PASUKHAS GROUP BERHAD ("PGB" OR THE "COMPANY")

(A) PROPOSED SPECIAL ISSUE OF UP TO 116,055,000 NEW ORDINARY SHARES IN PGB TO BUMIPUTERA INVESTORS TO BE IDENTIFIED AND/OR APPROVED BY THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY ("PROPOSED SPECIAL ISSUE"); AND

(B) PROPOSED DIVERSIFICATION OF PGB AND ITS SUBSIDIARIES' ("PGB GROUP") EXISTING BUSINESS INTO THE PROPERTY DEVELOPMENT AND COAL TRADING BUSINESS SEGMENTS ("PROPOSED DIVERSIFICATION")

(COLLECTIVELY, THE "PROPOSALS")

1. INTRODUCTION

On behalf of the Board of Directors of PGB ("Board"), M&A Securities Sdn Bhd ("M&A Securities") wishes to announce that the Company proposes to undertake the following proposals:-

(a) Proposed special issue of up to 116,055,000 new ordinary shares in PGB ("PGB Shares" or "Shares") ("Special Issue Shares"), representing approximately 12.5% of the Company's enlarged issued share capital to Bumiputera investors to be identified and/or approved by the Ministry of International Trade and Industry, Malaysia ("MITI") ("Proposed Special Issue"); and

(b) Proposed diversification of PGB Group's existing business into the property development and coal trading business segments.

(collectively, the "Proposals")

Kindly refer to the ensuing section for further details of the Proposals.

2. DETAILS OF THE PROPOSALS

2.1 Proposed Special Issue

Pursuant to the approval letter for PGB's initial public offering dated 29 July 2011 from the Equity Compliance Unit ("ECU") of the Securities Commission Malaysia ("SC"), PGB has been imposed with the condition to place out 12.5% of its total equity to Bumiputera investors recognised by the MITI within one (1) year after achieving the profit track record requirement for listing on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") or within five (5) years after being listed on the ACE Market of Bursa Securities, whichever is earlier ("Bumiputera Equity Condition").

PGB was listed on the ACE Market of Bursa Securities on 29 August 2012 and did not achieve the profit track record requirements for listing on the Main Market of Bursa Securities. As such, the Company is required to comply with the Bumiputera Equity Condition by 28 August 2017. On 4 October 2017, M&A Securities had, on behalf of the Company, announced that the SC has vide its letter dated 3 October 2017, approved the extension of time up to 28 February 2019 to comply with the Bumiputera Equity Condition.

The Board proposes to implement the Proposed Special Issue to comply with the Bumiputera Equity Condition.

Further details on the Proposed Special Issue are set out in the ensuing sections.

2.1.1 Size of the Proposed Special Issue

As at 30 March 2018 ("LPD"), the existing issued share capital of PGB is RM81,157,313 comprising of 811,573,132 PGB Shares.

The Company proposes to undertake a special issue of up to 116,055,000 Special Issue Shares, representing approximately 12.5% of the Company's enlarged issued share capital to Bumiputera investors to be identified and/or approved by MITI at an issue price to be determined later after obtaining all relevant regulatory approvals.

Subject to the prevailing market conditions, the Proposed Special Issue may be implemented in tranches after the receipt of all relevant approvals for the Proposed Special Issue (depending on Bumiputera investors' interest at the point of implementation). As such, there could potentially be several price fixing dates depending on the number of tranches and timing of implementation which is to be determined later.

2.1.2 Placees

The Special Issue Shares to be issued will be allotted and issued to third party Bumiputera investor(s) to be identified and/or approved by MITI, where such investor(s) shall be person(s) qualified under Schedule 7 of the Capital Markets and Services Act, 2007 and no prospectus will be issued in respect of the Proposed Special Issue.

In accordance with Rule 6.05 of the ACE Market Listing Requirements of Bursa Securities ("ACE Market LR"), the Special Issue Shares will not be placed to the following parties:-

(a) the interested director, interested major shareholder or interested chief executive of PGB, or interested person(s) connected with such director, major shareholder or chief executive; and

(b) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

2.1.3 Pricing of the Special Issue Shares

The issue price of the Special Issue Shares shall be determined at a later date ("Price Fixing Date") at a discount (if any) of not more than 10.0% to the 5D-VWAMP of Special Issue Shares for the five (5) market days immediately prior to the Price Fixing Date.

The abovementioned discount (if any) of the issue price of the Special Issue Shares over the 5D-VWAMP of the PGB Shares shall only be determined by the Board (in consultation with the placement agent) after taking into account, *inter-alia*, the prevailing equity market conditions and interests from Bumiputera investors at the point of implementation. In any event, the discount shall not be more than 10.0% over the five 5D-VWAMP of PGB Shares immediately prior to the Price Fixing Date.

For illustrative purposes only, assuming the Special Issue Shares are issued at an issue price of RM0.12 per Special Issue Share based on an approximate 6.8% discount to the 5D-VWAMP up to and including the LPD of RM0.1288, the Proposed Special Issue is expected to raise a gross proceeds of up to RM13,926,600.

Subject to the prevailing market condition, the Proposed Special Issue shall only be implemented in tranches after the receipt of all relevant approvals for the Proposed Special Issue (depending on Bumiputera investors' interest at the point of implementation). As such, there could potentially be several price fixing dates depending on the number of tranches and timing of implementation. The basis of determining the issue price of the Special Issue Shares will be in accordance with market-based principles.

