

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, solicitor, accountant, bank manager or other professional adviser immediately.

Bursa Malaysia Securities Berhad takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.



KELINGTON GROUP BERHAD

(Registration No.: 199901026486 (501386-P))
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS IN RELATION TO

- (I) **PROPOSED BONUS ISSUE OF UP TO 322,623,476 NEW ORDINARY SHARES IN KELINGTON GROUP BERHAD ("KELINGTON" OR THE "COMPANY") ("SHARE(S)") ("BONUS SHARE(S)") ON THE BASIS OF 1 BONUS SHARE FOR EVERY 1 EXISTING SHARE HELD ON AN ENTITLEMENT DATE ("BONUS ENTITLEMENT DATE");**
- (II) **PROPOSED ISSUANCE OF UP TO 215,082,317 FREE WARRANTS IN KELINGTON ("WARRANT(S)") ON THE BASIS OF 1 WARRANT FOR EVERY 3 SHARES HELD ON AN ENTITLEMENT DATE, WHICH WILL BE AFTER THE BONUS ENTITLEMENT DATE; AND**
- (III) **PROPOSED DIVERSIFICATION OF THE EXISTING PRINCIPAL ACTIVITIES OF KELINGTON AND ITS SUBSIDIARIES TO INCLUDE MANUFACTURING, DISTRIBUTION AND TRADING OF INDUSTRIAL AND SPECIALTY GASES ("INDUSTRIAL GASES BUSINESS")**

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal Adviser

UOB Kay Hian

UOB Kay Hian Securities (M) Sdn Bhd

Registration No.: 199001003423 (194990-K)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

The Notice of the Extraordinary General Meeting ("EGM") of Kelington and the Form of Proxy are enclosed with this Circular, which can be downloaded at <http://www.kelington-group.com/report.php> or <http://www.bursamalaysia.com/market/listed-companies/company-announcements/>. Please refer to the Administrative Details issued to all Members of the Company on the conduct of the EGM.

As a member of Kelington, you are entitled to attend, participate and vote at the fully virtual EGM. You may appoint a proxy or proxies to attend, participate and vote on your behalf. If you wish to do so, the completed and signed Form of Proxy should be lodged at the office of the Share Registrar at 11th Floor, Menara Symphony, No. 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia if in hard copy or at Khairul.Iqram@boardroomlimited.com if by electronic means not less than forty-eight (48) hours before the time appointed for holding the fully virtual EGM or any adjournment thereof. The lodging of the Form of Proxy shall not preclude you from attending, participating and voting in person at the fully virtual EGM should you subsequently wish to do so.

Last date and time for lodging the Form of Proxy	:	Sunday, 13 June 2021 at 12.00 p.m.
Date and time of the EGM	:	Tuesday, 15 June 2021 at 12.00 p.m.
Broadcast Venue of the EGM	:	Lot 9-11 Menara Sentral Vista, No. 150, Jalan Sultan Abdul Samad, Brickfields, 50470 Kuala Lumpur
Meeting Platform	:	Dvote Online website at https://Dvote.my

This Circular is dated 31 May 2021

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:-

Act	:	The Companies Act 2016
Board	:	Board of Directors of Kelington
Bonus Entitlement Date	:	A date to be determined and announced later by our Board, on which the names of the shareholders of Kelington must appear in the Record of Depositors of Kelington as at 5.00 p.m. in order to participate in the Proposed Bonus Issue of Shares
Bonus Share(s)	:	322,623,476 new Kelington Shares to be issued pursuant to the Proposed Bonus Issue of Shares
Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd (Registration No. 198701006854 (165570-W))
Bursa Securities	:	Bursa Malaysia Securities Berhad (Registration No. 200301033577 (635998-W))
Circular	:	This Circular dated 31 May 2021
Depositories Act	:	Securities Industry (Central Depositories) Act 1991
Director(s)	:	The director(s) of Kelington and shall have the meaning given in Section 2(1) of the Act and Section 2(1) of the Capital Markets and Services Act 2007
EGM	:	Extraordinary general meeting of Kelington
Entitled Warrantholders	:	Shareholders of Kelington whose names appear in the Record of Depositors of Kelington on the Warrants Entitlement Date
EPS	:	Earnings per Share
FYE	:	Financial year ended/ ending
Industrial Gases Business	:	Manufacturing, distribution and trading of industrial and specialty gases
Kelington	:	Kelington Group Berhad (Registration No.: 199901026486 (501386-P))
Kelington Group or the Group	:	Kelington and its subsidiaries, collectively
Kelington Share(s) or the Share(s)	:	Ordinary share(s) in Kelington
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities
LPD	:	21 May 2021, being the latest practicable date prior to the printing and despatch of this Circular
Market Day(s)	:	Any day from Mondays to Fridays (inclusive of both days), which is not a public holiday and on which Bursa Securities is open for trading of securities
Maximum Scenario	:	Assuming all treasury shares are resold in the open market of Bursa Securities at their respective acquisition cost prior to the implementation of the Proposed Bonus Issue of Shares and Proposed Issuance of Free Warrants
Minimum Scenario	:	Assuming none of the treasury shares are resold in the open market and will be retained by Kelington prior to the implementation of the Proposed Bonus Issue of Shares and Proposed Issuance of Free Warrants

DEFINITIONS (CONT'D)

NA	:	Net assets attributable to the owners of Kelington
Official List	:	A list specifying all securities that have been admitted for listing on Bursa Securities and not removed
Proposed Bonus Issue of Shares	:	Proposed bonus issue of up to 322,623,476 Bonus Shares on the basis of 1 Bonus Share for every 1 existing Kelington Share held on the Bonus Entitlement Date
Proposed Diversification	:	Proposed diversification of the existing principal activities of Kelington Group to include Industrial Gases Business
Proposed Issuance of Free Warrants	:	Proposed issuance of up to 215,082,317 Warrants on the basis of 1 Warrant for every 3 Kelington Shares held on the Warrants Entitlement Date
Proposals	:	Collectively, the Proposed Bonus Issue of Shares, the Proposed Issuance of Free Warrants and the Proposed Diversification
Record of Depositors	:	A record of depositors established by Bursa Depository under the Rules of Bursa Depository
RM and sen	:	Ringgit Malaysia and sen, respectively
Rules of Bursa Depository	:	The Rules of Bursa Depository as issued pursuant to the Depositories Act
UOB Kay Hian or the Principal Adviser	:	UOB Kay Hian Securities (M) Sdn Bhd [Registration No. 199001003423 (194990-K)]
VWAP	:	Volume weighted average market price
Warrant(s)	:	Up to 215,082,317 free warrants in Kelington to be issued pursuant to the Proposed Issuance of Free Warrants
Warrants Entitlement Date	:	A date, which will be after the Bonus Entitlement Date, to be determined and announced later by our Board, on which the names of the shareholders of Kelington must appear in the Record of Depositors of Kelington as at 5.00 p.m. in order to participate in the Proposed Issuance of Free Warrants

Unless otherwise stated and wherever applicable, the amount represented in this Circular has been rounded to the nearest whole sen, for ease of reference.

Words incorporating the singular shall, where applicable, include the plural and vice versa. Words incorporating the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Any reference to persons shall include a corporation, unless otherwise specified.

References to "**you**" or "**your(s)**" in this Circular are made to shareholders of Kelington and references to "**Kelington**" or "**Kelington**" or "**we**" or "**us**" or "**our**" or "**ourselves**" are made to Kelington, and where the context requires, Kelington and our subsidiaries. Unless the context otherwise requires, references to "**Board**" are to our Board of Directors and "**Management**" are to our Executive Directors and key management personnel as at the LPD of this Circular.

Any reference in this Circular to any act or enactment is a reference to that act or enactment as for the time being amended or re-enacted. Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise specified.

TABLE OF CONTENTS

	PAGE
EXECUTIVE SUMMARY	iv
LETTER TO THE SHAREHOLDERS OF KELINGTON IN RELATION TO THE PROPOSALS CONTAINING:-	
1. INTRODUCTION	1
2. DETAILS OF THE PROPOSALS	2
3. RATIONALE AND JUSTIFICATIONS FOR THE PROPOSALS	11
4. INDUSTRY OVERVIEW AND OUTLOOK OF KELINGTON GROUP	13
5. RISK FACTORS	16
6. EFFECTS OF THE PROPOSALS	18
7. HISTORICAL SHARE PRICES	22
8. APPROVALS REQUIRED/ OBTAINED	23
9. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/ OR PERSONS CONNECTED WITH THEM	24
10. ESTIMATED TIMEFRAME FOR COMPLETION	24
11. PROPOSALS ANNOUNCED BUT PENDING COMPLETION	24
12. DIRECTORS' STATEMENT AND RECOMMENDATION	24
13. EGM	24
14. FURTHER INFORMATION	25
APPENDIX	
I. INDICATIVE SALIENT TERMS OF THE DEED POLL	26
II. FURTHER INFORMATION	28
NOTICE OF EGM	ENCLOSED
FORM OF PROXY	ENCLOSED

EXECUTIVE SUMMARY

This Executive Summary highlights only the salient information of the Proposals. The shareholders of Kelington are advised to read the Circular in its entirety for further details and not to rely solely on this Executive Summary in forming a decision on the Proposals before voting at the EGM.

Key information	Description	Reference to Circular
Summary of the Proposals	<u>Proposed Bonus Issue of Shares</u> The Proposed Bonus Issue of Shares entails the issuance of up to 322,623,476 Bonus Shares on the basis of 1 Bonus Share for every 1 existing Share held by the shareholders of Kelington whose names appear in the Record of Depositors of Kelington on the Bonus Entitlement Date.	Section 2
	<u>Proposed Issuance of Free Warrants</u> The Proposed Issuance of Free Warrants entails the issuance of Warrants on the basis of 1 Warrant for every 3 Kelington Shares held by the Entitled Warrantheolders.	
	<u>Proposed Diversification</u> The Group intends to further expand its existing manufacturing and trading segment particularly the Industrial Gases Business, of which it is complementary to the existing manufacturing and trading segment, and the construction segment of the Group, and of which our Board anticipates that it will contribute positively to the financial performance of the Group. Our Board also intends to expand the Industrial Gases Business by increasing the number of on-site gas supply plants. Premised on the foregoing, our Board anticipates that the Industrial Gases Business may contribute 25% or more of the consolidated net profits and/ or result in the diversion of 25% or more of the consolidated NA of Kelington moving forward.	
Rationale and justifications for the Proposals	<u>Proposed Bonus Issue of Shares</u> <ul style="list-style-type: none">• To reward the existing shareholders of Kelington in the form of Bonus Shares for their loyalty and continued support;• To increase the number of Shares held by Kelington's shareholders at no cost to be incurred by the shareholders, while maintaining their percentage of equity shareholding held in Kelington;• Potentially result in an improved trading liquidity of the Shares traded in the market at an affordable Share price without affecting the size of the market capitalisation of Kelington;• To encourage greater participation by investors and to potentially widen the share base and shareholders' profiles of Kelington; and• The implementation of the Proposed Bonus Issue of Shares without capitalisation of Kelington's reserves is not expected to affect Kelington's reserves and the NA of Kelington. <u>Proposed Issuance of Free Warrants</u> <ul style="list-style-type: none">• To reward the existing shareholders of Kelington in the form of Warrants for their continuous support by enabling them to participate in a derivative of Kelington without incurring any costs;	Section 3

