KRONOLOGI ASIA BERHAD ("KAB" OR "COMPANY" OR "PURCHASER")

PROPOSED ACQUISITION OF THE ENTIRE SHARE CAPITAL OF QUANTUM STORAGE (HONG KONG) LIMITED FOR A PURCHASE CONSIDERATION OF UP TO RM45,000,000

---

*Unless otherwise stated, the exchange rate of United States Dollar ("**USD**") 1.00:RM4.2365 being Bank Negara Malaysia's middle rate as at 5.00 p.m. on 6 October 2017 (being the latest practicable date prior to this announcement ("**LPD**")), is used throughout this announcement.*

1. INTRODUCTION

On behalf of the Board of Directors of KAB ("**Board**"), TA Securities Holdings Berhad ("**TA Securities**") wishes to announce that the Company proposes to undertake the proposed acquisition by KAB of the entire share capital of Quantum Storage (Hong Kong) Limited ("**QHK**"), comprising 1 ordinary share of USD 1 each in QHK ("**QHK Share**") ("**Sale Share**") currently held by Law Chee Yii ("**LCY**" or "**Vendor**"), for a purchase consideration of up to RM45,000,000 ("**Purchase Consideration**"), to be satisfied via a combination of the issuance of up to 40,816,326 new ordinary shares in KAB ("**KAB Shares**" or "**Shares**") ("**Consideration Shares**") at the issue price of RM0.98 per Consideration Share ("**Issue Price**") and cash payment of up to RM5,000,000 ("**Cash Consideration**") ("**Proposed Acquisition**").

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

2. DETAILS OF THE PROPOSED ACQUISITION

On 9 October 2017, KAB entered into a conditional sale and purchase agreement ("**SPA**") with the Vendor to acquire the entire share capital of QHK comprising 1 QHK Share for the Purchase Consideration.

The Sale Share shall be acquired free from all encumbrances (including but not limited to any form of legal, equitable, or security interests, including but not limited to any mortgage, assignment of receivables, debenture, lien, charge, pledge, title retention, right to acquire, security interest, hypothecation, option, right of first refusal, any preference arrangement (including title transfers and retention arrangements or otherwise), any other encumbrance or condition whatsoever, or any other arrangements having similar effect) and together with all rights and advantages attaching or accruing to it as at the completion date on which completion of the sale and purchase of the Sale Share takes place ("**Completion Date**") (including the right to receive all dividends and distributions declared, made or paid on or after the Completion Date).

Upon Completion (as defined in Section 2.3.1), QHK will become a wholly-owned subsidiary of KAB.

After the Proposed Acquisition and assuming all Consideration Shares are fully issued to the Vendor, the Vendor's shareholding in the Company will increase from nil as at the LPD to 12.07%.

Notwithstanding the above, the Proposed Acquisition will not result in non-compliance of KAB with the public shareholding spread requirement wherein at least 25% of the issued KAB Shares (excluding treasury shares, if any) are in the hands of public shareholders. The effects of the Proposed Acquisition on the substantial shareholders' shareholdings are set out in Section 6.4 of this announcement.

2.1 Background information of QHK

QHK was incorporated in the British Virgin Islands ("**BVI**") on 16 December 2013 under the BVI Business Companies Act, 2004 of the BVI as a company limited by shares.

QHK is principally engaged in the enterprise data management ("**EDM**") infrastructure technology business providing data storage, protection and archival solutions to enterprises. As at the LPD, QHK is authorised to issue a maximum of 50,000 shares of a single class each with a par value of USD1.00, and has issued 1 QHK Share which is fully-paid up.

The directors and shareholder of QHK as at the LPD are as follows:

	Direct		Indirect	
Name	**No. of QHK Share**	**%**	**No. of QHK Share**	**%**
Directors				
LCY	1	100	-	-
Wong Gang[(1)]	-	-	-	-
Shareholder				
LCY	1	100	-	-

Note:

(1) *Being a nominee director appointed as part of the corporate secretarial services provided to the QHK Group. The nominee director is not and will not be involved in any financial or operational matters or management of QHK.*

For information only, Wong Gang is a partner in Shook Lin & Bok LLP, a due diligence solicitor of the Proposed Acquisition.

As at the LPD, QHK has the following subsidiaries:

Name	**Date and place of incorporation**	**Issued share capital**	**Equity interest held (%)**	**Principal activity**
Quantum Storage (Hong Kong) Limited ("**QSHK**")	20 January 2014, Hong Kong	Hong Kong Dollar 10,000	100	Providing information data storage products, services and solutions
Quantum Taiwan Ltd	24 February 2014, Taiwan	New Taiwan Dollar 150,000	100	Providing information data storage products, services and solutions

A summary of the audited financial information of QHK and its subsidiaries ("**QHK Group**") for the past financial period from 16 December 2013 to 31 December 2014 ("**FPE 2014**"), financial years ended 31 December ("**FYEs**") 2015 to 2016 and the 6-month periods ended 30 June ("**6M-FPE**") 2016 and 2017 is disclosed in **Appendix I** of this announcement.

2.2 Background information on the Vendor

LCY, Malaysian, aged 47, is a director and shareholder of QHK who currently owns 100% equity interest in QHK.

He was a non-substantial shareholder of KAB since 2014. However, he does not hold any KAB Shares as at the LPD.

[The rest of this page has been intentionally left blank]

2.3 Salient terms of the SPA

The salient terms of the SPA include, *inter alia*, the following:

2.3.1 Conditions Precedent

The sale and purchase of the Sale Share is conditional upon:

(i) the completion of a legal and financial due diligence exercise by the Purchaser and its advisers on QHK Group, which shall include without limitation, (i) the review of the QHK Group's business and operations; (ii) the review of historical figures; (iii) the review of directors, employees and staff; and (iv) the review of any and all documents relating to legal matters, including but not limited to documents in relation to borrowings and guarantees, and the results of such exercise being satisfactory to the Purchaser in its sole and absolute discretion;

(ii) the approval being granted by Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the listing of and quotation for the Consideration Shares on the ACE Market of Bursa Securities, and such approval not having been revoked or amended, and if the approval is granted subject to conditions, (i) such conditions being reasonably acceptable to the Purchaser and the Vendor (collectively referred to as the "**Parties**"), and if any such condition shall be required to be fulfilled on or before completion of the sale and purchase of the Sale Share ("**Completion**"), the fulfilment of such condition on or before Completion and (ii) such conditions being satisfied or waived by Bursa Securities, and Bursa Securities not having made any ruling, the effect of which is to restrict or impede the listing of and quotation for the Consideration Shares;

(iii) all approvals, consents and/or waivers as may be necessary from any third party, governmental or regulatory body or relevant competent authority having jurisdiction over the transactions contemplated under the SPA or to the entry into and completion of the SPA by the Parties or whose consent is required, being granted or obtained, and being in full force and effect and not having been withdrawn, suspended, amended or revoked, and if such approvals, consents and/or waivers are granted or obtained subject to any conditions, and where such condition(s) affect any of the Parties, such condition(s) being acceptable to the Party concerned and if such condition(s) are required to be fulfilled before Completion, such condition(s) being fulfilled on or before Completion;

(iv) the approval of the Board and the shareholders of the Purchaser for the transactions contemplated in the SPA upon the terms and conditions set out in the SPA (or upon such other terms and conditions as may be agreed between the Parties) having been obtained; and

(v) the execution and performance of the SPA by the Parties not being prohibited, restricted, curtailed, hindered, impaired or otherwise adversely affected by any relevant statute, order, rule, directive or regulation promulgated by any legislative, executive or regulatory body or authority.

2.3.2 Purchase Consideration

(i) The acquisition price for the sale of the Sale Share by the Vendor to the Purchaser shall be the aggregate of RM45,000,000, which was agreed at after arms' length negotiations and based on a willing-buyer willing-seller basis, to be settled on a staggered payment basis.

(ii) The Purchase Consideration shall be fully satisfied through the allotment and issuance of the Consideration Shares to the Vendor (and/or its nominee) ("**Allotment and Issuance**") and payment of Cash Consideration which shall be apportioned as follows:

(a) **1st Payment Tranche**: Payment of RM30,000,000 ("**1st Payment Consideration Amount**"), which shall be fully satisfied by the allotment and issuance of 30,612,245 Consideration Shares by the Purchaser to the Vendor (and/or its nominee) at the Issue Price on the Completion Date.

(b) **2nd Payment Tranche**: Payment of RM15,000,000 ("**2nd Payment Consideration Amount**"), of which RM5,000,000 shall be fully satisfied in cash and the remaining RM10,000,000 shall be satisfied by the allotment and issuance of 10,204,081 Consideration Shares by the Purchaser to the Vendor (and/or its nominee) at the Issue Price, upon QHK achieving the Profit Warranty (as defined in Section 2.3.3(i)) based on the audited accounts for the financial year ending 31 December 2017 ("**FYE 2017**") subject always to Completion having taken place. The 2nd Payment Tranche shall be payable within 14 days after the issuance of the audited accounts for FYE 2017 or such other date as the Parties may mutually agree in writing.

Notwithstanding the foregoing, the 2nd Payment Consideration Amount shall be adjusted downwards proportionately in accordance with Section 2.3.3 in the event that QHK fails to achieve the Profit Warranty based on the audited accounts for FYE 2017.

(iii) The issue price for the Consideration Shares shall be RM0.98 per Consideration Share, calculated based on the volume weighted average price ("**VWAP**") of the Shares for trades conducted on Bursa Securities for the 5 market days prior to the execution of the SPA.

(iv) The Parties acknowledge and agree that the Allotment and Issuance is subject to the Purchaser having obtained all necessary approvals from Bursa Securities and all conditions (if any) imposed by Bursa Securities in respect of the Allotment and Issuance having been satisfied ("**Bursa Securities Allotment Related Conditions**"). The Purchaser shall use all reasonable endeavours to ensure compliance with the applicable rules of the ACE Market Listing Requirements of Bursa Securities ("**Listing Requirements**") (including submitted through its adviser, TA Securities, to Bursa Securities a single listing application in respect of the Allotment and Issuance) and satisfaction of the Bursa Securities Allotment Related Conditions prior to the Allotment and Issuance.