2.1.4 Ranking of the Special Issue Shares

The Special Issue Shares shall, upon allotment and issuance, rank *pari passu* in all respects with the existing PGB Shares, save and except that the Special Issue Shares will not be entitled to any rights, allotments, dividends and/ or any other distributions that may be declared, made or paid where the entitlement date precedes the date of allotment of the said Special Issue Shares.

2.1.5 Utilisation of proceeds

The exact amount of the proceeds to be raised from the Proposed Special Issue will depend on the actual issue price and the actual number of Special Issue Shares to be issued, which will be determined at a later date. For illustrative purposes only, assuming the Special Issue Shares are issued at an issue price of RM0.12 per Special Issue Share, the Proposed Special Issue is expected to raise a gross proceeds of up to RM13,926,600 which will be utilised in the following manner:-

Details	Notes	RM'000	#Timeframe for utilisation
Future business projects/investments in the energy utilities services and power generation business segment	(a)	13,727	Within twenty-four (24) months
Estimated expenses in relation to the Proposed Special Issue	(b)	200	Within one (1) month
Total		**13,927**	

Notes:-

\# From the date of listing of the Special Issue Shares on the ACE Market of Bursa Securities.

(a) The Company had diversified into the energy utilities services and power generation business segment in 2017. As such, the Company proposes to utilise up to RM13.7 million of the proceeds to be raised from the Proposed Special Issue for its future business projects/investments in the energy utilities services and power generation business segment. This includes the following:-

(i) funding the initial consideration, payment of relevant advisory fees, cost of due diligence exercise and technical studies for such projects/investments) to enhance the Company's revenue and profitability; and

(ii) undertake a series of internal preliminary studies and feasibility studies on potential business opportunities and ventures available ("Preliminary Studies"). The amount raised is intended to serve as a "war-chest" for the Company to embark on future business and may also include the funding of any working capital to be incurred in undertaking the abovementioned Preliminary Studies.

Although the Company has not identified the said new business project/investments, the Board has decided to raise the proceeds from the Proposed Special Issue at this juncture to raise standby funds to fund its future acquisitions, business opportunities and/or participation of new potential business ventures. The Company shall make the requisite announcement and/or shall seek the shareholders' approval, if required by the ACE Market LR, as and when the future business projects/investments are confirmed/identified.

(b) The estimated expenses for the Proposed Special Issue is approximately RM200,000. This includes payment of fees to the relevant authorities, advisory and placement fees in relation to the Proposed Special Issue. Any variation to the estimated expenses will be adjusted to/from the working capital.

2.1.6 Listing of and quotation for the Special Issue Shares

An application will be made to Bursa Securities for the listing of and quotation for the Special Issue Shares to be issued pursuant to the Proposed Special Issue on the ACE Market of Bursa Securities.

2.2 Proposed Diversification

Presently, PGB Group is principally an investment holding company, while its subsidiaries are involved in the following business activities:-

(a) mechanical & electrical engineering services targeting customers in the water treatment and sewerage industry, palm oil and sugar mills and refineries, and other factories in the manufacturing sector;
(b) Design, manufacture, trade and market its own LV switchboards used by both the commercial and industrial sectors;
(c) trading of equipment mainly in distribution, power and converter transformers; and
(d) engineering and construction activities.

PGB has diversified its business activities into the energy utilities services and power generation business activities in 2017 via the acquisition of I.S. Energy Sdn Bhd, a company principally involved in developing, maintaining and operating mini hydro plants and distribution of electricity. ISE has secured Feed-in Tariff ("FiT") approval from Sustainable Energy Development Authority (SEDA) on 1 March 2012 for its mini hydro plant at Sungai Rek, Kuala Krai, Kelantan with a declared annual availability of 2.8 megawatts and installed capacity of 3.2 megawatts.

In addition to the above, PGB Group is also involved in the property development and coal trading activities. PGB Group's property development and coal trading business segments are expected to contribute 25% or more of the NA and/or net profits of the PGB Group. As such, the Board proposes to seek the prior approval from the shareholders of the Company at an Extraordinary General Meeting ("EGM") to be convened for the Proposed Diversification pursuant to Rule 10.13(1) of the ACE Market LR. Notwithstanding the Proposed Diversification, the Board intends to continue with the Group's existing business activities.

2.2.1 Property development activities

(a) Details

On 9 June 2017, the Company announced that its wholly-owned subsidiary, namely Pasukhas Development Sdn Bhd ("PDSB") (formerly known as Bungar Majujaya Sdn Bhd) and Yayasan Veteran ATM ("Yayasan") had entered into a Joint Venture Agreement ("JVA") to undertake the development of a piece of state leasehold land held under P.T. 64 (Lot 385), Jalan 1/65A, Off Jalan Tun Razak, Seksyen 87A, Bandar Kuala Lumpur, Wilayah Persekutuan measuring approximately 5,142 square metres ("Development Land") by constructing and completing a mix commercial development project comprising of office towers or such other types of buildings at the sole discretion of PDSB ("Development Project"). The JVA is not subject to the approval of shareholders of PGB.

Subsequently, on 31 January 2018, PDSB has signed a joint venture agreement with Pasukhas Properties Sdn Bhd ("PPSB") (formally known as Majujaya Masyhur Sdn Bhd) and Midtown Pearl Sdn Bhd ("MPSB") to separately out the components of the Development

Project amongst the parties to the agreement. PDSB, PPSB and MPSB are wholly-owned subsidiaries of PGB Group.