EXECUTIVE SUMMARY (CONT'D)

Key information	Description	Reference to Circular
Rationale and justifications for the Proposals (cont'd)	<ul style="list-style-type: none"> To provide the shareholders an alternative mean to participate and trade in the equity of Kelington; To provide the shareholders an opportunity to further increase their equity participation in Kelington by exercising the Warrants at a pre-determined price during the exercise period. The shareholders may also benefit from potential capital gain in the event of Share price appreciation through the exercise of the Warrants; and Strengthen the capital base of Kelington, as and when the Warrants are exercised. <p><u>Proposed Diversification</u></p> <ul style="list-style-type: none"> In accordance with the Group's business and growth strategy to further enhance the operations and financial performance of Industrial Gases Business, which could potentially provide the Group sustainable revenue and income stream moving forward; To capture the opportunities within its Industrial Gases Business, which may mitigate the Group's current sole reliance on its construction segment moving forward and enhance the future financial performance of the Group; To expand the Group's clientele base as the business generally serves a larger pool of customer profiles which would widen the Group's customer portfolio and reduce the dependency on customers from the semiconductor and electronics industries which are presently the Group's primary revenue contributors; and Our Board deems the Proposed Diversification as timely for Kelington Group to capture the growing market demand for the product offerings under the Industrial Gases Business. 	Section 3
Conditionality	<p>Save for the completion of the Proposed Bonus Issue of Shares, the Proposed Issuance of Free Warrants is not conditional upon any other proposals undertaken or to be undertaken by Kelington. The Proposed Bonus Issue of Shares is not conditional upon the implementation of the Proposed Issuance of Free Warrants and any other proposals undertaken or to be undertaken by Kelington.</p> <p>The Proposed Diversification is not conditional upon the Proposed Bonus Issue of Shares and the Proposed Issuance of Free Warrants and vice versa, and any other proposals undertaken or to be undertaken by Kelington.</p>	Section 8
Approvals required	<p>The Proposals are subject to the following approvals being obtained:-</p> <ul style="list-style-type: none"> (i) Bursa Securities, the approval of which was obtained on 25 May 2021, for the listing and quotation for Bonus Shares, admission of the Warrants to the Main Market of Bursa Securities, listing and quotation of the Warrants and new Shares to be issued pursuant to the exercise of the Warrants on the Main Market of Bursa Securities; (ii) Our shareholders at the forthcoming EGM; and (iii) Any other relevant authority and/ or third parties, if required. 	Section 8
Board's recommendation	<p>Our Board recommends that you vote in favour for the resolutions pertaining to the Proposals, which will be tabled at the forthcoming EGM, the details of which are set out in the cover page of this Circular and the Notice of EGM as enclosed.</p>	Section 12



KELINGTON GROUP BERHAD

(Registration No.: 199901026486 (501386-P))
(Incorporated in Malaysia)

Registered Office

10th Floor, Menara Hap Seng
No. 1 & 3, Jalan P. Ramlee
50250 Kuala Lumpur, Malaysia

31 May 2021

Board of Directors

Ir. Gan Hung Keng (*Executive Chairman/ Chief Executive Officer*)
Ong Weng Leong (*Executive Director/ Chief Operating Officer*)
Chan Tian Kiat (*Senior Independent Non-Executive Director*)
Tan Chuan Yong (*Senior Independent Non-Executive Director*)
Vice Admiral (Retired) Datuk Haji Jamil bin Haji Osman (*Independent Non-Executive Director*)
Soo Yuit Weng (*Independent Non-Executive Director*)
Ng Lee Kuan (*Independent Non-Executive Director*)
Soh Tong Hwa (*Non-Independent Non-Executive Director*)
Cham Teck Kuang (*Non-Independent Non-Executive Director*)
Hu Keqin (*Non-Independent Non-Executive Director*)

To: The shareholders of Kelington Group Berhad

Dear Sir/ Madam,

- I. PROPOSED BONUS ISSUE OF SHARES;**
- II. PROPOSED ISSUANCE OF FREE WARRANTS; AND**
- III. PROPOSED DIVERSIFICATION**

1. INTRODUCTION

On 6 April 2021, UOB Kay Hian had, on behalf of our Board, announced that Kelington proposes to undertake the following:-

- (i) bonus issue of up to 322,623,476 Bonus Shares on the basis of 1 Bonus Share for every 1 existing Share held on Bonus Entitlement Date;
- (ii) issuance of up to 215,082,317 Warrants on the basis of 1 Warrant for every 3 Shares held on Warrants Entitlement Date; and
- (iii) diversification of the existing principal activities of Kelington Group to include the Industrial Gases Business.

On 27 May 2021, UOB Kay Hian had, on behalf of our Board, announced that Bursa Securities had vide its letter dated 25 May 2021, resolved to approve the following:-

- (a) the listing and quotation for up to 322,623,476 Bonus Shares to be issued on the Main Market of Bursa Securities;

- (b) the admission of up to 215,082,317 Warrants to the Official List;
- (c) the listing and quotation for up to 215,082,317 Warrants to be issued on the Main Market of Bursa Securities; and
- (d) the listing and quotation for up to 215,082,317 new Shares to be issued arising from the exercise of the Warrants on the Main Market of Bursa Securities,

subject to the terms and conditions as set out in **Section 8** of this Circular.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE RELEVANT INFORMATION ON THE PROPOSALS AS WELL AS TO SEEK YOUR APPROVAL FOR THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE EGM. THE NOTICE OF EGM AND THE FORM OF PROXY ARE ENCLOSED TOGETHER WITH THIS CIRCULAR.

YOU ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE EGM.

2. DETAILS OF THE PROPOSALS

As at the LPD, the issued share capital of Kelington is approximately RM73.29 million comprising 322,623,476 Kelington Shares (including 1,119,900 treasury shares).

Accordingly, a total of up to 322,623,476 Bonus Shares (including 1,119,900 Bonus Shares, which will be in the form of treasury shares) may be issued pursuant to the Proposed Bonus Issue of Shares. The actual number of Bonus Shares to be issued pursuant to the Proposed Bonus Issue of Shares will depend on the total issued Shares of Kelington on the Bonus Entitlement Date.

It is the intention of our Board to implement the Proposed Issuance of Free Warrants after the completion of the Proposed Bonus Issue of Shares.

2.1 Proposed Bonus Issue of Shares

2.1.1 Details of the Proposed Bonus Issue of Shares

The Proposed Bonus Issue of Shares entails the issuance of up to 322,623,476 Bonus Shares on the basis of 1 Bonus Share for every 1 existing Share held by the shareholders of Kelington whose names appear in the Record of Depositors of Kelington on the Bonus Entitlement Date. The actual number of Bonus Shares to be issued pursuant to the Proposed Bonus Issue of Shares will depend on the total number of issued Shares on the Bonus Entitlement Date.

For avoidance of doubt, any treasury shares held by Kelington on the Bonus Entitlement Date will be entitled to the Bonus Shares pursuant to the Proposed Bonus Issue of Shares as permitted under Section 127 of the Act, and such Bonus Shares will be treated as if the shares were purchased by Kelington at the time the Bonus Shares are allotted pursuant to Section 127(12) of the Act. For avoidance of doubt, our Board has undertaken and confirmed that Kelington will not cancel the treasury shares until the completion of the Proposed Bonus Issue of Shares.

In determining entitlements under the Proposed Bonus Issue of Shares, fractional entitlements, if any, shall be dealt with in such manner as our Board in its absolute discretion deems fit and expedient, and in the best interest of Kelington.

The entitlement basis for the Proposed Bonus Issue of Shares was determined after taking into consideration the compliance with Paragraph 6.30(1A)* of the Listing Requirements which states that Kelington must ensure that its share price adjusted for the Proposed Bonus Issue of Shares is not less than RM0.50 based on the daily VWAP during the 3-month period prior the application date.

Note:-

(*) Paragraph 6.30(1A) of the Listing Requirements requires that "A listed issuer must ensure that its share price adjusted for a bonus issue is not less than RM0.50 based on the daily volume weighted average share price during the 3-month period before the application date ("**Pricing Condition**").

The price of Kelington Shares will be adjusted pursuant to the Proposed Bonus Issue of Shares. For illustrative purposes, based on the 5-day VWAP of Kelington Share and the lowest daily VWAP of Kelington Share for the past 3-month up to and including the LPD, the TEBP of Kelington Shares is as follows:-

	Prior the Proposed Bonus Issue of Shares Market price/ Share RM	After the Proposed Bonus Issue of Shares TEBP/ Share RM
5-day VWAP up to the LPD	1.9522	0.9761
Lowest daily VWAP for the past 3-month up to and including the LPD	1.8042	0.9021

Based on the above, the Proposed Bonus Issue of Shares is in compliance with Paragraph 6.30 (1A) of the Listing Requirements.

The Proposed Bonus Issue of Shares will not be implemented on a staggered basis.

2.1.2 No capitalisation of reserves

Under the Act, a bonus issue can be undertaken either:-

- (i) by way of capitalisation of the retained earnings/accumulated profits of a company; or
- (ii) without capitalisation, where a company may issue and allot the bonus shares at nil consideration.

In view of the above, our Board has resolved that the implementation of the Proposed Bonus Issue of Shares shall be undertaken without any capitalisation from the reserves of Kelington and that the Bonus Shares shall be issued as fully paid Kelington Shares at nil consideration.

Therefore, the issued share capital in RM value will not be affected albeit an increase in the number of Shares in issue pursuant to the Proposed Bonus Issue of Shares. The effects of the Proposed Bonus Issue of Shares on the issued share capital of Kelington are set out in **Section 6.1** of this Circular.

Given that the Proposed Bonus Issue of Shares shall be undertaken without capitalisation from Kelington's reserves, it allows our Board to preserve Kelington's reserves.

2.1.3 Ranking of Bonus Shares

The Bonus Shares will, upon allotment and issuance, rank equally in all respects with the existing Kelington Shares, save and except that the Bonus Shares will not be entitled to any dividends, rights, allotments and/ or any other forms of distribution that may be declared, made or paid before the Bonus Entitlement Date.

For avoidance of doubt, the Bonus Shares (excluding 2,239,800 Bonus Shares, which will be in the form of treasury shares, on the Warrants Entitlement Date) will be entitled to the Warrants. For clarity, the aforesaid 2,239,800 Bonus Shares, which are in the form of treasury shares, were derived after taking into consideration the completion of the Proposed Bonus Issue of Shares.

