

SMTRACK BERHAD (“SMTRACK” OR THE “COMPANY”)

PROPOSED PRIVATE PLACEMENT OF NEW ORDINARY SHARES IN SMTRACK (“SMTRACK SHARES” OR “SHARES”) (“PLACEMENT SHARES”), REPRESENTING NOT MORE THAN 10% OF THE TOTAL NUMBER OF ISSUED SHARES OF SMTRACK (“PROPOSED PRIVATE PLACEMENT”)

1. INTRODUCTION

On behalf of the Board of Directors of SMTrack (“**Board**”), Kenanga Investment Bank Berhad (“**Kenanga IB**”) wishes to announce that the Company proposes to undertake the Proposed Private Placement.

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

2. DETAILS OF THE PROPOSED PRIVATE PLACEMENT

The Proposed Private Placement will be undertaken pursuant to Section 76 of the Companies Act 2016 (“**Act**”) obtained from the Company’s shareholders in its 13th Annual General Meeting (“**AGM**”) convened on 24 December 2018 whereby the Board had been authorised to allot and issue Shares not more than 10% of the total number of issued Shares in the Company for the time being and that such authority shall continue to be in force until the conclusion of the Company’s next AGM (“**Authority pursuant to Section 76 of the Act**”).

2.1 Size of placement

The Company is proposing to issue up to 14,890,000 Placement Shares, representing not more than 10% of the existing number of issued Shares in SMTrack (excluding treasury shares, if any) as at 19 July 2019, being the latest practicable date prior to the date of this announcement (“**LPD**”).

The actual number of Placement Shares to be issued pursuant to the Proposed Private Placement will be determined later, after the approval set out in Section 7 of this announcement has been obtained.

2.2 Placement arrangement

The Placement Shares are not intended to be placed out to the following persons/ parties:

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

In addition, the investors shall be persons who qualify under Schedules 6 or 7 of the Capital Markets and Services Act, 2007 which include *inter-alia*, the issuance of the Placement Shares to each of them for a consideration of not less than RM250,000 or the issuance is made to high net worth individuals whose net personal assets exceed RM3,000,000 or corporations with net assets exceeding RM10,000,000 and no prospectus will be issued in respect of the Placement Shares to the investors.

Subject to market conditions and the timing of identification of placees, the Proposed Private Placement may be implemented in 1 or more tranches within 6 months from the date of the approval given by Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the Proposed Private Placement or any extended period as may be approved by Bursa Securities. The implementation of the Proposed Private Placement in multiple tranches would accord flexibility to the Company to procure interested investors to subscribe for the Placement Shares from time to time.

For the avoidance of doubt, the issue price for each tranche of the Placement Shares shall be determined separately. The issue price for each tranche of the Placement Shares will be determined in accordance with market-based principles.

2.3 Basis and justification of determining issue price of the Placement Shares

The issue price of each tranche of the Placement Shares shall be determined separately and fixed by the Board and announced at a later date ("**Price Fixing Date**"), after the receipt of Bursa Securities' approval for the Proposed Private Placement.

The Placement Shares will not be priced at more than 10% discount to the 5-day volume weighted average market price ("**5D-VWAP**") of SMTrack Shares immediately before the Price Fixing Date.

For illustrative purposes, the 5D-VWAP of SMTrack Shares up to and including the LPD is RM0.2389 per SMTrack Share. Hence, for the purpose of this announcement, the issue price of each Placement Share is assumed at RM0.2160, representing a discount of approximately 9.59% or RM0.0229 to the 5D-VWAP of SMTrack Shares up to and including the LPD.

2.4 Ranking of the Placement Shares

Upon allotment and issuance, the Placement Shares shall rank *pari passu* in all respects with the then existing SMTrack Shares, save and except that the Placement Shares will not be entitled to any dividends, rights, allotments and/or any other distributions where the entitlement date of which is prior to the date of allotment and issuance of such Placement Shares.

2.5 Listing and quotation of the Placement Shares

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

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3. UTILISATION OF PROCEEDS

The quantum of proceeds to be raised by the Company pursuant to the Proposed Private Placement would depend on the actual number and issue price of the Placement Shares.