Under the said JVA, PDSB has been granted with the exclusive rights to carry out and complete the Development Project on the Development Land. During the said announcement, the details of the Development Project were still in the initial planning stages and thus the detailed information of the Development Project was not made available at that juncture. However, the parties has since finalised the development details of the Development Project which may contribute 25% or more of the net profits and/or net assets ("NA") position of the PGB Group. Notwithstanding the above, the Board intends to continue with the Group's existing business in the same manner.

(b) Details of the Development Project

The details of the Development Project are as follows:-

Proposed project development name	:	Lushwoods Towers and Residences
Development details	:	The Development Project is a mixed development project involving a sixty-five (65) storey building, which shall comprise of the following:- (a) 315 units of serviced apartment unit spread out in forty-eight (48) stories; (b) one (1) basement car park comprising fifty (50) car park lots; (c) eight (8) storey podium comprising two (2) stories of commercial centres and six (6) stories of 746 car park lots; and (d) nine (9) storey of commercial offices and facilities.
Gross built-up area	:	754,165 square feet ("sq ft")
Net floor area	:	439,660 sq ft
Facilities	:	Prayer room, multi-purpose hall, meeting room, childcare centre, kindergarten, laundry, reading room, indoor games room, gymnasium, computer room, hawker centre, workers' recreational space, medical treatment room, taxi-waiting area and related amenities
Development Land title details	:	P.T. 64 (Lot 385), Jalan 1/65A, Off Jalan Tun Razak, Seksyten 87A, Bandar Kuala Lumpur, Wilayah Persekutuan
Category of land use	:	Buildings
Tenure of land	:	Leasehold for a period of 99 years (expiring in August 2116)
Size of land	:	1.27 acres (equivalent to 5,142 square metres)
Surroundings	:	The Development Land is situated along Jalan 11/4H and is next to Jalan Tun Razak. Kuala Lumpur, Willayah Persekutuan Kuala Lumpur. It lies approximately 7 kilometres away from the Kuala Lumpur city centre. Access to Lushwoods Towers and Residences is easily available via Duta-Ulu Kelang Expressway (DUKE), Middle Ring Road 2 (MRR2), New Klang Valley Expressway (NKVE) and Ampang-Kuala Lumpur Elevated Highway (AKLEH). Properties in the immediate vicinity comprise predominantly commercial buildings, medical centres, blocks of condominium/apartments

		and shop offices. Other commercial areas and townships surrounding the vicinity include Pudu, Bangsar, Bukit Damansara, Mont Kiara and Titiwangsa. Nearby shopping malls include, Suria KLCC, Pavilion, Starhill Gallery, Lot 10, Sungai Wang Plaza, Plaza Low Yat, Quill City Mall and Sunway Putra Mall.
Estimated Gross Development Cost	:	RM362,865,065
Estimated Gross Development Value	:	RM438,392,179
Expected commencement date of construction	:	April 2019
Expected date of completion	:	April 2024

PGB Group intends to finance the Development Project using internally generated funds and/or bank borrowings to fund the construction of the Development Project. However, the breakdown of the internal generated funds and/or bank borrowings has not been fixed at this juncture.

As at the date of this announcement, the Company has not received the necessary approvals required for the Development Project. The Company together with its advisers shall be submitting the relevant development order application to the relevant authorities for the Development Project.

2.2.2 Coal trading activities

The Company had on 22 January 2018 and 6 February 2018 announced that its wholly-owned subsidiary, namely Pasukhas Products Sdn Bhd ("PPSB") had ventured into the coal trading business segment to supply steam coal out of anchorage point of South Kalimantan, Indonesia. Details of the said sales and purchase contracts are as follows:-

(a) Sales and purchase contract with a company in Taiwan on 19 January 2018 for the sale and delivery of two (2) vessels of steam coals at Free On Board ("FOB") worth USD6.35 million (approximately RM25.4 million) with the anchorage point at South Kalimantan, Indonesia; and

(b) Sales and purchase contract of coals with a company in Taiwan on 5 February 2018 for the sale and delivery of one (1) vessel of steam coals at FOB worth USD8.74 million (approximately RM35.0 million) with the anchorage point at South Kalimantan, Indonesia.

The abovesaid sales and purchase contracts for steam coals are not subjected to the approval of shareholders of PGB. Moving forward, the Board anticipates that the PGB Group would be able to secure additional sales and purchase contracts for steam coals in the future, which may result in the net profit contribution of 25% or more of the net profits of the PGB Group in the foreseeable future.

3. RATIONALE

3.1 Proposed Special Issue

The Proposed Special Issue is being undertaken to enable PGB to comply with the Bumiputera Equity Condition and to allow the Company to raise funds for the purposes highlighted in Section 2.1.5 above. After due consideration of the various funding options available to the PGB Group, the Board is of the opinion that Proposed Special Issue is an appropriate avenue of fund raising for the Group after taking into consideration the following factors:-

(a) The equity issuance will enable the Company to raise the funding for the Group's business without having to incur additional financing cost associated with traditional borrowings; and

(b) The Proposed Special Issue will strengthen the Company's financial position with enhanced shareholders' funds. These factors will facilitate the continuous business expansion plans of the Company.

