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

PROPOSED PRIVATE PLACEMENT OF UP TO 70,574,600 NEW ORDINARY SHARES IN KAB, REPRESENTING UP TO 20% OF THE TOTAL NUMBER OF ISSUED SHARES OF KAB, TO INDEPENDENT THIRD-PARTY INVESTORS TO BE IDENTIFIED LATER AT AN ISSUE PRICE TO BE DETERMINED LATER

1. INTRODUCTION

On behalf of the Board of Directors of KAB ("**Board**"), Mercury Securities Sdn Bhd ("**Mercury Securities**" or the "**Principal Adviser**") wishes to announce that the Company proposes to undertake the private placement of up to 70,574,600 new ordinary shares in KAB ("**KAB Shares**" or "**Shares**"), representing up to 20% of the total number of issued shares of KAB, to independent third party investors to be identified later, at an issue price to be determined later ("**Placement Shares**") ("**Proposed Private Placement**").

2. PROPOSED PRIVATE PLACEMENT

2.1 Size of placement

The Proposed Private Placement involves the issuance of up to 70,574,600 new KAB Shares, representing up to 20% of the total number of issued KAB Shares at an issue price to be determined later.

As at 2 October 2019, being the latest practicable date prior to this announcement ("**LPD**"), the issued share capital of the Company is RM38,558,672 comprising 352,873,100 KAB Shares (after excluding 1,126,900 treasury shares) and the Company has up to 105,861,930 options which may be granted by the Company pursuant to the maximum allowable amount under the employees' share option scheme of the Company ("**ESOS**") ("**ESOS Options**"). However, the Company does not intend to grant any ESOS Options prior to the completion of the Proposed Private Placement.

Based on the total number of 352,873,100 issued Shares (after excluding 1,126,900 treasury shares) as at the LPD, the Proposed Private Placement would entail the issuance of up to 70,574,600 Placement Shares, representing 20% of such total number of issued Shares (after rounding down to the nearest 100 Shares).

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

Please refer to Section 6.1 of this announcement for the effects of the Proposed Private Placement on the share capital of the Company.

2.2 Placement arrangement

The Placement Shares are intended to be placed to independent third-party investor(s) to be identified later. The Placement Shares are not intended to be placed to the following persons:-

(i) a director, major shareholder or chief executive of KAB ("**Interested Person**");

(ii) a person connected with an Interested Person; or

(iii) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

The Proposed Private Placement may be implemented in 1 or more tranches (as the placees may be identified and procured over a period of time rather than simultaneously) within a period of 6 months from the date of approval from Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the listing and quotation of the Placement Shares on the ACE Market of Bursa Securities or any extended period as may be approved by Bursa Securities, subject to the prevailing market conditions.

2.3 Ranking of the Placement Shares

The Placement Shares shall, upon allotment, issuance and full payment of the issue price, rank equally in all respects with the then existing issued Shares, save and except that the holders of such Placement Shares shall not be entitled to any dividend, rights, allotment and/or other distributions which may be declared, made or paid to the registered holders of KAB Shares ("**Shareholders**"), the entitlement date of which is prior to the date of issuance and allotment of the Placement Shares.

2.4 Listing of the Placement Shares

The Placement Shares to be issued will be listed on the ACE Market of Bursa Securities.

2.5 Basis and justification of the issue price of the Placement Shares

The Placement Shares will be issued based on a discount of not more than 10% to the 5-day volume-weighted average market price ("**VWAP**") of KAB Shares immediately preceding the price-fixing date, to be determined by the Board after taking into consideration the prevailing market conditions.

As the Proposed Private Placement may be implemented in several tranches within 6 months, there could potentially be several price fixing dates and issue prices.

For illustrative purposes only, based on an illustrative issue price of RM0.3839 per Placement Share, the issue price of the Placement Shares would represent a discount of approximately 9.99% to the 5-day VWAP of KAB Shares up to and including the LPD of RM0.4265 *(Source: Bloomberg)*.