(v) Upon the Allotment and Issuance, such Consideration Shares shall rank *pari passu* in all respects with all other Shares then in issue (save for any dividends, rights, allotments and/or other distributions that may be declared, made or paid, the entitlement date of which is prior to the date of the Allotment and Issuance).

[The rest of this page has been intentionally left blank]

(vi) The Parties hereby further agree that in the event that the Purchaser undertakes a bonus issue of Shares on a pro-rata basis to all existing shareholders of the Purchaser, sub-division or consolidation of capital ("**Corporate Action**") during FYEs 2017 and 2018, the Vendor's entitlement to the remaining Consideration Shares that have not been issued to it under the SPA ("**Remaining Consideration Shares**") shall be adjusted accordingly to take into account such Corporate Action so that it will not be unnecessarily diluted or otherwise. In the event of such Corporate Action, the Issue Price shall be adjusted accordingly such that the Remaining Consideration Shares issued shall represent the same percentage of shareholding in the enlarged and fully diluted or reduced share capital (as the case may be) of the Purchaser following the Corporate Action as if the Remaining Consideration Shares had been issued on the market day immediately preceding the effective date of such Corporate Action by the Purchaser, provided always that the issuance of any additional Shares will be subject to the approval of the Purchaser's shareholders, Bursa Securities and other regulatory authorities (where applicable). The Purchaser shall also consult its auditors in relation to such adjustment (if any) and the adjustment (if any) shall be certified by the auditors.

In the event that the Purchaser's auditors are unable to agree on any adjustment required above, the Purchaser shall refer the adjustment to the decision of an adviser acting as expert and not as arbitrator and whose decision as to such adjustment as shall be appropriate in terms of the conditions shall be final and conclusive and no certification by the auditors shall be necessary.

For illustration purposes only, assuming the Purchaser implements the Corporate Action of which its entitlement date ("**Entitlement Date**") is after the Completion but prior to the allotment and issuance date of the Remaining Consideration Shares pursuant to the 2nd Payment Tranche, the adjustments to the number of the Remaining Consideration Shares and issue price are as follows:

	Before the Corporate Action	**Corporate Action**		
		Bonus issue of Shares	**Sub-division of capital**	**Consolidation of capital**
Assumed basis	-	1 bonus Share for every 2 existing Shares held on the Entitlement Date	Subdivision of every 1 existing Share held on the Entitlement Date into 2 shares	Consolidation of every 2 existing Shares held on the Entitlement Date into 1 share
Remaining Consideration Shares to be issued pursuant to the 2nd Payment Tranche	10,204,081	15,306,121	20,408,162	5,102,040
Issue price per Remaining Consideration Share (RM)	0.980	0.653	0.490	1.960
Resultant enlarged share capital after the issuance of all Consideration Shares	338,189,178	507,283,767	676,378,356	169,094,589
Vendor's shareholding in KAB after the issuance of all Consideration Shares	12.07%	12.07%	12.07%	12.07%

(vii) In the event that the Purchaser undertakes a rights issue of Shares on a pro-rata basis to all existing shareholders of the Purchaser during FYEs 2017 and 2018, the Purchaser may, in its absolute discretion, decide to issue additional Shares to the Vendor at an issue price equivalent to the issue price of the rights issue of Shares to be determined later so that it will not be unnecessarily diluted or otherwise, provided always that the issuance of any additional Shares will be subject to the approval of the Purchaser's shareholders, Bursa Securities and other regulatory authorities (where applicable). The Purchaser shall also consult its auditors in relation to such adjustment (if any) and such number shall be certified by the auditors.

In the event that the Purchaser's auditors are unable to agree on the number of additional Shares to be issued in relation to the above, the Purchaser shall refer the number of additional Shares to be issued to the decision of an adviser acting as expert and not as arbitrator and whose decision as to such number as shall be appropriate in terms of the conditions shall be final and conclusive and no certification by the auditors shall be necessary.

For the avoidance of doubt, no adjustment will be made to the number and issue price of the Remaining Consideration Shares in the event that the Purchaser undertakes a rights issue during FYEs 2017 and 2018.

2.3.3 Profit Warranty

(i) The Vendor warrants to the Purchaser that QHK shall achieve a profit after tax ("**PAT**") of USD1,200,000 ("**Profit Warranty**") based on the audited accounts of QHK for FYE 2017. For the avoidance of doubt, once QHK achieves the Profit Warranty, to be determined after the issuance of its audited accounts for FYE 2017, it shall be deemed that the Vendor has discharged its obligations in relation to the Profit Warranty.

(ii) In the event that QHK fails to achieve the Profit Warranty based on the audited PAT for FYE 2017, the consideration payable shall accordingly be adjusted downwards proportionately by a ratio of 1% of the 2nd Payment Consideration Amount for every USD6,000 shortfall of the Profit Warranty, and the cash component of the 2nd Payment Tranche shall accordingly be reduced. Where such adjustment exceeds the cash component of the 2nd Payment Tranche (i.e. RM5,000,000) ("**Excess Amount**"), such number of Consideration Shares worth the Excess Amount shall accordingly be reduced.

By way of illustration, if QHK only managed to achieve a profit of USD1,020,000 for FYE 2017 (i.e. a shortfall of USD180,000) based on the audited PAT, then the Cash Consideration and/or the Consideration Shares allotted and issued under the 2nd Payment Tranche shall accordingly be reduced by cash of RM4,500,000, representing 30% of the 2nd Payment Consideration Amount for FYE 2017.

For the avoidance of doubt, if the shortfall is less than USD6,000 or any multiple of USD6,000 (as the case may be), such shortfall shall be rounded up to the nearest USD6,000 or multiple of USD6,000 (as the case may be). By way of illustration, if QHK only managed to achieve a profit of USD1,025,000 for FYE 2017 (i.e. a shortfall of USD175,000) based on the audited PAT, then the shortfall shall be rounded up to USD180,000 and the Cash Consideration and/or the Consideration Shares allotted and issued under the 2nd Payment Tranche shall accordingly be reduced by cash of RM4,500,000, representing 30% of the 2nd Payment Consideration Amount for FYE 2017.

(iii) For the avoidance of doubt, the Parties hereby agree that in the event that QHK incurs a net loss in FYE 2017:

(a) the Purchaser shall not be required to make payment of the 2nd Payment Consideration Amount in accordance with Section 2.3.2(ii)(b);

(b) the Vendor specifically waives, releases and relinquishes any and all claims in respect of the 2nd Payment Consideration Amount; and

(c) the Vendor shall compensate the Purchaser an amount equivalent to 50% of the 1st Payment Consideration Amount, which shall be paid in cash within 30 days after the issuance of the audited accounts for FYE 2017 unless otherwise agreed in writing between the Parties.

2.3.4 Termination

(i) The SPA may be terminated by the following Party by written notice to the other Party prior to Completion as follows:

(a) at the election of the Vendor or the Purchaser, in accordance with the SPA (i.e., if any Party fails to comply with its obligations as set out in the SPA, the other Party shall be entitled (in addition to and without prejudice to any other rights or remedies available at law, in equity, under contract or otherwise) to terminate the SPA without liability on its part and no Party shall have any claim against the other Party for costs, damages, compensation or otherwise, save for any claim by a Party against the other arising from antecedent breaches of the terms of the SPA);

(b) at the election of the Purchaser, if the Vendor has breached any material representation, warranty, covenant or agreement given by it in the SPA, which breach cannot be or is not cured by the Completion Date;

(c) at the election of the Vendor, if the Purchaser has breached any material representation, warranty, covenant or agreement given by it in the SPA, which breach cannot be or is not cured by the Completion Date; or

(d) at any time on or prior to the Completion Date, by mutual written consent of the Parties.

(ii) Upon termination of the SPA howsoever arising, all rights and obligations of the Parties under the SPA shall automatically terminate except for such rights as shall have accrued prior to such termination and any obligations which expressly or by implication are intended to come into or continue in force on or after such termination.

2.3.5 Governing Law

The SPA shall be governed by, and construed in accordance with, the laws of Singapore.

2.4 Basis of and justification in arriving at the Purchase Consideration

The Purchase Consideration was arrived at on a “willing-buyer willing-seller” basis after taking into consideration the following:

(i) the 1 year Profit Warranty as detailed in the Profit Warranty clause in Section 2.3.3 of this announcement; and

(ii) the future prospects of the QHK Group and the enlarged KAB and its subsidiaries ("**KAB Group**") as set out in Section 4.3 of this announcement.

For information purpose, the Purchase Consideration represents a price-to-earnings multiple ("**PE Multiple**") of approximately 8.85 times based on the Profit Warranty for FYE 2017 of USD1,200,000.

The Board is of the view that the business activities of QHK Group are broadly comparable to the business activities of KAB Group. The PE Multiple for the Proposed Acquisition of 8.85 times is lower than the PE Multiple of KAB of 32.78 times as set out below:

Principal activities	**Closing price as at the LPD (RM)**	**Earnings per share* (RM)**	**PE Multiple (times)**
KAB Group provides EDM infrastructure technology which comprises both hardware and software as well as EDM managed services, being comprehensive service provided for data assurance and operational continuity.	0.98	0.0299	32.78

Note:

* *Based on the audited consolidated financial statements of KAB for the FYE 2016 (being the latest audited financial statements as at the LPD).*

In addition, KAB has appointed BDO Capital Consultants Sdn Bhd to provide an expert's report on the fairness of the Purchase Consideration for the Proposed Acquisition ("**Fairness Opinion**"). The Fairness Opinion will be disclosed in the circular to shareholders of KAB in relation to the Proposed Acquisition.

2.5 Reasonableness of the Profit Warranty

The Board is of the opinion that the Profit Warranty of USD1,200,000 for FYE 2017 is reasonable and realistic after taking into consideration the unaudited PAT of QHK Group for the 6M-FPE 2017 of USD0.58 million, as well as the prospects of QHK Group and the enlarged KAB Group as set out in Section 4.3 of this announcement.