2.1.4 Listing and quotation for the Bonus Shares

Approval has been obtained from Bursa Securities vide its letter dated 25 May 2021 for the listing and quotation for the Bonus Shares to be issued pursuant to the Proposed Bonus Issue of Shares on the Main Market of Bursa Securities. The Bonus Shares shall be listed and quoted on the Main Market of Bursa Securities on the next market day following the Bonus Entitlement Date.

2.2 Proposed Issuance of Free Warrants

2.2.1 Basis and number of Warrants

The Proposed Issuance of Free Warrants entails the issuance of Warrants on the basis of 1 Warrant for every 3 Kelington Shares held by the Entitled Warrantholders.

The actual number of Warrants to be issued will depend on the total number of Shares in issue (excluding treasury shares) on the Warrants Entitlement Date. For avoidance of doubt, the treasury shares are not entitled to Warrants as there is no guidelines and/ or provision that permit the listed company (which is the holder of treasury shares) to hold its own convertible securities. In addition, the Proposed Issuance of Free Warrants is meant to reward our shareholders for continuous support in the equity of our Company without incurring any costs.

Based on the number of Kelington Shares in issue as at the LPD and assuming that the Proposed Bonus Issue of Shares has been completed, the enlarged number of issued Shares will be 645,246,952 (assuming that all 2,239,800 treasury shares have been resold in the open market of Bursa Securities at their respective acquisition cost). As such, a total of up to 215,082,317 Warrants will be issued pursuant to the Proposed Issuance of Free Warrants.

The entitlement basis for the Proposed Issuance of Free Warrants was determined after taking into consideration the following:-

- (i) amount of proceeds Kelington could potentially raise as and when the Warrants are exercised during the exercise period of the Warrants; and
- (ii) compliance with Paragraph 6.50 of the Listing Requirements, which states that the number of new Kelington Shares that will arise from all outstanding Warrants, when exercised, shall not exceed 50% of the total number of issued Shares (excluding treasury shares and before the exercise of the Warrants) at all times.

In determining the entitlements under the Proposed Issuance of Free Warrants, fractional entitlements, if any, shall be dealt with in such manner as our Board in its absolute discretion deems fit and expedient, and in the best interest of Kelington.

The Warrants, which will be issued in registered form and constituted by a Deed Poll, will have a tenure of 5 years. The indicative salient terms of the Deed Poll are set out in **Appendix I** of this Circular.

The Warrants Entitlement Date will be a date after the Bonus Entitlement Date, hence the Bonus Shares (excluding 2,239,800 Bonus Shares, which will be in the form of treasury shares, on the Warrants Entitlement Date) will be entitled to the Warrants.

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

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

Similar to the Bonus Shares under the Proposed Bonus Issue of Shares, the Warrants will be issued at no cost to the Entitled Warrantholders.

The exercise price of the Warrants will be determined by our Board at a later date after the receipt of all relevant approvals but prior to the announcement of the Warrants Entitlement Date, by taking into consideration the following:-

- (i) the historical price movement of Kelington Shares and the future funding requirements of Kelington Group;
- (ii) the TEBP of Kelington Shares based on 5-day VWAP of Kelington Shares up to the price-fixing date.

For illustrative purpose, the indicative exercise price of the Warrants is assumed at RM0.995 per Warrant, which represents the TEBP of Kelington Share of RM0.995, calculated based on the closing price of Kelington as at the LPD of RM1.990 per Kelington Share. Our Board wishes to emphasize that the indicative exercise price of the Warrants of RM0.995 per Warrant should not be taken as an indication of or reference to the actual exercise price of the Warrants, as it will only be determined and announced at a later date. It is the intention of our Board to fix the exercise price of the Warrants on a premium range from 10.0% to 30.0% to the TEBP of Kelington Shares based on the 5-day VWAP of Kelington Shares up to and including the price fixing date.

The aforesaid range of premium was determined by our Board with the anticipation of the potential financial performance of the Group moving forward, premised on the current outstanding order book of the Group of approximately RM358.0 million, and is expected to provide sustainability to the business for the next 12 months;

- (iii) Warrants are exercisable at any time for a tenure of 5 years from the date of issuance of the Warrants which may provide the shareholders an alternative to participate and trade in the equity derivative of Kelington over the tenure of Warrants and potentially realize a capital gain in the event the Share price appreciation; and
- (iv) Warrants are issued at no cost.

The premium to the TEBP of Kelington Shares will be determined after taking into consideration, amongst others, the following:-

- (i) the prevailing market conditions and the historical market price of Kelington Shares;
- (ii) the attractiveness of the exercise price of Warrants to the Entitled Warrantheolders; and
- (iii) the potential future earnings of Kelington Group.

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

The new Kelington Shares to be issued pursuant to the exercise of the Warrants will, upon allotment and issuance, rank equally in all respects with the existing Kelington Shares, save and except that the new Kelington Shares to be issued arising from the exercise of the Warrants will not be entitled to any dividends, rights, allotments and/or any other forms of distribution that may be declared, made or paid prior to the exercise of Warrants.

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

Bursa Securities had, via its letter dated 25 May 2021, approved the following, amongst others:-

- (i) admission to the Official List and listing and quotation for Warrants; and
- (ii) listing and quotation for 215,082,317 new Kelington Shares to be issued upon exercise of the Warrants,

subject to the conditions as set out in **Section 8** of this Circular.

2.2.5 Utilisation of proceeds

The Warrants will not raise any immediate funds for Kelington when issued as the Warrants will be issued without any cost to the Entitled Warrantheolders. The amount of proceeds to be raised from the exercise of Warrants would depend on the actual number of Warrants exercised during the exercise period of Warrants and the exercise price of Warrants to be determined at a later stage. As such, the exact quantum and timeframe for utilisation of the proceeds to be used cannot be determined at this juncture. The proceeds are expected to be utilised within 2 years from the date of receipt of funds.

For illustration purpose, assuming that all Warrants are exercised at the indicative exercise price of RM0.995 per Warrant, Kelington will raise gross proceeds of up to approximately RM214.00 million (Maximum Scenario). For clarity, any proceeds raised, as and when the Warrants are exercised, shall be utilised for the following:-

	Minimum Scenario RM'000	Maximum Scenario RM'000
Part finance the acquisition of assets for the operations of the Industrial Gases Business division ¹	150,000	150,000
Working capital ²	13,264	14,007
Partial repayment of bank borrowings ³	50,000	50,000
Total	213,264	214,007

Notes:-

- ¹ Kelington has earmarked approximately RM150 million to part finance the acquisition of assets for the operations of the Industrial Gases Business division. Kelington will make the relevant announcement(s) in accordance with the Listing Requirements upon finalisation and execution of the said acquisition agreement, and if required, pursuant to the Listing Requirements, Kelington will seek the necessary approvals from its shareholders upon entering of the said agreement
- ² Kelington has earmarked approximately up to RM14 million to meet the Group's general working capital requirements, which include, but are not limited to, general administrative and daily operational expenses such as staff-related costs (i.e. staff salaries, allowances, staff benefits such as insurance and staff training and development programs), utilities, statutory payments and any other overhead expenditures (i.e. office upkeep, rental and taxes). The exact breakdown of such proceed has not been determined at this juncture and will be dependent on the operating and funding requirements at the time of utilisation
- ³ Kelington has earmarked approximately RM50 million to partially repay the Group's outstanding interest-bearing bank borrowings, terms loans and leases. The exact breakdown of such proceed has not been determined at this juncture and will be determined by our Board at a later date

The above utilisation may vary depending on the actual gross proceeds to be raised from the exercise of Warrants, number of Warrants to be exercised, and the operating and funding requirements of the Group at the time of utilisation. Pending the utilisation of the proceeds raised as and when the Warrants are exercised, such proceeds will be placed in deposits with financial institutions or short-term money market instruments as our Board deems fit.

2.3 Proposed Diversification

Kelington Group is principally involved in the following business segments:-

(i) Service segment	-	Renting of skid tanks, provision of scientific and technical researches, laboratory testing service and experiments;
(ii) Manufacturing and trading segment	-	a) Industrial Gases Business - Manufacturing and trading of industrial and specialty gases; and b) Ultra High Purity (UHP) Fabrication Business – Manufacturing and trading of equipment and materials for contract and UHP fabrication;
(iii) Construction segment	-	Provision of engineering services and construction – UHP gas and chemical delivery solutions, process engineering services encompassing design, fabrication and maintenance and general contracting.

For the past 3 financial years up to the latest audited FYE 31 December 2020, Kelington Group's revenue and earnings contributions are set out below:-

Revenue	Audited FYE		Audited FYE		Audited FYE	
	31 December 2018	%	31 December 2019	%	31 December 2020	%
	RM'000		RM'000		RM'000	
Service segment	435	0.1	534	0.2	775	0.2

Revenue	Audited FYE		Audited FYE		Audited FYE	
	31 December 2018		31 December 2019		31 December 2020	
	RM'000	%	RM'000	%	RM'000	%
Manufacturing and trading segment:						
(i) Industrial Gases Business	3,564	1.0	8,041	2.1	22,121	5.6
(ii) UHP Fabrication Business	1,241	0.4	435	0.1	1,822	0.5
Construction segment	344,783	98.5	370,758	97.6	369,881	93.7
Total revenue	350,023	100.0	379,768	100.0	394,599	100.0

Segment profit/(loss) before interest and taxation	Audited FYE		Audited FYE		Audited FYE	
	31 December 2018		31 December 2019		31 December 2020	
	RM'000	%	RM'000	%	RM'000	%
Service segment	(2)	0.0	70	0.2	135	0.4
Manufacturing and trading segment:						
(i) Industrial Gases Business	(1,679)	(6.6)	(1,527)	(4.8)	2,471	7.8
(ii) UHP Fabrication Business	668	2.6	(104)	(0.3)	16	0.1
Construction segment	26,255	104.0	33,483	104.9	28,891	91.7
Total	25,242	100.0	31,922	100.0	31,513	100.0

As set out above, the Group's revenue is mainly derived from its construction segment, of which the construction and engineering project orders are highly dependent on the capital expenditure activities of its customers. For the avoidance of doubt, the construction projects of Kelington Group were mainly focusing on the design, procurement, construction, testing and commissioning of (i) processed plants for gas panels, chemical and wastewater treatment and (ii) non-processed plants for exhaust, scrubber, drain and post-consumer waste (PCW) distribution systems to generate/create an environment cater for the UHP Fabrication Business in accordance with specific client's request. To further diversify and expand the Group's earnings base, the Group intends to further expand its existing manufacturing and trading segment particularly the Industrial Gases Business, of which it is complementary to the existing manufacturing and trading segment, and the construction segment of the Group, and of which our Board anticipates that it will contribute positively to the financial performance of the Group.

Kelington Group was initially involved in handling of the delivery and distribution of UHP gases and chemicals mainly for manufacturers of memory, and semiconductor and electronics companies before expanding its Industrial Gases Business to include the provision of on-site gas supply and manufacturing of liquid carbon dioxide ("CO₂") business.

