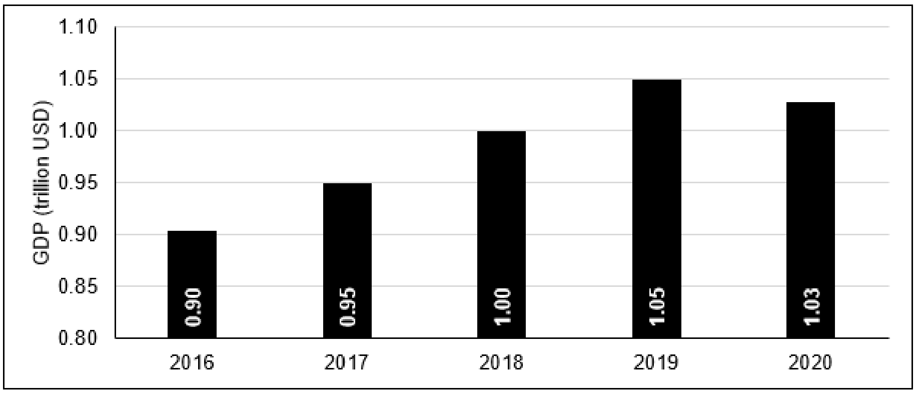
**Power generation and consumption, 2016 – 2020**



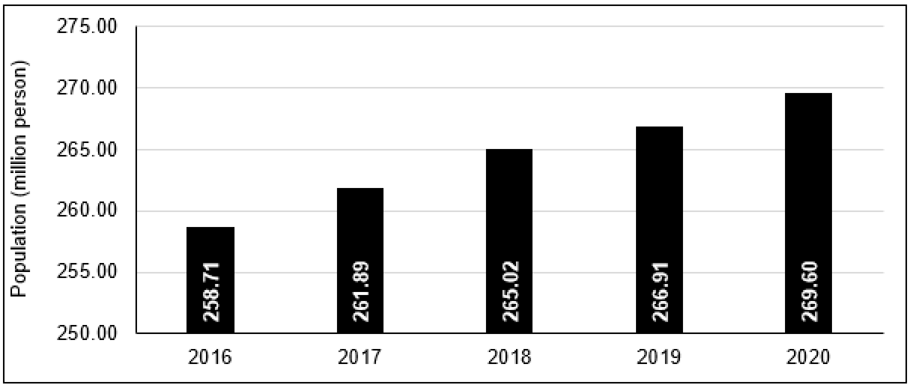

Indonesia's power consumption increased from 247.42 TWh in 2016 to 293.47 TWh in 2020 at a CAGR of 4.36%. Indonesia's power consumption, in general, grew in tandem with gross domestic product ("**GDP**") and population growth. Notwithstanding the increased power consumption trend throughout 2016 to 2020, Indonesia's power generation faced a decreased trend from 280.62 TWh in 2019 to 275.60 TWh in 2020, nevertheless power generation recorded a positive overall CAGR of 2.34% from 2016 to 2020. Indonesia's power generation was in deficit from 2017 to 2020, indicating that Indonesia imported electricity from neighbouring country (i.e. Malaysia) to meet its consumption demand.

Indonesia's GDP grew from USD0.90 trillion in 2016 to USD1.03 trillion in 2020 at a CAGR of 3.25%. Following the outbreak of the COVID-19 pandemic, Indonesia recorded a 2.07% year-on-year ("**YOY**") decrease in GDP from USD1.05 trillion in 2019 to USD1.03 trillion in 2020, indicating adverse economic conditions for the year. Despite the YOY decline in GDP growth, power consumption continued to increase YOY in 2020 albeit at a lower growth rate of 1.43%, driven by the continued needs for electricity to fuel daily activities as well as population growth which grew by 1.01% YOY in 2020. Between 2016 and 2020, the Indonesia's population grew at a CAGR of 1.04% from 258.71 million persons in 2016 to 269.60 million persons in 2020.

**<u>GDP of Indonesia, 2016 – 2020</u>**




**<u>Population of Indonesia, 2016 – 2020</u>**




As the economy gradually recovered, Indonesia's GDP grew by 3.69% in 2021, and is forecast to grow by 5.20% in 2022 as the COVID-19 situation is better contained and with vaccine rollout reaching 70% population coverage in most provinces in 2022. As the COVID-19 situation gradually becomes a norm, and commercial and industrial activities returning back to normal, improved consumer sentiment is expected to drive private consumption and contact-intensive services sectors, which thereby further drive the demand for electricity.