2.6 Basis of and justification in arriving at the Issue Price

The issue price of RM0.98 per Consideration Share was arrived at after taking into consideration the 5 days-VWAP of KAB Shares up to and including 6 October 2017 (being the date immediately preceding the date of the execution of the SPA) of RM0.980.

2.7 Ranking of the Consideration Shares

The Consideration Shares, when allotted and issued, shall rank in all respects *pari passu* with the existing issued Shares as at the date they are being allotted and issued, save and except that the Consideration Shares shall not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid to the shareholders of the Company, the entitlement date of which is prior to the date of allotment and issuance of the Consideration Shares.

2.8 Liabilities to be assumed by the Company

Save for the liabilities arising from the ordinary course of business of QHK Group, the Company will not be assuming any liabilities, including contingent liabilities and guarantees, pursuant to the Proposed Acquisition.

2.9 Source of funding

The Company intends to fund the Cash Consideration of up to RM5,000,000, which forms part of the Purchase Consideration, via the proceeds raised from the private placement of new KAB Shares, which was completed on 25 August 2017 ("**Private Placement**") (i.e. allocated for the Group's future business expansion).

2.10 Additional financial commitment

The Company is not required to make any additional financial commitment to put the business of QHK Group on-stream as QHK Group is already in operation.

3. RATIONALE FOR THE PROPOSED ACQUISITION

Currently, KAB Group's presence in the EDM industry covers South East Asia region (which includes Singapore, Malaysia, Indonesia, Philippines and Thailand) as well as India. KAB Group's revenue breakdown by country based on its latest audited financial statements for the FYE 2016 is as follows:

Country	**FYE 2016**	
	RM'000	**%**
Singapore	47,354	58.26
India	10,480	12.89
Philippines	3,943	4.85
Malaysia	2,360	2.90
Others	17,144	21.10
Total revenue	**81,281**	**100.00**

QHK Group is principally involved in the EDM infrastructure technology business providing data storage, protection and archival solutions to enterprises. QHK Group is based in Hong Kong and Taiwan and they supply their products to customers in Hong Kong and Taiwan as well as other countries.

With the Proposed Acquisition, KAB Group will be able to further expand its marketing, distribution and customer coverage footprint to an EDM regional market with growth opportunities, spurred by increasing internationalisation and technology adoption by the economies of greater China.

KAB Group anticipates that synergies following the Proposed Acquisition are:

- Improved efficiency, flexibility and scale in sourcing of equipment and components from principals such as Quantum Corporation;

- Greater ability to support current and future customers with existing regional operations as well as facilitating their regional expansion plans; and

- Support KAB Group's current initiatives and partnerships in delivering transnational (cross border) data backup solutions in Hong Kong.

According to the Independent Market Research Report on the EDM Industry in the Asia Pacific excluding Japan ("**Asia Pacific**") dated 9 October 2017 ("**IMR Report**"), prepared by Smith Zander International Sdn Bhd ("**SMITH ZANDER**") (an independent researcher and consulting firm), the EDM industry in Asia Pacific grew from USD6.61 billion (RM20.42 billion) in 2012 to USD9.32 billion (RM38.64 billion) in 2016, at a compound annual growth rate ("**CAGR**") of 8.97%. Demand for EDM solutions is expected to continue growing, driven by the increasing number of enterprises and increasing requirements for storage capacity, growth in the number of businesses and enterprises in light of the country's developing economy, as well as government initiatives such as the Digital 21 Strategy by the Government of Hong Kong and Digital Nation and Innovation Economic Development Plan by the Government of Taiwan (Source: IMR report).

Premised on the above and in line with KAB Group's business plan to expand its presence in EDM industry to markets with growth opportunities, the Board is of the view that it is beneficial to the Group to acquire QHK in order to expand its market presence into Hong Kong and Taiwan, thereby enabling the Group to tap into the expanding EDM industry in both markets.

The Board is of the view that the issuance of the Consideration Shares to satisfy the Purchase Consideration will enable KAB to conserve cash of up to RM40.00 million, which can be used to finance the day-to-day operations of KAB Group.

4. INDUSTRY OUTLOOK AND PROSPECTS

The principal markets for QHK Group, based on its geographical revenue segmentation, are Hong Kong, Taiwan, China and Singapore in the FYEs 2014 to 2016. As such, the overview and outlook of Asia Pacific economies and the EDM industry in Asia Pacific as well as prospects of QHK Group and the enlarged KAB Group are set out in the following sections.

4.1 Overview and outlook of Asia Pacific economy

The outlook for the Asia Pacific region remains robust-the strongest in the world, in fact-and recent data point to a pickup in momentum. The near-term outlook, however, is clouded with significant uncertainty, and risks, on balance, remain slanted to the downside. Medium-term growth faces secular headwinds, including from population aging and sluggish productivity. Macroeconomic policies should continue to support growth while boosting resilience, external rebalancing, and inclusiveness. The region needs structural reforms to address its demographic challenges and to boost productivity.

The recent growth momentum in the largest economies in the region remains particularly strong, reflecting policy stimulus in China and Japan, which in turn is benefiting other economies in Asia. More broadly across the region, forward-looking indicators such as the Purchasing Managers' Index suggest continued strength in activity into early 2017.

Against this backdrop, growth is forecast to accelerate to 5.5% in 2017 from 5.3% in 2016. Growth in China and Japan is revised upward for 2017 compared to the October 2016 world economic outlook, owing mainly to continued policy support and strong recent data. Growth is revised downward in India due to temporary effects from the currency exchange initiative and in Korea owing to political uncertainty. Over the medium term, slower growth in China is expected to be partially offset by an acceleration of growth in India, underpinned by key structural reforms.

While additional stimulus in the United States and stronger growth in China could provide short-run support, the risks to the outlook, on balance, are still tilted to the downside. In the near term, tighter global financial conditions could trigger capital flow volatility, which could interact with and exacerbate balance sheet weaknesses in a number of economies. More inward-looking policies in advanced economies would significantly impact Asia, given the region's trade openness. A bumpier-than-expected transition in China would also have large spillovers. Geopolitical tensions and domestic political uncertainties could burden the outlook for various countries.

[The rest of this page has been intentionally left blank]

On policies, appropriate demand support and structural reforms are needed to reinforce growth momentum where it is weak. Monetary policy should remain accommodative, given that inflation is below target and there is slack in most economies in the region. However, some central banks should stand ready to raise the policy rate if inflationary pressures gather pace. Some others need to tighten macroprudential settings and gradually raise interest rates to slow credit growth. Fiscal policy should support and complement structural reforms and external rebalancing, where needed and fiscal space is available. At the same time, countries with closed output gaps should start rebuilding fiscal space. Delivering on medium-term fiscal consolidation plans is also critical in some countries, especially where debt levels are high and fiscal credibility needs to be enhanced. Structural reforms are needed to help reduce external imbalances, mitigate domestic and external vulnerabilities, and promote faster and more inclusive growth. The appropriate policy mix varies across economies, depending on the output gap, policy space, and reform priorities, as well as the need for external rebalancing.

In addition, addressing vulnerabilities while safeguarding against external shocks will help preserve financial stability. Exchange rate flexibility should generally remain the main shock absorber against a sudden tightening in global financial conditions or a shift toward protectionism in major trading partners. Policymakers should continue to rely on macroprudential policies to mitigate systemic risks associated with high corporate and household leverage and rising interest rates, while over time addressing underlying balance sheet vulnerabilities. Macroprudential policies could also be used to increase the resilience to shocks, including shocks associated with reversal of capital flows.

To sustain long-term growth, structural reforms are needed to deal with challenges from demographic transition and to boost productivity. Given the rapid pace of demographic transition, policies aimed at protecting the vulnerable elderly, raising labour force participation (especially for women and the elderly), and boosting potential growth take on a particular urgency. Priority structural reforms to tackle these challenges include labour market and pension system reforms. Macroeconomic policies should adjust early on before aging sets in, particularly with a view to safeguarding debt sustainability. The other major policy challenge is to raise productivity when external factors might not be as supportive as in the past. Overall, the empirical results stress the importance of openness and foreign direct investment (FDI) in boosting productivity, particularly for emerging market and developing economies. In these economies, the priority should be to capitalize on recent achievements, including with respect to increased FDI inflows, through further increases in absorptive capacity and domestic investment. Advanced economies should focus on strengthening the effectiveness of research and development spending and taking measures to raise productivity in the services sectors, as well as supporting trade integration and liberalization in services.

(Source: Extracted from International Monetary Fund: The Regional Economic Outlook: Asia and Pacific)

4.2 Overview and outlook of the EDM industry in Asia Pacific

In the IMR Report, EDM is defined as the practice of putting in place a set of policies, procedures and technology(s) to allow enterprises and organisations to backup and store important data as well as recover and restore these data in cases where the primary source of data is inaccessible.

Digital data in enterprises are stored in 2 categories of storage devices, i.e. primary storage and secondary storage. Primary storage refers to first tier storage where data is stored and immediately used by server applications. Primary storage may be internal or external and may include traditional hard discs as well as newer solid state discs or flash arrays. Secondary storage, also known as backup storage, complements primary storage by providing backup copies of data in primary storage. Secondary storage typically consists of higher capacity hard discs, tapes or other optical media and may include technologies like data deduplication to maximise storage capacity. Data deduplication technology refers to a specialised data compression technique which eliminates duplicate copies of data.

The EDM industry can be quantified by the devices utilised for the purposes of data backup and secondary storage, which includes external disc-based and tape-based storage systems. These devices are utilised for the purpose of data backup and secondary storage and includes software and server node engines to perform data backup and replication using technologies such as deduplication, compression, encryption, remote replication and support interfaces.

The industry size for EDM can be measured in terms of revenues of major industry players in Asia Pacific countries which manufacture and develop EDM solutions, such as Dell EMC, Quantum Corporation, IBM Corporation, NetApp Inc. and Hewlett Packard Enterprise.