At present, Kelington Group is generating its Industrial Gases Business either by way of setting up of an on-site generator at the client's plant, in which Kelington Group receives monthly facility fee from supplying the aforesaid on-site plant, or by way of signing of supply contract, which is usually short term (i.e. 1-2 years) and on call-out basis, request on demand, or by way of purchase orders from customers. It is the intention of our Board to expand the Industrial Gases Business by increasing the number of on-site gas supply plants.

Premised on the foregoing, our Board anticipates that the Industrial Gases Business may contribute 25% or more of the consolidated net profits and/ or result in the diversion of 25% or more of the consolidated NA of Kelington moving forward. Paragraph 10.13(1) of the Listing Requirements states that a listed issuer must obtain its shareholders' approval in a general meeting for any transaction or business arrangement which might reasonably be expected to result in either:-

- (i) the diversion of 25% or more of the NA of the listed issuer to an operation which differs widely from those operations previously carried on by the listed issuer; or
- (ii) the contribution from such an operation of 25% or more of the net profits of the listed issuer.

In view thereof, our Board intends to seek the approval from the shareholders of Kelington for the Proposed Diversification at a general meeting to be convened. Notwithstanding the Proposed Diversification, our Board intends to continue with the Group's existing principal activities in the same manner and our Board will review the Group's business operations from time to time with the intention to further optimise the Group's business operations and/ or improve the Group's financial performance.

2.3.1 Key Management Personnel

At this juncture, our Board has identified Ir. Gan Hung Keng, Ong Weng Leong and Soh Tong Hwa as the key management personnel to lead Kelington Group's Industrial Gases Business.

- (i) **Ir. Gan Hung Keng**, a Malaysian aged 57 was appointed as the Executive Director and Chairman of Kelington on 14 February 2020.

He obtained his Bachelor of Chemical and Process Engineering from Universiti Kebangsaan Malaysia, Malaysia in 1988. Currently, he is also a Professional Engineer on the Board of Engineers, Malaysia.

He started his career in 1988 until 1994 at United Professional Services (S) Pte Ltd, Singapore as an engineer where his main responsibilities involved the execution of engineering projects of pure water and waste water treatment. In 1994, he joined Malaysian Oxygen Berhad ("**MOX**"), Malaysia as Project Manager of MOX's ultra clean division responsible for customer engineering.

He subsequently left MOX in 1998 and joined Eastern Oxygen Berhad, Malaysia in the same year as the Project Manager for the ultra clean system responsible for ultra clean technology projects execution in Malaysia. In 1999, he joined M+W Zander Pte Ltd, Singapore as a Manager (Process) responsible for gas related facilities and gas system package for wafer fabrication plants.

Throughout his various positions held from his past working experiences and at Kelington, he has acquired expertise in the detailed designing of all gas delivery system (inert and hazardous gases) for *Semiconductor Wafer Fabrication* and *Flat Panel Display* plants, engineering and construction management of large scale and fast track project for gas and chemical related projects, and general management of a business unit and a company. He has been working for Kelington for approximately 21 years. He was mainly responsible for overseeing the overall strategic direction and management functions of Kelington Group and in particular, the Group's new ventures.

- (ii) **Ong Weng Leong**, a Malaysian aged 53 was appointed as the Executive Director and Chief Operating Officer of Kelington on 22 November 2004.

He obtained his Bachelor of Chemical Engineering from Universiti Teknologi Malaysia, Malaysia in 1992 and a Master in Business Administration from University of Bath, United Kingdom in 2002. He is also a fellow member of Malaysian Institute of Management and was elected as a General Council member of the Malaysian Institute of Management since 2015.

In 1992, he joined MOX and was promoted to Production Manager in 1996 before promoted to become the Operations Manager from 1998 to 2000, where his main responsibilities involved managing plant operations located in the central and east coast region. In 2000, he was promoted to National Engineering Manager at MOX until 2004 and subsequently he was promoted to the National Sales Manager (Electronics) at MOX.

Throughout his working experiences at MOX and Kelington, he has acquired expertise in detailed designing of all gas system ranging from gas production plants to the supply stations of customers and engineering construction management of industrial gas related projects. He has been working for Kelington for approximately 17 years and he was mainly responsible for management of the daily functions and operations of Kelington.

- (iii) **Soh Tong Hwa**, a Malaysian aged 68 was appointed as the Non-Independent Non-Executive Director of Kelington on 1 November 2019.

He obtained his mechanical engineering degree from University of Portsmouth, United Kingdom in 1979.

In 1979 until 2003, he joined MOX and held various managerial roles in MOX where his main responsibilities involved managing the bulk and on-site plant business and operation of plants located in Malaysia. Plants include ten units of air separation units (ASU), four units of pressure vacuum swing absorption (PVSA) oxygen generator, eight units of nitrogen (N₂) Generators, three units of hydrogen (H₂) Plant and two units of CO₂ Plant. In 2007, he joined Air Liquide, Indonesia as its Managing Director, mainly responsible for management of the entire business of the group of companies. In 2009, he set up a new subsidiary for Air Liquide in Malaysia and took the position as Managing Director of Air Liquide Malaysia until 2016.

Throughout his working experience, he has acquired in-depth technical knowledge of gas plant operation and management of the bulk and on-site plant business.

As at the LPD, the total number of full-time employees for Kelington Group is approximately 411 employees and the breakdown of the existing full-time employees responsible for supporting the abovementioned key management personnel in the Industrial Gases Business segment is set out below:-

Position/ role	No. of employees
Management	1
Manager	2
Engineer/ Executive	6
Superintendent/ Supervisor/ Leader	7
Bulk driver	9
Business development/ sales	3
Operations Technician	14
Total	42

It is our management's plan to continue the Industrial Gases Business with current workforce. Notwithstanding that, our management will review the operational requirements from time to time, and will recruit additional full-time employees, with sufficient skills and experience, to support the Industrial Gases Business should it expands.

3. RATIONALE AND JUSTIFICATIONS FOR THE PROPOSALS

3.1 Proposed Bonus Issue of Shares

Our Board intends to undertake the Proposed Bonus Issue of Shares to reward the existing shareholders of Kelington in the form of Bonus Shares for their loyalty and continued support as the Proposed Bonus Issue of Shares serves to:-

- (i) increase the number of Shares held by Kelington's shareholders at no cost to be incurred by the shareholders, while maintaining their percentage of equity shareholding held in Kelington;
- (ii) potentially result in an improved trading liquidity of the Shares traded in the market at an affordable Share price i.e. lower trading price, without affecting the size of the market capitalisation of Kelington; and
- (iii) encourage greater participation by investors and to potentially widen the share base and shareholders' profiles of Kelington.

In addition, the implementation of the Proposed Bonus Issue of Shares without capitalisation of Kelington's reserves is not expected to affect Kelington's reserves and the NA of Kelington.

3.2 Proposed Issuance of Free Warrants

Our Board intends to undertake the Proposed Issuance of Free Warrants to reward the existing shareholders of Kelington in the form of Warrants for their loyalty and continued support as the Proposed Issuance of Free Warrants:-

- (i) serves to reward the shareholders for their continuous support by enabling them to participate in a derivative of Kelington without incurring any costs;
- (ii) provides the shareholders an alternative mean to participate and trade in the equity of Kelington;

- (iii) provides the shareholders an opportunity to further increase their equity participation in Kelington by exercising the Warrants at a pre-determined price during the exercise period. The shareholders may also benefit from potential capital gain in the event of Share price appreciation through the exercise of the Warrants; and
- (iv) strengthen the capital base of Kelington, as and when the Warrants are exercised.

For shareholders' information, Kelington has not undertaken any other fund-raising exercise in the past 12 months up to the date of this Circular.

3.3 Proposed Diversification

The expansion of Industrial Gases Business is in accordance with the Group's business and growth strategy to further enhance the operations and financial performance of Industrial Gases Business, which could potentially provide the Group sustainable revenue and income stream moving forward.

As set out in **Section 2.3** of this Circular, the Group's financial contribution was solely attributable to the construction segment, of which the construction and engineering project orders are highly dependent on the capital expenditure activities of its customers. As such, our Board and our management team intend to expand its existing manufacturing and trading segment particularly in its Industrial Gases Business to capture the opportunities within its Industrial Gases Business, which may mitigate the Group's current sole reliance on its construction segment moving forward and enhance the future financial performance of the Group.

In addition, the expansion of Industrial Gases Business will expand the Group's clientele base as the business generally serves a larger pool of customer profiles for instance, food and beverage industry, aviation industry, and construction. This would widen the Group's customer portfolio and reduce the dependency on customers from the semiconductor and electronics industries which are presently the Group's primary revenue contributors. Furthermore, the Industrial Gases Business is expected to derive synergy with the Ultra High Purity (UHP) business, as it allows the Group to offer broader range of specialty gases services, which include on-site gas supply to the existing network of electronic and semiconductor customers.

The anticipated earnings visibility of Kelington Group's Industrial Gases Business is supported by several factors comprising amongst others, the following:-

- (i) Kelington Group's track record in the Industrial Gases Business over the past 3 years from a revenue of RM3.6 million for the audited FYE December 2018 to RM22.1 million for the unaudited FYE December 2020;
- (ii) the experience and expertise of the key management personnel identified by Kelington Group to lead the new Industrial Gases Business as set out in **Section 2.3.1** of this Circular; and
- (iii) the outlook and prospects of the industrial gases industry as set out in **Section 4.2** of this Circular.

Our Board deems the Proposed Diversification as timely for Kelington Group to capture the growing market demand for the product offerings under the Industrial Gases Business. Kelington is seeking the approval from its shareholders for the Proposed Diversification as the expansion of Industrial Gases Business is anticipated to contribute 25% or more of the net profits of the Group and/ or result in a diversion of more than 25% of the NA of the Group towards the aforesaid new business activities moving forward. Notwithstanding the above, upon completion of the Proposed Diversification, the Group's existing business would remain and continue as part of the core business of the Group.

4. INDUSTRY OVERVIEW AND OUTLOOK OF KELINGTON GROUP

4.1 Overview and outlook of the Malaysian economy

The Malaysian economy registered a smaller decline of 0.5% in the first quarter of 2021 (4Q 2020: -3.4%). The growth performance was supported mainly by the improvement in domestic demand and robust exports performance, particularly for E&E products. Growth was also supported by the continued policy measures. The imposition of the Second Movement Control Order ("**MCO**") (MCO 2.0) and the continued closure of international borders and restrictions on inter-state travel, however, weighed on economic activity. Nevertheless, as restrictions were eased in February and March, economic activity gradually picked up. All economic sectors registered an improvement, particularly in the manufacturing sector. On the expenditure side, growth was driven by better private sector spending and strong growth in trade activity. On a quarter-on-quarter seasonally-adjusted basis, the economy registered a growth of 2.7% (4Q 2020: -1.5%).