3. UTILISATION OF PROCEEDS

Based on an illustrative issue price of RM0.3839 per Placement Share, the gross proceeds to be raised from the Proposed Private Placement are intended to be utilised in the following manner:-

Utilisation of proceeds	Expected timeframe for utilisation from completion of the Proposed Private Placement	[(1)]RM'000
(i) Expansion of customised energy efficiency solutions business	Within 24 months	17,000
(ii) Project costs and expenses	Within 24 months	4,500
(iii) Acquisition and/or investment in other complementary businesses and/or assets	Within 24 months	4,694
(iv) Estimated expenses for the Proposed Private Placement	Immediate	[(2)]900
Total		**27,094**

Notes:-

(1) *The proceeds raised from the Proposed Private Placement will be allocated up to the respective maximum allocation set out in (i) to (iv) above in the following order of priority:-*

- *(i)* *estimated expenses for the Proposed Private Placement;*
- *(ii)* *expansion of customised energy efficiency solutions business;*
- *(iii)* *project costs and expenses; and*
- *(iv)* *acquisition and/or investment in other complementary businesses and/or assets.*

Any additional proceeds raised in excess of RM27.1 million will be allocated for acquisition and/or investment in other complementary businesses and/or assets.

(2) *Any excess in the actual amount of expenses incurred will be satisfied via internally-generated funds. Conversely, any surplus of funds following payment of expenses will be for acquisition and/or investment in other complementary businesses and/or assets.*

(i) Expansion of customised energy efficiency solutions business

KAB Group is principally involved in the provision of mechanical and electrical ("**M&E**") engineering services. Recognising the importance for various businesses, organisations and communities to adopt a more efficient use of electrical energy, KAB Technologies Sdn Bhd ("**KABT**") (a wholly-owned subsidiary of KAB) was incorporated on 3 April 2018 and commenced business on 1 November 2018 with the aim of providing customised energy efficiency solutions to promote more efficient and effective use of energy in residential, commercial and industrial buildings. Currently, KABT's business is focused in Klang Valley but the company also intends to expand to other parts of Malaysia, including Penang and Johor as well as overseas markets.

KABT's customised energy efficiency solutions enable the optimisation of energy consumption of an electrical system by monitoring and controlling various M&E equipment within the customers' site, including heating, ventilation and air-conditioning equipment as well as lighting, to ensure the intended functions are met with the least energy possible.

These energy efficiency solutions are premised on data collection and analysis using the relevant software and hardware. The data on parameters include current (or ambient) temperature of the areas or rooms in a building, chilled water temperature in chillers and energy consumption of various M&E equipment. These data are collected and analysed for the calculation of electrical energy demand as well as other relevant information to facilitate automated control actions, to ensure daily operations are carried out with less electrical energy consumption.

To achieve this purpose, various energy management measures are offered, including, but not limited to, the following:

(a) 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.

(b) High efficiency lighting

Light-emitting diode lights are installed in place of existing less energy-efficient lights such as conventional fluorescent lighting for less electrical energy consumption.

(c) Building management systems

Building management systems are used to monitor and control M&E equipment as well as extra-low voltage ("**ELV**") equipment such as closed-circuit televisions and building alarms to ensure daily operations are carried out more efficiently (e.g. less manpower required to monitor and control the functioning of M&E and ELV equipment).

(d) Combined heat and power (cogeneration) and combined cooling, heat and power (trigeneration)

Cogeneration is the generation of electricity and thermal energy (i.e. heat and steam) within the same system. Thermal energy recovered in cogeneration can be used for heating or cooling in industrial environments or buildings. Unlike the conventional method used in the production of electricity, cogeneration captures the thermal energy that would normally be dissipated and lost.

In trigeneration, energy efficient cooling can be achieved using waste thermal energy. The waste thermal energy is passed through an absorption chiller and is used to separate the refrigerant liquid and absorber liquid in the absorption chiller. A refrigerant liquid is used to extract heat from its surroundings while an absorber liquid is used to absorb the refrigerant liquid back into the absorption chiller to perpetuate the cooling cycle.