In the longer term, continuing economic development in Indonesia is expected to lead to higher power consumption given that electricity plays a key role in powering commercial and industrial activities for economic development. This is supported by the projection of PLN in the Electricity Business Plan 2021 – 2030, which indicates that in an optimistic scenario, power generation and sales in Indonesia are expected to increase from 275.60 TWh in 2020 to 409.00 TWh in 2030, at a CAGR of 4.03%; and power consumption per capita is expected to increase from 1,088.51 kWH in 2020 to 1,398.00 kWH in 2030, at a CAGR of 2.53%. This will in turn drive the demand for electricity in Indonesia including electricity generated from small hydropower plants, thereby supporting the growth of the small hydropower industry in Indonesia.

**(iii) Technology advancement in electrical and electronic ("E&E") products, digitalisation and e-commerce activities continue to drive demand for electricity -** E&E products have a varied and wide application in consumer, commercial and industrial environments. In the recent decade alone, E&E products have evolved in terms of technology and functionality, and are key components in consumer retail, medical, manufacturing, and telecommunications industries. For example, technological advancement has given rise to smart E&E products which are incorporated with Internet of Things (IoT) technology that allows these smart E&E products to be operated remotely. Product innovation and replacement, technology migration and low cost of product ownership of existing E&E products in the market shall lead to greater adoption and penetration of E&E products, where electricity supply will be key in ensuring the operability of these devices and/or machinery.

As Indonesia embarks into Industry 4.0, digital transformations are taking place in many industries to leverage on technology and machines to enhance workplace productivity by centralising, automating and improving business and production processes. Further, the COVID-19 pandemic since 2020 has accelerated digital transformation in many businesses, forcing businesses to digitalise their operations to enable employees to work remotely and carry out their tasks online, and undertake e-commerce to capture a larger customer base. Electricity is critical to support these activities in ensuring all the devices, machinery and equipment required to facilitate digitalisation and e-commerce activities can operate smoothly, which thereby drive the demand for electricity which subsequently, drives the prospects for small hydropower.

(Source: IMR report)

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### 5.3 Prospects and future plans of the Group

The Group is principally involved in the provision of electrical and M&E services in Malaysia. The Group provides electrical engineering services including the installation, testing and commissioning of electrical systems as well as mechanical engineering services including the installation, testing and commissioning of air-conditioning and mechanical ventilation systems. The nature of the Group's core business is project-based and its customers are primarily main contractors, project owners and property developers in Malaysia's construction industry.

As at the LPD, the Group's M&E segment has an outstanding order book balance of RM249.18 million, while there are RM210.00 million worth of tenders that are still pending. Some of the Group's notable projects include the installation, testing and commissioning of electrical systems for commercial properties like Pavilion Bukit Jalil in Kuala Lumpur as well as mixed developments like M-Centura, Gravit8 Phase 2, Sofiya Desa Park City and Southlink Bangsar in Kuala Lumpur.

Since 2019, the Group has begun to expand its business to include the provision of sustainable energy solutions. This forms part of the Group's long-term plan and vision to be a one-stop engineering and energy solutions provider in the industry. Under the sustainable energy solutions segment, the Group is involved in the provision of energy efficient solutions, clean energy generation and renewable energy generation as detailed below:-

#### (i) Energy efficient solutions

In the energy efficient solutions business, the Group is involved in the provision of customised energy efficiency solutions to promote more efficient and effective use of energy in residential, commercial and industrial buildings. These solutions are premised on data collection and analysis using the relevant software and hardware to enable the optimisation of energy consumption of an electrical system by monitoring and controlling various M&E equipment within the customers' site to ensure the intended functions are met with the least energy possible. These equipment may include, amongst others, heating, ventilation and air-conditioning equipment as well as lighting.

One of the energy efficient solutions that the Group provides is chiller optimisation. Chillers are used to regulate temperature in certain areas within a building to achieve the desired temperature. Chillers control the temperature of water using a cooling source such as a compressor. The chilled water is then piped throughout a building for air-conditioning purposes. Various sensors are used to measure temperature and humidity readings for chillers and the data are analysed using a software. The software also automates the control of chiller operations, resulting in less electrical energy consumption.

