

GUAN CHONG BERHAD (“GCB” OR “COMPANY”)

PROPOSED PRIVATE PLACEMENT OF SHARES

1. INTRODUCTION

On behalf of the Board of Directors of GCB (“**Board**”), AmInvestment Bank Berhad (“**AmInvestment Bank**”) wishes to announce that the Company proposes to undertake a private placement of up to 47,780,475 new ordinary shares in the Company (“**GCB Shares**”) (“**Placement Shares**”), representing up to 10% of the Company’s existing issued ordinary share capital (excluding treasury shares) (“**Proposed Private Placement of Shares**”).

An approval was obtained from the shareholders of the Company (“**Shareholders**”) at its last Annual General Meeting (“**AGM**”) convened on 28 May 2018 for the Board to allot and issue new GCB Shares not exceeding 10% of the Company’s issued share capital for the time being pursuant to Sections 75 and 76 of the Companies Act, 2016 (“**Act**”), until the conclusion of the next AGM unless revoked or varied by the Shareholders at a subsequent general meeting (“**General Mandate**”).

2. DETAILS OF THE PROPOSED PRIVATE PLACEMENT OF SHARES

2.1 Size of the Proposed Private Placement of Shares

The Proposed Private Placement of Shares would entail the issuance of up to 47,780,475 Placement Shares, representing up to 10% of the issued share capital of GCB (excluding treasury shares) to investors to be identified at a later date.

As at 11 February 2019, being the latest practicable date preceding the date of this announcement (“**LPD**”), the issued share capital of the Company is RM116,484,701 comprising 477,804,752 GCB Shares (excluding treasury shares). The Company does not have any outstanding convertible securities which remain unexercised or unconverted.

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

The issue price of the Placement Shares will be fixed and announced at a later date by the Board after receiving the relevant approvals for the Proposed Private Placement of Shares (“**Price Fixing Date**”).

The issue price of the Placement Shares shall be determined at a later date and shall be fixed at a discount of not more than 10% of the volume weighted average market price (“**VWAP**”) of GCB Shares for the five (5) market days immediately prior to the Price Fixing Date.

For illustrative purposes only, assuming a 10% discount to the five (5)-day VWAP of GCB Shares up to and including the LPD of RM3.3985, the indicative issue price of the Placement Shares would be RM3.06 (“**Illustrative Issue Price**”).

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2.3 Placement arrangement

The Placement Shares shall be offered to independent third party investor(s) to be identified later in accordance with Paragraph 6.04(c) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) (“**MMLR**”). Placee(s) shall be person(s) or party(ies) who/which qualify under Schedules 6 and 7 of the Capital Markets and Services Act 2007.

The Placement Shares are not intended to be placed to the following persons:-

- (i) a director, major shareholder or chief executive of GCB (“**Interested Person**”);
- (ii) a person connected with the Interested Person; or
- (iii) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

Subject to prevailing market conditions and timing of identification of placee(s), the Proposed Private Placement of Shares may be implemented in one (1) or more tranches within six (6) months from the date of approval from Bursa Securities for the Proposed Private Placement of Shares or any extended period as may be approved by Bursa Securities, subject always to the expiry of the General Mandate or a new mandate being obtained from the Shareholders, as the case may be. As such, there could potentially be several price fixing dates depending on the number of tranches and timing of implementation.

2.4 Ranking of the Placement Shares

The Placement Shares shall, upon allotment and issue, rank *pari passu* in all respects with the then existing issued GCB Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or any other distributions, the entitlement date of which is prior to the date of allotment of the Placement Shares.

2.5 Listing and quotation of the Placement Shares

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

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3. RATIONALE FOR THE PROPOSED PRIVATE PLACEMENT OF SHARES

GCB and its subsidiaries (“GCB Group” or “Group”) has recorded significant growth in its profit after tax attributable to equity holders (“PAT”) in the past few financial years, growing from RM22.76 million in the financial year ended (“FYE”) 31 December 2015 to RM91.05 million in FYE 31 December 2017, which represents a compounded annual growth rate (“CAGR”) of approximately 100%. In addition, based on the Company’s unaudited results for the FYE 31 December 2018, the Group’s PAT further increased to RM189.25 million, representing a growth of 107.87% from the previous financial year. Further, over the corresponding period, GCB’s market capitalisation has also recorded notable growth from RM642.96 million as at 31 December 2015 to RM1.64 billion as at the LPD.