Despite the recent re-imposition of containment measures, the impact on growth would be less severe than that experienced in 2020, as almost all economic sectors are allowed to operate. Overall, the growth recovery will benefit from better global demand, increased public and private sector expenditure as well as continued policy support. This will also be reflected in the recovery in labour market conditions, especially in the gradual improvement in hiring activity. Higher production from existing and new manufacturing facilities, particularly in the E&E and primary-related subsectors, as well as oil and gas facilities will provide further impetus to growth.

The roll-out of the domestic COVID-19 vaccine programme will also lift sentiments and contribute towards recovery in economic activity. Nevertheless, the pace of recovery will be uneven across economic sectors. The balance of risks remains tilted to the downside, arising mainly from ongoing uncertainties in developments related to the pandemic, and continued challenges that affect the roll-out of vaccines both globally and domestically.

(Source: Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2021, Bank Negara Malaysia)

Overall, the Malaysian economy is forecasted to grow within the range of -3.5% to -5.5% in 2020, before staging a rebound within a growth range of 5.5% to 8.0% in 2021.

(Source: Developments in the Malaysian Economy, Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2020, Bank Negara Malaysia)

The impact of the packages is anticipated to have spill-over effects and provide an additional boost to the economy in 2021. With the anticipated improvement in global growth and international trade, the Malaysian economy is projected to rebound between 6.5% and 7.5% in 2021. Growth will continue to be supported by strong economic fundamentals and a well-diversified economy. However, the favourable outlook hinges on two major factors – the successful containment of the pandemic and sustained recovery in external demand.

Private consumption declined by 6% during the first half of 2020, affected by the implementation of the MCO. However, household spending is anticipated to pick up during the second half of the year, on the back of various stimulus packages aimed at providing support to households and businesses. The measures include a moratorium on loan repayments, temporary optional reduction in employees' contributions to the Employees Provident Fund ("**EPF**") and discounts on electricity bill as well as low interest rates. As a result, private consumption is projected to rebound by 4.2% in the second half, cushioning overall consumption activities, which is expected to record a marginal decrease of 0.7% in 2020.

Private consumption is anticipated to increase by 7.1% in 2021, mainly supported by higher disposable income arising from buoyant domestic economic activities, stronger export earnings, accommodative financial stance, extension of tax relief on childcare and favourable stock market conditions. Better job prospects, following broader improvement in the economy and measures addressing employability, are also expected to contribute to household spending. Furthermore, the expected recovery in the tourism-related industries following tax incentives on domestic tourism expenses for households will also provide additional impetus to private sector spending. As the nation rapidly shifts towards adopting digitalisation, the broader availability of various e-commerce platforms and rollout of 5G technology will facilitate economic activities.

(Source: Chapter 3 Macroeconomic Outlook, Economic Outlook 2021, Ministry of Finance Malaysia)

Overall, Malaysia's GDP growth contracted by 5.6% in 2020 (2019: +4.3%). Meanwhile, inflationary pressures were muted with average headline inflation turning negative for the year at -1.2% (2019: +0.7%) due mainly to the substantially lower global oil prices during the year. However, Malaysia was not experiencing deflation as the decline in prices was neither persistent nor broad-based.

(Source: Annual Report 2020, Bank Negara Malaysia)

Economic growth thus expanded by 4.3% in 2019 (2018: 4.7%), driven by private sector spending.

(Source: Annual Report 2019, Bank Negara Malaysia)

4.2 Overview and outlook of the industrial gases industry in Malaysia

The industry is a key contributor towards Malaysia's Gross domestic product ("**GDP**"), and represents a sizeable segment of the country's manufacturing landscape. According to the Chemical Industries Council of Malaysia, the industry contributed approximately RM33.8 billion to the national GDP in 2019, primarily as a result of its strong linkages to other major manufacturing industries. Companies in the industry operate across a wide range of verticals, including agricultural chemicals, fertilisers, industrial gases, inorganic chemicals, paint, and printing ink.

However, the recent global recession and the Government's response to the COVID-19 pandemic has adversely impacted the industry; primarily due to the MCO, which has imposed restrictions on manufacturers, thereby hindering them from operating at full capacity. In 2020, imports of chemicals and chemical products were reduced by 10 per cent to RM73.5 billion as compared to 2019, while the total exports also declined by 11.8 per cent to RM50.7 billion. The chemicals and chemical products industry was Malaysia's fourth-highest exporting industry, contributing to 5.2 per cent of the nation's total exports, while remaining the second-highest contributor of total Malaysian imports.

The chemicals and chemical products industry still has significant room for growth, development, and improvement given the events of 2020. Future and strategic planning focusing on agility, resilience, and sustainability will allow industry players to maximise returns on investment, even in the face of future shocks. Given that speciality chemicals require complex formulation and customisation, building expertise in understanding the chemical compositions, properties, and applications of various speciality chemicals is crucial, and in Malaysia, there is tremendous opportunity and room for growth in this area.

(Source: Malaysia Investment Performance Report 2020, Malaysian Investment Development Authority)

4.3 Future prospects of Kelington Group

At present, the Industrial Gases Business, specifically the manufacturing of liquid CO₂, is mainly targeting the semiconductor and electronics industry. Moving forward, the Group intends to expand its market segment to include end users such as foods and beverages industries that consume larger amounts of liquid CO₂ for the production of carbonated drinks and frozen food. In conjunction with this expansion plan, the Group had obtained the Food Safety System Certification (FSSC 22000) particularly for food safety/ quality management system certification for its manufacturing, storage and distribution of liquid CO₂ activities for food and beverage industries in October 2020.

As set out in **Section 2.3** of this Circular, the Group has its plan to become a regional player by expanding its market presence to overseas markets, which include amongst others, Singapore and other Asean countries. In conjunction with this expansion plan, the Group has invested approximately RM6 million as at the LPD in transportation equipment for instance skid tanks and tankers, and has deployed sales personnel to tender for contracts at the aforesaid countries. Further, Kelington Group may invest approximately up to RM50 million annually for the Industrial Gases Business, subject to, amongst others, the market demand, new contract(s) to be secured and financial requirement of the Group moving forward.

Kelington Group's current focus for the Industrial Gases Business is on securing long term on-site gas supply contracts that could provide earnings sustainability throughout the tenure of the contract. In this respect, the Group has been continuously engaging in tender activities to secure on-site gas supply projects targeting electronics and manufacturing sectors. Notwithstanding that, the Group may explore other product offerings within the Industrial Gases business, which include, but are not limited to, manufacturing and trading of nitrogen, oxygen, argon, and hydrogen.

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak as global pandemic. Following the declaration, the Government of Malaysia has imposed series of MCO to curb the spread of the COVID-19 pandemic in Malaysia. In 2020, the global COVID-19 pandemic and uncertainties of economy affected Kelington Group's ability to achieve some of the key performance indicators for year 2020. The impacts were mainly on project delivery timeline and the manufacturing operations. However, the impacts were manageable and Kelington Group was quick to rebound from the temporary setbacks as evidenced in the revenue performance in the 2nd quarter of 2020 onwards. The overall growth prospect of the Group remains intact.

In addition, with the introduction of COVID-19 vaccine, Kelington Group does not expect the impact of COVID-19 to persist in the long run. Kelington will continuously monitor the COVID-19 outbreak and take necessary mitigating action, which may include working remotely when feasible to reduce the number of employees working in the workplace as well as health screening of workers and visitors. Kelington Group will continue to strictly adhere to the COVID-19 directives and restrictions as may be imposed by the regulatory authorities from time to time to ensure its operations are not affected.

Premised on the above, the Group expects that the Industrial Gases Business will continue its upward trajectory and is optimistic that it will pave the way to better earnings sustainability for the Group. Notwithstanding the Proposed Diversification, the Group remains committed to its existing engineering and construction business, which has been the major revenue contributor of the Group for the past financial years. Premised on the above and barring any unforeseen circumstances, our Board remains optimistic of the future prospects of Kelington Group.

(Source: Management of Kelington)

5. RISK FACTORS

Our Board anticipates that the Kelington Group may be exposed to the following material risk factors, which may not be exhaustive, pursuant to the Proposed Diversification:-

5.1 Business diversification risks

The Proposed Diversification will expose the Group to risks inherent to the Industrial Gases Business. These risks may include, amongst others, general economic downturn in the global and regional economies, adverse developments in the local economic, civil unrest, changes in demand and oversupply of industrial gases trading services, and changes in the legal and environmental framework within which this business operates. Further, industrial gases trading operations are subject to weather and natural hazards. Adverse weather and natural hazards such as the occurrence of severe storms and other extreme natural conditions may lead to delays or disruptions in Kelington Group's Industrial Gases Business, which may have a material adverse impact on Kelington Group's future revenue, profits and financial position.

Kelington Group will seek to limit these risks through, amongst others, leveraging on the experience and expertise of the key management personnel. In addition, Kelington Group shall conduct periodic reviews of its Industrial Gases Business to ensure that prudent financial management and efficient operating procedures are put in place to limit the impact of the abovementioned risks. However, there is no assurance that any occurrence of the aforementioned events will not have a material adverse effect on Kelington Group's business and earnings in the future.

5.2 Production/ Operation risks

The production of industrial gases is subject to inherent risks and hazards such as, amongst others, fire and explosion at the manufacturing or refilling plants. As most of the industrial gases are transported by land, it is also subject to risks of spillage, discharge of gas, fire or explosion during the transportation of the industrial gases. Such risks, if occurred, may result in higher cost of operations, interruption to the production facilities, or personnel injuries. Losses resulting from the occurrence of any of these incidents could have a materially adverse effect on the Group's business and financial performance.

As a mitigating factor, the Group conducts safety training, ensure diligent supervision and monitoring of the maintenance operations. However, there is no assurance that the Group can completely eliminate any production/ operation risk.

5.3 Occurrence of power failure

Prolonged or frequent power failures at the manufacturing plants will disrupt the operations as electricity is used to operate many of the critical production facilities. This may affect the Group's ability to fulfill the customers' orders on timely basis. Kelington Group has been maintaining stand-by generators at the manufacturing plants to mitigate such risks. However, as the capacity of stand-by generators is inadequate to operate some of other critical production facilities, there is no assurance that any prolonged or frequent power failures will not have a material and adverse effect on the Group's business and financial performance.

5.4 Reliance on short term purchase orders from customers

Kelington Group's supply contracts are generally on short term basis without minimum purchase obligations on the customers. This is due to the fact that the Group's customers are mainly distributors or manufacturers of various kinds of products and thus, the nature of purchase is on purchase order basis. The volume of purchase orders from the customers may vary significantly from period to period, and it is difficult for the Group to forecast future order quantities.

It is Kelington Group's intention to focus on long term gas supply contract, which may grant us earnings sustainability throughout the contract tenure. However, there is no assurance that the Group is able to secure long term gas supply contract in the future.