Chiller optimisation is a process that optimises chiller plants and heating, ventilation and air conditioning ("**HVAC**") systems through a data driven approach. Under this process, existing mechanical equipment such as chiller plants, ventilators, air handling unit ("**AHU**"), fan coil unit ("**FCU**") and light control are connected to a system which collects data from a network of on-site sensors and external data points such as the weather. Data collected by the sensors will be utilised by the system to perform calculations to derive the heat / cooling load, which in turn would be used to determine the optimum settings for the said mechanical equipment.

As at the LPD, the Group's energy efficiency solutions business has 15 projects which are in operation (6 in Malaysia, 9 in Thailand).

**(ii) Clean energy generation**

In the clean energy generation segment, the Group is involved in the following:-

(a) Cogeneration - generation of electricity and thermal energy (i.e. heat and steam) within the same system from a single fuel source, whereby the thermal energy recovered in cogeneration can be used for heating or cooling in industrial facilities or buildings.

(b) Waste heat recovery - waste heat from hot combustion gases released into the atmosphere and heat produced from industrial processes are captured and reused for generating mechanical or electrical energy.

Currently, the Group via Kiev CRG Sdn Bhd ("**Kiev CRG**"), an indirect wholly-owned subsidiary of the Company, has a contract to build, own, operate and transfer a captive combined heat and power (also known as cogeneration) plant with a capacity of 1.5 Megawatts ("**MW**") in Seremban, Negeri Sembilan. The generated electricity and heat will be sold to a third party for a period of 8 years under an energy purchase agreement for an estimated concession value of RM47.8 million. The construction of the cogeneration plant has since been completed and the plant has been operational since 1 January 2022, thus providing an additional stream of income to the Group.

In addition to the above, the Group via Dynagen Power (M) Sdn Bhd (formerly known as Konpro Industries Sdn Bhd) owns and operates a 2.2 MW waste heat recovery facility located in Negeri Sembilan. The energy generated therefrom is being sold to a third party via an energy purchase agreement executed in April 2017 for a concession period of 10 years for an estimated concession value of RM57.3 million. The waste heat recovery facility has been operational since July 2020, thus providing an additional stream of income to the Group.

**(iii) Renewable energy generation**

In the renewable energy solutions segment, the Group is involved in solar energy generation via installation of solar photovoltaic ("**PV**") panels for its clients through either of the following arrangements:-

(a) direct installation and sale of solar PV panels for clients as per the agreed design; and

(b) build-own-operate-transfer ("**BOOT**") model, whereby the Group will install solar PV panels at its clients' premises and will enter into a PPA with the client for the sale and purchase of the electricity generated by the solar system at an agreed rate throughout the concession period.

As at the LPD, the Group has 11 contracts (3 in Malaysia, 8 in Thailand) with a combined capacity of 15,004 kilowatt peak ("**kWp**") and a total estimated concession value of RM127.69 million.

With the Proposed Acquisition, the Group's renewable energy segment will have a new exposure to the hydropower industry on top of its existing exposure to the solar power industry. This is in line with the Group's overall business plan of expanding the sustainable energy solutions segment to provide additional sources of income to the Group on top of the existing contribution from its core M&E business.

As set out in Section 2.2 of this announcement, PT IME has an existing power purchase agreement with PLN, a state-owned company involved in the supply of electricity in Indonesia, whereby PT IME shall supply, through its Mini Hydro, electricity to PLN at specified tariff rates for an initial period of 20 years from its commercial operation date of 12 October 2021. Apart from the Mini Hydro, PT IME does not have any other major fixed assets that are revenue generating.

Moving forward, the Group will continue to explore opportunities to expand its sustainable energy solutions businesses in light of the rising demand for energy efficiency solutions and renewable energy due to increasing consumption of electricity as well as various government initiatives to drive these industries. Amongst others, there have been several tax incentives introduced by the Malaysia Investment Development Authority ("**MIDA**") to spur investment into green technology, including the Green Investment Tax Allowance, Green Income Tax Exemption for qualified green services and Green Income Tax Exemption for qualified green services for solar leasing activity. In addition, many corporates are now looking to comply with environmental, social and governance ("**ESG**") policies, which in turn may motivate these companies to seek out greener energy sources.

