

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

- (I) PROPOSED BONUS ISSUE OF SHARES; AND
 - (II) PROPOSED FREE WARRANTS ISSUE.
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1. INTRODUCTION

On behalf of the Board of Directors of GCB (“**Board**”), RHB Investment Bank Berhad (“**RHB Investment Bank**”) wishes to announce that the Company proposes to undertake the following proposals:

- (i) a bonus issue of up to 527,938,927 new ordinary shares in GCB (“**GCB Shares**” or “**Shares**”) (“**Bonus Shares**”) on the basis of 1 Bonus Share for every 1 existing GCB Share held on an entitlement date to be determined and announced later (“**Entitlement Date**”) (“**Proposed Bonus Issue of Shares**”); and
- (ii) an issue of up to 175,979,642 free warrants in GCB (“**Warrants**”) on the basis of 1 Warrant for every 3 existing GCB Shares held on the Entitlement Date (“**Proposed Free Warrants Issue**”).

The Proposed Bonus Issue of Shares and Proposed Free Warrants Issue are collectively referred to as the “**Proposals**”.

2. DETAILS OF THE PROPOSALS

2.1 Details of the Proposed Bonus Issue of Shares

2.1.1 Basis and number of Bonus Shares to be issued

The Proposed Bonus Issue of Shares entails the issuance of up to 527,938,927 Bonus Shares on the basis of 1 Bonus Share for every 1 existing GCB Share held by the shareholders of GCB whose names appear on the Record of Depositors of GCB at the close of business on the Entitlement Date (“**Entitled Shareholders**”).

The basis of the Proposed Bonus Issue of Shares of 1 Bonus Share for every 1 existing GCB Share was arrived at after taking into consideration the potential adjustments to the share price of GCB Shares arising from the Proposed Bonus Issue of Shares.

As at 16 August 2019, being the latest practicable date prior to this announcement (“**LPD**”):

- (i) the total number of issued shares in GCB is 480,158,452 GCB Shares;
- (ii) there are 2,353,700 treasury shares held by the Company (“**Treasury Shares**”); and
- (iii) the Company had on 18 February 2019 proposed and announced that it intends to undertake a private placement of up to 47,780,475 new GCB Shares (“**Placement Shares**”), representing up to 10% of its existing share capital (excluding Treasury Shares) (“**Proposed Private Placement of Shares**”). As at the LPD, the Company had submitted an application to Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for an extension of time for the implementation of the Proposed Private Placement of Shares and is pending the decision from Bursa Securities.

The actual number of Bonus Shares to be issued will depend on the number of GCB Shares in issue on the Entitlement Date. For the avoidance of doubt, Bonus Shares will be issued in respect of the Treasury Shares pursuant to Section 127(11) of the Companies Act 2016 and such Bonus Shares will be treated as treasury shares to be held by the Company upon allotment.

Fractional entitlements arising from the Proposed Bonus Issue of Shares, if any, shall be disregarded and dealt with in such manner as the Board shall in its absolute discretion deem fit and expedient, and to be in the best interest of the Company and its shareholders.

The Proposed Bonus Issue of Shares will be implemented concurrently with the Proposed Free Warrants Issue. The Proposed Bonus Issue of Shares is not intended to be implemented in stages over a period of time.

For illustration purposes, based on the 5-day volume weighted average market price (“VWAMP”) of GCB Shares up to and including the LPD of RM3.4751, the theoretical ex-bonus share price of GCB Shares is RM1.7376. Further, the Board confirms that the share price adjusted for the Proposed Bonus Issue of Shares is not less than RM0.50 based on the daily VWAMP during the past 3-month period up to the LPD in accordance with Paragraph 6.30(1A) of the Main Market Listing Requirements of Bursa Securities (“Listing Requirements”).

2.1.2 No capitalisation of reserves

The Bonus Shares in respect of the Proposed Bonus Issue of Shares will be issued as fully paid, at nil consideration and without capitalisation of the Company’s reserves.

For the avoidance of doubt, the Proposed Bonus Issue of Shares will increase the number of GCB Shares but will not increase the value of share capital of GCB.

2.1.3 Ranking of the Bonus Shares

The Bonus Shares will, upon allotment and issuance, rank equally in all respects with the then existing GCB Shares at the date of allotment of the Bonus Shares, save and except that the Bonus Shares will not be entitled to participate in any rights, allotments, dividends, and/or other distributions that may be declared, made or paid where the entitlement date is before the date of allotment and issuance of the Bonus Shares.