For the past 5 years, the EDM industry in the Asia Pacific region has been growing at a CAGR of 8.97%. The EDM industry in the Asia Pacific region grew from USD6.61 billion (RM20.42 billion) in 2012 to USD9.32 billion (RM38.64 billion) in 2016.

Overall, demand for EDM has been driven by the increasing number of enterprises and increasing requirements for storage capacity, as well as the growth in the number of businesses and enterprises in light of the region's developing economy. In addition, the EDM industry has also been boosted in light of favourable government initiatives. Although requirements for storage capacity may have evolved over the years owing to the emergence of internet-enabled applications, digital data is still growing in importance to businesses and enterprises, thus inevitably increasing the volume of digital data.

In light of the demand for EDM in the Asia Pacific region, SMITH ZANDER forecasts the EDM industry to grow at a CAGR of 8.51%, from USD9.98 billion (RM41.37 billion) in 2017 to USD11.75 billion (RM48.71 billion) in 2019. SMITH ZANDER expects the continuing usage of information technology ("**IT**") in businesses and organisations to drive demand, either through the upgrading of IT systems or introduction of IT in their organisations. This will, in turn, increase the usage of IT in businesses and organisations which will then lead to a growth in digital data as well as increase the importance of EDM to businesses and organisations.

<u>Key Demand Conditions: Growth Drivers</u>

Increasing Importance of Digital Data to Businesses and Enterprises

Globally, an increasing number of enterprises and Governments have begun to adopt IT solutions in their business operations over the last 10 to 15 years. This is fuelled by the efficiency in terms of costs and productivity which IT solutions offer to enterprises and Governments. To resist the integration of their operations with IT solutions could impact their profit margins and productivity rates relative to industry standards. Thus, in order to remain competitive, most enterprises and Governments have shifted from paper-based to digital-solutions in their operations. As such, critical business operations for production, finance, human resource and procurement departments are presently largely dependent on IT solutions and software applications for their day-to-day operations.

Moving forward, it is expected that the number of enterprises and Governments with operations integrated with IT solutions will only increase further. This will in turn benefit the EDM industry as with the increase of dependence on IT solutions for business operations, larger volumes of critical digital data will be stored and would require proper systematic recording and data backup to account for the need to restore and recover lost data.

Increasing Volume of Digital Data

As operations within enterprises and Governments become increasingly integrated with IT solutions, a growing volume of digital data is stored or hosted in the servers. As Asia Pacific's economy develop and grow, the number of enterprises increases, consequently leading to an increase in the volume of digital information stored.

The amount of digital information created and replicated globally was estimated to be approximately 1,800 exabytes (1.8 trillion gigabytes) in 2011. In just a span of 2 years, the digital information available worldwide increased by 56.0% to an estimated 4,400 exabytes (4.4 trillion gigabytes). It is projected that with the continuous proliferation of devices such as computers, smartphones and tablets, and increased Internet access, the digital universe will grow by 10 times to reach a digital information size of approximately 44,000 exabytes (44 trillion gigabytes) by 2020.

To put these quantities into context, the measurement of digital data is shown in the table below.

Bit (b)	1 or 0
Byte (B)	8 bits
Kilobyte (KB)	1,000 bytes
Megabyte (MB)	1,000 KB
Gigabyte (GB)	1,000 MB
Terabyte (TB)	1,000 GB
Petabyte (PB)	1,000 TB
Exabyte (EB)	1,000 PB
Zettabyte (ZB)	1,000 EB

Source: SMITH ZANDER

Among the main causes of increase in storage capacity is the decline in IT equipment costs, including storage media costs. For instance, the cost of hard disc drives which were approximately USD35-50 per gigabyte in the 1990s had declined to USD5-10 per gigabyte in just 10 years. At the end of the following decade, the cost of hard disc drives fell to an average of USD1 per gigabyte and this has, and will, continue to decrease further. With the decreasing costs of storage media, enterprises are expected to be more inclined to utilise larger storage space for digital data, thus leading to the increase in capacity available in storage media.

Apart from costs of storage capacity, the proliferation of devices such as computers, smartphones and tablets has driven the upgrading of existing technologies and the emergence of new technologies as manufacturers and developers have to stay competitive in the IT environment in order to remain relevant in the market. An example of new technologies driving the growth of EDM is “Big data” storage which is expected to lead technology innovation. “Big data” refers to the technology of managing and processing large data sets within a short time frame which otherwise cannot be performed by commonly used software tools. With the emergence of “Big data”, storage capacity usage is expected to grow leading to an increase in the demand for enterprise data management.

The growing storage capacity usage is an indicator that there will be continuous demand for EDM services amongst both existing and new users. Thus, this is expected to continue to support and boost demand for EDM globally as well as within the Asia Pacific region.

Growing Number of Businesses and Enterprises

The number of newly registered businesses in selected major Asia Pacific countries has displayed positive trends. For example, the latest available data by World Bank, in selected major Asia Pacific countries, comprising Hong Kong, Indonesia, Malaysia, Philippines, Singapore and Thailand, a total of 236,067 new businesses were registered in 2008, and the registered number of new businesses grew by 40.65% to 332,040 in 2012.

Most businesses and enterprises will require data storage and backup to ensure that data is recoverable in the event of disasters or data corruption, and the growing number of businesses translates to greater demand for data storage and backup. As such, the large number of businesses being registered each year provides opportunities for increased demand for EDM in the Asia Pacific market.

Favourable Government Initiatives for the IT Sector

Many countries in the Asia Pacific market have recognised the importance of IT in spurring the development of a nation by driving efficiency and reducing excessive costs. As such, many Governments have launched national initiatives to encourage improvement in IT infrastructure and provide subsidies to enterprises in relation to IT solutions. In driving the integration of IT in Government and enterprises' operations, the EDM industry would benefit from these initiatives taken in the IT sector as more digital data is required to be stored and hosted.

Below are some initiatives taken by selected Asia Pacific countries:

China

The Government of China has recognised the need for digital transformation in the 13th Five-Year Programme that comprises initiatives aimed at supporting digital transformation in various industries. The 2 key plans outlined in the 13th Five-Year Programme are "Made in China 2025" and "Internet Plus". The Made in China 2025 plan is aimed to shift the focus of the manufacturing sector from quantity to quality through the adoption of digital technologies to enhance operational efficiency, maximising asset allocation and adapting to change in consumer preferences.

"Internet Plus" is aimed to facilitate the application of digital technologies in various industries such as the finance, medical and agriculture industries. For instance, the adoption of IT in service provision and product sale in the finance industry, development of one-stop health management services that enables patients to monitor their own medical data in the medical industry and also access to information on climate, price and products demand in the agriculture industry. The Government also aims to foster digital interactions within the Government and with the citizens by establishing a national platform for sharing and exchanging government data.

As digital transformation occurs in China, the demand of EDM will increase in tandem with the volume of electronic data generated from the Government and various industries in the country.

Hong Kong

The Government of Hong Kong introduced the Digital 21 Strategy which is aimed to foster Information and Communications Technology ("**ICT**") development in Hong Kong. The Office of the Government Chief Information Officer ("**OGCIO**") was set up to carry on the responsibilities in implementing the plans and policies under the Digital 21 Strategy. OGCIO is responsible in carrying out the 4 main objectives, which is to facilitate a digital economy, develop Hong Kong as a hub for innovation and technology, develop the next generation of e-Government services and also to foster a digital inclusive society. The development of Hong Kong as a digital economy includes strategies such as facilitating e-business, enriching IT programme in secondary schools, smart city development and promoting ICT adoption among small and medium enterprises. To develop Hong Kong into a hub for innovation and technology, the OGCIO also implemented initiatives in setting up data centres and cyberports, implementing an outsourcing policy for the Government's projects, promoting collaboration with China to benefit from the "Internet+". "Belt and Road" and "Made in China 2025" strategies, improving cyber security and developing Hong Kong into a Wi-Fi connected city. The Government also aims to implement e-government services through the OGCIO to consolidate existing government data centres into a single common platform to cater for the convenience of the country's citizens as well as to benefit from more effective and efficient communications in overall operations of the Government.

With these policies in place, there will be increase in the use of ICT in Government services and also businesses, leading to increase in demand for EDM as a support infrastructure to cater for the growth in the volume of electronic data generated.

Indonesia

Indonesia's Master Plan for the Acceleration and Expansion of Indonesia's Economic Development, better known by its abbreviation MP3EI, was adopted with a vision of Indonesia becoming amongst the top 10 largest economies in the world from a gross domestic product ("**GDP**") per capita of USD3,000 to US15,000 by 2025. In 2013, the ICT spending in Indonesia reached USD32.8 billion, and this is expected to grow in line with the economic development of the country. Although infrastructure and industrial investments have taken most of the limelight, one of the key strategies of this plan is to strengthen national and international connectivity by improving ICT networks to facilitate all economic and Government activities. This strategy is supported through some of the plans including the development of national internet exchange at growth centres and the utilisation of ICT to facilitate trading activities at regional ports. As Indonesia begins to facilitate the use of ICT, EDM will grow in line to provide for the increased volumes of digital information.

Malaysia

The Government of Malaysia has embraced the IT sector as a key driver for socio-economic growth. As such, the Government has identified several plans and programmes in driving the industry forward and paving the way for adoption and integration of IT solutions by enterprises across the nation.

In the 10th Malaysia Plan, the Government has identified the IT sector as a National Key Economic Area (NKEA), targeting the contribution of IT to increase to 10.2% of GDP in 2015. The IT sector is expected to gain greater momentum, driven by the convergence of industries due to digitalisation. Among the key strategies to be adopted to propel the sector is to aggressively promote the use of IT in all industries in parallel with the development of the IT sector. Under this NKEA, the "Get Malaysian Business Online" (GMBO) drive was launched with the aim to assist enterprises (particularly SMEs) to have internet access, and under Budget 2013 the GMBO included an incentive grant of RM1,000 per successful applicant. Apart from that, the EPP also aims to support Government and healthcare sectors in the improving delivery of public services and information sharing. In 2013, about 70.3% of Government services are available online and the EPP targets to ensure the utilisation of My Government portal through 150,000 logins by end of 2014. Meanwhile, the "1Gov*Net" project under this NKEA was launched to upgrade internet connectivity at more than 4,000 health facilities in order to encourage information sharing. Specifically, EDM will grow in line with the development of critical software applications for customer relations management, enterprise resource planning, supply chain management, human resource management, and financial and accounting management for enterprises, as digitalisation is increasingly encouraged by the Government of Malaysia.