Premised on the above, the rationale and benefits of the Proposed Acquisition as set out in Section 3 of this announcement as well as the future prospects of PT IME vis-à-vis in the small hydropower industry in Indonesia as set out in Section 5.2 of this announcement, the prospects of the Group appear favourable moving forward.

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## 6. RISK FACTORS IN RELATION TO THE PROPOSED ACQUISITION

### 6.1 Non-completion risk

The completion of the Proposed Acquisition is conditional upon the fulfilment of the conditions precedent under the SPA as set out in Appendix II of this announcement. There is no assurance that the Proposed Acquisition can be completed within the time period permitted under the SPA. In the event that the conditions precedent is not obtained within the stipulated time period, the SPA may be terminated and the Proposed Acquisition will not proceed.

Nevertheless, KABEH and the Vendors shall endeavour to fulfil all their obligations and proactively engage with third parties to obtain all the necessary documents required for the completion of the Proposed Acquisition within the timeframe stipulated in the SPA. However, should there be any delay beyond the agreed timeframe, KABEH shall endeavour to negotiate with the Vendors to mutually extend the timeframe prior to its expiry.

### 6.2 Political, economic and regulatory risk

Upon completion of the Proposed Acquisition, the Group, via PT IME, will be susceptible to changes in the political, economic and regulatory conditions of Indonesia where PT IME operate in. Therefore, changes in the political, economic and regulatory conditions in Indonesia could adversely affect the financial or prospects of the Group. These may include, amongst others, risks of war, expropriation, nationalisation, changes in general economic, business or credit conditions, political or social development and changes in government policy such as changes in interest rates, inflation rate, taxation and currency exchange controls.

In respect of the above, KAB shall continuously monitor the political, economic and regulatory conditions in Indonesia so as to respond and adapt to any changes accordingly as and when they arise in the future.

### 6.3 Risk of changes in Indonesia's policies on foreign investments and repatriation of profits / dividends

Upon completion of the Proposed Acquisition, the Group, via PT IME, will be subject to the policies on foreign investment and repatriation of profits / dividends under the laws of Indonesia. As set out in Section 4 of this announcement, under the laws of Indonesia, there is no restriction against foreign investment in the industries where PT IME operate in, and there are no restrictions imposed on the repatriation of profits, dividends and capital save for payment of applicable taxes.

Notwithstanding the above, there can be no assurance that any changes to the Indonesia's policies on foreign investment and repatriation of profits / dividends in the future will not have a material effect on the Group. In order to mitigate the abovementioned risk, the Group will adopt a proactive approach in keeping abreast of the relevant policies in Indonesia on foreign investment and repatriation of profits / dividends in relation to PT IME.

### 6.4 Foreign currency risk

The reporting currency of the Group is in Ringgit Malaysia whilst the reporting currency of PT IME is in IDR. For reporting purposes, any adverse changes in IDR may result in foreign currency translation differences. No assurance can be given that any future significant exchange rate fluctuations or changes in foreign exchange control regulations will not have a material adverse impact on the Group’s operating results and financial conditions.

The management of KAB will continue to monitor the Group's foreign currency exposures and will take the necessary steps to minimise exchange rate exposures whenever deemed appropriate, for example, implementing a hedging policy.

## 7. EFFECTS OF THE PROPOSED ACQUISITION

### 7.1 Issued share capital and substantial shareholders' shareholdings

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

### 7.2 Net assets ("NA"), NA per share and gearing

For illustrative purposes, assuming the Proposed Acquisition had been effected at the end of FYE 31 December 2021, the pro forma effects of the Proposed Acquisition on the NA, NA per share and gearing of the Group are as follows:-

| | **Audited as at 31 December 2021 (RM'000)** | **After the Proposed Acquisition (RM'000)** |
|---|---|---|
| Share capital | 93,809 | 93,809 |
| Foreign currency translation reserves | 33 | 33 |
| Treasury shares | (4) | (4) |
| Retained profits | 30,853 | (1)35,275 |
| **Shareholders' equity / NA** | **124,691** | **129,113** |
| Non-controlling interest | 242 | 242 |
| **Total equity** | **124,933** | **129,355** |
| No. of shares in issue ('000) | 1,775,227 | 1,775,227 |
| NA per share (RM) | 0.07 | 0.07 |
| Total borrowings (RM'000) | 68,119 | 134,944 |
| Gearing (times) | 0.55 | 1.04 |

Note:-

(1) Including one-off pro forma gain on negative goodwill arising from the Proposed Acquisition. The negative goodwill is provisional and will be determined upon purchase price allocation exercise.