2.1.4 Listing and quotation of the Bonus Shares

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

2.2 Details of the Proposed Free Warrants Issue

2.2.1 Basis and number of Warrants

The Proposed Free Warrants Issue entails the issuance of up to 175,979,642 Warrants on the basis of 1 Warrant for every 3 existing GCB Shares held by the Entitled Shareholders on the same Entitlement Date as the Proposed Bonus Issue of Shares. For the avoidance of doubt, the Bonus Shares are not entitled to the Warrants.

The basis of the Proposed Free Warrants Issue of 1 Warrant for every 3 existing GCB Shares was arrived at after taking into consideration the potential dilution to the consolidated earnings per share (“**EPS**”) of GCB and its subsidiaries (“**Group**”) vis-à-vis the future earnings and prospects of the Group.

The actual number of Warrants to be issued will depend on the number of GCB Shares in issue on the Entitlement Date.

Fractional entitlements arising from the Proposed Free Warrants Issue, if any, shall be disregarded and dealt with in such manner as the Board shall in its absolute discretion deem fit and expedient, and to be in the best interest of the Company and its shareholders.

The Proposed Free Warrants Issue is not intended to be implemented in stages over a period of time.

The Warrants will be issued in registered form and constituted by a deed poll to be executed by the Company (“**Deed Poll**”).

2.2.2 Basis of determining and justification for the issue price and exercise price of the Warrants

The Warrants will be issued at no cost to the Entitled Shareholders.

The exercise price of the Warrants has been fixed at RM1.65 per Warrant (“**Exercise Price**”), which represents a discount of approximately 5.04% to the theoretical ex-bonus price of GCB Shares of RM1.7376, based on the 5-day VWAMP of GCB Shares up to and including the LPD of RM3.4751.

The Exercise Price was determined after taking into consideration the following:

- (i) historical price movement of GCB Shares;
- (ii) the theoretical ex-bonus price of GCB Shares based on the 5-day VWAMP of GCB Shares up to the LPD; and
- (iii) the potential future earnings of the Group.

2.2.3 Ranking of the new GCB Shares to be issued arising from the exercise of the Warrants

The new GCB Shares to be issued pursuant to the exercise of the Warrants will, upon allotment and issuance, rank equally in all respects with the then existing GCB Shares at the date of allotment of the new GCB Shares, save and except that the new GCB Shares to be issued arising from the exercise of the Warrants will not be entitled to participate in any rights, allotments, dividends, and/or other distributions that may be declared, made or paid where the entitlement date is before the date of allotment and issuance of such new GCB Shares.

2.2.4 Listing and quotation of the Warrants and new GCB Shares to be issued arising from the exercise of the Warrants

An application will be made to Bursa Securities for the admission of the Warrants to the Official List of the Main Market of Bursa Securities, the listing and quotation of the Warrants and the new GCB Shares to be issued arising from the exercise of the Warrants on the Main Market of Bursa Securities.

2.2.5 Indicative salient terms of the Warrants

Issue size	:	Up to 175,979,642 Warrants
Form and denomination	:	The Warrants will be issued in registered form and constituted by the Deed Poll
Tenure	:	3 years commencing from and inclusive of the date of issuance of the Warrants
Exercise rights	:	Each Warrant entitles the Warrant holders to subscribe for 1 new GCB Share at the Exercise Price at any time during the Exercise Period, subject to the adjustments in accordance with the provisions of the Deed Poll
Exercise period	:	The Warrants may be exercised at any time after the date of issuance of the Warrants and ending at 5:00 p.m. on the Expiry Date, provided that if such day falls on a day which is not a market day, then it shall be the market day immediately preceding the said non-market day. Any Warrants not exercised during the exercise period will thereafter lapse and cease to be valid.
Exercise Price	:	RM1.65, being the amount payable in respect of each new GCB Share to which a Warrant holder is entitled to subscribe for upon exercise of the exercise rights or such adjusted price in accordance with the provisions of the Deed Poll
Expiry Date	:	The market day falling immediately before the 3rd anniversary of the date of issuance of the Warrants
Mode of exercise	:	The Warrant holders must complete and sign the exercise notice (which shall be irrevocable) and deliver the duly completed and executed exercise notice to the Company's share registrar together with a remittance by way of cashier's order or banker's draft or money order or postal order drawn by a bank or post office operating in Malaysia
Participating rights of the Warrant holders	:	The Warrant holders will not be entitled to any voting rights in any general meeting of the Company or to participate in any form of distribution and/or offer of securities in the Company until and unless such Warrant holders exercise their Warrants into new Shares
Adjustments in the Exercise Price and/or the number of Warrants	:	The Exercise Price and/or number of Warrants in issue shall from time to time be adjusted subject to adjustments under certain circumstances in accordance with the provisions of the Deed Poll, by the Board in consultation with an approved adviser appointed by the Company and certified by the auditors of the Company