5.5 Competition risk

Kelington Group will face competition from existing competitors and/ or new entrants in the Industrial Gases Business. Nevertheless, Kelington Group will endeavour to take proactive measures to remain competitive in this business by amongst others, constantly keeping abreast with the latest market conditions, and continuing efforts in maintaining a competitive edge in terms of cost competitiveness, service quality, product quality and service reliability.

However, there can be no assurance that Kelington Group will be able to compete effectively with existing competitors and new entrants in Industrial Gases Business in the future which may materially affect Kelington Group's future financial performance and financial position.

5.6 Dependency on key management personnel

As in any other business, Kelington Group's success in the Proposed Diversification will depend largely on the capabilities, skills, competencies and continued effort of its experienced personnel. Recognising the importance of the key management personnel involved, Kelington Group will adopt appropriate approaches, including incentives, remuneration packages as well as provide a good working environment to promote productivity and retain their services. In addition, Kelington Group will also identify high-performing senior management and/ or employees to take on additional responsibilities and provide appropriate remuneration packages to retain their services in an effort to mitigate Kelington Group's dependency on key management personnel.

However, there is no assurance that the loss of any such key management personnel, high-performing senior management and/ or employees will not adversely affect the success of Kelington Group's Industrial Gases Business.

5.7 The financial and operational impacts on Kelington Group arising from COVID-19 outbreak

The World Health Organisation had on 11 March 2020 declared the COVID-19 outbreak as a global pandemic. As a measure to contain the outbreak, the Government of Malaysia announced MCO which is effective from 18 March 2020. Effective 4 May 2020, the MCO has been transitioned into a conditional MCO ("**CMCO**") until 9 June 2020. As announced on 7 June 2020, the conditional MCO has further been transitioned into a recovery MCO ("**RMCO**") which had commenced with effect from 10 June 2020 until 31 August 2020. Subsequently vide an announcement on 28 August 2020, the RMCO was further extended from 31 August 2020 until 31 December 2020. Under the RMCO, more economic sectors and businesses were allowed to be opened subject to adherence with the necessary strict standard operating procedures ("**SOPs**").

However, following the resurgence of COVID-19 infections in Malaysia, the Government of Malaysia had announced that the CMCO to be re-implemented for the states of Selangor, Kuala Lumpur and Putrajaya from 14 October 2020 to 9 November 2020. Subsequently, the Government of Malaysia had announced on 7 November 2020 that the CMCO would be extended to 6 December 2020 and would include all states in Peninsular Malaysia except for Kelantan, Perlis and Pahang. The Government of Malaysia had also implemented the CMCO in Sabah and Labuan from 13 October 2020 and 17 October 2020, respectively, until 6 December 2020. Currently, Malaysia are still placed under the MCO 3.0 from 12 May 2021 to 7 June 2021, where all economic sectors are allowed to operate but the inter-district and interstate travel as well as social, sports and education activities are not allowed to operate as usual. Nonetheless, Kelington Group has gradually resumed operations whilst observing SOPs since June 2020.

The outbreak of COVID-19 is an event of force majeure that is beyond the control of Kelington Group. The implementation of the MCO had caused disruptions to Kelington Group's manufacturing activities during its duration and the SOPs have increased Kelington Group's operating costs, including, amongst others, costs arising from employee testing, temperature monitoring and increased workplace hygiene policies.

There is no assurance that the COVID-19 outbreak and the on-going MCO will not have continuous adverse impact on the market conditions and/ or the existing manufacturing activities of Kelington Group. Further, no assurance can be given that the COVID-19 outbreak and the on-going MCO will not have any adverse impact on Kelington Group's Proposed Diversification and future Industrial Gases Business. Potential risks arising therefrom may include but not limited to slowdown in customers' demand, loss of customers, credit risk, disruption in supply chain, and continued increased operating costs to comply with the SOPs, any of which may result in an adverse effect on Kelington Group's business and financial conditions.

6. EFFECTS OF THE PROPOSALS

The Proposed Diversification will not have any significant impact on the issued share capital, NA and gearing level as well as the substantial shareholders' shareholdings of Kelington Group as there is no issuance of Kelington Shares involved.

6.1 Issued share capital

The pro forma effects of the Proposed Bonus Issue of Shares and the Proposed Issuance of Free Warrants on the issued share capital of Kelington are set out below:-

	Minimum Scenario		Maximum Scenario	
	No. of Shares	RM	No. of Shares	RM
Issued share capital as at the LPD	322,623,476	73,291,770	322,623,476	73,291,770
No. of Bonus Shares to be issued pursuant to the Proposed Bonus Issue of Shares	322,623,476 ^{*1}	-	322,623,476	- ^{*2}
	645,246,952^{*3}	73,291,770	645,246,952	73,291,770
Less: Treasury shares	(2,239,800)	(534,000)	-	-
	643,007,152	72,757,770	645,246,952	73,291,770
No. of Shares to be issued pursuant to the full exercise of Warrants	214,335,717	213,264,038 ^{*4}	215,082,317	214,006,905 ^{*4}
	857,342,869	286,021,808	860,329,269	287,298,675

Notes:-

^{*1} Including 1,119,900 Bonus Shares, which will be in the form of treasury shares

^{*2} Bonus Shares will be issued as fully paid, at nil consideration and without capitalisation of Kelington's reserves as explained in **Section 2.1.2** of this Circular

^{*3} Including 2,239,800 Shares, which will be in the form of treasury shares

^{*4} Assuming that all Entitled Warrant holders exercise their Warrants at the exercise price of RM0.995 per Warrant

6.2 NA per Share and gearing ratio

Based on the latest audited consolidated statements of financial position of the Group as at latest audited FYE 31 December 2020, the pro forma effects of the Proposed Bonus Issue of Shares and the Proposed Issuance of Free Warrants on the NA per Share and gearing ratio of the Group are set out as follows:-

	Audited as at FYE 31 December 2020	I After the Proposed Bonus Issue of Shares	II (Minimum Scenario) After I and assuming full exercise of the Warrants	II (Maximum Scenario) After I and assuming full exercise of the Warrants
	RM'000	RM'000	RM'000	RM'000
Share capital	73,292	73,292	286,556 ^{*1}	287,299 ^{*1}
Treasury shares	(534)	(534)	(534)	-
Reserve	13,436	13,436	13,436	13,436
Retained earnings	81,825	81,625 ^{**2}	81,625 ^{**2}	81,625 ^{**2}
Shareholders' fund/ NA	168,019	167,819	381,083	382,360
No. of Shares in issue (unit)	322,623,476	645,246,952	857,342,869	860,329,269
NA per Share (RM)	0.52	0.26	0.44	0.44
Total borrowings (RM'000)	55,458	55,458	55,458	55,458
Gearing ratio (times)	0.33	0.33	0.15	0.15

Notes:-

^{*1} Assuming that all Entitled Warranholders exercise their Warrants at the exercise price of RM0.995 per Warrant

^{**2} After deducting the estimated expenses of approximately RM0.20 million in relation to the Proposals

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

6.3 Substantial shareholders' shareholdings

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

The Proposed Issuance of Free Warrants will not have any immediate effect on the shareholdings of the substantial shareholders of Kelington. Assuming all Entitled Warrantheolders exercise their respective Warrants during the exercise period of the Warrants, the number of Kelington Shares held by the substantial shareholders will increase proportionately arising from the exercise of the Warrants into new Kelington Shares.

For illustration purpose, the pro forma effects of the Proposed Bonus Issue of Shares and the Proposed Issuance of Free Warrants on the shareholdings of the substantial shareholders of Kelington are as follows:

Substantial shareholders	Shareholdings as at the LPD				After the Proposed Bonus Issue of Shares			
	<-----Direct----->		<-----Indirect----->		<-----Direct----->		<-----Indirect----->	
	No. of Shares	% ^{*1}	No. of Shares	% ^{*1}	No. of Shares	% ^{*2}	No. of Shares	% ^{*2}
Palace Star Sdn Bhd	67,703,490	21.06	-	-	135,406,980	21.06	-	-
Sun Lead International Limited	19,817,733	6.16	-	-	39,635,466	6.16	-	-
Gan Hung Keng	2,348,166	0.73	67,703,490 ^{*5}	21.06	4,696,332	0.73	135,406,980 ^{*5}	21.06
Ong Weng Leong	2,195,900	0.68	67,703,490 ^{*5}	21.06	4,391,800	0.68	135,406,980 ^{*5}	21.06
Cham Teck Kuang	-	-	67,703,490 ^{*5}	21.06	-	-	135,406,980 ^{*5}	21.06
Hu Keqin	-	-	67,703,490 ^{*5}	21.06	-	-	135,406,980 ^{*5}	21.06
Soh Tong Hwa	737,766	0.23	68,908,889 ^{*6}	21.43	1,475,532	0.23	137,817,778 ^{*6}	21.43
Fortune Dragon Holding Inc	-	-	19,817,733 ^{*7}	6.16	-	-	39,635,466 ^{*7}	6.16
Lien Hwa Industrial Corp	-	-	19,817,733 ^{*7}	6.16	-	-	39,635,466 ^{*7}	6.16
Standard Life Aberdeen Plc	-	-	19,311,400 ^{*8}	6.01	-	-	38,622,800 ^{*8}	6.01
Aberdeen Standard Investments (Malaysia) Sdn Bhd	-	-	18,417,800 ^{*9}	5.73	-	-	36,835,600 ^{*9}	5.73
Aberdeen Asset Management Plc	-	-	19,311,400 ^{*10}	6.01	-	-	38,622,800 ^{*10}	6.01

Substantial shareholders	II (Minimum Scenario)				II (Maximum Scenario)			
	After I and assuming full exercise of the Warrants				After I and assuming full exercise of the Warrants			
	<-----Direct----->		<-----Indirect----->		<-----Direct----->		<-----Indirect----->	
	No. of Shares	% ^{*3}	No. of Shares	% ^{*3}	No. of Shares	% ^{*4}	No. of Shares	% ^{*4}
Palace Star Sdn Bhd	180,542,640	21.06	-	-	180,542,640	20.99	-	-
Sun Lead International Limited	52,847,288	6.16	-	-	52,847,288	6.14	-	-
Gan Hung Keng	6,261,776	0.73	180,542,640 ^{*5}	21.06	6,261,776	0.73	180,542,640 ^{*5}	20.99
Ong Weng Leong	5,855,733	0.68	180,542,640 ^{*5}	21.06	5,855,733	0.68	180,542,640 ^{*5}	20.99
Cham Teck Kuang	-	-	180,542,640 ^{*5}	21.06	-	-	180,542,640 ^{*5}	20.99
Hu Keqin	-	-	180,542,640 ^{*5}	21.06	-	-	180,542,640 ^{*5}	20.99
Soh Tong Hwa	1,967,376	0.23	183,757,037 ^{*6}	21.43	1,967,376	0.23	183,757,037 ^{*6}	21.36
Fortune Dragon Holding Inc	-	-	52,847,288 ^{*7}	6.16	-	-	52,847,288 ^{*7}	6.14
Lien Hwa Industrial Corp	-	-	52,847,288 ^{*7}	6.16	-	-	52,847,288 ^{*7}	6.14
Standard Life Aberdeen Plc	-	-	51,497,066 ^{*8}	6.01	-	-	51,497,066 ^{*8}	5.99
Aberdeen Standard Investments (Malaysia) Sdn Bhd	-	-	49,114,133 ^{*9}	5.73	-	-	49,114,133 ^{*9}	5.71
Aberdeen Asset Management Plc	-	-	51,497,066 ^{*10}	6.01	-	-	51,497,066 ^{*10}	5.99

