

N2N CONNECT BERHAD (“N2N” OR “COMPANY”)

PROPOSED ESTABLISHMENT OF AN EMPLOYEES’ SHARE OPTION SCHEME OF UP TO 15% OF THE TOTAL NUMBER OF ISSUED SHARES OF THE COMPANY (EXCLUDING TREASURY SHARES, IF ANY) FOR ELIGIBLE EXECUTIVE DIRECTORS AND EMPLOYEES OF N2N AND ITS SUBSIDIARY COMPANIES (EXCLUDING SUBSIDIARY COMPANIES WHICH ARE DORMANT) (“PROPOSED ESOS”)

1. INTRODUCTION

On behalf of the Board of Directors of N2N (“**Board**”), Affin Hwang Investment Bank Berhad (“**Affin Hwang IB**”) wishes to announce that the Company proposes to undertake the proposed establishment of an employees’ share option scheme of up to 15% of the total number of issued shares of the Company (excluding treasury shares, if any) for eligible executive Directors and employees of N2N and its subsidiary companies (“**N2N Group**” or “**Group**”) (excluding subsidiary companies which are dormant) (“**Proposed ESOS**” or “**Scheme**”).

2. DETAILS OF THE PROPOSED ESOS

The Proposed ESOS will entail the establishment of an employees’ share option scheme which involves the granting of options (“**ESOS Option(s)** or **Option(s)**”) to eligible executive Directors and employees of the N2N Group who meet the eligibility criteria for participation in the Proposed ESOS (“**Eligible Person(s)**”), in accordance with the by-laws governing the Proposed ESOS (“**By-Laws**”). The Options granted under the Scheme shall entitle Eligible Persons who have accepted a written offer of Options (“**Offer**”) (“**Grantee**”) to subscribe for new ordinary shares in N2N (“**N2N Shares**” or “**Shares**”) at an exercise price to be determined at a later date (“**Option Price**”).

For avoidance of doubt, the Proposed ESOS will not be extended to non-executive Directors of the Company.

The Proposed ESOS will be administered in accordance with the By-Laws by a committee, which is to be appointed and authorised by the Board with the responsibility of, amongst others, implementing, allocating and administering the Proposed ESOS (“**ESOS Committee**”). The Board will also formulate and approve the terms of reference of the ESOS Committee.

2.1 Maximum number of Shares available under the Proposed ESOS

The maximum number of new Shares which may be issued and allotted pursuant to the exercise of the ESOS Options shall not in aggregate exceed 15% of the total number of issued shares of the Company (excluding treasury shares) at any point of time during the duration of the Scheme.

2.2 Basis of allotment and maximum allowable allocation of new Shares

Subject to the By-Laws, the number of ESOS Options to be allocated to an Eligible Person at any point of time in each offer made pursuant to the Scheme (“**Offer**” or “**Offer(s)**”) shall be at the sole and absolute discretion of the ESOS Committee after taking into consideration, inter alia, the Eligible Person’s designation, length of service, work performance and/or such other factors as the ESOS Committee deems fit, and subject to the following conditions:-

- (i) the total number of Shares made available under the Scheme shall not exceed the amount in Section 2.1 above;

- (ii) not more than 10% (or such other percentage as may be permitted by Bursa Malaysia Securities Berhad ("**Bursa Securities**") or any other relevant authorities from time to time) of the total Shares made available under the Scheme shall be allocated to any Eligible Person who, either singly or collectively through persons connected (as defined in the ACE Market Listing Requirements of Bursa Securities ("**Listing Requirements**")) with the Eligible Person, holds 20% (or such other percentage as may be permitted by Bursa Securities or any other relevant authorities from time to time) or more of the total number of issued shares of the Company (excluding treasury shares);
- (iii) up to 100% of the total number of N2N Shares to be issued under the Scheme would be allocated, in aggregate, to the executive Directors and senior management of the N2N Group who are Eligible Persons (where "senior management" shall be subject to any criteria as may be determined at the sole discretion of the ESOS Committee from time to time). This is intended to incentivise the executive Directors of the Group for their contribution towards development, growth and success and strategic direction to drive long term shareholder value enhancement of N2N Group and to incentivise the senior management of the Group for their commitment, dedication and loyalty towards attainment of higher performance; and
- (iv) the executive Directors and senior management of N2N Group shall not participate in the deliberation or discussion of their respective allocations;

provided always that it is in accordance with the Listing Requirements or any prevailing guidelines issued by Bursa Securities or any other relevant authorities as amended from time to time.