- Rights in the event of winding-up, compromise or arrangement : If a resolution is passed for a members' voluntary winding-up of the Company or where there is a compromise or arrangement, whether or not for the purpose of or in connection with a scheme for the reconstruction of the Company or the amalgamation of the Company with one or more companies, then:
- (i) for the purpose of such winding-up, compromise or arrangement (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation) to which the Warrant holders, or some persons designated by them for such purposes by a special resolution, will be a party, the terms of such winding-up, compromise or arrangement shall be binding on all the Warrant holders; or
 - (ii) every Warrant holder shall be entitled (upon and subject to the conditions) at any time within 6 weeks after the passing of such resolution for a members' voluntary winding-up of the Company or 6 weeks after the granting of the court order approving the compromise or arrangement, by the irrevocable surrender of his Warrants to the Company, elect to be treated as if he had immediately prior to the commencement of such winding-up, compromise or arrangement exercised the Exercise Rights represented by such Warrants to the extent specified in the exercise notice(s) and be entitled to receive out of the assets of the Company which would be available in liquidation as if he had on such date been the holder of the Shares to which he would have become entitled pursuant to such exercise and the liquidator of the Company shall give effect to such election accordingly. Upon the expiry of the above 6 weeks, all exercise rights of the Warrants shall lapse and cease to be valid for any purpose

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- Modification of rights of the Warrant holders : The Company may, from time to time, without the consent or sanction of the Warrant holders but in accordance with the provisions of the Deed Poll, modify the Deed Poll (including the form and content of the Warrant certificate), if such modification made does not materially prejudice the interest of the Warrant holders or is made to correct a manifest error or to comply with prevailing laws of Malaysia, rules of Bursa Malaysia Depository Sdn Bhd, Securities Industry (Central Depositories) Act 1991 and/or the Listing Requirements.
- Subject to the above and the approval of any relevant authority, any modification, alteration or abrogation of the covenants or provisions contained in the Deed Poll (including the form and content of the Warrant certificate) proposed or agreed to by the Company must be sanctioned by special resolution of the holders of the Warrants and comply with the requirements of the Deed Poll
- Transferability : The Warrants shall be transferable in accordance with provisions of the Deed Poll subject always to the prevailing provisions of the Securities Industry (Central Depositories) Act 1991 and the rules of Bursa Malaysia Depository Sdn Bhd
- Board lot : For the purpose of trading on Bursa Securities, a board lot of Warrants shall be 100 Warrants carrying the right to subscribe for 100 new GCB Shares or such number of Warrants as may be varied from time to time by Bursa Securities and/or any relevant authorities to constitute a board lot
- Listing status : The Warrants will be listed and quoted on the Main Market of Bursa Securities
- Governing law : The Warrants and the Deed Poll shall be governed by the laws and regulations of Malaysia

2.2.6 Utilisation of proceeds

The Proposed Free Warrants Issue will not raise any immediate funds for the Company as the Warrants will be issued at no cost to the Entitled Shareholders.

The exact quantum of the proceeds that may be raised by GCB will depend on the actual number of Warrants exercised at the Exercise Price of RM1.65 per Warrant during the tenure of the Warrants. As such, the exact timeframe for the utilisation of the proceeds cannot be determined at this juncture.

For illustration purposes, assuming the full exercise of the Warrants at the Exercise Price of RM1.65 per Warrant, the gross proceeds to be raised by the Company based on the following 2 scenarios are set out below:

Minimum Scenario : Assuming that none of the Treasury Shares are resold in the open market and none of the Placement Shares are placed out prior to the implementation of the Proposals.

Maximum Scenario : Assuming that all of the Treasury Shares are resold in the open market and the Placement Shares are fully issued prior to the implementation of the Proposals.

	Minimum Scenario	Maximum Scenario
No. of new Shares to be issued pursuant to the exercise of the Warrants	159,268,250	175,979,642
Gross proceeds (RM)	262,792,613	290,366,409

Such proceeds to be raised, as and when the Warrants are exercised, will be utilised for working capital of the Group which may include payment of trade and other payables, employee costs, marketing and administrative expenses and repayment of bank borrowings. The proceeds to be utilised for each component of working capital are subject to the Group's operating requirements at the time of utilisation and therefore cannot be determined at this juncture.