For illustrative purposes, based on an indicative issue price of RM0.2160 per Placement Share, the gross proceeds of up to RM3.22 million from the Proposed Private Placement are intended to be used by SMTrack and its subsidiaries ("**SMTrack Group**" or "**Group**") in the following manner:

Purpose	Notes	Amount (RM)	Estimated timeframe for utilisation from the listing date of the Placement Shares
Partial payment for the purchase consideration for the proposed acquisition of 60% in Citilink Aviation (M) Sdn. Bhd. (<i>formerly known as Dexma Express Sdn Bhd</i>) (" CASB ")	(a)	2,520,000	Within 3 months
Working capital	(b)	546,240	Within 12 months
Estimated expenses relating to the Proposed Private Placement	(c)	150,000	Within 2 weeks
Total		3,216,240	

Notes:

- (a) On 3 July 2019, SMTrack entered into a sale of shares agreement ("**SSA**") with Alvin Heng Jee Zhi ("**Vendor**") for the proposed acquisition of 3,240,000 ordinary shares in CASB, representing 60% equity interest in CASB for a total purchase consideration of RM2,800,000 ("**Purchase Consideration**") ("**Proposed Acquisition**"). The Purchase Consideration shall be satisfied entirely in cash. The Company has paid the deposit (being 10% of the Purchase Consideration) of RM280,000 to the Vendor and intends to utilise RM2,520,000 arising from the Proposed Private Placement as partial payment of the Purchase Consideration for the Proposed Acquisition.

The above allocation for the partial payment of the Purchase Consideration is based on the indicative issue price of RM0.2160 per Placement Share, and thus any shortfall or surplus will be adjusted against the working capital.

In the event the Proposed Acquisition does not materialise subsequent to the completion of the Proposed Private Placement, the Group will identify other assets or businesses for acquisition or investment or for its existing working capital. Accordingly, the balance of the proceeds to be utilised for the payment of the estimated expenses will be channeled towards financing other potential acquisitions or for its existing working capital. As at the LPD, no other specific assets or businesses has been identified by the Board for acquisition or investment. Announcements will be made and shareholders' approvals will be sought, where required, in due course for any such acquisitions or investments.

- (b) The working capital requirements of the Group include but not limited to payment of utilities expenses, rental, trade and other payables and/or administrative and operating expenses. The administrative and operating expenses consist of salaries, Employees' Provident Fund and Social Security Organization contributions and staff related expenses.
- (c) The estimated expenses in relation to the Proposed Private Placement consist of professional fees, fees payable to the relevant authorities and other ancillary expenses to be incurred in relation to the Proposed Private Placement. Any surplus or shortfall for such expenses will be adjusted accordingly against the amount allocated for the working capital.

The actual proceeds to be raised from the Proposed Private Placement are dependent on the final issue price of the Placement Shares and the actual number of Placement Shares to be issued. Any variation to the amount of estimated expenses in relation to the Proposed Private Placement will result in an adjustment from/to the portion being earmarked for the amount allocated for the Group's working capital.

Pending utilisation of the proceeds from the Proposed Private Placement for the abovementioned purposes, the proceeds will be placed in deposits with a financial institution or short-term money market instruments as the Board may deem fit. The interest derived from the deposits with the financial institution or any gain arising from the short-term money market instruments will be used as working capital of the Group.

4. RATIONALE FOR THE PROPOSED PRIVATE PLACEMENT

After having considered various fund raising options, the Board is of the opinion that the Proposed Private Placement is currently an appropriate avenue of fund raising as it enables the Group to raise funds expeditiously without incurring interest cost as compared to bank borrowings for the purposes stated in Section 3 of this announcement. In addition, the Proposed Private Placement will further strengthen the capital base of the Company.

5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS

5.1 Overview and Outlook of the Malaysian Economy

Against the backdrop of a challenging global environment, the Malaysian economy is expected to sustain its growth momentum, expanding by 4.3% – 4.8% in 2019 (2018: 4.7%). The external sector is expected to register a more moderate expansion in tandem with the moderation in global growth. Private sector activity will remain the anchor of growth amid continued rationalisation in the public sector. Labour market conditions are expected to remain supportive of growth, while inflation is projected to be broadly stable compared to 2018.

Domestic demand will remain the anchor of growth in 2019, underpinned by continued expansion in private sector activity. Public sector expenditure, however, is expected to weigh on growth amid the completion of large-scale projects by public corporations and continued reprioritisation of government spending. The external sector is projected to register a more moderate growth in line with modest global growth and trade activity.

Private consumption is projected to expand by 6.6% in 2019. After recording a strong growth in 2018, household spending is expected to normalise closer to its long term average of 6.7%. Although consumer sentiments have moderated from the recent peak, growth will remain firm supported by key fundamental drivers, namely stable labour market conditions and continued wage growth. The implementation of several government measures, particularly in alleviating rising cost of living, is expected to lend further support to consumption spending, especially by lower income households. These measures include the price ceiling on retail fuel prices, higher minimum wage and Bantuan Sara Hidup cash transfers.

Public consumption is expected to expand at a moderate pace of 1.2%, attributable to a decline in spending on supplies and services amid stable emoluments growth. This is in line with the Government's continued commitment to rationalise non-critical spending without affecting public service delivery and to increase efficiency through cost reduction in the public sector.