The ESOS Committee shall be entitled to determine the maximum number of ESOS Options that can be offered to an Eligible Person under the Scheme, in the manner provided in the By-Laws in relation to each class or grade of employees and executive Directors and the aggregate maximum number of ESOS Options that can be offered to executive Directors and senior management under the Scheme from time to time, and the decision of the ESOS Committee shall be final and binding.

For avoidance of doubt, the ESOS Committee may at its sole and absolute discretion determine whether granting of the ESOS Options to the Eligible Person(s) will be staggered over the duration of the Scheme or in 1 single grant and/or whether the ESOS Options are subject to any vesting period and if so to determine the vesting conditions including whether such vesting are subject to performance target, the determination of which will be carried out at a later date after the establishment of the Scheme.

2.3 Eligibility

Subject to the discretion of the ESOS Committee, only Eligible Persons who fulfil the following conditions shall be eligible to participate in the Scheme:-

- (i) In respect of an employee of N2N Group ("**Employee**"), the Employee must fulfil the following criteria as at the date on which an Offer is made by the ESOS Committee from time to time to an Eligible Person to participate in the Scheme in the manner provided in the By-Laws ("**Date of Offer**"):-
 - (a) is at least 18 years of age and is not an undischarged bankrupt nor subject to any bankruptcy proceedings;
 - (b) is confirmed in writing as a full time Employee and has been in the employment of the Group for a period of at least 2 years of continuous service prior to and up to the Date of Offer, including service during the probation period; and
 - (c) fulfils any other criteria and/or falls within such category as may be determined by the ESOS Committee from time to time.

- (ii) In respect of an executive Director, the executive Director must fulfil the following criteria as at the Date of Offer:-
 - (a) is at least 18 years of age and is not an undischarged bankrupt nor subject to any bankruptcy proceedings;
 - (b) has been appointed as an executive Director of the Company or any company in the Group for such period as may be determined by the ESOS Committee prior to and up to the Date of Offer; and
 - (c) fulfils any other criteria and/or falls within such category as may be determined by the ESOS Committee from time to time.

Notwithstanding the above, the ESOS Committee may, in its absolute discretion, waive any of the conditions of eligibility as set out above. The eligibility and number of Options to be offered to an Eligible Person under the Scheme shall be at the sole and absolute discretion of the ESOS Committee and the decision of the ESOS Committee shall be final and binding.

Subject to Section 2.3(i) and 2.3(ii), there are no performance targets to be achieved by the Grantee before the Options can be exercised into new Shares at this juncture. Notwithstanding this, the ESOS Committee may from time to time at its own discretion decide on the performance targets.

2.4 Duration and Termination

The Proposed ESOS, when implemented, shall be in force for a period of 5 years from the effective date of implementation of the Proposed ESOS. The Company may, if the Board deems fit and upon the recommendation of the ESOS Committee, extend the Scheme for a period of up to a maximum of 5 years, commencing from the day after the date of expiration of the original 5 years period ("**Date of Expiry**").

Such extended Scheme shall be implemented in accordance with the terms of the By-Laws, save for any amendment and/or change to the relevant statutes and/or regulations then in force. Unless otherwise required by the relevant authorities, no further approvals shall be required for the extension of the Scheme and the Company shall serve appropriate notices on each Grantee and/or make any necessary announcements to any parties and/or Bursa Securities (if required) within 30 days prior to the Date of Expiry.

The Scheme may be terminated by the ESOS Committee at any time before the Date of Expiry provided that an announcement is released to Bursa Securities on the following:-

- (i) the effective date of termination;
- (ii) the number of Options exercised or Shares vested; and
- (iii) the reasons and justification for termination.