### 7.3 Earnings and earnings per share ("EPS")

Nevertheless, barring any unforeseen circumstances, the Proposed Acquisition is expected to contribute positively to the future earnings and EPS of the Group via the earnings contribution to be derived from PT IME as set out in Section 3 of this announcement.

For illustrative purposes, assuming the Proposed Acquisition had been effected at the beginning of the latest audited FYE 31 December 2021, the pro forma effects of the Proposed Acquisition on the consolidated earnings and EPS of KAB are as follows:-

| | | Audited as at 31 December 2021 (RM'000) | EPS[(1)] (sen) |
|---|---|---|---|
| Profit after taxation attributable to owners of the Company | | 4,072 | 0.27 |
| Less : | Loss after tax attributable to owners of PT IME | (2,966) | (0.20) |
| Add : | One-off pro forma gain on negative goodwill arising from the Proposed Acquisition | 4,422 | 0.29 |
| Less : | Estimated expenses in respect of the Proposed Acquisition | (760) | (0.05) |
| **Pro forma profit after taxation attributable to owners of the Company for the FYE 31 December 2021** | | **4,768** | **0.32** |

Note:-

(1) Computed based on the weighted average number of 1,505,990,736 shares in KAB for the FYE 31 December 2021.

### 7.4 Convertible securities

Save for the following, the Company does not have any other outstanding convertible securities as at the LPD:-

#### 7.4.1 Warrants

As at the LPD, there are 845,902,607 outstanding KAB warrants 2021/2024 ("**Warrants**"), which have an exercise price of RM1.20 each and are expiring on 29 April 2024.

In accordance with the provisions of the deed poll constituting the Warrants dated 14 April 2021, the Proposed Acquisition will not result in any adjustment to the exercise price and number of outstanding Warrants.

#### 7.4.2 ESOS Options

As at the LPD, the Company does not have any outstanding options granted pursuant to the existing employees' share option scheme of the Company ("**ESOS**") ("**ESOS Options**"). The Company has up to 271,185,865 ESOS Options which may be granted pursuant to the maximum allowable amount under the ESOS.

In accordance with the provisions of the by-laws governing the ESOS, the Proposed Acquisition will not result in any adjustment to the exercise price and number of granted ESOS Options (if any).

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## 8. APPROVALS REQUIRED AND CONDITIONALITY

### 8.1 Approvals required

The Proposed Acquisition is subject to approvals being obtained from the following:-

(i) the shareholders of KAB at an extraordinary general meeting to be convened for the Proposed Acquisition;

(ii) the relevant approvals from the Foreign Exchange Administration Department of BNM, if required; and

(iii) any other relevant authorities or parties, if required.

### 8.2 Conditionality

The Proposed Acquisition is not conditional upon any other corporate exercise / scheme being or proposed to be undertaken by the Company.

## 9. PERCENTAGE RATIO

The highest percentage ratio applicable for the Proposed Acquisition pursuant to Paragraph 10.02(g) of the Listing Requirements is 60.03%.

## 10. INTERESTS OF DIRECTORS AND MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

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

## 11. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposed Acquisition, including the salient terms of the SPA, the basis and justification for the Completion Amount as well as the rationale and benefits of the Proposed Acquisition, is of the opinion that the Proposed Acquisition is in the best interest of the Company.

## 12. ESTIMATED TIMEFRAME FOR COMPLETION

Subject to all required approvals being obtained, the Proposed Acquisition is expected to be completed in the 4$^{th}$ quarter of 2022.

## 13. ADVISER

Mercury Securities has been appointed by the Company to act as the Principal Adviser in relation to the Proposed Acquisition.

## 14. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the SPA is available for inspection at the registered office of KAB at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490, Kuala Lumpur, Malaysia during normal business hours from Mondays to Fridays (except public holidays) for a period of 3 months from the date of this announcement.

In observance of the good social distancing practice as recommended by the regulatory authority(ies), all inspection of documents at registered office of KAB could only be conducted by prior appointment only. For appointment(s) request, please contact +603-2084 9000 or email: info@sshsb.com.my.

This announcement is dated 29 July 2022.