(Source: Outlook and Policy in 2019, Bank Negara Malaysia ("BNM") Annual Report 2018, BNM)

The Malaysian economy grew by 4.5% in the first quarter of 2019

Overall gross domestic products (GDP) growth was moderate at 4.5% in the first quarter of 2019 (4Q 2018: 4.7%), driven mainly by the expansion in domestic demand. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.1% (4Q 2018: 1.3%).

Domestic demand expanded by 4.4% in the first quarter (4Q 2018: 5.7%), driven by firm household spending amid weaker capital expenditure.

After three consecutive quarters of robust spending, private consumption growth moderated but remained strong at 7.6% (4Q 2018: 8.4%). This mainly reflected the normalisation in spending following the frontloading of purchases during the tax holiday period. Nonetheless, household spending continued to be supported by income and employment growth.

Public consumption expanded at a faster pace of 6.3% (4Q 2018: 4.0%), attributable to higher growth in spending on supplies and services.

Private investment growth slowed to 0.4% (4Q 2018: 5.8%). Investment activity was affected by heightened uncertainty surrounding global trade negotiations and prevailing weaknesses in the broad property segment. Nevertheless, spending on large multi-year projects provided some support to investment growth, particularly in the primary-related manufacturing and utilities services sub-sectors.

Public investment declined further by 13.2% (4Q 2018: -5.9%), on account of lower capital spending by the Federal Government and public corporations.

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), declined to -0.3% in the first quarter of 2019 (4Q 2018: 0.3%).

(Source: Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2019, BNM)

5.2 Overview of the airlines industry

Total domestic and international passengers handled by airports in Malaysia grew from 58.4 million in 2010 to 102.4 million in 2018 at a compound annual growth rate (“CAGR”) of 7.3%. During this period, international passengers handled by airports increased at a CAGR of 8.3%, from 27.6 million to 52.2 million. In comparison, domestic passengers handled by airports increased from 30.8 million in 2010 to 50.2 million in 2018 at a CAGR of 6.3%. Between 2010 and 2018, domestic passenger arrivals increased from 15.4 million to 25.1 million, while domestic passenger departures increased from 15.4 million to 25.1 million. In 2018, the Kuala Lumpur International Airport 2 (“KLIA2”) handled the highest number of domestic passengers (11.2 million), followed by the Kota Kinabalu International Airport (5.7 million) and Kuala Lumpur International Airport (“KLIA”) (5.3 million).

Total cargo handled by airports increased from 911.4 thousand metric tonnes (“MT”) in 2010 to 957.2 thousand MT in 2018 at a CAGR of 0.6%. During this period, domestic cargo handled increased from 166.3 thousand MT to 188.8 thousand MT at a CAGR of 1.6%. In comparison, international cargo handled increased from 723.2 thousand MT to 768.5 thousand MT between 2010 and 2018 at a CAGR of 0.4%.

The aviation sector, comprising the airlines together with the airports, air navigation and other essential grounds services that make up the air transport infrastructure, carries over 58.6 million passengers and 957.2 thousand MT of air freight to, from and within Malaysia. In 2018, 350,874 scheduled international flights departed Malaysia, destined for more than 100 airports in more than 40 countries. Domestically, approximately 516,298 flights flew passengers to 29 airports in Malaysia. Consumers rely on air travel for holidays and visiting friends and family; while businesses use air transport for meeting clients and for the speedy and reliable delivery of mail and goods often over great distances.

Malaysia's available seat kilometres ("**ASK**") rose from 87.6 billion in 2010 to 135.6 billion in 2017. The ASK is a measure of an airplane's carrying capacity available to generate revenues. ASK refers to how many seat kilometres are actually available for purchase on an airline. Seat kilometres are calculated by multiplying the available seats for a given plane by the number of kilometres that plane will be flying for a given flight.

For 2019, demand for air travel in Malaysia will be supported by the expectation of a recovery in the commodity sector, which will provide the basis for private investment, as well as consumption. The potential shift of route networks to short and medium-haul destinations from long-haul destinations may assist Malaysian carriers to keep airfares low to boost demand. Passenger traffic is forecast to grow by 2.2% to 3.3% year-on-year in 2019, translating into passenger traffic of 102.5 million to 103.5 million.

(Source: Independent market research report, prepared by Providence Strategic Partners Sdn Bhd, dated 18 July 2019)

5.3 Prospect of SMTrack Group

SMTrack Group is principally engaged in the research, design, deployment and distribution of radio frequency identity ("**RFID**") ("**Existing Business**"). The Proposed Acquisition would enable the Group to have an alternative source of income which is expected to contribute positively to the Group's future earnings and also to reduce the dependency on its Existing Business. The Company intends to leverage on CASB's rights as general sales agent for PT Citilink Indonesia ("**Citilink Indonesia**") in Malaysia for air carriage services of passenger and cargo. In addition, after the completion of the Proposed Acquisition, SMTrack intends to promote its RFID technologies through the application of its technologies in the airline operations such as baggage handling and ticketing.