Cogeneration and trigeneration increase the overall efficiency of power generation by harnessing the excess heat and steam that would otherwise be lost and consequently increase the efficiency of the usage of energy.

(e) Waste heat recovery

Waste heat from hot combustion gases released into the atmosphere and heat produced from industrial processes are captured and reused for heating or generating mechanical or electrical energy.

In addition, KABT is able to source and adopt other energy efficiency measures into their solutions as and when needed to meet customers' requirements.

Revenue from the customised energy efficiency solutions business is expected to be derived via the following manner:-

(a) Energy performance contracting ("EPC") contracts

An EPC contract is an agreement between a provider of energy efficiency solutions and a customer who intends to implement energy efficiency solutions. Under an EPC contract, the provider of energy efficiency solutions will design, install and implement energy efficiency solutions at the customer's site.

The energy efficiency solutions will be financed by the provider of energy efficiency solutions. The electrical energy savings in terms of kilowatt hours will be shared between the provider of energy efficiency solutions and the customers at a pre-agreed profit sharing ratio over the period of the EPC contract.

KABT charges monthly fees to its customers throughout the EPC contract period. This monthly fee is calculated based on the monthly electrical energy savings derived from the difference between actual monthly electrical energy consumption and a pre-determined electrical energy consumption benchmark.

The energy consumption benchmark is determined before a contract commences by taking into consideration the customer's historical electrical energy consumption. KABT will finance the cost associated with the design and installation of its customised energy efficiency solutions.

The duration of EPC contracts varies in accordance with the total cost and size of a project. As at the LPD, KABT has 2 EPC contracts in hand with duration ranging from 4 to 6 years, commencing from 2019 up to 2025.

(b) Maintenance and technical support contracts

Upon maturity of an EPC contract, the ownership of certain functions within the customised energy efficiency solutions will be transferred to KABT's customers. Thereafter, any further maintenance and technical support rendered to customers will be charged separately.

KABT may charge an annual fee throughout the service and maintenance contract period. KABT may also charge an ad-hoc fee as and when further services are required, which are beyond the scope of the maintenance and technical support contracts.

As at the LPD, KABT has no on-going maintenance and technical support as none of its EPC contracts have reached maturity.

(c) Outright purchase

Alternatively, KABT may also offer its customised energy efficiency solutions to customers via outright purchase. In this instance, the entire solution will be owned by a customer and the customer will bear the entire cost associated with the design and installation of the solution. This will involve a one-off upfront payment by the customer to KABT.

For an outright purchase, there will not be any monthly fee charged to customers based on electrical energy savings. Any maintenance and technical support services rendered to the customers will be charged separately.

In view of the foregoing, the Group's funding requirement for the expansion of its customised energy efficiency solutions business is as follows:-

Utilisation	**Description**	**RM'000**
Development of chiller optimisation solution	Procurement of servers and ancillary network equipment, wages and expenses in relation to the development and testing of the solution	4,000
Funding for current / future EPC contracts	Funding for implementation of customised energy efficiency solutions at customer premises / facilities including the purchase and installation of hardware such as sensors, meters, transmitters, thermostats, switches and any other related hardware	8,500
Marketing expenses	Marketing and advertising costs through exhibition and roadshows	4,500
Working capital	Operating and administrative expenses such as contractor fees, staff costs, utilities and maintenance costs for chiller optimisation solution	3,000
Total		**20,000**

Given the above, the Group intends to utilise proceeds of RM17.0 million from the Proposed Private Placement to part-finance the above funding requirement. The excess shall be met via existing cash reserves, internally-generated funds, bank borrowings and/or any other fund-raising exercises to be undertaken, if required. However, the actual funding breakdown for the excess cannot be determined at this juncture as it will depend on the availability and suitability of other funding options at the relevant time.