A summary of the financial information of PT IME based on PT IME's audited financial statements for the FYE 31 December 2019, FYE 31 December 2020 and FYE 31 December 2021 is set out below:

| | FYE 2019 | | FYE 2020 | | FYE 2021 | |
|---|---|---|---|---|---|---|
| | IDR'000 | [1]RM'000 | IDR'000 | [1]RM'000 | IDR'000 | [1]RM'000 |
| Revenue | 15,743,962 | 4,676 | 8,680,032 | 2,578 | 10,951,816 | 3,253 |
| (Loss) before tax | (17,295,465) | (5,137) | (29,592,511) | (8,789) | 5,409,388 | 1,607 |
| (Loss) after tax | (17,505,145) | (5,199) | (27,173,226) | (8,070) | (9,988,045) | (2,966) |
| No of share in issue | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Net loss per share (RM) | (58.35) | (0.02) | (90.58) | (0.03) | (33.29) | (0.01) |
| Shareholders' funds / NA | (14,522,795) | (4,313) | (41,696,020) | (12,384) | (51,684,065) | (15,350) |
| NA per share (RM) | (48.41) | (0.01) | (138.99) | (0.04) | (172.28) | (0.05) |
| Current ratio (times) | 0.03 | 0.03 | 0.03 | 0.03 | 0.05 | 0.05 |
| Borrowings | 78,109,349 | 23,198 | 79,255,619 | 23,539 | 80,177,130 | 23,813 |
| Gearing (times) | (5.38) | (5.38) | (1.90) | (1.90) | (1.55) | (1.55) |

Note:-

(1) Based on the exchange rate of IDR100:RM0.0297 as published by BNM as at the LPD.

The audited financial statements of PT IME for the FYE 31 December 2019, FYE 31 December 2020 and FYE 31 December 2021 have been prepared in accordance with applicable approved Indonesian accounting standards and there was no audit qualification for the respective years under review. PT IME has not adopted any accounting policies which are peculiar to its operations for the respective years under review.

**Commentaries**

While the commercial operation date of the Mini Hydro was only achieved on 12 October 2021, revenue was recorded by PT IME in FYE 2019 and FYE 2020 due to the accounting standards which required PT IME to recognise revenue over time based on the cost incurred method. Further, the loss after tax incurred during the financial years under review based on the above were mainly arising from the set-up costs incurred and not capitalised for the Mini Hydro. This in turn resulted in the decrease in PT IME's total equity due to the increasing accumulated losses. The borrowings of PT IME were mainly utilised to finance the construction of the Mini Hydro.

PT IME's revenue is solely generated from the Mini Hydro.

The salient terms of the SPA are as follows:-

**1. Completion Amount**

The aggregate consideration for the purchase of the Sale Shares and the settlement of the Debt Sum under the SPA shall be a maximum sum of RM75,000,000 only where such sum shall be paid or part of such sum has been paid prior to the date of the SPA as follows:-

(i) a sum of RM10,000 only paid by KABEH to SCB prior to the date of the SPA (payment has been made and the receipt thereof has been acknowledged by the Vendors); and

(ii) KABEH shall, subject to the relevant clauses of the SPA, on or before the period of 3 months from the Unconditional Date (or such other date as may be agreed in writing between KABEH and the Vendors) ("**Completion Amount Date**"), cause or procure PT IME to apply the sum of RM74,990,000 towards settlement of the Debt Sum,

provided always the Unconditional Date shall take place on or before 31 October 2022. In the event the Unconditional Date takes place after 31 October 2022, then subject to KABEH having notified SCB (as the Vendors' representative) in writing of KABEH's intention to affirm the SPA or extend the conditional period despite its right of termination pursuant to the relevant clause of the SPA, KABEH and the Vendors (collectively, the "**Parties**") agree that the projected available cashflows after 31 October 2022 as determined in accordance with the SPA ("**Projected Available Cashflows**") shall be retained in PT IME and fully reserved for KABEH's disposal.

The Vendors acknowledge and agree that the Completion Amount paid and/or caused to be paid by KABEH shall be deemed as the full and final settlement for the consideration for the transfer of Sale Shares to KABEH and for the settlement of the Debt Sum. For the avoidance of doubt, where there are additional advances or debts (including the remaining Shareholders' Advances) owing by PT IME to the Vendors (if any) up to the Unconditional Date ("**Additional Debt Sum**") the Additional Debt Sum shall be capitalised into ordinary shares of PT IME and shall form part of the Sale Shares to be acquired by KABEH. KABEH shall not be required to pay any additional monies or consideration for such capitalised Additional Debt Sum.