3.2 Proposed Diversification

The Proposed Diversification forms part of PGB Group's diversification strategy into other business segments to increase its sources of income. By having multiple sources of income, the PGB Group will be able to reduce its reliance on its existing business in particular the construction industry. Through the additional streams of income, the Proposed Diversification is expected to contribute positively to the PGB Group's financial performance and in turn, improve PGB's shareholders' value. Further, the Board also believes that the PGB Group would be able to leverage its expertise in the construction industry in its venture into the property development business, which would in turn create a synergetic effect to its existing business in the construction business segments.

The property development business segment of the PGB Group will be spearheaded by Dato' Sri Teng Ah Kiong, the Executive Chairman of the Company and Mr Wan Thean Hoe, the Chief Executive Officer cum Executive Director of the Company. Their profiles are as follows:-

(a) **Dato' Sri Teng Ah Kiong**, a Malaysian male, aged 65, is presently the Executive Chairman of PGB. He was appointed to Board on 19 May 2011 as Executive Chairman cum Managing Director before relinquishing his position as the Managing Director on 1 January 2016 and assume his current role in the Company. He obtained his Master of Business Administration Degree from University of East London, United Kingdom in 2009.

He possessed over forty-six (46) years of experience in the electrical engineering and construction industry, strategic operation and business development. His extensive industrial experience enabled him to be exposed with the nature operations, technicality, management and execution aspects of the property development industry, ranging from its planning stage, and project management to the execution stage of a property development project.

(b) **Wan Thean Hoe**, a Malaysian male, aged 49, is presently the Executive Director cum Chief Executive Officer of the PGB. He was appointed to the Board on 4 November 2015 as an Executive Director before assuming the role as the Chief Executive Officer of the Company on 4 December 2015. He is a member of the Malaysian Institute of Accountants and an associate member of The Chartered Institute of Management Accountants.

He has been involved in the financial management of companies in various industries over the past twenty-five (25) years of his career, in which he brings along with him an extensive corporate finance, business planning and development in various industry. This has enabled him to leverage his experience and knowledge in the project financing, planning as well as execution of a property development project.

The Board believes that the vast experiences and expertise of both Dato' Sri Teng Ah Kiong and Wan Thean Hoe will provide PGB Group with the necessary expertise, management and knowledge in the property development business segment. Further, PGB Group also intends to further strengthen its competency in property development business segment by engaging experienced management team from time to time to run the property development business segment.

In addition, the venture into the coal trading business segment would also open up new opportunities for PGB Group to expand horizontally in its existing utilities and power generation business. The energy utilities services and power generation business segment of the Group is currently being managed by the following personnel:-

(a) **Chan Man Chung**, a Malaysian, age 49, is currently the Non-Independent Non-Executive Director of PGB. He has over 20 years of experience in business development and strategic planning and over 7 years of experience in power industry. He was the former Managing Director of PT Putra Persada Perkasa ("P3"), a power generation company from 2009 to 2015. At P3, he managed 6 power plants with a total of 31 Megawatt of high speed diesel in various locations in Indonesia. He also set up engineering services and trading businesses at P3 which include the sales, services, rental and spare parts for diesel generating sets and gas generating sets, cables for electrical and telecommunication, and project consultancy and project management.

4. RISK FACTORS

The PGB Group will be exposed to new business risk inherent in the property development and coal trading industries. These risks include, but are not limited to, the following:-

(a) Business diversification risk

PGB Group's operating track record in the property development and coal trading business segments are limited. Hence, the Group may be subject to challenges and initial risks arising from the property development and coal trading business segments in which the Group does not have any track record to ensure the success of this venture. The PGB Group seeks to mitigate these risks by leveraging on the business acumen, competencies, experiences and skills of the Directors and key management who have been involved in the property development and coal trading business segments.

Although the PGB Group will seek to limit these risks through, *inter-alia*, effective human resource and project management and cost-control policies and continuously reviewing their operations, no assurance can be given that any changes to these risks will not have a material adverse effect on the PGB Group's business and earnings in the future.

<u>Specific risks in the property development activities</u>

(a) Competition risk from other players in the property development industry

Pursuant to the Proposed Diversification, PGB Group will face direct competition from both other new entrants and existing players in the property development business. The PGB Group may also face disadvantages as a new entrant in the industry as it lacks the relevant track record and brand name as compared to the existing players whom enjoy the privilege of their established brand names and reputation in the industry. PGB Group's competitiveness will largely depend on, amongst others, its sales and marketing strategies, product design, location of the development(s) and its ability to price and differentiate its development(s) to meet the needs of the target markets in future. However, there can be no assurance that these efforts will enable PGB Group to compete successfully and effectively with the current and new entrants in the property development business segment.

(b) Financing risk

The development of the Development Project is to be funded by a combination of internally generated funds and bank borrowings. Therefore, the PGB Group may be exposed to fluctuation in interest rate of borrowings and repayment commitments.

The interest rates of borrowings are dependent on various factors, which include general economic and capital market conditions, credit availability from banks or other lenders, lenders' confidence in the PGB Group and political and social conditions in Malaysia. There can be no assurance that the necessary borrowings will be available in amounts or on terms acceptable to the PGB Group.

(c) Dependence on key personnel

PGB Group's growth and success of the property development segments, to a large extent, are dependent on the abilities, skills, experience, competency and continued effort of Dato' Sri Teng Ah Kiong, Wan Thean Hoe and key management team for its property development business segment.
The failure to retain any key personnel and finding suitable replacement for outgoing key personnel in a timely manner, or the inability of PGB Group to attract and retain other qualified personnel, could adversely affect the Group's property development business, and consequently, its revenue and profitability. To avoid over-dependency on any key personnel, the Company strives to attract qualified and experienced employees, as well as to address the succession planning programme by grooming junior employees to complement the management team. This will in turn help to ensure continuity and competency of the management team.