Moving forward, depending on the success of the expansion of the customised energy efficiency solutions business, the Group may market these solutions to cover other countries such as Thailand, Indonesia and Vietnam. As part of the expansion plan, the Group intends to collaborate with energy solutions provider from these countries. The exact timing and future plans cannot be determined at this juncture as it will depend on, amongst others, the market's reception towards the customised energy efficiency solutions offered by the Company as well as the availability and suitability of funding options at the relevant time.

(ii) Project costs and expenses

The ability of the Group to secure more project tenders lies in its financial strength. In this instance, the Group is often required to provide tender deposits, tender bonds and/or performance bonds, usually in the form of bank guarantees representing a certain percentage of the contract sum. Tender bonds and performance bonds are commonly required in the construction industry as a means of securing a client against the performance of a contractor against its contractual obligations.

As at the LPD, the order book for the Group's M&E projects stood at approximately RM309.0 million. In addition, the Group also has tender book of approximately RM306.0 million. As such, the Group intends to allocate proceeds of RM4.5 million for tender deposits or performance bonds in order to secure such projects.

(iii) Acquisition and/or investment in other complementary businesses and/or assets

The proceeds of RM4.7 million are earmarked to finance any potential acquisitions and/or investments in similar or other complementary businesses and/or assets when the opportunity arises for future business expansion of KAB Group.

These acquisitions and/or investments may include businesses and/or assets within KAB's core business in the electrical and mechanical engineering services industry, as well as businesses and/or assets within the same value chain, and such other businesses and/or assets which the Board may deem beneficial and are complementary to the Group's business expansion.

The Board is continuously exploring for opportunities to acquire and/or invest in such businesses and/or assets. As at the LPD, the Board has yet to identify any specific business and/or assets for acquisition and/or investment. The Group will make the necessary announcements as provided for in the ACE Market Listing Requirements ("**Listing Requirements**"). In the event that Shareholders' approval and/or other regulatory bodies' approvals are required, the necessary approvals will be sought as per the provisions in the Listing Requirements or such other regulatory bodies.

Pending the identification of new businesses and/or assets to be invested in, the Company will place the unutilised cash proceeds in interest-bearing bank deposits and/or money market financial instruments.

If the Company is unable to identify suitable investments within 24 months from the completion of the Proposed Private Placement, the timeframe for the utilisation of proceeds that has been allocated for the said purpose will be extended and announced as well as disclosed in KAB's quarterly result announcements until the Group has successfully identified suitable businesses and/or assets to acquire and/or invest in.

(iv) Estimated expenses for the Proposed Private Placement

The breakdown of the estimated expenses for the Proposed Private Placement is illustrated below:-

Estimated expenses	Amount RM'000
Professional fees[(1)]	850
Fees to relevant authorities	20
Printing, despatch and advertising expenses	30
Total	**900**

Notes:-

(1) These include advisory fees, management fees, placement commission and other professional fees payable to the Company Secretarial Agent, Share Registrar and Solicitors in relation to the Proposed Private Placement.

4. RATIONALE FOR THE PROPOSED PRIVATE PLACEMENT

As detailed in Section 3 of this announcement, the proceeds raised from the Proposed Private Placement will be utilised mainly to facilitate the expansion of the Group's customised energy efficiency solutions business. This is in line with the Group's initiative to expand its offerings that can complement its existing M&E engineering business while providing an additional source of income. In turn, this is expected to contribute positively to the earnings of the Group.

After due consideration of the various methods of fund raising, the Board is of the opinion that the Proposed Private Placement is the most appropriate avenue of fund raising at this juncture as it would enable the Group to raise additional funds expeditiously without having to incur interest costs or service principal repayments as compared to bank borrowings, thereby allowing the Company to preserve its cash flow.

Upon completion of the Proposed Private Placement, the enlarged capital base is also expected to further strengthen the financial position of the Company.

5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS

5.1 Malaysian economy

The Malaysian economy grew at stronger pace of 4.9% in the second quarter of 2019. Gross domestic product registered a higher growth of 4.9% in the second quarter of 2019 (1Q 2019: 4.5%), supported by continued expansion in domestic demand. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.0% (1Q 2019: 1.1%).