3. RATIONALE AND JUSTIFICATION FOR THE PROPOSALS

The Proposed Bonus Issue of Shares provides the shareholders of the Company with greater participation in the equity of the Company in terms of number of shares held and maintaining their percentage equity interest. In addition, the Proposed Bonus Issue of Shares is to reward the shareholders of the Company for their continuous support by enabling them to participate in the equity of the Company without incurring any cost and will possibly be able to encourage trading liquidity of GCB Shares on Bursa Securities.

Furthermore, the Board is of the view that the Proposed Free Warrants Issue provides an opportunity to the shareholders of the Company to further increase their equity participation in the Company by exercising the Warrants at a pre-determined price over the tenure of the Warrants and to further participate in the future prospects and growth of the Group and/or any potential capital appreciation in the Warrants and GCB Shares, as and when the Warrants are exercised. The proceeds to be raised by the Company, as and when the Warrants are exercised, are expected to strengthen the Company's capital base and shareholders' funds as well as potentially provide funds for the Group to finance its working capital without incurring interest cost, as compared to bank borrowings.

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4. EFFECTS OF THE PROPOSALS

4.1 Share capital

For illustration purposes, the proforma effects of the Proposals on the share capital of GCB are as follows:

	Minimum Scenario		Maximum Scenario	
	No. of Shares	RM	No. of Shares	RM
Share capital as at the LPD	480,158,452	121,831,751	480,158,452	121,831,751
Less: Treasury Shares	(2,353,700)	-	-	-
	477,804,752	121,831,751	480,158,452	121,831,751
To be issued pursuant to the Proposed Private Placement of Shares	-	-	47,780,475	⁽²⁾ 149,552,887
	477,804,752	121,831,751	527,938,927	271,384,638
To be issued pursuant to the Proposed Bonus Issue of Shares	⁽¹⁾ 480,158,452	-	527,938,927	-
	957,963,204	121,831,751	1,055,877,854	271,384,638
To be issued pursuant to the full exercise of the Warrants	159,268,250	⁽³⁾ 262,792,613	175,979,642	⁽³⁾ 290,366,409
Enlarged share capital	1,117,231,454	384,624,364	1,231,857,496	561,751,047

Notes:

- (1) *The Treasury Shares will be entitled to the Bonus Shares.*
- (2) *Based on the indicative issue price of the Placement Shares at RM3.13, which represents a discount of approximately 9.93% to the 5-day VWAMP of GCB Shares up to and including the LPD of RM3.4751.*
- (3) *Based on the Exercise Price of the Warrants at RM1.65 per Warrant.*

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4.2 Net assets (“NA”) per Share and gearing

For illustration purposes, based on the latest audited consolidated financial statements of GCB as at 31 December 2018, the proforma effects of the Proposals on the consolidated NA per Share and gearing of the Group are as follows:

	Audited as at 31 December 2018 RM	⁽¹⁾ After adjustment for subsequent events RM	Minimum Scenario		Maximum Scenario			
			^(I) After completion of the Proposed Bonus Issue of Shares RM	^(II) After ^(I) and assuming full exercise of the Warrants RM	^(I) Assuming that the Treasury Shares are resold RM	^(II) Assuming ^(I) and the Placement Shares are fully issued RM	^(III) After ^(II) and the Proposed Bonus Issue of Shares RM	^(IV) After ^(III) and assuming full exercise of the Warrants RM
Share capital	121,831,751	121,831,751	121,831,751	384,624,364	121,831,751	271,384,638	271,384,638	561,751,047
Treasury Shares	(5,347,049)	(5,347,049)	(5,347,049)	(5,347,049)	-	-	-	-
Foreign currency translation reserve	44,150,775	44,118,931	44,118,931	44,118,931	44,118,931	44,118,931	44,118,931	44,118,931
Retained earnings	506,504,948	⁽²⁾ 603,918,606	⁽⁴⁾ 603,718,606	603,718,606	603,918,606	⁽⁶⁾ 602,868,606	⁽⁴⁾ 602,668,606	602,668,606
Shareholders’ equity / NA	667,140,425	764,522,239	764,322,239	1,027,114,852	769,869,288	918,372,175	918,172,175	1,208,538,584
No. of Shares in issue	⁽³⁾ 477,804,752	477,804,752	⁽⁵⁾ 955,609,504	1,114,877,754	⁽⁷⁾ 480,158,452	527,938,927	1,055,877,854	1,231,857,496
NA per Share (RM)	1.40	1.60	0.80	0.92	1.60	1.74	0.87	0.98
Total borrowings (RM)	602,367,226	770,143,416	770,143,416	770,143,416	770,143,416	770,143,416	770,143,416	770,143,416
Gearing (times)	0.90	1.01	1.01	0.75	1.00	0.84	0.84	0.64