2.5 Option Price

Subject to any adjustments made under the By-Laws and pursuant to the Listing Requirements, the exercise price of the ESOS Option ("**Option Price**") shall be based on a price to be determined by the Board upon recommendation of the ESOS Committee based on the VWAP of the Shares for the 5 market days immediately preceding the Date of Offer with a discount of not more than 10% or such other percentage of discount as may be permitted by Bursa Securities or any other relevant authorities from time to time during the duration of the Scheme.

2.6 Acceptance

An Offer shall be accepted by an Eligible Person within the Offer period by written notice to the Company accompanied by a payment to the Company of a nominal non-refundable consideration of Ringgit Malaysia One (RM1.00) only for the acceptance of the Offer.

If an Offer is not accepted within the Offer period or in the event of death or cessation of employment of the Eligible Person, the Offer shall automatically lapse upon the expiry of the Offer period. The ESOS Options comprised in such Offer may, at the discretion of the ESOS Committee, be re-offered to other Eligible Person.

The Company shall within 30 days of the acceptance of the Offer by the Eligible Person, issue to the Eligible Person an ESOS Option certificate in such form as may be determined by the ESOS Committee.

In the event the Eligible Person ceases to be an executive Director or Employee within the N2N Group or becomes a bankrupt, as the case may be, prior to the acceptance of the Offer made to the Eligible Person, such Offer shall automatically lapse and shall not be capable of acceptance.

2.7 Rights of a Grantee

The Options shall not carry any right to vote at any general meeting of the Company. The new Shares, which are allotted and credited into the Grantee's Central Depository System account upon the exercise of the ESOS Options, would carry rights to vote at any general meeting of the Company, if the Grantee is registered on the Register of Depositors on the entitlement date as at the close of business to be entitled to attend and vote at the general meeting.

A Grantee shall not be entitled to any dividends, rights and/or other distributions on his/her unexercised ESOS Options.

2.8 Ranking of the new N2N Shares

The new Shares arising from the exercise of any of the Options shall, upon allotment and issuance, rank *pari passu* in all respects with the existing Shares, save and except that the new Shares will not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid to shareholders, for which the entitlement date is prior to the date of allotment and issuance of the new Shares.

2.9 Alteration of share capital

Subject to the By-Laws, in the event of any alteration in the capital structure of the Company during the duration of the Scheme, whether by way of a rights issue, bonus issue or other capitalisation issue, consolidation or subdivision of Shares or reduction of capital or otherwise howsoever, the Company shall cause such adjustment to be made to:-

- (i) the Option Price;
- (ii) the number of ESOS Options granted to each Grantee (excluding the ESOS Options already exercised); and/or
- (iii) the number of Shares and/or Option Price comprised in the Offer which is open for acceptance during the Offer period (if such Offer is subsequently accepted in accordance with the terms and conditions of the Offer and the By-Laws),

to ensure that the capital outlay to be incurred by a Grantee in subscribing for the same proportion of Shares of the Company to which he/she was entitled prior to the event giving rise to such adjustment (i.e. not taking into account Options already exercised) shall remain unaffected.

2.10 Modification, Variation and/or Amendment to the Scheme

The ESOS Committee may at any time and from time to time recommend to the Board any additions, modifications or amendments to or deletions of the By-Laws as it shall at its discretion think fit and the Board shall have the power to add to, amend, modify and/or delete all or any of the terms in the By-Laws upon such recommendation and the Company submitting the amended By-Laws together with a confirmation letter to Bursa Securities confirming that such amendment and/or modification is in compliance with the provisions of the Listing Requirements pertaining to the ESOS Scheme and the rule of Bursa Malaysia Depository Sdn Bhd as issued pursuant to the Securities Industry (Central Depository) Act 1991 as amended from time to time including all regulations made thereunder and any re-enactment thereof.

The approval of the shareholders of the Company in general meeting shall not be required in respect of additions, modifications or amendments to or deletions of the terms in the By-Laws provided that no additions, modifications or amendments to or deletions of the By-Laws will:-

- (i) prejudice any rights which would have accrued to any Grantee without the prior consent or sanction of that Grantee;
- (ii) increase the number of Shares available under the Scheme beyond the maximum amount set out in Section 2.1 above;
- (iii) prejudice any rights of the shareholders of the Company; or
- (iv) alter to the advantage of the Eligible Person in respect of any matters which are required to be contained in the By-Laws without the prior approval of the Company's shareholders in a general meeting unless allowed by the provisions of the Listing Requirements.