Domestic demand expanded by 4.6% in the second quarter (1Q 2019: 4.4%), supported by firm household spending and slightly higher private investment.

Private consumption expanded by 7.8% (1Q 2019:7.6%), supported by continued income growth and festive spending during the quarter. Selected Government measures, such as the special Aidilfitri assistance and Bantuan Sara Hidup, also provided some lift to overall household spending.

Growth in the manufacturing sector registered a marginal improvement at 4.3% (1Q 2019: 4.2%) amid better performance in the domestic-oriented industries. Higher production of motor vehicles mainly reflected strong sales during the festive season. Demand for metal related materials for existing transport and infrastructure projects supported the higher production within the construction-related cluster. Meanwhile, within the export-oriented industries, the production of electronic components continued to be weighed by weaker global demand, with negative spillovers across the global semiconductor value chain.

*(Source: Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2019, Bank Negara Malaysia ("**BNM**"))*

The outlook for the Malaysian economy remains resilient in the near term despite considerable external and domestic headwinds. Real gross domestic product is projected to expand 4.8% and 4.9% in 2018 and 2019, respectively, supported mainly by domestic demand. Private sector expenditure, in particular, household spending will remain as the anchor of growth following a continuous increase in employment and wage amid benign inflation. Meanwhile, private investment will be supported by new and ongoing projects in the services and manufacturing sectors. On the contrary, public expenditure is expected to grow marginally in 2018 and contract in 2019 following the lower capital outlays by public corporations.

(Source: Economic Outlook 2019, Ministry of Finance Malaysia)

5.2 Overview and outlook of the construction industry in Malaysia

KAB Group is principally involved in the electrical and mechanical engineering business. The Group is usually appointed as a sub-contractor for electrical engineering services either by the main contractor or project owner of a particular building or construction project. Hence, the prospects of KAB Group is dependent on the prospects of the construction sector in Malaysia as set out below.

The value of construction work done in the second quarter 2019 recorded a growth of 0.8 per cent year-on-year, amounting to RM35.9 billion (Q1 2019: RM37.4 billion).The expansion in value of construction work done was driven by positive growth in the Civil engineering sub-sector with 8.2 per cent and Special trades activities sub-sector with 5.9 per cent.

However, the Residential buildings sub-sector and Non-residential buildings sub-sectors growth reduced to 1.1 per cent and 9.3 per cent respectively. The Civil engineering sub-sector remained as the key contributor to the value of construction work done with 44.8 per cent share. This was followed by Non-residential buildings (25.3%), Residential buildings (24.5%) and Special trades activities (5.4%). The private sector continued to propelled the construction activity with 55.2 per cent share of value of construction work done (RM19.8 billion) as compared to the public sector with 44.8 per cent share of value of construction work done (RM16.1 billion).

(Source: Quarterly Construction Statistics Second Quarter 2019, Department of Statistics Malaysia, published on 9 August 2019)

The construction sector recorded a moderate growth of 4.2% (2017: 6.7%) due to weaknesses in the property segment. Growth in the construction sector moderated to 4.2% in 2018 (2017: 6.7%). The moderation was on account of weaknesses in the property segment, as the higher levels of unsold residential properties and the oversupply in commercial property weighed on growth in the residential and non-residential sub-sectors respectively. Nevertheless, the civil engineering sub-sector remained the key driver of growth for the construction sector, supported by continued progress of large petrochemical, transportation, and utility projects. The special trade sub-sector benefited from early works activity from large transportation projects and additional support from solar projects.

Growth in the construction sector moderated to 4.2% in 2018 (2017: 6.7%). The moderation was on account of weaknesses in the property segment, as the higher levels of unsold residential properties and the oversupply in commercial property weighed on growth in the residential and non-residential sub-sectors respectively.