**2. Earned Out Profit**

A sum of RM3,000,000 only being a maximum amount of the Earned Out Profit shall be payable by KABEH to SCB only in the event that:-

(i) the Mini Hydro based on its normal operation manner and manuals is able to achieve the net export energy of 61.13GWh within 1 year from the Unconditional Date;

(ii) KABEH shall pay the Earned Out Profit to SCB within 14 business days from the date of confirmation in writing by KABEH (the confirmation of which shall be issued by KABEH to SCB within 90 days from the expiry of the period stipulated in (i) above) that the Target Production has been achieved; and

(iii) in the event the Mini Hydro is unable to achieve the Target Production within 1 year from the Unconditional Date, KABEH shall issue a notice in writing to SCB and payment of the Earned Out Profit shall be deemed automatically waived. The written notification from KABEH shall be supported by documentary evidence as proof that the Target Production has not been achieved.

**3. Priority of payment**

The Parties agree that KABEH shall utilise the Completion Amount (subject to the retention of certain amounts[(1)] and adjustments[(2)]) in the following descending order of priority:-

(a) firstly, the BOC Loan shall be paid to the BOC to redeem and discharge the BOC Loan in accordance with the redemption statement issued by BOC;

(b) secondly, to pay / settle the Total Liabilities; and

(c) lastly, to deposit the remaining amount payable towards the Shareholders' Advances into the designated account which shall be deemed as full and final settlement of the Shareholders' Advances.

Notes:-

(1) Some amounts from the Completion Amount shall be retained in PT IME for other liabilities, withholding taxes and potential value added tax.

(2) The Parties acknowledge that where the allocation of Completion Amount towards the BOC Loan or Total Liabilities is required to be increased for full settlement thereof, an amount shall be deducted solely from the allocation for the payment towards the Shareholders Advances. For the avoidance of doubt, any permissible adjustments arising therefrom shall not in any way result in the reduction of the Completion Amount.

**4. Conditions precedent**

The conditions precedent of the SPA include, amongst others, the following:-

**4.1 Vendors' obligations**

The Vendors shall deliver or as the case may be, make available and/or cause to be released to KABEH's solicitors the following on or before the expiry of the period of 3 months from the date of the SPA or such further period as may be agreed in writing between KABEH and the Vendors ("**Conditional Period**")[(1)]:-

(a) a copy of the pre-acquisition announcement in at least one Indonesian newspaper and a copy of the announcement to PT IME's employees and each creditor in relation to the transfer of the Sale Shares from the Vendors to KABEH;

(b) the shareholders register of PT IME reflecting its current shareholding composition, and updated shareholders register and share certificates for PT IME with regard to the proposed transfer of the Sale Shares;

(c) the resolution of SCB and shareholders at a general meeting of SCB approving the sale of Sale Shares in the agreed terms;

(d) spousal consent, if any, in the event that any of the Vendors is married and did not have a pre-marital arrangement on the asset distribution;

(e) (for KABEH itself and as agent for PT IME) the certificates of incorporation, the original or certified true copies of the articles of association of SCB and PT IME, corporate seals (if any), cheque books, statutory and other books of PT IME (duly written up-to-date) (if any) the share certificates in respect of each of the Vendors;

(f) all the financial and accounting books and records of PT IME that are available and in PT IME's possession;

(g) (if KABEH so requires), irrevocable powers of attorney(s) (in such form as KABEH may reasonably require) executed by each of the holders of the Sale Shares in favour of KABEH to enable KABEH (pending registration of the relevant transfers) to exercise all voting and other rights attaching to the Sale Shares and to appoint proxies for this purpose;

(h) bank statements of all bank accounts of PT IME as at the date of execution of the SPA;

(i) a release, in a form satisfactory to KABEH, of all and any claims that any Vendor (or any member of such Vendor's group) has or may have against PT IME, duly executed by such Vendor (or the relevant member of the Vendor's group), if any; and

(j) capitalization of the Additional Debt Sum owing by PT IME to the Vendors up to the Unconditional Date and procuring shares issued pursuant to such capitalization to form part of the Sale Shares at no additional cost or consideration to KABEH.