Such amendment or modification to the By-Laws does not need the prior approval of Bursa Securities. However, the Company shall submit to Bursa Securities a confirmation letter that the amendment or modification does not contravene any of the provisions of the Listing Requirements pertaining to the Scheme no later than 5 market days after the effective date of the said amendment or modification is made.

2.11 Retention Period

The ESOS Committee shall be entitled to prescribe or impose, in relation to any Offer, any condition relating to any retention period or restriction on transfer as it sees fit.

2.12 Listing of and quotation for the new N2N Shares

An application will be made for the listing of and quotation for the new N2N Shares to be issued arising from the exercise of the ESOS Options on the ACE Market of Bursa Securities.

3. UTILISATION OF PROCEEDS

The actual proceeds to be received by N2N pursuant to the exercise of the ESOS Options under the Proposed ESOS will depend on, amongst others, the actual number of Options granted and exercised at the relevant point of time, and the Option Price. Therefore, the amount of proceeds from the exercise of the ESOS Options cannot be determined at this juncture.

The proceeds to be raised from the exercise of the ESOS Options are intended to be utilised for the working capital requirements of the N2N Group. The working capital would be used to fund the N2N Group's day-to-day operations to support existing business operations which shall include, but not limited to, the payment of trade and other payables, employee costs, marketing and administrative expenses. The Company expects to utilise the proceeds for the said working capital requirements within a period of 12 months, as and when the proceeds are received throughout the duration of the Proposed ESOS.

Pending the utilisation of proceeds by N2N, the proceeds would be placed in deposits with financial institutions or short-term money market instruments as the Board may deem fit.

4. RATIONALE FOR THE PROPOSED ESOS

The Proposed ESOS is intended to achieve the following objectives:

- (i) continue recognising the contribution of Eligible Persons whose services are valued and considered vital to the operations and continued growth of the Group;
- (ii) motivate Eligible Persons to work towards better performance through greater productivity and loyalty;
- (iii) stimulate a greater sense of belonging and dedication since Eligible Persons are given the opportunity to participate directly in the equity of the Company;
- (iv) encourage Eligible Persons to remain with the Group thus ensuring that any loss of key personnel is kept to a minimum;
- (v) reward Eligible Persons by allowing them to participate in the Company's growth and profitability and eventually realise potential capital gains arising from any appreciation in the value of the Company's shares; and
- (vi) make the Group's remuneration scheme more competitive to attract more skilled and experienced individuals to join the Group and contribute to its continued growth.

5. EFFECTS OF THE PROPOSED ESOS

5.1 Issued Share capital

The Proposed ESOS is not expected to have an immediate effect on the issued share capital of N2N. However, the issued share capital of the Company will increase progressively as and when the new N2N Shares are issued pursuant to the exercise of the ESOS Options during the duration of the Scheme.

For illustrative purposes, the proforma effects of the Proposed ESOS on the issued share capital of the Company as at 20 July 2018, being the latest practicable date prior to this announcement ("LPD"), are as follows:

Minimum Scenario : Assuming none of the treasury shares have been resold in the open market

Maximum Scenario : Assuming all of the 25,422,100 treasury shares have been resold in the open market with no gain or loss

	Minimum Scenario		Maximum Scenario	
	No. of shares	RM	No. of shares	RM
Issued share capital as at the LPD (including treasury shares)	597,877,841	260,986,904	597,877,841	260,986,904
Less: Treasury shares	(25,422,100)	-	-	-
	572,455,741	260,986,904	597,877,841	260,986,904
Shares to be issued pursuant to the Proposed ESOS	⁽ⁱ⁾ 85,868,361	⁽ⁱⁱ⁾ 103,042,033	⁽ⁱ⁾ 89,681,676	⁽ⁱⁱ⁾ 107,618,011
Enlarged issued share capital	658,324,102	364,028,937	687,559,517	368,604,915

Notes:

(i) Calculated based on 15% of the total number of issued Shares as at the LPD.