(d) Regulatory approval risk

The implementation of the Development Project is subject to the approval of the development order by relevant authorities. If PGB Group fails to obtain the approval for the said development order, the Development Project would be postponed indefinitely, which would in turn affected the overall development of the Development Project and the future financials' performance of the Group's property development business.

<u>Specific risks in the coal trading activities</u>

(a) Track record in the coal trading business

The PGB Group have only commenced business operations in the Indonesian coal industry in January 2018 and as such do not have a long track record of carrying out coal trading operations in the past. The PGB Group do not have a long track record in the performance and delivery of steam coals to its customers, whether as a mine operator, mine owner cum operator and/or mine contractor. There is no assurance that the PGB Group can continue to successfully deliver the steam coals to its customers on a timely basis, maintain its rate of coal trading, continue to maintain our sales and distribution results and/or secure future sales and purchase of coal contracts.

(b) Fluctuation in selling prices of steam coals

The coal industry is exposed to fluctuation in the selling prices and the demand for steam coal. The international prices for coal will have a significantly impact on the profit margin and profit contribution from the coal trading business. The current and expected future price of commodities such as coal and crude oil can change rapidly and significantly and this may have a substantial effect on the business, financial performance, financial condition and results of operations of the PGB Group. The pricing of commodities such as coal and crude oil are affected by numerous factors beyond its control. These factors include but are not limited to market fluctuations, world demand, forward selling by producers, production cost levels in major mining regions, processing equipment and Government regulations such as those relating to taxation, royalties, allowable production, importing and exporting and environmental protection. Prices may also be affected by macro-economic factors such as expectations regarding inflation, interest rates and global and regional demand and supply as well as general global economic conditions. The demand for, and price of, commodities such as coal is highly dependent on a variety of factors including but not limited to international supply and demand, the level of consumer product demand, weather conditions, distribution problems, labour disputes, the price and availability of alternatives, actions taken by governments and international cartels, and global economic and political developments. Fluctuations and, in particular, a decline in coal prices may adversely affect

PGB Group's business, financial performance, financial condition and results of operations due to a direct impact to the Group's revenue derived from the coal trading activities.

While the Proposed Diversification is expected to contribute significantly to the future earnings of the PGB Group, although there is a possibility that the actual result may potentially differ in a material way.

(c) Fluctuation in transportation costs

Fluctuations in transportation costs and disruptions in transportation could adversely affect the delivery of steam coals to its customers. Currently, PGB's coal sales are made on a FOB barge basis.

PGB believe that transportation costs and the operational efficiency of the coal transportation systems are important factors in its customers' purchasing decisions. Increases in transportation costs and/or disruptions in coal transportation systems could make coal a less competitive source of energy or steam coals less competitive than other sources of coal in other parts of the world. In addition, disruptions in coal transportation systems could temporarily restrict its ability to deliver coal to its customers. Such disruptions could involve damage or obstruction to coal haulage roads and/or river transport networks. Any of the foregoing factors or other related/similar factors could have a material adverse effect on its business, financial performance, financial condition, results of operations and prospects.

(d) Impact of government policies

Government policies and regulations relating to coal mining industry could have significant effects on the Proposed Diversification. Any unfavourable changes imposed by the government on coal mining would have an adverse effect on the availability and supply of steam coal. No assurance is given that there will be no changes in the government policies and regulations and that any such changes will not have a material adverse effect on the Group's operation in the coal trading business.

(e) Competition from other players in the coal industry

The coal industry is highly competitive and PGB faces competition from both incumbents and new entrants to the industry. Some of its competitors may possess greater technical or operational expertise, customer base, networks, technical know-how and/or financial resources. The PGB Group will be competing with numerous other companies and individuals in the search for and the trading of coal reserves and/or resources.

Furthermore, significant increase in the discovery of new coal reserves and in coal mining and production operations worldwide may lead to a significant increase in the availability of coal, in particular in Indonesia. In the event the demand for coal is insufficient to meet such increased supply, its pricing and thus its business, financial performance, financial condition and results of operations may be adversely affected by a decrease in prices of coal resulting from an over-supply.

There is no assurance that the PGB Group will be able to compete effectively with its existing and future competitors and adapt quickly to changing market conditions and trends. In the event its competitors are able to acquire additional and/or higher quality coal reserves and/or resources, provide comparable or better coal quality at lower prices or respond to changes in market conditions more swiftly or effectively than PGB Group, its business, financial performance, financial condition, results of operations and prospects may be materially and adversely affected.

5. INDUSTRY OUTLOOK AND PROSPECTS

5.1 The Malaysian economy

The Malaysian economy will remain resilient in 2018, with real gross domestic product ("GDP") expanding between 5% and 5.5%, led by domestic demand. Private sector expenditure continues to be the primary driver of growth with private investment and consumption growing 8.9% and 6.8%, respectively. Meanwhile, public sector expenditure is forecast to decline, in line with lower capital outlays by public corporations. On the supply side, growth is expected to be broad based, with all sectors registering positive growth. Malaysia's external position is forecast to remain favourable supported by global growth and trade. Against this backdrop, the nominal gross national income ("GNI") per capita is expected to increase 5.1% from RM40,713 in 2017 to RM42,777 in 2018. With investment growing at a faster pace, the savings-investment gap will narrow to 2.3% of GNI.