Notes:

- (1) Based on the unaudited results for the 6 months financial period ended 30 June 2019 and after taking into consideration the subsequent events up to the LPD.
- (2) The movement in retained earnings is set out below:

	<i>RM</i>
Audited retained earnings as at 31 December 2018	506,504,948
<u>Add:</u>	
Unaudited consolidated PAT attributable to the owners of the Company for the 6 months financial period ended 30 June 2019	114,136,826
<u>Less:</u>	
(i) Special dividend paid on 29 March 2019 (RM0.020 per Share)	(9,556,095)
(ii) First interim single-tier dividend paid on 5 July 2019 (RM0.015 per Share)	(7,167,073)
Unaudited retained earnings as at the LPD	603,918,606

- (3) Being 477,804,752 GCB Shares in issue after excluding 2,353,700 Treasury Shares.
- (4) After deducting the estimated expenses in relation to the Proposals amounting to RM200,000.
- (5) Being 955,609,504 GCB Shares in issue after excluding 4,707,400 Treasury Shares, (of which 2,353,700 Bonus Shares were issued in respect of the 2,353,700 Treasury Shares) upon completion of the Proposed Bonus Issue of Shares.
- (6) After deducting the estimated expenses in relation to the Proposed Private Placement of Shares amounting to RM1,050,000.
- (7) Assuming that all 2,353,700 Treasury Shares are resold in the open market at their respective acquisition prices before the Entitlement Date and there are no transaction costs relating to the disposal of the Treasury Shares. Hence there is no gain or loss from the disposal of all the Treasury Shares.

4.3 Earnings and EPS

The Proposals are not expected to have any material effect on the earnings of the Group for the financial year ending 31 December 2019, save for the dilution in the EPS of the Group as a result of the increase in the number of GCB Shares in issue pursuant to the Proposed Bonus Issue of Shares, and as and when the Warrants are exercised into new GCB Shares.

The potential effects of the exercise of the Warrants on the future earnings and EPS of the Group will depend upon, among others, the number of Warrants exercised at any point in time and the returns generated by the Group from the utilisation of proceeds raised from the exercise of the Warrants.

4.4 Substantial shareholders' shareholdings

The Proposed Bonus Issue of Shares will not have any effect on the percentage shareholding of the substantial shareholders of GCB as the Bonus Shares will be allotted on a pro-rata basis to all the shareholders of the Company. However, the number of GCB Shares held by the substantial shareholders will increase proportionately pursuant to the Proposed Bonus Issue of Shares.

The Proposed Free Warrants Issue will not have any effect on the percentage shareholding of the substantial shareholders of GCB assuming all Entitled Shareholders exercise their respective Warrants during the exercise period of the Warrants. The number of GCB Shares held by the substantial shareholders will increase proportionately pursuant to the exercise of the Warrants into new GCB Shares.

4.5 Convertible securities

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

5. APPROVALS REQUIRED

The Proposals are conditional upon the following approvals being obtained:

- (i) Bursa Securities for the following:
 - (a) admission of the Warrants to the Official List of the Main Market of Bursa Securities;
 - (b) listing and quotation of the Warrants on the Main Market of Bursa Securities; and
 - (c) listing and quotation of the Bonus Shares and new GCB Shares to be issued pursuant to the exercise of Warrants on the Main Market of Bursa Securities;
- (ii) the shareholders of GCB at an extraordinary general meeting of the Company to be convened; and
- (iii) any other relevant authorities and/or parties, if required.

The Proposals are not inter-conditional upon each other and are not conditional upon the Proposed Private Placement of Shares or any other proposals undertaken or to be undertaken by the Company.

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

None of the Directors, major shareholders of the Company and/or persons connected with them has any interest, either direct or indirect, in the Proposals, apart from their respective entitlements as shareholders of the Company under the Proposals, which are also available to all other Entitled Shareholders.

7. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposals, including but not limited to the rationale as well as the effects of the Proposals, is of the opinion that the Proposals are in the best interest of the Company and its shareholders.

8. ADVISER

RHB Investment Bank has been appointed as the Principal Adviser to the Company for the Proposals.

9. APPLICATION TO THE RELEVANT AUTHORITIES

Barring any unforeseen circumstances, the application to the relevant authorities in relation to the Proposals is expected to be made within one month from the date of this announcement.

10. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all requisite approvals being obtained, the Proposals are expected to be completed in the fourth quarter of 2019.

This announcement is dated 20 August 2019.