- (ii) Calculated based on assumed exercise price of each ESOS Option of RM1.20, being approximately RM0.10 or 7.69% discount to the 5-day VWAP of N2N Shares of up to and including the LPD of RM1.30 for each Share.

5.2 Net Assets (“NA”) per Share and gearing

Save for the potential impact of the Malaysian Financial Reporting Standards 2, on Share-Based Payment (“MFRS 2”) issued by the Malaysian Accounting Standards Board as elaborated in Section 5.3 below, the Proposed ESOS is not expected to have an immediate effect on the NA, NA per Share and gearing of N2N Group until such time the ESOS Options granted pursuant to the Proposed ESOS are exercised.

Any potential effect on the consolidated NA per Share and gearing of N2N Group in the future would depend on factors such as the actual number of ESOS Options granted and exercised as well as the Option Price at the relevant point in time. The NA per Share will increase if the Option Price is higher than the NA per Share of N2N Group, and vice versa.

5.3 Earnings and earnings per Share (“EPS”)

Apart from the estimated expenses to be incurred for the Proposed ESOS of approximately RM180,000, the Proposed ESOS is not expected to have a material effect on the earnings of the Group for the financial year ending 31 December 2018. However, the EPS of the Group for financial year ending 31 December 2018 may be diluted, depending on the number the ESOS Options exercised.

In accordance with the MFRS 2, the potential cost arising from the granting of the ESOS Options, which is measured by the fair value of the ESOS Options after taking into consideration, *inter alia*, the actual number of ESOS Options granted and vested and exercised and the Option Price of the ESOS Options, will need to be measured at the grant date and be recognised as an expense in the consolidated statements of comprehensive income of the Company over the vesting period of the ESOS Options, and may therefore reduce the future earnings of the N2N Group, the quantum of which can only be determined only at the grant date.

The potential effects of the Proposed ESOS on the consolidated earnings and EPS of N2N Group in the future, as a consequence of the recognition of the expense at each grant date, cannot be determined at this juncture as it would depend on various factors that affect the fair value of the ESOS Options granted under the Proposed ESOS at the grant date. It should be noted that such potential cost of granting the ESOS Options does not represent a cash outflow but only an accounting treatment.

The Company has taken note of the potential impact of MFRS 2 on the N2N Group’s future earnings and will take into consideration such impact in the granting and vesting of the Options under the Proposed ESOS.

5.4 Substantial shareholders’ shareholdings

The Proposed ESOS will not have an immediate effect on the shareholdings of the substantial shareholders of N2N until such time when the new N2N Shares are issued arising from the exercise of the ESOS Options pursuant to the granting or vesting (as the case may be) of the ESOS Options under the Proposed ESOS, which should result in a dilution in their shareholdings. Any potential effect on the substantial shareholders’ shareholdings in N2N would depend on the number of ESOS Options granted or vested (as the case may be) and ESOS Options exercised.

5.5 Convertible securities

As at the LPD, the Company does not have any convertible securities.

6. APPROVALS REQUIRED

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

- (i) Bursa Securities for the listing of and quotation for the new N2N Shares to be issued arising from the exercise of the ESOS Options on the ACE Market of Bursa Securities;
- (ii) the shareholders of N2N at an Extraordinary General Meeting (“**EGM**”) of the Company to be convened for the Proposed ESOS; and
- (iii) any other relevant authorities, if required.

7. INTER-CONDITIONALITY

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

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

All of the Directors (save for the Non-Executive Directors) are entitled to participate in the Proposed ESOS and are therefore deemed interested in the Proposed ESOS to the extent of their respective allocations, if any, as well as allocations to persons connected with them, if any, under the Proposed ESOS (“**Interested Directors**”).

All Interested Directors have abstained and will continue to abstain from deliberating and voting, in respect of their direct and/or indirect shareholdings in N2N on the resolutions pertaining to their respective allocations, if any, as well as the allocations to the persons connected with them, if any, under the Proposed ESOS at the relevant Board meetings and general meetings.