(Source: BNM's Annual Report 2018, BNM, published on 27 March 2019)

5.3 Overview and outlook of the energy efficiency industry

Energy efficiency is achieved through modes of energy management and energy conservation, with the objective to reduce energy consumption in performing the same task. Energy management comprises the tracking, monitoring and planning of energy usage to control and optimise energy consumption in a building. Energy conservation involves the behaviour or act of conserving energy usage that can produce positive outcome in reducing energy consumption.

The adoption of energy efficiency aims to achieve cost savings and reduce greenhouse gas emissions, while optimising energy consumption and ensuring the safety of occupants through timely identification and rectification of faults and failures in buildings and equipment. Energy performance contracting is a method often adopted by companies that intend to incorporate energy efficiency solutions into their buildings without large upfront capital investments.

The growth of the energy efficiency industry is built on the growth of electricity consumption in the country. The total volume of electricity consumption in Malaysia grew from 124,706 gigawatt hours ("**GWh**") in 2015 to 138,297 GWh in 2017, at a compound annual growth rate ("**CAGR**") of 5.31%, supported by the growth in the total number of consumers from 9.66 million premises in 2015 to 10.05 million premises in 2017. The continued growth in the total number of consumers is expected to drive the growth in total electricity consumption and hence, total electricity consumption is estimated to reach 142,474 GWh in 2018 and 146,776 GWh in 2019.

The total revenue derived from consumers for the consumption of electricity in Malaysia grew from RM46.23 billion in 2015 to RM50.13 billion in 2017 at a CAGR of 4.13%. In view of the estimated increase in the volume of electricity consumption, the total revenue derived from consumers for the consumption of electricity in Malaysia is also expected to increase, reaching an estimated value of RM51.69 billion in 2018 and RM53.29 billion in 2019.

Smith Zander International Sdn Bhd ("**SMITH ZANDER**") forecasts the volume of electricity consumption to grow from 151,209 GWh in 2020 to 159,919 GWh in 2022 at a CAGR of 2.84%, with the total revenue derived from consumers for the consumption of electricity expected to grow from RM54.77 billion in 2020 to RM57.63 billion in 2022 at a CAGR of 2.58%.

The potential size of the energy efficiency industry is estimated by measuring the potential cost savings, ranging between 2.80% and 5.00%, that can be achieved from the forecast electricity consumption in value terms between 2020 and 2022. Based on the above, the accumulated potential electricity cost savings that can be achieved in Malaysia between 2020 and 2022 is expected to be RM6.61 billion.

The growth of the energy efficiency industry is expected to be driven by increasing electricity consumption and rising prices of electricity, particularly from the commercial and industrial sectors. The commercial and industrial sectors were the two highest consumers of electricity in 2017 whereby it collectively contributed to 77.55% of the total electricity consumption in Malaysia.

Energy Commission Malaysia has increased the level of base tariff from 38.53 sen per kilowatt hours ("**kWh**") for the period between 2015 and 2017 to 39.45 sen per kWh effective for the period of 2018, 2019 and 2020. The base tariff and imbalance cost pass through methodology are used by utility providers to determine the selling prices per unit of electricity to consumers depending on the generation cost of electricity. In view of the increase in the level of base tariff, the average selling prices per unit of electricity, for the commercial and industrial sectors combined, is expected to increase to 34.86 sen per kWh in 2018 and 35.07 sen per kWh in 2019.

The continued enhancement of technology used in the provision of energy efficiency solutions is expected to continue driving the demand for energy efficiency solutions. Further, growth of the energy efficiency industry is also to be driven by Government initiatives such as implementation of the National Energy Efficiency Action Plan 2016-2025 and funding for energy performance contracting. Notwithstanding that, the growth of the energy efficiency industry may be restrained by high initial capital investments and lack of financing for energy efficiency projects.

(Source: Independent market research report by SMITH ZANDER)

5.4 Prospects and future plans of KAB Group

KAB Group is principally involved in the provision of M&E engineering services. Electrical engineering services is the Group's core business activity and involves the installation, testing and commissioning of electrical systems. The Group also provides mechanical engineering services including installation, testing and commissioning of air-conditioning and mechanical ventilation systems.