Philippines

The Government of Philippines, through the Information and Communications Technology Office, intends to further enhance the development of IT in the country, using the Philippine Digital Strategy 2011-2016 (PDS). The PDS focuses on the nation as a whole, with 4 strategic thrusts aimed at the Government, its citizens and enterprises. As the Philippines moves towards the era of e-Government and e-Governance, the Government of Philippines will promote and increase the use of ICT in their administration, allowing a more innovative, transparent and efficient Government, thereby improving the country's competitiveness. In 2012, Philippines ranked 88th in its e-Government services as compared to other global markets, and the Government of Philippines targets for Philippines to be among the top 50 countries in terms of its e-Government services by 2016. Furthermore, among the strategic thrusts of the PDS are the IT industry and business innovation for national development. As the Philippines' awareness of the importance of IT in many industries and companies increases, the Government of Philippines will start to assist smaller companies without the resources to integrate IT into their workplace.

As both the Government of Philippines and enterprises begin to incorporate the use of IT in their workplace, more information, consisting of private and confidential data, are being stored electronically, leading to the need for EDM to cater for the growth in the volume of electronic data.

Singapore

The Singapore Government has proactively implemented IT strategies since the 1980s in order to develop Singapore as a leading global digital distribution and trading centre to further boost and enhance the competitiveness of its economy. In line with this vision, the Government of Singapore has established Infocomm Development Authority of Singapore (IDA) specifically to develop the IT sector. Initiatives taken through IDA spread across various sectors including education, financial services, healthcare, trade and logistics, hospitality and tourism as well as the public sector.

In light of positioning Singapore as a trusted gateway to the emerging Asian market and innovative hub for financial services, IDA has implemented several programmes including the Corporate Financial Information Exchange which leverages IT solutions in enterprise financial reporting and i-Wealth Management which encourages the IT sector to enable online collaboration and data aggregation to increase the efficiency and enhance delivery of wealth management systems.

Furthermore, IDA has also transitioned its Government-wide system into the digital space to reduce waste, achieve efficiency and reduce costs. To fast-track adoption, the Government of Singapore has established portals dedicated to public sector agencies with a common database. The digitalisation of information increases the volume of digital data and this bodes well for the EDM industry.

In addition, the Government of Singapore has also extended the Productivity and Innovation Credit (PIC) scheme under the Singapore Budget 2014. Under this scheme, businesses can enjoy up to 400.0% tax deductions and/or 60.0% cash payout for investment in innovation and productivity improvements till 2018. Among the 6 qualifying activities under PIC is the acquisition and leasing of PIC IT and automation equipment which includes equipment for inventory management, record management and knowledge management. Such incentives will directly grow demand for storage technology which would give rise to the EDM industry.

Taiwan

In an effort to move towards a digital economy and a smart city, Taiwan has introduced the Asia Silicon Valley Development Plan. The 4 main implementations include cultivating talent and business capital expansion to create a digital ecosystem, strengthening global linkages to adopt innovative technologies, expanding the IT supply chain by integrating Taiwan's hardware advantages into software applications and also developing smart applications such as smart logistics, smart transport and smart medicine.

In addition, the Government has also developed a Digital Nation and Innovation Economic Development Plan ("**DIGI+**"). Through DIGI+, strategies will be implemented to develop innovative applications through stimulation of big data transaction markets and developing value-added services for the information economy, encouraging cross-industry digital innovation and creating a conducive environment for the development of innovative digital applications in the commercial sector. The DIGI+ plan also includes creating a service-oriented digital government by implementing data management across the Government and making the databases accessible to the public, as well as improving security management and digital governance. The Government also aims to expand provision of internet access for the disadvantaged and to remote regions to ensure equal digital development opportunities across the nation as well as to build a quality living environment through smart network technology.

The adoption of ICT across industries and in the wider geographical areas of the nation will generate greater volume of electronic data, leading to greater demand for enterprise data management.

<u>Thailand</u>

The Government of Thailand introduced "Smart Thailand 2020" which is aimed at increasing its citizen's standard of living towards ICT for sustainable growth of the nation. The 4 "Smart" strategies encompass smart network, smart government, smart business and smart people. These strategies are supported by the "ICT SHIFT the Future of Thailand" strategies which benefits 6 aspects of the country, i.e. quality of life, education, industry and business, energy and environment, Thai entrepreneurship as well as the creative industry. Strategies under the quality of life aspect for "ICT SHIFT the Future of Thailand" include the development of e-Government services to provide the public with easy access to Government services and the development of telecommunications and communications for the public. The education aspect includes the development of a knowledge management database for the public, while the industry and business aspect include the digitalisation of supply chain networks to encourage product effectiveness. The energy and environment aspect includes the adjusting and adapting of ICT to improve current Government working procedures through the adoption of teleconference service systems, paperless business solutions, and data storage and backup solutions. Meanwhile, the Thai entrepreneurship aspect includes building channels to create international and local opportunities for trading and supporting the use of ICT technology to connect raw material resources, labour, and knowledge and technology resources, while the creative industry aspect includes building channels to connect innovative Thai entrepreneurs.

By increasing and upgrading the IT infrastructure and educating its citizens about IT, both its citizens and the Government will be able to incorporate ICT into their daily life, businesses and Government administration, whilst encouraging the ICT sector to boost their international competitiveness. As the country adapts to the use of ICT in more applications, there will be an increase in demand for EDM to keep up with the volume of digital data being transmitted in order to ensure data recovery in the case of data loss.

<u>Vietnam</u>

The Socialist Republic of Vietnam plans to restructure its economy in view of achieving the status of an industrialised country by 2020. The Strategy for Science and Technology Development for the period between 2011 and 2020 intends to develop science and technology to an advanced and modern level when compared to SEA standards. Some of its tasks are to continue promoting ICT so that its contribution to GDP will reach 8-10% before 2020, in order to encourage researchers to master various IT fields, encourage businesses to invest in technological activities, to develop a new e-Government system, and to provide online services in Vietnam. The Government of Vietnam aims to ensure that science and technology contributes to a significant part of the economic growth of the economy, thus targeting transaction value of the science and technology market to increase by about 15-17% annually.

As the nation increases the incorporation of ICT in more applications, there will be an increase in demand for EDM to keep up with the volume of digital data being produced.

Emergence of Internet-enabled Applications

The emergence of virtualisation or internet-enabled computing has given rise to increased demand for EDM solutions, particularly for EDMt managed services, as internet-enabled computing shifts the storage of data from the clients or end-users, in this case mostly smaller or mid-sized companies, to the managed service providers. With internet technology, all computing resources such as software, platforms, infrastructure, data and processing capacity can be obtained whenever required from service providers. Applications such as Google Docs, Google AppEngine, Dropbox, Windows Azure and Office365 are some of the popular services today which enterprises utilise to share software applications such as word processing, spreadsheets and presentations on an internet platform. These applications are typically hosted by a managed service provider and thus, the onus now falls on the service providers to ensure data protection and business continuity of their clients or end-users. As internet-enabled computing is presently a rapidly growing market in the Asia Pacific region and has a wide target reach which includes smaller or mid-sized companies, this would consequently lead to increased demand for EDM solutions to support the services they offer, boosting industry growth.

(Source: IMR Report, SMITH ZANDER)

4.3 Prospects of QHK Group and the enlarged KAB Group

Under a Strategic Marketing Agreement since 2014 between Quantum Corporation and QHK, QHK Group offers "Quantum" branded EDM infrastructure technology solutions, namely data backup, storage and recovery solutions, as well as complementary value-added solutions and services, and maintenance and technical support, to customers in Hong Kong and Taiwan as well as other countries.

QHK Group works with channel partners that include distributors and resellers to sell their products, solutions and services to end-users from various industries including financial, manufacturing, and media and entertainment as well as to government agencies ("**End-User Customers**").

QHK Group's breakdown of principal activities is as detailed below:

(i) Provision of EDM infrastructure technology comprising hardware and software

QHK Group is involved in the provision of EDM infrastructure technology which comprises both hardware and software. EDM hardware refers to computer systems used to record and store digital data while EDM software supports the process of data backup, storage, retrieval and restoration.

QHK Group specialises in high-performance data management which is workflow-driven, to store, share and preserve enterprise data. This infrastructure is scalable as bandwidth and capacity can expand to fit the organisation's future data growth. The infrastructure also offers flexibility to complement the organisation's existing IT infrastructure, and is highly configurable to suit organisational needs and requirements.

(ii) Provision of EDM value-added solutions and professional services

QHK Group's EDM infrastructure technology solutions need to be integrated to the End-User Customers' existing IT infrastructure, such as servers, network equipment and storage devices. To achieve this, QHK Group provides value-added solutions and professional services to design, install, configure and implement its EDM infrastructure technology solutions in the End-User Customers' IT environment. QHK Group provides professional consultancy in the design and configuration to meet each End-User Customer's unique requirements and demands, while complementing any existing IT infrastructure. The value-added solutions and professional services also include after-sales service to End-User Customers such as capacity planning to help End-User Customers plan for data growth and anticipate capacity increase.

(iii) Provision of annual maintenance and technical support in EDM solutions

QHK Group has a team of professionals to provide maintenance and technical support services to their EDM infrastructure technology End-User Customers. Technical support is provided to existing End-User Customers in instances such as storage device failures with scheduled and unscheduled maintenance when problems are encountered. QHK Group also provides periodic equipment maintenance and Health Checks services to their End-User Customers as part of their annual maintenance programme.

They also provide on-site technical support and product training to their End-User Customers. This is essentially a maintenance service that covers all components of their EDM solutions. Depending on the customer's Service-Level Agreement, QHK Group is able to provide up to 24x7 helpdesk support to their End-User Customers in which the End-User Customers can use to report faults and request assistance for ad-hoc system break-downs.