Tiang Boon Hwa and Lai Su Ping who are the Managing Director and Non-Independent Executive Director of N2N respectively and also the major shareholders of N2N (“**Interested Major Shareholders**”), are entitled to participate in the Proposed ESOS to the extent of their allocation under the Proposed ESOS. Accordingly, the Interested Major Shareholders will abstain from voting, in respect of their direct and/or indirect shareholdings in N2N, on the resolutions pertaining to their respective allocations as well as the allocations to the persons connected with them, if any, under the Proposed ESOS at the general meetings.

Bryan Tiang Zhang Quan, the son of Tiang Boon Hwa and Lai Su Ping, who is also an employee of the N2N Group, is entitled to participate in the Proposed ESOS. Accordingly, Bryan Tiang Zhang Quan will abstain from voting, in respect of his direct and/or indirect shareholdings in N2N, on the resolutions pertaining to his allocation, if any, as well as the allocations to the persons connected with him, if any, under the Proposed ESOS at the general meetings.

Lai Su Min, the sister of Lai Su Ping, who is also an employee of the N2N Group, is entitled to participate in the Proposed ESOS. Accordingly, Lai Su Min will abstain from voting, in respect of her direct and/or indirect shareholdings in N2N, on the resolutions pertaining to her allocation, if any, as well as the allocations to the persons connected with her, if any, under the Proposed ESOS at the general meetings.

Lai Wei Suen, the brother of Lai Su Ping, who is also an employee of the N2N Group, is entitled to participate in the Proposed ESOS. Accordingly, Lai Wei Suen will abstain from voting, in respect of his direct and/or indirect shareholdings in N2N, on the resolutions pertaining to his allocation, if any, as well as the allocations to the persons connected with his, if any, under the Proposed ESOS at the general meetings.

(Bryan Tiang Zhang Quan, Lai Su Min and Lai Wei Suen are collectively referred to as the “**Interested Persons Connected**”)

The Interested Directors and Interested Major Shareholders also undertake to ensure that persons connected with them shall also abstain from voting, in respect of their direct and/or indirect shareholdings in N2N, on the resolutions pertaining to their respective allocations, as well as the allocations to the persons connected with them, if any, under the Proposed ESOS at the general meetings.

The shareholdings of the Interested Directors and Interested Major Shareholders of N2N as well as Interested Persons Connected as at the LPD are as follows:

	As at the LPD			
	Direct		Indirect	
	No. of Shares	%	No. of Shares	%
<u>Interested Directors and Major Shareholders</u>				
Tiang Boon Hwa	17,421,033	3.04	⁽ⁱ⁾ 174,939,273	30.56
Lai Su Ping	18,040,857	3.15	⁽ⁱⁱ⁾ 174,319,449	30.45
<u>Interested Persons Connected</u>				
Bryan Tiang Zhang Quan	-	-	-	-
Lai Su Min	132,100	0.02	-	-
Lai Wei Suen	1,008,466	0.18	-	-

Notes:

- (i) Deemed interested by virtue of his interest in N2N Connect Holdings Sdn Bhd and his spouse, Lai Su Ping's interest, pursuant to Sections 8 and 59 of the Companies Act 2016.
- (ii) Deemed interested by virtue of her interest in N2N Connect Holdings Sdn Bhd and her spouse, Tiang Boon Hwa's interest, pursuant to Sections 8 and 59 of the Companies Act 2016.

9. DIRECTORS' STATEMENT

The Board, after taking into consideration all aspects of the Proposed ESOS, including but not limited to the rationale and effects of the Proposed ESOS, is of the opinion that the Proposed ESOS is in the best interest of the Company.

However, in view that the individual members of the Board are deemed interested in the Proposed ESOS to the extent of their respective allocations, if any, as well as allocations to person connected with them, if any, under the Proposed ESOS, they have abstained and will continue to abstain from expressing an opinion and making any recommendation on the resolutions to be tabled at the forthcoming EGM of the Company on their respective allocations, if any, as well as allocations to person connected with them, if any, under the Proposed ESOS.

10. ADVISER

Affin Hwang IB has been appointed to act as the Principal Adviser for the Proposed ESOS.

11. APPLICATION TO THE REGULATORY AUTHORITIES

The application to Bursa Securities for the Proposed ESOS is expected to be made within 2 months from the date of this announcement.

12. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposed ESOS is expected to be implemented by 3rd quarter of 2018.

This announcement is dated 27 July 2018.