Note:-

(1) Pursuant to the relevant clause of the SPA, the Conditional Period may be extended for a period of 1 month from the day following the expiry of the Conditional Period subject to KABEH having received from the Vendors, a written notice for a request for an extension of the Conditional Period, at least 14 days prior to the expiry of the Conditional Period. In the event that the Unconditional Date takes place after 31 October 2022, KABEH may notify SCB in writing of its intention to affirm the agreement or to extend the Conditional Period.

**4.2 Board of Directors' resolutions**

**(i) Vendors**

The Vendors shall procure the passing of board and members resolutions of PT IME in respect of inter alia:-

(a) (if so required by KABEH) revoking all existing authorities to bankers in respect of the operation of its bank accounts and giving authority in favour of such persons as KABEH may nominate to operate such accounts, to take effect on the Unconditional Date;

(b) approving the registration of the share transfers duly stamped and to take effect on the Unconditional Date;

and shall deliver to KABEH duly certified copies of such resolutions.

**(ii) KABEH**

KABEH shall procure the passing of board and members resolutions of KABEH in respect of inter alia:-

(a) approving the acquisition of the Sale Shares by KABEH from the Vendors.

**4.3 Shareholder resolutions**

**(i) Vendors**

The Vendors shall procure the passing in general meeting of PT IME:-

(a) an ordinary resolution accepting the resignation of each of the directors and commissioners of PT IME from their office as directors or commissioners and to take effect on the Unconditional Date, with acknowledgements signed by each of them in a form satisfactory to KABEH to the effect that they have no claim against PT IME;

(b) irrevocably waiving any and all rights over the Sale Shares conferred by the articles of association or other equivalent document and/or agreement of PT IME or in any other way are waived irrevocably by the persons entitled to them including without limitation, any rights of redemption, pre-emption, first refusal or transfer they may have with respect to the Sale Shares;

(c) approving the transfer and registration of the Sale Shares from the Vendors to KABEH or its assignee(s) to take effect on the Unconditional Date;

(d) approving the removal of the current board of directors, board of commissioners, company secretary and auditors to take effect on the Unconditional Date;

(e) approving the appointment of at least one new director and one new commissioner to take effect on the Unconditional Date,

and shall deliver to KABEH duly certified copies of such resolutions.

**(ii) KABEH**

KABEH shall procure the passing in general meeting of KABEH a resolution:-

(a) approving the acquisition of the Sale Shares by KABEH from the Vendors.

**5. Right to terminate**

5.1 If the Vendors' obligations specified in Section 4.1 of Appendix II of this announcement are not fully complied with by the Vendors by or on the Unconditional Date, KABEH shall be entitled (in addition to and without prejudice to all other rights or remedies available to KABEH including the right to claim damages) by written notice to the Vendors served on such date:-

(i) to elect to terminate the SPA without liability on the part of the terminating party; or

(ii) to effect completion of the Parties' obligations under the SPA so far as practicable having regard to the defaults which have occurred; or

(iii) to fix a new date for the fulfilment or waiver of the obligations in relation to the conditions precedent set out in the SPA by the Parties in which case the foregoing provisions of this section shall apply as so deferred but provided such deferral may only occur once.

5.2 If the SPA is terminated in accordance with Section 5.1 of Appendix II of this announcement, SCB shall within 5 business days, reimburse to KABEH:-

(i) the Sale Shares Consideration free of interest;

(ii) any part payment of the Completion Amount made by KABEH (if any); and

any sum of monies made by KABEH in relation to PT IME failing which, such sum shall be deemed as a debt owing by SCB to KABEH and KABEH shall be entitled to charge interest on such sum in accordance with the terms of the SPA until such sum is paid in full by SCB to KABEH. Without limiting the generality of the foregoing, KABEH shall be entitled to commence recovery proceedings against the Vendors for such outstanding sums. Thereafter, neither KABEH nor the Vendors shall have any claim under the SPA of any nature whatsoever against the other party except in respect of any rights and liabilities:-

(i) which have accrued before termination;

(ii) under the surviving provisions specified in the SPA; or

(iii) arising in respect of any fraud or willful misconduct of the Vendors or KABEH.

5.3 Simultaneously with the refund of monies to KABEH, the Parties shall comply with the consequence of termination as stipulated in the SPA (save in the case where termination is due to the inability to fulfil the conditions precedents of the SPA).