Considering the above and the expected positive impact which is supported by the encouraging outlook of the airlines industry as set out in Section 5.2 of this announcement, the Board expects the Proposed Acquisition to contribute positively to the SMTrack Group.

(Source: Management of SMTrack)

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6. EFFECTS OF THE PROPOSED PRIVATE PLACEMENT

For illustration purposes, the pro forma effects of the Proposed Private Placement are as follows:

6.1 Share capital

	No. of Shares	RM
Share capital as at the LPD	148,900,656	17,385,189
To be issued in relation to the Proposed Private Placement	14,890,000	3,216,240 ⁽¹⁾
Enlarged share capital	163,790,656	20,601,429

Note:

(1) Assuming the Placement Shares are issued at an issue price of RM0.2160 each.

6.2 Net Assets ("NA") and gearing

The pro forma effects of the Proposed Private Placement on the NA and gearing of the SMTrack Group are as follows:

	(Audited) As at 31 July 2018 (RM)	(I) Adjustment for subsequent events ⁽¹⁾ (RM)	(II) After (I) and the Proposed Private Placement (RM)
Share capital	16,769,968	17,385,189	20,601,429 ⁽²⁾
Accumulated losses	(4,073,456)	(4,073,456)	(4,223,456) ⁽³⁾
Non-controlling interest	12,696,512 (1,960)	13,311,733 (1,960)	16,377,973 (1,960)
Shareholders' fund/ NA	12,694,552	13,309,773	16,376,013
No. of Shares	143,480,203	148,900,656	163,790,656
NA per Share (RM)	0.09	0.09	0.10
Total borrowings	-	-	-
Gearing (times)	-	-	-

Notes:

(1) After taking into consideration the exercise of 3,127,753 share issuance scheme options ("SIS Options") and 2,292,700 SIS Options both at the exercise price of RM0.1135 and that such number of new SMTrack Shares were listed on 2 August 2018 and 10 April 2019, respectively.

(2) Based on the assumed issue price of RM0.2160 per Placement Share.

(3) After deducting the estimated expenses of RM150,000 for the Proposed Private Placement.

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6.3 Earnings and earnings per share (“EPS”)

The Proposed Private Placement will not have immediate effect on the earnings and EPS of SMTrack Group for the financial year ending 31 July 2019. However, it is expected to contribute positively to the earnings of the Group in the coming financial years when the benefits of the utilisation of proceeds are realized (i.e, with the completion of the Proposed Acquisition).

Consequent to the increase in the number of Shares in issue arising from the Proposed Private Placement, the EPS of the Group will be diluted accordingly.

6.4 Substantial shareholders’ shareholdings

The pro forma effects of the Proposed Private Placement on the substantial shareholders’ shareholdings in the Company as at the LPD are as follows:

Substantial shareholders	As at the LPD ⁽¹⁾				After the Proposed Private Placement ⁽²⁾			
	Direct		Indirect		Direct		Indirect	
	No. of Shares ('000)	%	No. of Shares ('000)	%	No. of Shares ('000)	%	No. of Shares ('000)	%
Datuk Amar Abdul Hamed Bin Sepawi	8,550	5.74	-	-	8,550	5.22	-	-
Datuk Tan Choon Hwa (JP,JMK)	18,311	12.30	-	-	18,311	11.18	-	-

Notes:

(1) Based on the existing total number of issued Shares of the Company of 148,900,656 SMTrack Shares as at the LPD.

(2) Based on the total number of issued Shares of the Company of 163,790,656 SMTrack Shares after the Proposed Private Placement.

6.5 Convertible securities

The Company does not have any outstanding convertible securities as at the LPD.

7. APPROVALS REQUIRED

The Proposed Private Placement is conditional upon the approval being obtained from Bursa Securities for the listing of and quotation for the Placement Shares on the ACE Market of Bursa Securities.

SMTrack had obtained the approval of its shareholders at the 13th AGM on 24 December 2018 for the Authority pursuant to Section 76 of the Act.

8. DIRECTORS’ AND MAJOR SHAREHOLDERS’ INTERESTS

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

9. DIRECTORS’ STATEMENT

After having considered all aspects of the Proposed Private Placement, the Board is of the opinion that the Proposed Private Placement is in the best interest of the Company.

10. ADVISER AND PLACEMENT AGENT

Kenanga IB has been appointed as the Adviser and the Placement Agent for the Proposed Private Placement.

11. APPLICATION TO THE RELEVANT AUTHORITIES

Barring any unforeseen circumstances, the application to Bursa Securities in relation to the Proposed Private Placement is expected to be made within 1 month from the date of this announcement.

12. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the Board expects the Proposed Private Placement to be completed within 6 months from the date of the approval from Bursa Securities.

This announcement is dated 22 July 2019.