QHK Group provides support for fast resolution, priority response and delivery and installation of replacement parts to ensure End-User Customers are able to maximise the performance of their backup, storage and recovery capabilities.

QHK Group's prospects are expected to be favourable in view of QHK Group's competitive strengths as set out below:

(i) QHK Group markets and sells a strong and comprehensive portfolio of products and services, enabling it to keep up with market needs

QHK Group's principal activities are the provision of EDM infrastructure technology and complementary value-added solutions and professional services, as well as annual maintenance and technical support to their End-User Customers, which are organisations using IT to automate and digitise their workflow and thus have large amounts of digital data stored in various media including servers, desktops, laptops and external devices. The data is critical to their business and operations, especially for organisations that carry sensitive, confidential and mission-critical data, and hence, it is highly important that the data is systematically stored and protected through EDM solutions.

In addition, there are organisations whose workflows involve large volumes of data, such as the geospatial, video surveillance and media and entertainment industries. QHK Group's core products are powered by StorNext® 6, which is a powerful data management software that is able to ingest, process and retain vast amounts of data based on user-defined policies, allowing the End-User Customer to monetise this data in the future.

QHK Group also highlights the value and importance of implementing a tiered data management system, whereby data is automatically sorted into different storage tiers. The End-User Customer is in full control of the tiering policies, which can be determined by factors such as importance, age and value of the data. Furthermore, QHK Group's products can be easily scaled to meet future demands as the End-User Customer's storage requirements change. The products are also flexible and can be customised to fit in with the End-User Customer's current IT infrastructure, thus helping them to capitalise on prior investments, while optimising workflows. QHK Group's range of product offerings is a fundamental strength of QHK Group, and gives them a competitive edge for future sustainability in the business.

(ii) QHK Group has a network of channel partners in Hong Kong and Taiwan

QHK Group's EDM infrastructure technology and solutions are primarily distributed for sale through their channel partners which include appointed distributors and resellers. These partnerships allow QHK Group to build brand preference among their distributors and resellers due to the close working relationships forged with them.

Distributors are primarily large, reputable and regional IT distributors who carry multiple brands of products and sell to the End-User Customers via their respective reseller networks. This business model enables QHK Group to leverage on the established reseller networks of these distributors, to provide greater accessibility and wider market reach while incurring minimal costs. Resellers are typically IT service providers who promote, resell and integrate multiple products and solutions as part of their IT implementation projects. By leveraging on the customer networks of these distributors and resellers, QHK Group is able to extend their End-User Customer reach by maximising market coverage while incurring minimal distribution costs.

QHK Group provides ongoing support to their distributors and resellers through product training and technical support for the resolution of complex customer issues. These are proactive and effective approaches taken to create brand preference among their distributors and resellers.

QHK Group strives to consistently deliver quality solutions and services that meet their End-User Customers' needs. At the same time, they are committed to fostering, nurturing and strengthening the relationships with their distributors and resellers.

(iii) QHK Group is well-positioned to leverage on potential for growth in Hong Kong and Taiwan as well as the Asia Pacific market

QHK Group is based in Hong Kong and Taiwan. They supply their products to customers in Hong Kong and Taiwan as well as to customers within the Asia Pacific region. The EDM industry in Asia Pacific, grew from USD6.61 billion (RM20.42 billion) in 2012 to USD9.32 billion (RM38.64 billion) in 2016, at a CAGR of 8.97% as set out in Section 4.2. Demand for EDM solutions is expected to continue growing, driven by the increasing number of enterprises and increasing requirements for storage capacity, growth in the number of businesses and enterprises in light of the country's developing economy, as well as government initiatives such as the Digital 21 Strategy by the Government of Hong Kong and Digital Nation and Innovation Economic Development Plan by the Government of Taiwan *(Source: IMR Report)*.

QHK Group has also identified several target markets involved and has plans to expand its customer base in these markets in the future, as detailed below. QHK Group's strong portfolio of products and solutions will be able to support organisations dealing with big data which conventional EDM solutions are unable to support, as demonstrated by its End-User Customers in industries such as broadcasting industry as well as governmental agencies.

Furthermore, QHK Group's product flexibility and scalability offers it nimbleness in a market where systems tend to be quite rigid. The ability to provide End-to-End complete data storage and protection solutions, including data storage, archival and retrieval, for its End-User Customers depending on their budget, current IT infrastructure and evolving data storage needs, gives it an edge over its competitors.

(iv) QHK Group has an experienced and professional management team

QHK Group is led by an experienced and qualified management team. QHK Group's Managing Director, LCY, has been with QHK Group since its inception and has more than 4 years' experience in the EDM industry.

LCY is supported by a strong and competent key management team. QSHK is led by a Sales Director, Wong Chi Ho ("**WCH**"), who joined QSHK in 2014 and has over 11 years of experience in the EDM industry. QTW is led by a Strategic Sales Director, Chang Jui-Hung ("**CJH**"), who joined QTW in 2014 and has over 11 years of experience in the EDM industry.

The strength and experience of the management team will enable QHK Group to continue to grow and expand their market reach.

The profile of the abovementioned key management personnel are as follows:

(a) LCY, Managing Director

LCY, Malaysian, aged 47, is QHK's Managing Director. He leads the overall business planning, development and operations of QHK Group.

He graduated with a Bachelor of Commerce from The University of Melbourne, Australia in 1994. Upon graduation, he joined Kian Chong Hardware Sdn Bhd as a Sales Executive and was responsible for the sales of building materials.
In 1996, he set up Kian Joo Aluminium Industries Sdn Bhd and became the Managing Director responsible for managing the overall operations of the business. In 2005, he set up Kian Chiong Marketing Sdn Bhd and became the Managing Director of the company up till to-date.

He founded QHK in 2013 and has assumed the position of Managing Director since then.

In 2002, he became a director of Ecosteel Sdn Bhd and in 2012, he became a director of Kianchion Co. Sdn Bhd. He continues to sit on the board of the respective companies up till to-date.

(b) WCH, Sales Director of QSHK

WCH, Chinese, aged 35, is the Sales Director of QSHK. He is responsible in procuring sales from new customers as well as maintaining relationships and servicing QSHK's existing customers.

He graduated with a degree of Bachelor of Science from The Chinese University of Hong Kong, Hong Kong in 2004. Upon graduation, he joined Wai Li Technology Ltd as a Senior IT Consultant and was responsible for sales of the company's IT solutions, implementation of solutions and provides technical support.

In 2006, he joined Electric Business Solutions Ltd as a Senior Account Manager responsible for sales, strategic planning, market penetration, proposal formulation, and solutions presentation. In 2008, he was part of the working team for the high-performance computing project for Hong Kong Polytechnic University.

In 2010, he joined Jardine OneSolution (HK) Limited as a Sales Manager and was responsible for the sales management activities of the company. He was involved in the server virtualisation project for City University of Hong Kong in 2011 and network infrastructure project for Hong Kong University of Science and Technology in 2012.

In 2013, he joined Quantum International Inc., a wholly-owned subsidiary of Quantum Corporation, as a Regional Sales Manager before joining QHK Group in 2014 as a Regional Sales Manager of QSHK. In 2016, he was promoted to Sales Director of QSHK.

Save as disclosed above, he does not hold directorship in any other companies.

(c) CJH, Strategic Sales Director of QTW

CJH, Chinese, aged 51, is the Strategic Sales Director of QTW. He is responsible in procuring sales from new customers as well as to maintain relationships and service QTW's existing customers.

He enrolled in Tong Woo University for Business Mathematics Studies in 1989 and completed 2 years of study before he withdrew from his course in 1992. In 1992, he joined King Computer Co. Ltd as a Technical Support Manager and was responsible for software testing, software debugging and the provision of training to customers.

In 1995, he joined YE Technology Ltd as a Technical Support Manager before joining Triumph Technology Inc. in 1998 as a Product and Pre-sales Manager responsible for managing the technical support team and working with the Research and Development department on product planning and prototype development.

In 2003, he continued his studies and graduated with a degree in Bachelor of Business Administration from Chung Hua University, Taiwan in 2005, completing his undergraduate degree in two years utilising credits earned from his studies in Tong Woo University. In 2005, he joined Commverge Solutions Inc. as a Technical Manager and was responsible for managing the pre-sales team, formulating proposals, tender management and solutions presentations.

In 2006, he joined Hewlett-Packard Taiwan as a Product Sales Manager responsible for product management, preparation of proposals and products presentation. During the same year, he was involved in the project support for Taiwan Army Command Headquarters under Hewlett-Packard Taiwan and in 2007, he was involved in the project for Taiwan National Police Agency. In 2008, he was promoted to Product Marketing Manager and was responsible for the marketing activities of the company's products.

In 2012, he joined Oracle Taiwan as a Sales Director responsible for managing the sales team and sales management activities. In 2013, he was involved in 2 projects under Oracle Taiwan which is to provide Oracle solutions for Taiwan Power Management and for Taiwan Government e-Traffic Cloud and e-Invoice projects.

In 2014, he joined our Group as a Strategic Sales Director of QTW.

Save as disclosed above, he does not hold directorship in any other companies.

QHK Group's future plans and strategies are as follows:

(i) QHK Group intends to expand its market presence in the EDM market in Hong Kong and Taiwan as well as the Asia Pacific region

One of QHK Group's competitive strengths is the ability to provide solutions which allow for the storage, analysis, processing and archival of large volumes of data. QHK Group has identified several key industries in Hong Kong and Taiwan which typically handle large volumes of data, and plans to target the following industries for further expansion:

(a) Video surveillance industry

In the past, video surveillance was a standalone system in a control room for security guards to monitor. Today, the applications of video surveillance have widened to include smart city projects.

Video surveillance cameras are now becoming more prevalent in homes, businesses and public spaces, and is increasingly becoming a feature in smart city projects.

Smart Cities are an initiative of the government to improve the living standards of citizens through the use of technology and well-planned infrastructure. The proposed implementation of Smart Cities requires real-time IT-driven surveillance features such as security surveillance, smart parking, intelligent traffic management and smart meters.