The economy will continue to operate under conditions of full employment with an unemployment rate of below 4%, while inflation remains benign. In line with fiscal consolidation efforts, the fiscal deficit will further decline to 2.8% of GDP in 2018 (2017: 3%). Accordingly, the Federal Government debt remains sustainable within the prudent limit of 55% of GDP. These developments will further strengthen the nation's economic fundamentals and resilience to further propel the country towards the milestones of an advanced and high-income nation by 2020, doubling the size of the economy to RM2 trillion in 2025 and joining the ranks of top 20 countries by 2050.

(Source: 2018 Economic Report, Ministry of Finance, Malaysia)

5.2 Overview and outlook of the Malaysian property market

The residential subsector continued to expand 4.7% (January – June 2016: 6.7%) supported by firm demand for affordable housing in choice locations with easy access Housing starts rebounded significantly by 12.1% to 67,662 units (January – June 2016: -40%; 60,378 units). Condominium and apartments accounted for 42.9% of total housing starts in line with the increasing demand, especially for high-rise units in major cities. However, the increase was offset by a decline in incoming supply at3.4% to 485,433 units (January – June 2016: 14.1%; 502,345 units) as developers were cautious in launching new projects to prevent accumulation of unsold properties. Likewise, new approvals declined 2.8% to 43,133 units (January – June 2016: - 33.5%; 44,389 units) as developers reviewed their future plan in response to market situation.

In terms of demand, the take-up rate for residential units grew 23.9% with 6,775 units during the period (January – June 2016: 22.7%; 3,289 units) amid continued access to housing loans, especially for first-time house buyers. Accordingly, transaction value improved with smaller contraction of 0.3% to RM32.9 billion (January – June 2016: - 9.6%; RM33 billion). However, total properties transacted declined 6.9%to 95,010 (January – June 2016: -14.5%; 102,096 transactions) mainly due to the adoption of macroprudential measures to deter market speculation and ensure only those who are credit-worthy eligible for financing. The residential overhang increased 55.4% to 20,876 units with a total value of RM12.3 billion during the period (January – June 2016: 28.3%; 13,438 units; RM7.6 billion) with Kedah accounting for the highest overhang at 20.9%, followed by Johor (18.2%) and Selangor (17.6%). However, the property market is expected to adjust accordingly in the long-run given the robust economic growth prospects.

Malaysian House Price Index ("MHPI") grew at a moderate pace, reflecting various cooling measures adopted by the Government to contain spiraling prices. The MHPI stood at 184.1 points (at base year 2010) during the second quarter of 2017 (Q2 2016: 174.4 points). Meanwhile the average house price grew 5.6% to RM397,190 during the period (Q2 2016: 7.1%; RM376,247) with terrace recording the highest increase at 6.8%, followed by high-rise units (5.8%), semi-detached (4.1%) and detached (2.4%) houses.

The non-residential subsector grew 4.9% to RM6.4 billion (January – June 2016: RM6.1 billion). The growth was mainly supported by starts for shops and service apartments which rebounded 29.3% and 14% (January – June 2016: -46.7%; -35%), respectively. However, construction starts in the industrial and Small Office Home Office (SOHO) declined 9.7% and 16.1%, respectively (January – June 2016: - 76.7%; -24.9%) mainly due to moderation in the oil & gas related industries. Similarly, planned supply of purpose-built office (PBO) contracted 6.1% to 972,995 sq. m. (January – June 2016: 60.1%; 1,036,671 sq. m.). Meanwhile, construction starts for purpose-built office remained unchanged at 277,776 sq. m.

The construction sector is projected to grow 7.5% (2017: 7.6%) primarily supported by the ongoing civil engineering infrastructure projects such as East Coast Rail Link, MRT SSP line, Electrified Double Track Gemas – Johor Bahru, Pan Borneo Highway and Bokor Central Processing Platform. Meanwhile, the residential subsector is expected to expand further with several new planned townships by private developers. In addition, the subsector will also benefit from various affordable housing programmes by the Government such as PPA1m, MyBeautiful New Home and 1Malaysia People-Friendly Houses. On the contrary, the non-residential subsector is forecast to grow moderately following property overhang, particularly in the shops segment.

(Source: 2018 Economic Report, Ministry of Finance, Malaysia)

5.3 Overview and outlook of the coal industry in Indonesia

Coal is a widely distributed natural resource that is produced in many countries worldwide, and is vital for developing countries as they are amongst the cheapest source of energy to support its growth requirements. Wood Mackenzie expects demand for seaborne thermal coal to increase from an estimated 928 million tonnes in 2016 to 979 million tonnes in 2025 (0.6% compound annual growth rate ("CAGR")), with the majority of growth derived from increased coal demand in Asia, mainly by large developing economies in the region, particularly India (growing from 158 million tonnes in 2016 to 251 million tonnes in 2025 (CAGR 2.7%)) and Southeast Asia (growing from 75 million tonnes in 2016 to 160 million tonnes by 2025 (CAGR 7.2%), to require significant volumes of coal to support their power generation requirements and allow for ongoing industrialisation and electrification. Global seaborne export supply of thermal coal is expected to increase in line with demand through to 2025, with Indonesia well-placed to service the export markets due to its proximity and resulting freight advantage to key markets in Asia.