After taking into consideration the above, the Company intends to enlarge its share base and also potentially attract institutional investors which is envisaged to better reflect the Group’s growth and its current size and level of operations.

After due consideration of the various options available, the Board is of the opinion that the Proposed Private Placement of Shares is an efficient avenue of meeting the above objectives taking into consideration the General Mandate has been obtained.

In addition, the Proposed Private Placement of Shares will also enable the Company to raise funds expeditiously for purposes as set out in section 4 below without reliance on bank borrowings which involves incurrence of additional interest expense.

4. UTILISATION OF PROCEEDS

For illustrative purposes only, assuming the Placement Shares are issued at the Illustrative Issue Price, approximately RM146.21 million is expected to be raised from the Proposed Private Placement of Shares.

The proceeds from the Proposed Private Placement of Shares are expected to be utilised as follows:-

Description	Estimated timeframe for utilisation from the listing of Placement Shares	Up to RM’000
Working capital and/or future business projects/investment ⁽¹⁾	Within 24 months	145,158
Estimated expenses for the Proposed Private Placement of Shares ⁽²⁾	Within 2 weeks	1,050
		<hr/> 146,208

Notes:-

(1) *The Company proposes to utilise the proceeds to be raised to meet its working capital requirements and/or for future business projects/investments. Nonetheless, as at the date of this announcement, the new business projects/investments have not been finalised and the Company shall make the requisite announcement, if required by the MMLR, as and when the new business projects/investments are confirmed.*

Further, the proceeds are also proposed to be used for the Group’s day-to-day operating and administrative expenses, which include, inter alia, payment to suppliers, sales and marketing expenses, personnel costs as well as office expenses.

The allocation between working capital and new business projects/investments has not been determined and it is dependent on the operations, funding requirements of the Group and investment opportunities as and when they arise. Accordingly, the entire amount of proceeds could be utilised for working capital purposes, subject to any investment opportunities, timing and operating cash flow requirements of the Group.

- (2) The estimated expenses consist of, amongst others, estimated professional fees, fees payable to authorities, shares issuance associated costs and other miscellaneous expenses, including estimated placement fee to be incurred in relation to the Proposed Private Placement of Shares. Any variation in the actual amount of expenses will be adjusted to / from working capital and/or future projects/investments.

The actual amount of proceeds to be raised from the Proposed Private Placement of Shares will depend on, amongst others, the actual issue price and the actual number of Placement Shares issued.

Pending the full utilisation of the proceeds raised from the Proposed Private Placement of Shares, the Company intends to place these proceeds (including accrued interest, if any) or the balance thereof in interest-bearing deposit accounts with licensed financial institution(s) or in short term money market instruments. The interest derived from the deposits with financial institutions or any gains arising from the short-term money market instruments will be used as additional working capital of the Group.

5 EFFECTS OF THE PROPOSED PRIVATE PLACEMENT OF SHARES

5.1 Share capital

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

	No. of Shares	Share capital RM
Issued share capital as at the LPD ⁽¹⁾	477,804,752	116,484,701
To be issued pursuant to the Proposed Private Placement of Shares (up to)	47,780,475	146,208,254 ⁽²⁾
Enlarged issued and share capital (up to)	525,585,227	262,692,955

Notes:-

(1) Excluding 2,353,700 treasury shares as at the LPD.

(2) Based on the Illustrative Issue Price of RM3.06.

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5.2 Shareholdings of substantial shareholders

The proforma effects of the Proposed Private Placement of Shares on the shareholdings of the substantial shareholders of GCB as at the LPD are set out below:-

	Existing shareholdings as at the LPD				After the Proposed Private Placement of Shares			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Guan Chong Resources Sdn. Bhd.	251,180,469	52.57	-	-	251,180,469	47.79	-	-
Misi Galakan Sdn. Bhd.	29,079,999	6.09	-	-	29,079,999	5.53	-	-
YBhg Dato Dr Mohamad Musa Bin Md Jamil	105,999	0.02	29,079,999 ⁽¹⁾	6.09	105,999	0.02	29,079,999 ⁽¹⁾	5.53
Tay Hoe Lian	12,865,791	2.69	251,480,469 ⁽²⁾	52.63	12,865,791	2.45	251,480,469 ⁽²⁾	47.85
Placee to be identified	-	-	-	-	47,780,475	9.09		

Notes:-

(1) Deemed interested by virtue of his interest in Misi Galakan Sdn. Bhd..