Modern day video surveillance for smart city projects serves a variety of purposes, such as:

- Security: video surveillance is traditionally used as a security measure to deter criminal acts;
- Traffic: to capture traffic offences and licence plate recognition;
- Analytics: for analysing customer behaviour such as purchasing patterns; and
- Legislation requirements.

Technological advancements have resulted in video surveillance cameras gaining more features such as higher resolutions, multiple sensors, night vision and facial/behavioural recognition. Due to these developments, video surveillance footage now take up more storage space. In addition, there is demand for longer retention times. Consequently, video surveillance systems require the following features:

- Video management system: provides real-time access to recorded content, indexes recorded content, is able to accept multiple types of input from different types of cameras, and is able to perform analytics in real-time; and

- Storage management system: integrated and tiered

  QHK Group's tiered data management system is able to store older video footage in lower tier storage which is more cost-effective. At the same time, the system is seamlessly integrated, allowing users to access all videos no matter which tier it is stored in. This file system balances performance, capacity and cost.

QHK Group also plans to expand into China through their Hong Kong and Taiwan partners as well as through deployment requirements by their Hong Kong and Taiwan End-User customers. With this, QHK Group will be able to capture a wider range of customer base, support the geographic expansion of existing customers and expand their coverage.

(b) Media and entertainment industry

The media and entertainment industry is very resource-intensive due to high-definition video files, the need to produce in a variety of formats, live events and tight schedules. There is also a need for file sharing and collaborative work between users who may be in different locations.

QHK Group is able to meet these demands with its powerful infrastructure which is able to ingest, process, store and retrieve large amounts of unstructured data quickly and efficiently. It provides a seamless platform to facilitate collaborative work for users in multiple locations. Low latency means that older files can be retrieved swiftly even though they are stored in a lower tier of storage. The ability to control where data is tiered will reduce network strain and bandwidth. This system is able to handle the demanding workflow of the media and entertainment industry, while still being cost-effective.

(ii) QHK Group plans to expand its customer base by increasing effort and focus in other key infrastructures

Apart from leveraging on its present customers, QHK Group also intends to expand its present EDM infrastructure technology solution business to serve a wider range of End-user Customers from the existing industries covered. QHK Group plans to increase their effort and focus into other key infrastructures such as ports, rails, smart and safe city initiatives, 8K broadcast and production, virtual reality and augmented reality. These infrastructure also generate and store large amounts of digital data and thus have a need for EDM solutions.

Through this expansion of its customer base, QHK Group will be able to further diversify its revenue stream, allowing QHK Group to enhance its overall revenue and profitability.

(Source: Management of QHK Group)

Premised on the overview and outlook of the EDM industry in Asia Pacific as set out in Section 4.2 of this announcement as well as the competitive strength and future plans of QHK Group as set out above, the Board is of the opinion that QHK Group's prospects are expected to be favourable and the Proposed Acquisition is expected to contribute positively to the future earnings of the enlarged KAB Group.

[The rest of this page has been intentionally left blank]

5. RISK FACTORS

The risk factors which may be inherent to KAB Group in relation to the Proposed Acquisition, which are by no means exhaustive, are as follows:

5.1 Acquisition risk

The Proposed Acquisition is expected to contribute positively to the KAB Group as stated in Section 4.3 of this announcement. However, there is no assurance that the anticipated benefits of the Proposed Acquisition will be realised or that the KAB Group will be able to generate sufficient revenue and earnings therefrom to offset the associated acquisition costs incurred. There is also no assurance that the existing KAB Group is able to maintain or improve the quality of services and/or products currently offered by QHK Group.

In mitigating such risks, in addition to the Profit Warranty, the management of KAB Group will oversee the daily operations and be involved in the decision making of strategic matters of QHK Group.

5.2 Non-completion of the SPA

In the event any of the conditions precedent of the SPA is not fulfilled or waived (as the case may be), the Proposed Acquisition may be delayed or terminated, and the potential benefits arising therefrom may not materialise. In this respect, the Board seeks to limit such risk and will take all reasonable steps to comply with the relevant conditions precedent so as to be able to complete the Proposed Acquisition.

5.3 Investment risks in respect of KAB's shareholding in QHK

Both KAB Group and QHK Group operate in the same industry and are both principally involved in infrastructure technology business providing data storage, protection and archival solutions to enterprises. As such, the risks of the Proposed Acquisition will not materially differ from the existing risks inherent in the EDM industry that KAB Group is exposed to as these risks will be addressed as part of KAB Group's ordinary course of business. Notwithstanding this, KAB Group will be exposed to the existing risks associated with QHK Group, such as business, operational and financial risks, upon completion of the Proposed Acquisition as QHK will then become wholly-owned subsidiary of KAB.

5.4 Non-fulfilment of Profit Warranty

The Profit Warranty is based on various bases and assumptions which are deemed reasonable, but nevertheless subject to certain uncertainties and contingencies, which may be outside QHK's control. While the Board has taken reasonable steps to assess the achievability of the Profit Warranty, there can be no assurance that the Profit Warranty will be met.

In the event QHK incurs losses for the FYE 2017, the 2nd Payment Tranche shall not be payable to LCY. In addition, LCY shall compensate KAB an amount equivalent to 50% of the 1st Payment Consideration Amount in cash.

5.5 Political, economic and regulatory risk

KAB Group's financial and business prospects may be materially affected by any changes in the economic, political and regulatory environment in Asia Pacific and BVI. Such risks include, but are not limited to, changes in political leadership, expropriation, nationalisation, war, riots, economic uncertainties, adverse changes in tax laws and controls of foreign ownership, repatriation of profits and dividends and foreign exchange regulations. There can be no certainty that any adverse developments in the economic, political and regulatory requirement of Asia Pacific and BVI will not have a material adverse effect on the consolidated financial results of the KAB Group.

While acknowledging that KAB may not be able to prevent some of the abovementioned events from occurring, it has adopted and will continue to adopt a proactive approach in keeping abreast of political, economic, and regulatory developments of these countries.

6. EFFECTS OF THE PROPOSED ACQUISITION

6.1 Share capital

The pro forma effects of the Proposed Acquisition on the share capital of KAB are as follows:

	No. of KAB Shares	RM
Share capital as at the LPD	297,372,852	51,104,128.25
Consideration Shares to be issued	40,816,326	39,999,999.48
Enlarged share capital	338,189,178	91,104,127.73

6.2 Net Assets ("NA") and gearing

The pro forma effects of the Proposed Acquisition on the NA and gearing of the KAB Group based on its audited consolidated financial statements as at 31 December 2016 are as follows:

	(Audited) As at 31 December 2016 (RM'000)	(I) Subsequent events up to LPD$^{(1)}$ (RM'000)	(II) After (I) and the Proposed Acquisition (RM'000)
Share capital	24,812	51,104	91,104
Share premium	10,493	10,493	10,493
Merger deficit	(17,406)	(17,406)	(17,406)
Exchange translation reserve	6,327	6,327	6,327
Retained profits	21,352	21,192$^{(2)}$	20,537$^{(3)}$
Shareholders' funds / NA	**45,578**	**71,710**	**111,055**
No. of KAB Shares in issue	248,116,284	297,372,852	338,189,178
NA per KAB Share (RM)	0.18	0.24	0.33
Total borrowings	3,864	3,864	3,864
Gearing (times)	0.08	0.05	0.03

Notes:

(1) After taking into consideration of:

- *the listing of 14,150,000 placement shares at an issue price of RM0.79 each and 12,850,000 placement shares at an issue price of RM0.84 each on 18 August 2017 and 25 August 2017, pursuant to the Private Placement; and*

- *the listing of 22,256,568 KAB Shares at an issue price of RM0.1941 each on 3 April 2017 pursuant to the 2nd Payment Tranche of purchase consideration for the acquisition of the remaining 80% of the number of issued shares in Quantum Storage (India) Pte. Ltd. which has been completed on 4 October 2016.*

(2) After deducting expenses incurred of approximately RM0.16 million in relation to the Private Placement.

(3) After deducting estimated expenses of approximately RM655,000 for the Proposed Acquisition.

6.3 Earnings and earnings per share ("EPS")

The Proposed Acquisition is not expected to have any immediate material effect on the consolidated earnings of the KAB Group for the FYE 2017 as the Proposed Acquisition is only expected to be completed in the 4th quarter of 2017. However, the Proposed Acquisition is expected to contribute positively to the future earnings of the KAB Group after taking into consideration the historical earnings of QHK Group and prospects of the Proposed Acquisition.

The EPS may be diluted accordingly consequent to the issuance of Consideration Shares pursuant to the 1st Payment Tranche in relation to the Proposed Acquisition on the Completion Date and the 2nd Payment Tranche in the event the Profit Warranty is achieved during FYE 2017, as set out in the Purchase Consideration clause in Section 2.3.2 of this announcement.

The pro forma effects of the Proposed Acquisition on the Group's earnings and EPS based on its audited consolidated financial statements for the FYE 2016, assuming both the Proposed Acquisition had been completed and all the Consideration Shares have been fully issued to the Vendor on 1 January 2016 are as follows:

	(Audited) As at 31 December 2016 (RM'000)	**After the Proposed Acquisition (RM'000)**
PAT attributable to the owners of the Company	7,162	7,162
PAT of QHK Group attributable to KAB Group pursuant to the Proposed Acquisition[(1)]	-	5,084
PAT of the enlarged Group	**7,162**	12,246
No. of KAB Shares in issue	248,116,284	338,189,178
EPS (sen)	2.89	3.62

Note:

(1) *After incorporating the PAT of USD1,200,000 (equivalent to approximately RM5.08 million), being the Profit Warranty for FYE 2017.*

6.4 Substantial shareholders' shareholdings

The pro forma effects of the Proposed Acquisition on the shareholdings of the substantial shareholders of the Company are as follows:

	As at the LPD				**After the Proposed Acquisition**			
	Direct		**Indirect**		**Direct**		**Indirect**	
Name	**No. of KAB Shares**	**%**	**No. of KAB Shares**	**%**	**No. of KAB Shares**	**%**	**No. of KAB Shares**	**%**
Tan Jeck Min	55,129,768	18.54	-	-	55,129,768	16.30	-	-
Piti Pramotedham	35,548,200	11.95	-	-	35,548,200	10.51	-	-
Teo Chong Meng Philip Dominic	35,250,000	11.85	-	-	35,250,000	10.42	-	-
Quantum Storage (India) Limited	22,256,652	7.48	-	-	22,256,652	6.58	-	-
Jony Raw @ Raw Jony	16,110,000	5.42	201,000[(1)]	0.07	16,110,000	4.76	201,000[(1)]	0.06
LCY	-	-	-	-	40,816,326	12.07	-	-

Note:

(1) Deemed interested by virtue of the shareholdings of his spouse, Yoon Swee Kheng (55,000 Shares) and his children, namely Kelvin Raw Yi Shuen (120,000 Shares) and Ivy Raw Yin Ching (26,000 Shares) in KAB.