In 2017, the market saw the Indonesian Coal Index (ICI) price for 4,200 GAR coal going up to a high of USD46.81 but also went down to as low as USD36.20 per tonne, with a full year average price of USD42.91 per tonne. This was USD10.84 higher than 2016's average price of USD32.07, signifying an increase of 34%. For the thermal coal market outlook 2018 and beyond, Coal Marketing Specialist, Dr. Lars Schernikau believe that the market has entered a new period of higher commodity prices, maybe even a small new commodity boom. Coal prices are likely to remain high, significantly above marginal cost of production for most producers

Indonesia is currently, and will remain, the largest supplier of thermal coal into the seaborne market. However, Wood Mackenzie believe that Indonesian penetration of seaborne thermal coal markets has peaked. There will be some modest export growth to 2025, but it will be followed by long-term decline as increasingly production is consumed domestically

(Sources: Wood Mackenzie, Indonesian coal industry summary report dated 4 July 2017 and Steam Coal Outlook 2018 & Beyond, Dr. Lars Schernikau, Coal Asia Date 20 December 2017 – 20 January 2018)

According to government statistics agency, Badan Pusat Statistik, Indonesia's coal exports for 2017 is on track for about 385 million tonnes for the year, an increase of 4.3% from 2016. The increase of exports in 2017 came in spite of the prolonged monsoon season and above average rainfall in Kalimantan, Indonesia, which was a major hindrance on coal production. Producers expect a stronger production for 2018 if the weather permits. At the same time, there is expected to be an increase in demand for Indonesia's domestic consumption, with an expected annual growth in demand of 8 to 10 million tonnes. Based on the Indonesian Government's plans, approximately 21 Gigawatts in additional coal-fired capacity will be added over the next five (5) years, and 31.9 Gigawatts over the next ten (10) years.

(Source: Argus Coal Daily International, Issue 17-232 dated 29 November 2017)

5.4 Prospects of the Proposed Diversification

(a) Property development activities

The Development Project will serve to facilitate as an entry point for PGB Group into the property development industry. The Board expects that the Group would be able to capitalise on such opportunity in longer term when the property market recovers in the future. As such, the Board will monitor the property market condition closely and time the launching of the Development Project accordingly. In addition, the Board believe that during the current property market slow down, the Group will be able to acquire/identify potential property projects at more realistic prices and will have the potential to generate income growth and positive return on investment.

Barring unforeseen circumstances, the Board is cautiously optimistic that the future development of the Development Project will contribute positively to the future financial performance of the Group when the property market recovers.

(b) Coal trading activities

Based on the growth of production of coal in Indonesia and the international energy demand, PGB is cautiously optimistic that its coal trading business segment will grow in terms of trade values and contribution to the PGB Group. In order to achieve this, the PGB Group intends to build up its customers and suppliers base.

6. FINANCIAL EFFECTS OF THE PROPOSALS

6.1 Issued share capital

The Proposed Diversification will not have any effects on the issued share capital of the Company. The pro forma effects of the Proposed Special Issue on the issued share capital of PGB are as follows:-

	No. of PGB Shares ('000)	**RM'000**
Issued share capital as at the LPD	811,573	81,157
Shares to be issued pursuant to the Proposed Special Issue	116,055	[(a)]13,927
Enlarged issued share capital	**927,628**	**95,084**

Note:-

(a) Based on the indicative issue price of RM0.12 per Special Issue Share.

6.2 NA and gearing

The Proposed Diversification is not expected to have any immediate material impact on the NA and gearing position of the Group for the FYE 31 December 2018. However, the profit contribution arising from the Development Project and coal trading business segment is expected to have a positive impact on the future NA of the Group and the future gearing position of the Group will depends on, amongst other, the funding structure of the Development Project.

Based on the latest audited financial statement of PGB as at 31 December 2016, the pro forma effects of the Proposed Special Issue on the consolidated NA per share and gearing position of the PGB Group are set out below:-

	Audited as at 31 December 2016	**[a]Subsequent events**	**Upon completion of Proposed Special Issue**
	RM'000	**RM'000**	**RM'000**
Share capital	37,011	89,783	[b] 103,710
Share premium	7,543	-	-
Merger deficit	(10,500)	(10,500)	(10,500)
Fair value reserve	17	17	17
Retained profits	2,065	2,672	[c]2,472
Foreign exchange translation reserve	-	1	1
Shareholders' equity/NA	**36,136**	**81,973**	**95,700**
Non-controlling interests	4,910	6,194	6,194
Total equity	**41,046**	**88,167**	**101,894**
No. of Shares in issue ('000)	370,112	811,573	927,628
NA per Share (RM)	0.10	0.10	0.10
Borrowings (RM'000)	13,968	25,863	25,863
Gearing (times)	0.39	0.32	0.27

Notes:-

(a) After incorporating the financial results of PGB for the twelve (12) months financial period ended 31 December 2017 and after the completion of the following corporate exercises undertaken by PGB:-

(i) Acquisition of 100% equity interest in I.S. Energy Sdn Bhd ("ISE") for a purchase price of RM1.0 million as well as a debt settlement agreement between Pasukhas Energy Sdn Bhd, Maser (M) Sdn Bhd and ISE for the settlement of inter-company advances owed by ISE to Maser for a sum of RM13.3 million, subject to adjustment ("Acquisition of ISE"). The total purchase consideration for the Acquisition of ISE was RM14.3 million which has been satisfied via cash. The Acquisition of ISE was completed on 15 September 2017;