Notes:-

^{*1} Based on the issued Shares of 321,503,576 (excluding 1,119,900 treasury shares)

^{*2} Based on the enlarged issued Shares of 643,007,152 (excluding 2,239,800 treasury shares)

^{*3} Based on the enlarged issued Shares of 857,342,869 (excluding 2,239,800 treasury shares)

^{*4} Based on the enlarged issued Shares of 860,329,269

^{*5} Deemed interested under Section 8 of the Act by virtue of their direct interests in Palace Star Sdn Bhd

^{*6} Deemed interested under Section 8 of the Act by virtue of his direct interests in Palace Star and Sin Huat Hing Farm Sdn Bhd and deemed interested under Section 59(11)(c) of the Act by virtue of shares held by his spouse and child

^{*7} Deemed interested under Section 8 of the Act by virtue of its direct interests in Sun Lead International Limited

^{*8} Deemed interested by virtue of its shareholding in its subsidiaries pursuant to Section 8(4)(c) of the Act

^{*9} Deemed interested through the Registered Holder which is custodian appointed by one or more funds managed by Aberdeen Standard Investment Sdn Bhd

^{*10} Deemed interested by virtue of its shareholding in its subsidiaries pursuant to Section 8(4)(c) of the Act

6.4 Earnings and EPS

The Proposed Bonus Issue of Shares and the Proposed Issuance of Free Warrants are not expected to have any material effect on the earnings of the Group for the FYE 31 December 2021. However, assuming that the earnings of the Group remain unchanged, the EPS of Kelington will be proportionately diluted as a result of the increase in the number of Kelington Shares in issue pursuant to the Proposed Bonus Issue of Shares, and as and when the Warrants are exercised into new Kelington Shares.

The potential effects of the exercise of the Warrants on the future earnings of the Group and EPS of Kelington will depend upon, amongst others, the number of Warrants exercised at any point in time and the benefits to be accrued to the Group from the utilisation of proceeds raised from the exercise of the Warrants.

The Proposed Diversification is not expected to have any material effect on the earnings of Kelington Group for the FYE 31 December 2021. However, the Proposed Diversification may contribute positively to the future earnings of Kelington Group as and when earnings contribution from the Industrial Gases Business is recognised.

6.5 Convertible securities

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

7. HISTORICAL SHARE PRICES

The monthly highest and lowest market prices of Kelington Shares traded on Bursa Securities for the past 12 months from May 2020 to April 2021 are set out below:-

	High RM	Low RM
2020		
May	1.153	0.986
June	1.055	0.936
July	1.105	0.962
August	1.265	0.996
September	1.294	1.075
October	1.245	1.120
November	1.900	1.070
December	1.860	1.530
2021		
January	2.370	1.580
February	2.700	2.150
March	2.470	1.700
April	2.480	1.970
Last transacted market price of Kelington Shares as at 5 April 2021 (being the latest trading day prior to the announcement on the Proposals)		RM2.140
Last transacted market price on the LPD		RM1.990

(Source: Bloomberg)

8. APPROVALS REQUIRED/ OBTAINED

The Proposals are subject to the following approvals being obtained:-

- (i) Bursa Securities, for the following:-
 - (a) the listing and quotation for up to 322,623,476 Bonus Shares to be issued;
 - (b) the admission of up to 215,082,317 Warrants to the Official List;
 - (c) the listing and quotation for up to 215,082,317 Warrants to be issued; and
 - (d) the listing and quotation for up to 215,082,317 new Shares to be issued arising from the exercise of the Warrants,

on the Main Market of Bursa Securities, the approval of which has been obtained vide its letter dated 25 May 2021 subject to the following conditions:-

- a. Kelington and UOB Kay Hian must fully comply with the relevant provisions under Listing Requirements pertaining to the implementation of the Proposals;
 - b. Kelington and UOB Kay Hian to inform Bursa Securities upon the completion of the Proposals;
 - c. Kelington and UOB Kay Hian to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposals are completed;
 - d. Kelington/ UOB Kay Hian to furnish Bursa Securities with a certified true copy of the resolution passed by the shareholders at the forthcoming general meeting for the Proposed Bonus Issue of Shares prior to the listing and quotation of the Bonus Shares;
 - e. Kelington/ UOB Kay Hian are required to make the relevant announcements pertaining to Paragraphs 6.35(2)(a)&(b) and 6.35(4) of the Listing Requirements in relation to the Proposed Bonus Issue of Shares; and
 - f. Kelington is required to furnish Bursa Securities on a quarterly basis a summary of the total number of Shares listed pursuant to the exercise of Warrants under the Proposed Issuance of Free Warrants as at the end of each quarter.
- (ii) the approval of the shareholders of Kelington at the EGM; and
 - (iii) any other relevant authority, if required.

Save for the completion of the Proposed Bonus Issue of Shares, the Proposed Issuance of Free Warrants is not conditional upon any other proposals undertaken or to be undertaken by Kelington. The Proposed Bonus Issue of Shares is not conditional upon the implementation of the Proposed Issuance of Free Warrants and any other proposals undertaken or to be undertaken by Kelington.

The Proposed Diversification is not conditional upon the Proposed Bonus Issue of Shares and the Proposed Issuance of Free Warrants and vice versa, and any other proposals undertaken or to be undertaken by Kelington.

9. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/ OR PERSONS CONNECTED WITH THEM

None of the Directors, major shareholders and/ or chief executive of Kelington and/ or persons connected with them has any interest, whether direct or indirect, in the Proposals, save for their respective entitlements as shareholders of Kelington under the Proposed Bonus Issue of Shares and the Proposed Issuance of Free Warrants, which are also available to all other shareholders of Kelington.

10. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all required approvals being obtained, our Board expects the Proposals to be completed in the third quarter of 2021.

The tentative timetable in relation to the Proposals are set out below:-

Timeline	Events
15 June 2021	<ul style="list-style-type: none">• Convening of fully virtual EGM• Proposed Diversification takes effect
Mid June 2021	<ul style="list-style-type: none">• Announcement of Bonus Entitlement Date
End June 2021	<ul style="list-style-type: none">• Bonus Entitlement Date• Listing and quotation for the Bonus Shares on the Main Market of Bursa Securities• Announcement of Warrants Entitlement Date
Mid July 2021	<ul style="list-style-type: none">• Warrants Entitlement Date
End July 2021	<ul style="list-style-type: none">• Listing and quotation for the Warrants on the Main Market of Bursa Securities

11. PROPOSALS ANNOUNCED BUT PENDING COMPLETION

Save for the Proposals, which are the subject matters of this Circular, our Board is not aware of any other outstanding proposals, which have been announced but not yet completed as at the LPD.

12. DIRECTORS' STATEMENT AND RECOMMENDATION

Our Board, having considered all aspects of the Proposals, including but are not limited to, the basis, the rationale and the pro forma effects of the Proposals, is of the opinion that the Proposals are in the best interest of Kelington and its shareholders.

Accordingly, our Board recommends that you **vote in favour** for the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM.

13. EGM

The EGM, the notice of which is enclosed in this Circular, which will be conducted fully virtual from the Broadcast Venue at Lot 9-11 Menara Sentral Vista, No. 150, Jalan Sultan Abdul Samad, Brickfields, 50470 Kuala Lumpur on the date and time indicated below or at any adjournment thereof, for the purpose of considering and if thought fit, passing with or without modification, the resolutions to give effect to the Proposals.

Date and time of the EGM	: Tuesday, 15 June 2021 at 12.00 p.m.
Meeting Platform	: Dvote Online website at https://Dvote.my
Modes of Communication	: 1. Typed text in the Online Meeting Platform 2. Submit your questions to ccid@kelington-group.com prior to the EGM date

If you are unable to attend, participate and vote in person at the EGM, you are requested to complete, sign and return the enclosed Form of Proxy in accordance with the instructions contained therein, to be deposited at the office of the Share Registrar at 11th Floor, Menara Symphony, No. 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia if in hard copy or at Khairul.Iqram@boardroomlimited.com if by electronic means not less than forty-eight (48) hours before the time appointed for holding the EGM or any adjournment thereof. The lodging of the Form of Proxy shall not preclude you from participating and voting in person at the forthcoming EGM should you subsequently wish to do so.

14. FURTHER INFORMATION

Shareholders are advised to refer to the appendices set out in this Circular for further information.

Yours faithfully,
For and on behalf of our Board
KELINGTON GROUP BERHAD

IR. GAN HUNG KENG
Executive Chairman/ Chief Executive Officer

APPENDIX I - INDICATIVE SALIENT TERMS OF THE DEED POLL

The indicative salient terms of the Deed Poll are as follows:-

Issue size	Up to 215,082,317 Warrants
Form and constitution	The Warrants which are free will be issued in registered form and will be constituted and executed by the Deed Poll
Tenure	5 years commencing from and inclusive of the date of issue of the Warrants
Exercise period	The Warrants may be exercised at any time during the period commencing on, and inclusive of the date of issuance of the Warrants (" Warrants Issue Date ") and ending at 5.00pm on the market day immediately preceding the 5th anniversary of the Issue Date. Warrants not exercised during the exercise period will thereafter lapse and cease to be valid.
Exercise price	The exercise price of the Warrants shall be determined and fixed by our Board at a later date, after receipt of all relevant approvals but before the Warrants Entitlement Date.
Exercise rights	Each Warrant entitles the holder of the Warrant (" Warrant Holder ") to subscribe for 1 new Kelington Share at the exercise price, at any time during the exercise period subject to the provisions of the Deed Poll.
Expiry date	The market day immediately preceding the 5th anniversary of the Warrants Issue Date or if such date is not a market day, then it shall be the market day immediately preceding the said non-market day.
Mode of exercise	Warrant Holder is required to lodge an exercise form, as set out in the Deed Poll, with Kelington's share registrar, duly completed and signed together with payment of the exercise price for the new Kelington Shares subscribed for by banker's draft or cashier's order in Ringgit Malaysia drawn on a bank operating in Malaysia or by way of internet bank transfer to Kelington's designated account.
Participating rights of the Warrant Holders	Warrant Holders are not entitled to participate in any rights, allotment, dividends and/or other forms of distributions which may be declared, made or paid, where the entitlement date is prior to the date of allotment of the new Kelington Shares arising from the exercise of the Warrants. Warrant Holders are not entitled to any voting rights in any general meeting of Kelington or to participate in any form of distribution and/or offer of securities in Kelington otherwise resolved by the shareholders of Kelington or such Warrant Holder becomes a shareholder of Kelington by exercising his Warrants.
Adjustments in the exercise price and/or number of Warrants	The exercise price and/or number of unexercised Warrants may, from time to time, be adjusted, calculated or determined by our Board in consultation with an approved adviser appointed by Kelington and certified by the auditors of Kelington, in accordance with the provisions of the Deed Poll.
Transferability	The transfer of Warrants shall be subject to and be carried out in accordance with the provisions of the Deed Poll, the provisions of the Securities Industry (Central Depositories) Act 1991 (" SICDA ") and the Rules of Bursa Malaysia Depository Sdn Bhd issued pursuant to the SICDA.
Board lot	For the purpose of trading on Bursa Securities, the Warrants shall be issued as far as possible in board lots of 100 Warrants, each carrying the right to subscribe for 100 new Kelington Shares during the exercise period or shall be issued in such other denominations permitted by Bursa Securities from time to time.