During the FYE 31 December 2018, KAB's revenue was contributed mainly by its electrical engineering services segment which was derived from its commercial projects and residential projects. The remaining revenue was contributed by its mechanical engineering segment. KAB intends to grow its market share by increasing tendering activities, specifically in the affordable housing sector. The Group is also focusing on the expansion of its business beyond the Klang Valley area.

Moving forward, KAB intends to strengthen its presence in the area of maintenance services to further generate income beyond project completion. In this regard, KAB aims to offer various maintenance services including upgrading, expansion, refurbishment, retrofitting and renovation of existing buildings. Since all buildings will eventually require maintenance due to wear and tear, this segment is expected to be more resilient against any potential downturn in the property market.

By increasing its presence in maintenance services, KAB may also reduce its reliance on new construction projects and therefore mitigate any adverse effects to its revenue in the event of any slowdown in construction activity for new buildings in the future.

In addition, the Group also intends to expand into the customised energy efficiency solutions business, which will complement its existing M&E engineering services. With the addition of KABT's energy efficiency solutions to the range of services offered by KAB, the Group will be able to expand its scope of work within M&E engineering services and to capture a wider base of customers.

Taking into account the above factors, KAB's management remains optimistic of the Group's future prospects.

(Source: Management of KAB)

6. EFFECTS OF THE PROPOSED PRIVATE PLACEMENT

6.1 Share capital

The pro-forma effects of the Proposed Private Placement on the issued share capital of the Company are as follows:-

	No. of KAB Shares	Share capital RM
Issued share capital as at the LPD	(1)352,873,100	38,558,672
New Shares to be issued pursuant to the Proposed Private Placement	70,574,600	(2)27,093,589
Enlarged issued share capital	**423,447,700**	**65,652,261**

<u>*Notes:-*</u>

(1) Excludes the 1,126,900 treasury shares held by the Company as at the LPD which are not intended to be resold in the market.

(2) Based on the illustrative issue price of RM0.3839 per Placement Share (based on approximately 10% discount to the 5-day VWAP of KAB Shares up to and including the LPD of RM0.4265)

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6.2 Net assets and gearing

The pro-forma effects of the Proposed Private Placement on the net assets ("**NA**") and gearing of the Group are as follows:-

	Audited as at 31 December 2018 RM'000	(I) After subsequent events[(1)] RM'000	(II) After (I) and the Proposed Private Placement[(2)] RM'000
Share capital[(3)]	32,000	38,559	65,652
Foreign currency translation reserve	[(4)]-	[(4)]-	[(4)]-
Retained earnings	16,262	14,662	[(5)]13,762
Shareholders' equity / NA	**48,262**	**53,221**	**79,414**
Non-controlling interest	(5)	(5)	(5)
Total equity	**48,257**	**53,215**	**79,409**
No. of KAB Shares in issue ('000)	320,000	352,873	423,448
NA per KAB Share (RM)	0.15	0.15	0.19
Total borrowings (RM'000)	9,811	9,811	9,811
Gearing (times)	0.20	0.18	0.12

Notes:-

(1) After taking into account the following:-

- *(i) issuance of 34,000,000 new Shares at the issue price of RM0.20 each arising from the special issue which was completed on 17 June 2019;*
- *(ii) distribution of cash dividend amounting to RM1.60 million to Shareholders during the second quarter ended 30 June 2019; and*
- *(iii) acquisition of 1,126,900 Shares held as treasury shares from the open market at prices ranging between RM0.21 to RM0.215.*

(2) Based on the issuance of 70,574,600 Placement Shares at an illustrative issue price of RM0.3839 each (based on approximately 10% discount to the 5-day VWAP of KAB Shares up to and including the LPD of RM0.4265).

(3) Excludes treasury shares.

(4) Less than RM1,000.

(5) After deducting estimated expenses incidental to the Proposed Private Placement of RM0.90 million.