(ii) Diversification of the existing core businesses of PGB to include energy utilities services and power generation business pursuant to the Acquisition of ISE;

(iii) Private placement of 35,675,000 new PGB Shares, representing 10% of the issued share capital of PGB upon completion of the Acquisition of PKC, which was completed on 25 January 2017;

(iv) Renounceable rights issue of 405,786,566 PGB Shares ("Rights Shares") at an issue price of RM0.10 per Rights Share on the basis of one (1) Rights Share for every one (1) existing PGB Share ("Rights Issue"). The Rights Issue was completed on 11 May 2017;

(v) Exemption to Tara Temasek Sdn Bhd and persons acting-in-concert with Tara Temasek Sdn Bhd ("PACs") under Section 219 of the Capital Markets and Services Act, 2007 and Paragraph 16.1 (b), Practice Note 9 of the Malaysian Code on Take-Overs and Mergers 2010 from the obligation to undertake a mandatory take-over offer for the remaining PGB Shares not already held by Tara Temasek Sdn Bhd and the PACs upon the issuance of the Rights Shares to them under minimum subscription level;

(vi) Increase in authorised share capital of PGB; and

(vii) Amendments to the Memorandum and Articles of Association of PGB.

(collectively, the "Corporate Exercises")

(b) Assuming the Special Issue Shares are issued at an indicative issue price of RM0.12 per Special Issue Share.

(c) After taking into account the estimated expenses of RM200,000 in relation to the Proposed Special Issue.

6.3 Earnings and EPS

The Proposed Special Issue is not expected to have any material effect on the earnings and EPS position of PGB Group for the FYE 31 December 2018. However, there may be a corresponding dilution in the EPS of the Company as a result of the increase in the number of PGB Shares to be issued pursuant to the Proposed Special Issue. The Proposed Diversification is expected to contribute positively to the future earnings of the PGB Group.

Nevertheless, the proceeds to be raised from the Proposed Special Issue are expected to be utilised as working capital requirements of PGB in the energy utilities and power generation business segments which in turn are expected to contribute positively to the future earnings of PGB Group. The Board also expects that the Proposed Diversification would contribute positively to the future earnings of the Group as and when the Development Project are being developed/sold or the Group managed to secured more sales and purchase contracts of steam coals.

6.4 Substantial shareholder's shareholdings

The Proposed Diversification would not have any effects on the substantial shareholders' shareholdings of PGB as it does not involve any issuance of new shares by the Company. The pro forma effects of the Proposed Special Issue on the shareholdings of the substantial shareholders of PGB as at the LPD are as follows:-

	As at LPD				After Proposed Special Issue			
	<---Direct --->		<---Indirect --->		<---Direct --->		<---Indirect --->	
Substantial shareholders	**No. of PGB Shares '000**	**%**	**No. of PGB Shares '000**	**%**	**No. of PGB Shares '000**	**%**	**No. of PGB Shares '000**	**%**
Tara Temasek Sdn Bhd	188,509	23.2	-	-	188,509	20.3	-	-
Wan Thean Hoe	-	-	188,509	[(a)]23.2	-	-	188,509	[(a)]20.3
Chan Man Chung	-	-	188,509	[(a)]23.2	-	-	188,509	[(a)]20.3
Dato' Sri Teng Ah Kiong	109,887	13.5	19,361	[(b)]2.4	109,887	11.8	19,361	[(b)]2.1
Dato' Teng Yoon Kooi	19,361	2.4	109,887	[(b)]13.5	19,361	2.1	109,887	[(b)]11.8
Bumiputera investors to be identified	-	-	-	-	116,055	12.5	-	-

Notes:-

(a) Deemed interested under Section 8 of the Companies Act, 2016 by virtue of their shareholdings in Tara Temasek Sdn Bhd.

(b) Dato’ Sri Teng Ah Kiong is the brother of Dato’ Teng Yoon Kooi, thus they are deemed interested in each other’s shareholding held in PGB.

6.5 Convertible securities

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

7. APPROVALS REQUIRED

The Proposals is subject to the approval of the following:-

(a) Bursa Securities, for the approval in principle for the listing of and quotation for the Special Issue Shares to be issued pursuant to the Proposed Special Issue;

(b) Shareholders of PGB for the Proposals at the EGM to be convened;

(c) MITI, for identification and/or recognition of Bumiputera investors as approved Bumiputera shareholders; and

(d) Any other relevant authorities, if required.

The Proposals are not inter-conditional with each other and are not conditional upon any other corporate proposals undertaken or to be undertaken by PGB.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDER AND/OR PERSONS CONNECTED TO THEM

None of the directors and/or major shareholder of PGB, and/or persons connected to them have any interest, whether direct or indirect, in the Proposals.

9. DIRECTORS’ RECOMMENDATION

After considering all aspects of the Proposals, the Board is of the opinion that the Proposals are in the best interest of the Company.

10. ADVISER

M&A Securities has been appointed by PGB to act as the Principal Adviser in respect of the Proposals.

11. ESTIMATED TIMEFRAME FOR SUBMISSION TO THE AUTHORITIES AND COMPLETION

Barring any unforeseen circumstances, all relevant applications to the authorities in relation to the Proposals will be made with two (2) months from the date of this announcement.

Subject to all relevant regulatory approvals being obtained, the Proposals are expected to be completed by the second half of 2018.

This announcement is dated 2 April 2018.