6.5 Convertible securities

As at the LPD, the Company does not have any outstanding options, warrants or convertible securities.

7. HIGHEST PERCENTAGE RATIO

Pursuant to Rule 10.02(g) of the Listing Requirements, the highest percentage ratio applicable to the Proposed Acquisition is 98.73%, based on the Purchase Consideration of RM45.00 million compared against the audited consolidated NA of KAB for the FYE 2016 of RM45.58 million.

8. APPROVALS REQUIRED

The Proposals are subject to the approvals from:

(i) Bursa Securities for the listing of and quotation for the Consideration Shares on the ACE Market of Bursa Securities ("**Additional Listing Application**");

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

(iii) any other relevant authorities, if required.

9. APPLICATION TO THE RELEVANT AUTHORITIES

The Additional Listing Application will be made to Bursa Securities within 1 month from the date of this announcement.

10. INTER-CONDITIONALITY OF THE PROPOSED ACQUISITION

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

11. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

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

12. POLICIES ON THE FOREIGN INVESTMENTS, REPATRIATION OF PROFITS AND TAXATION

(i) BVI

There is no income tax, corporation tax, or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by QHK or its shareholders (in respect of payments including but not limited to interest, dividends and profits) in the BVI, other than shareholders ordinarily resident in the BVI.

There is no exchange control legislation under BVI law and accordingly, (i) there are no exchange control regulations imposed under BVI law that would prevent QHK from paying dividends to shareholders in any currency, and all such dividends may be freely transferred out of the BVI, clear of any income or other tax of the BVI imposed by withholding or otherwise without the necessity of obtaining any consent of any government or authority of the BVI, and (ii) there are no exchange control restrictions or sanctions currently in effect in the BVI that would, in the ordinary circumstances, prevent the repatriation of funds (regardless whether they are profits or capital in nature) in a foreign currency from the BVI to any country by QHK.

There are no BVI restrictions against a foreign party investing or holding shares in QHK.

(ii) Hong Kong

Profits tax is currently chargeable on taxable profits made by QSHK at a rate of 16.5%.

There is no withholding tax on the interest payment and/or dividends paid by QSHK to a foreign shareholder in Hong Kong. However, any royalty arising from Hong Kong that is made to a foreign shareholder will be subject to withholding tax in Hong Kong. Generally, royalties paid to foreign corporations are subject to withholding tax at a rate of 4.95% and the 16.5% tax rate applies if such foreign corporation is the associate of the entity which paid the royalties.

The dividend paid by QSHK to its shareholder(s) (including foreign shareholders not based in Hong Kong) is exempted from the profits tax in Hong Kong.

(iii) Taiwan

Business tax is imposed on the sale of goods and services within Taiwan and the standard rate of value added tax is 5%. The corporate income tax rate is 17% and the threshold for subjecting a company to corporate income tax is New Taiwan Dollar120,000. A resident company's earnings generated in a year and remaining undistributed by the end of the following year are subject to a 10% surtax. The aforementioned tax rates are the only applicable categories of corporate tax imposed on Taiwan entities, provided that the company has not obtained any tax incentives or tax exemptions.

Payments for dividends, interests and profits for non-resident corporations will be withheld at a rate of 20%. No further taxes will be levied on foreign shareholders and where there are individual tax treaties between Taiwan and the foreign shareholder's resident country, there may be a possibility for the foreign shareholder to reclaim the withheld amount from its home government.

(iv) Singapore

A person is subject to Singapore income tax on income accrued or derived in Singapore, and on foreign income received in Singapore. The corporate tax rate for year of assessment 2017 is 17%.

A person has to withhold tax when it makes payments of the following nature to a non-resident person:

(a) Interest, commission, fee in connection with any loan or indebtedness;

(b) Royalty or other payments for the use of or the right to use any movable property;

(c) Payments for the use of or the right to use scientific, technical, industrial or commercial knowledge or information or for the rendering of assistance or service in connection with the application or use of such knowledge or information;

(d) Payments of management fees;

(e) Distribution of real estate investment trust (REIT);

(f) Rent or other payments for the use of any movable property;

(g) Payments for the purchase of real property from a non-resident property trader; and

(h) Structured products (other than payments which qualify for tax exemption under section 13(1)(zj) of the Income Tax Act (Cap. 134) of Singapore ("**Income Tax Act**")).

There is a waiver of withholding tax on all payments under section 12(6) and section 12(7) of the Income Tax Act, such as interest, commission, royalties or management fees made to Singapore branches of non-resident companies on or after 21 February 2014.

There is no need to withhold tax on dividend payments. Singapore currently does not impose withholding tax on dividends even if withholding tax rates on dividends are provided under some of Singapore's tax treaties.

Foreign dividends, foreign branch profits and foreign service income ("**Specified Foreign Income**") received in Singapore by a Singapore tax resident company are exempt from tax if (i) the Specified Foreign Income is subject to tax of a similar character to income tax under the laws of the jurisdiction from which such income is received; (ii) at the time the Specified Foreign Income is received in Singapore, the highest rate of tax of a similar character to income tax in the jurisdiction from which such income is received is at least 15%; and (iii) the Comptroller of Income Tax is satisfied that the tax exemption would be beneficial to the recipient of the foreign income.

A company is regarded as a tax resident in Singapore if the control and management of its business is exercised in Singapore. Normally, control and management of a company is vested in the board of directors and the company is resident in the country where the directors meet.

Since 1 January 2003, Singapore has adopted a one-tier corporate tax system. The tax paid by a company on its chargeable income is a final tax and all dividends paid by a company are exempt from tax in the hands of the shareholders.

13. DIRECTORS' STATEMENT

After having considered all aspects of the Proposed Acquisition including but not limited to the rationale and effects of the Proposed Acquisition, the Board is of the opinion that the Proposed Acquisition is in the best interest of the Company.

14. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the Board expects the Proposed Acquisition to be completed in the 4^{th} quarter of 2017.

15. ADVISER

TA Securities has been appointed as the Adviser in relation to the Proposed Acquisition.

16. DOCUMENTS AVAILABLE FOR INSPECTION

The SPA is available for inspection during normal business hours from 8.30 a.m. to 5.30 p.m. from Monday to Friday (excluding public holidays) at the registered office of KAB at Third Floor, No. 79 (Room A), Jalan SS21/60, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan, for a period of 3 months from the date of this announcement.

This announcement is dated 9 October 2017.

Financial information

The summary of the audited financial information of QHK Group for the FPE 2014, FYEs 2015 to 2016 and 6M-FPEs 2016 and 2017 is as follows:

	← Audited		→	← Unaudited	→
	FPE 2014	**FYE 2015**	**FYE 2016**	**6M-FPE 2016**	**6M-FPE 2017**
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Revenue	1,674	4,845	9,526	2,329	4,933
Profit/(Loss) before taxation	(156)	190	632	66	568
PAT/(Loss) after taxation ("**LAT**")	(157)	191	591	66	582
Shareholders' funds / NA	(150)	58	638	112	1,198
Share capital (USD)	1	1	1	1	1
Weighted average no. of QHK Share in issue	1	1	1	1	1
No. of QHK Share in issue	1	1	1	1	1
Basic earnings/(loss) per QHK Share (USD)*(1)*	(157)	191	591	66	582
NA/(Net liabilities) per QHK Share (USD)*(2)*	(150)	58	638	112	1,198

Notes:

(1) PAT/LAT divided by the weighted average number of issued QHK Share for the financial years/periods under review.

(2) NA/Net liabilities divided by the number of issued QHK Share as at the end of the financial years/periods under review.

<u>FYE 2015 vs. FPE 2014</u>

QHK Group's revenue increased by 189.43% to USD4.85 million in FYE 2015 (FPE 014: USD1.67 million), mainly due to higher sales of data storage products and solutions ramped up with marketing activities.

QHK Group recorded PAT for the FYE 2015 of USD0.19 million (FPE 2014: -USD0.16 million), mainly due to:

(i) higher revenue recorded for the FYE 2015 as detailed above; and

(ii) marketing development income of USD0.50 million in FYE 2015 due to the emphasis and efforts in marketing activities together with Quantum Corporation .

<u>FYE 2016 vs. FYE 2015</u>

QHK Group's revenue increased by 96.62% to USD9.53 million in FYE 2016 (FYE 2015: USD4.85 million), mainly due to continuous effort in marketing activities and extended business opportunity coverage with channel partners.

QHK Group's PAT increased by 209.42% to USD0.59 million in FYE 2016 (FYE 2015: USD0.19 million), mainly due to higher revenue recorded for the FYE 2016 as detailed above.

6M-FPE 2017 vs. 6M-FPE 2016

QHK Group’s revenue increased by 111.81% to USD4.93 million in 6M-FPE 2017 (6M-FPE 2016: USD2.33 million). The increase in revenue was mainly attributable to more projects secured during the financial period under review.

QHK Group’s PAT increased by 781.82% to USD0.58 million in 6M-FPE 2017 (6M-FPE 2016: USD0.07 million) as a result of higher revenue recorded for 6M-FPE 2017 as detailed above.

[The rest of this page has been intentionally left blank]