(2) Deemed interested by virtue of his interest in Guan Chong Resources Sdn. Bhd. and his spouse, Yap Kim Hong's shareholding in the Company.

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5.3 Net assets (“NA”) and gearing

Assuming the Placement Shares were issued at the Illustrative Issue Price, the proforma effects of the Proposed Private Placement of Shares on the NA and gearing of the Group are as follows:-

	Audited as at 31 December 2017	Subsequent events up to the LPD	After the Proposed Private Placement of Shares
	RM'000	RM'000	RM'000
Share capital	121,832	121,832	268,040 ⁽³⁾
Treasury shares	(5,195)	(5,347) ⁽¹⁾	(5,347)
(Accumulated losses) / retained earnings	362,956	353,400 ⁽²⁾	352,350 ⁽⁴⁾
Shareholders' funds / NA	479,593	469,885	615,043
No. of Shares in issue ('000)	477,898	477,805	525,585
NA per Share (RM)	1.00	0.98	1.17
Total borrowings	787,306	787,306	787,306
Gearing ratio (times)	1.64	1.68	1.28

Notes:-

- (1) After the Company purchased an additional 113,000 treasury shares purchased at an average price of RM1.35 per share as announced on Bursa Securities on 28 March, 3 April 2018 and 4 April 2018.
- (2) After deducting RM9,556,095 in relation to the first interim single-tier dividend paid by the Company on 28 September 2018.
- (3) Assuming the Placement Shares are issued at the Illustrative Issue Price of RM3.06.
- (4) After taking into consideration the estimated expenses in relation to the Proposed Private Placement of Shares amounting to approximately RM1,050,000.

5.4 Earnings and earnings per share (“EPS”)

The Proposed Private Placement of Shares will not have any material effect on the consolidated earnings of the Group for the FYE 31 December 2018. Nevertheless, over time, the Proposed Private Placement of Shares is expected to contribute positively to the future consolidated earnings of the Group through the proposed utilisation of proceeds raised from the issuance of the Placement Shares as set out in section 4 of this announcement.

The EPS of the Group is expected to be diluted as a result of the increase in the number of GCB Shares in issue pursuant to the issuance of Placement Shares under the Proposed Private Placement of Shares.

5.5 Convertible securities

As at the date of this announcement, the Company does not have any convertible securities in issue.

6. APPROVALS REQUIRED

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

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

The implementation of the Proposed Private Placement of Shares shall be dependent on *inter-alia*, timing of the identification of placees and prevailing market conditions at the point of implementation and subject always to the General Mandate or any new mandate to be obtained from Shareholders, as the case may be.

The Proposed Private Placement of Shares is not conditional upon any other corporate proposals undertaken or to be undertaken by GCB.

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

None of the directors and/or major shareholders of GCB and/or any persons connected to them have any interest, direct or indirect, in the Proposed Private Placement of Shares.

8. DIRECTORS' STATEMENT

The Board, having considered the current and prospective financial position and funding requirements of the Group as well as after careful deliberation of all aspects of the Proposed Private Placement of Shares, is of the opinion that the Proposed Private Placement of Shares is in the best interest of the Group and the Shareholders.

9. PRINCIPAL ADVISER AND PLACEMENT AGENT

AmInvestment Bank has been appointed by the Company to act as the Principal Adviser and Placement Agent in respect of the Proposed Private Placement of Shares.

10. ESTIMATED TIMEFRAME FOR COMPLETION

Barring unforeseen circumstances and subject to the approvals of the relevant authorities being obtained, the Proposed Private Placement of Shares is expected to be completed by the second quarter of 2019.

This announcement is dated 18 February 2019.