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6.3 Substantial shareholders' shareholdings

The pro-forma effects of the Proposed Private Placement on the substantial Shareholders' shareholdings based on the register of substantial Shareholders of the Company as at the LPD are as follows:-

	As at the LPD				(I) After the Proposed Private Placement			
	Direct		Indirect		Direct		Indirect	
Substantial shareholders	**No. of KAB Shares**	**[1]%**	**No. of KAB Shares**	**[1]%**	**No. of KAB Shares**	**[2]%**	**No. of KAB Shares**	**[2]%**
Dato' Lai Keng Onn	144,000,000	40.81	-	-	144,000,000	34.01	-	-
GAT Success (M) Sdn Bhd ("**GAT**")	40,000,000	11.34	-	-	40,000,000	9.45	-	-
Faith Chow Poh Ten	47,771,300	13.54	[3]1,778,000	[3]0.50	47,771,300	11.28	[3]1,778,000	[3]0.42
Everest Pavilion Sdn Bhd ("**EPSB**")	-	-	[4]40,000,000	[4]11.34	-	-	[4]40,000,000	[4]9.45
Cherry Anne Tong Chun Ling	-	-	[5]40,000,000	[5]11.34	-	-	[5]40,000,000	[5]9.45

Notes:-
(1) Based on the issued share capital of 352,873,100 KAB Shares (excluding 1,126,900 treasury shares) as at the LPD.
(2) Based on the enlarged issued share capital of 423,447,700 KAB Shares (excluding 1,126,900 treasury shares).
*(3) Deemed interest in the shares held by Regalis Investment Ltd pursuant to Section 8 of the Companies Act 2016 ("**Act**").*
(4) Deemed interest in the shares held by GAT pursuant to Section 8 of the Act.
(5) Deemed interest by virtue of her interest in EPSB pursuant to Section 8 of the Act. EPSB is deemed interested in the shares held by GAT pursuant to Section 8 of the Act.

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6.4 Earnings and earnings per Share

The Board expects the Proposed Private Placement to contribute positively to the future earnings of the Group via the utilisation of proceeds as set out in Section 3 of this announcement.

Subsequent to the completion of the Proposed Private Placement, the earnings of the Group shall be correspondingly diluted as a result of the increase in the number of Shares arising from Proposed Private Placement.

The potential effects of the Proposed Private Placement on the consolidated earnings of KAB moving forward will depend on, amongst others, the number of Placement Shares to be issued and the level of returns generated from the utilisation of the proceeds to be raised from the Proposed Private Placement.

6.5 Convertible securities

As at the LPD, there are up to 105,861,930 ESOS Options which may be granted pursuant to the maximum allowable amount under the ESOS. However, the Company does not intend to grant any ESOS Options prior to the completion of the Proposed Private Placement.

Save for the above, the Company does not have any other outstanding convertible securities as at the LPD.

7. APPROVALS REQUIRED AND CONDITIONALITY

7.1 Approvals required

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

(i) Bursa Securities for the listing and quotation of the Placement Shares;

(ii) shareholders of the Company at an extraordinary general meeting to be convened for the Proposed Private Placement; and

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

7.2 Conditionality

The Proposed Private Placement is not conditional upon any other corporate exercise / scheme being or proposed 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 to them have any interest, direct or indirect, in the Proposed Private Placement.

9. DIRECTORS' STATEMENT

The Board, having considered the current and prospective financial position, needs and capacity of the Group, and after careful deliberation and taking into consideration the rationale, utilisation of proceeds and all other aspects of the Proposed Private Placement, is of the opinion that the Proposed Private Placement is in the best interests of the Company.

10. APPLICATION TO THE AUTHORITIES

The application in relation to the Proposed Private Placement will be submitted to Bursa Securities on even date.

11. ESTIMATED TIMEFRAME FOR COMPLETION

Subject to all relevant approvals being obtained, the Proposed Private Placement is expected to be completed by the fourth quarter of 2019.

12. ADVISER

Mercury Securities has been appointed by KAB to act as the Principal Adviser for the Proposed Private Placement.

This announcement is dated 10 October 2019.