APPENDIX I - INDICATIVE SALIENT TERMS OF THE DEED POLL (CONT'D)

Rights of the Warrant Holder in the event of winding up, liquidation, compromise and/or arrangement	<p>If a resolution is passed for a members' voluntary winding-up of Kelington, 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 Kelington or the amalgamation of Kelington with one or more companies, then:</p> <p>(a) for the purposes of such winding-up, compromise or arrangement (other than a consolidation, amalgamation or merger in which Kelington is the continuing corporation) to which the Warrant Holder (or some other persons designated by them for such purpose by special resolution) shall be a party, the terms of such winding-up, compromise or arrangement shall be binding on all the registered holders of Warrants; and</p> <p>(b) in any other case, every Warrant Holder shall be entitled, upon and subject to the provisions of the Deed Poll, at any time within 6 weeks after the passing of such resolution for a members' voluntary winding up of Kelington or within 6 weeks after the granting of the court order approving the compromise or arrangement, by the irrevocable surrender of his/her Warrants to Kelington, submitting the exercise form duly completed together with payment of the relevant exercise money, to elect to be treated as if he had immediately prior to the commencement of such winding-up, compromise or arrangement (as the case may be), exercised the exercise rights represented by such Warrants to the extent specified in the relevant exercise form and be entitled to receive out of the assets of Kelington which would be available in liquidation if he/she had on such date been the holder of the Kelington Shares to which he/she would have become entitled pursuant to such exercise and the liquidator of Kelington shall give effect to such election accordingly.</p>
Modification of rights of the Warrant Holders	<p>Save for modification which is not materially prejudicial to the interests of the Warrant Holders or to rectify manifest error or to comply with prevailing laws of Malaysia, any alteration or abrogation in respect of the rights of the Warrant Holders requires the approval of the Warrant Holders by special resolution and is subject to the approval of the relevant authorities, if necessary.</p>
Listing status	<p>The Warrants will be listed on the Main Market of Bursa Securities.</p>
Governing law	<p>The laws of Malaysia.</p>

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

APPENDIX II - FURTHER INFORMATION

1. DIRECTORS' RESPONSIBILITY STATEMENT

This Circular has been seen and approved by our Board, and our Directors collectively and individually accept full responsibility for the accuracy of the information contained herein and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading.

2. CONSENT

UOB Kay Hian, being the Principal Adviser for the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

3. DECLARATION OF CONFLICT OF INTERESTS

UOB Kay Hian has given its written confirmation that there is no situation of conflict of interests that exists or is likely to exist in relation to its role as the Principal Adviser to Kelington for the Proposals.

4. MATERIAL LITIGATION, CLAIMS OR ARBITRATION

Save as disclosed below, as at the LPD, Kelington Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and our Board is not aware and has no knowledge of any proceedings pending or threatened against Kelington Group, or of any facts likely to give rise to any proceedings, which might materially or adversely affect Kelington Group's financial position or business:-

- i. legal proceeding between Kelington Group Berhad Taiwan branch ("**Kelington Taiwan**") against Hui Neng Mechanical & Electrical Engineering Co. ("**Hui Neng**");

Name of Parties	Claimant	: Kelington Group Berhad Taiwan branch
	Respondent	: Hui Neng Mechanical & Electrical Engineering Co.

Background	On 18 September 2015, Kelington Taiwan received a Statement of Claim from a subcontractor in Taiwan namely, Hui Neng Mechanical & Electrical Engineering Co. (27518963) for progress claims amounting to New Taiwan Dollar (" NTD ")1,182,924 (equivalent to RM 150,206).
-------------------	--

Hui Neng was appointed by Kelington Taiwan to perform project works for a project in Taiwan on 26 February 2015.

Kelington Taiwan had paid a deposit amounting to NTD36,000,000 (equivalent to RM 4,571,245) upon commencement of the project. However, in carrying out the project works, Hui Neng did not fulfill certain obligations under the contract.

Kelington Taiwan had terminated the contract with Hui Neng and has filed a counter-claim on 17 December 2015 to recover the NTD36,000,000 (equivalent to RM 4,571,245), which was paid as a deposit.

APPENDIX II - FURTHER INFORMATION (CONT'D)

On 29 June 2016, the Judge has decided in favour of Kelington Taiwan and allowed Kelington Taiwan's claim of NTD34,234,442 (equivalent to RM4,279,305) being the net amount after deducting Hui Neng's progress claim of NTD1,765,558, plus all interest thereon since 13 March 2015 until full and final settlement and that all litigation cost shall be borne by Hui Neng.

On 25 July 2016, Hui Neng has submitted an appeal to the High Court Taiwan.

On 14 October 2016, Hui Neng has submitted a written plea to the High Court, Taiwan. On 9 December 2016, Kelington Taiwan answered to the plea submitted by Hui Neng to the High Court Taiwan.

On 19 January 2017, High Court Taiwan decided to call the witnesses to court to give evidence on the next hearing. On 24 February 2017, 7 April 2017, 18 May 2017, 6 July 2017, 25 August 2017, 28 September 2017, 16 November 2017, 21 December 2017, 2 February 2018, 15 March 2018, 22 June 2018, 5 July 2018, 1 August 2018 and 29 August 2018, High Court Taiwan had heard the evidences given by the witnesses and fixed the final hearing on 12 September 2018.

On 12 September 2018, High Court Taiwan has delivered its court decision and ordered that Hui Neng shall pay Kelington Taiwan the sum of NTD29,328,814 (equivalent to RM3,946,129) plus interest of 5% per annum thereon since 10 October 2015.

On 11 January 2021, Kelington Taiwan received a judgement from the Supreme Court of Taiwan which in response to Hui Neng's petition made on 23 October 2018 that the original court judgment made on 12 September 2018 was set aside except for the provisional execution, and the case shall re-submit to the High Court Taiwan in Kaohsiung.

ii.	<p>Date of Suit/Arbitration 22 February 2021</p> <p>Estimate maximum exposure to liabilities Nil (fully impaired in the Company's account)</p> <p>Solicitors'/Directors' opinion of outcome Based on our solicitors review of the case, there is a reasonable chance for Kelington Taiwan to succeed in the case.</p> <p>Status The next hearing was fixed on 5 July 2021. The matters still on going.</p>
<p>Adjudication proceeding between Mutiara (FE) Pte Ltd against Kelington Engineering (S) Pte Ltd ("KESG"), a wholl-owned subsidiary of Kelington;</p>	
Name of Parties	<p>Claimant : Mutiara (FE) Pte Ltd</p> <p>Respondent : Kelington Engineering (S) Pte Ltd</p>
Background	<p>On 2 March 2020, KESG has lodged with Singapore Mediation Centre ("SMC") a response under section 15(1) of the Building and Construction Industry Security of Payment ("SOP") Act ("SOP Act"), to each of the adjudication applications lodged by Mutiara (FE) Pte Ltd ("Mutiara"), a subcontractor engaged by KESG under two separate sub-contracts for a project in Singapore, for a total adjudication claims amounted to Singapore Dollar ("SGD")4,140,325.</p>

APPENDIX II - FURTHER INFORMATION (CONT'D)

KESG had received the following adjudication determination in for both adjudication application no. SOP/AA51 and SOP/AA52 from the SMC:-

1. SOP/AA51

- (i) On 31 March 2020, the adjudicator determined that KESG shall pay Mutiara the sum of SGD1,051,245 (inclusive of GST) within 7 days after the service of the adjudication determination and shall bear 70% of adjudication expenses at SGD27,279.
- (ii) On 1 April 2020, KESG had make payment of SGD1,051,245 to Mutiara.
- (iii) On 3 April 2020, KESG has filed an Adjudication Review Application ("**ARA**") in support of KESG application for an adjudication review of an adjudication determination.

KESG submitted that the Adjudicator had erred in law and on the facts in that he had failed to discharge his independent duty to adjudicate the claim and had:

- a. over-valued the Mutiara's claim for original sub-contract works by SGD86,570;
- b. over-valued the Mutiara's claim for variations by SGD371,231; and
- c. erroneously allowed the Claimant to amend its adjudication application.

2. SOP/AA52

- (i) On 3 April 2020, the adjudicator determined that KESG shall pay Mutiara the sum of SGD1,745,080 (inclusive of GST) within 7 days after the service of the adjudication determination and shall bear 60% of the adjudication expenses at SGD13,617.
- (ii) KESG's solicitor is of the opinion that KESG shall file an ARA as well as seek a consolidation of the claims.

KESG had on 8 May 2020 received the Adjudication Review Determination for Adjudication Review Application SOP/ARA02 in relation to Adjudication Application SOP/AA51, from the SMC. Pursuant to Section 19(4)(a) of the Building and Construction Industry Security of Payment Act, the Adjudicator substitutes the adjudicate amount determined in SOP/AA51 with the review adjudicated amount of SGD969,367.84.

On 13 April 2020, SMC had via its Addendum to the Adjudication Determination revised the adjudicated amount from SGD1,745,079.51 to SGD1,739,893.22.

Subsequently, KESG had on 4 May 2020 filed a Summons to the High Court of the Republic of Singapore and made an application for set aside the Adjudication Determination dated 3 April 2020 and the Addendum to the Adjudication Determination (collectively, "**the AD**") in relation to Adjudication Application SOP/AA52 or the execution or enforcement of the AD be stayed, pending the disposal of the action in an arbitration commenced by the KESG against Mutiara which is currently ongoing.

APPENDIX II - FURTHER INFORMATION (CONT'D)

On 22 July 2020, KESG had lodged an amount of SGD1,739,893.22 in the High Court of the Republic of Singapore, being the funds and securities for unpaid portion of adjudicated amount that KESG is required to pay in consequence of the AD in relation to the SOP/AA52.

In the matter of Adjudication Application No. SOP/AA52/2020 between Mutiara as the Claimant and KESG as the Respondent, KESG had on 19 January 2021 submitted its written submissions pursuant to the directions of the learned Adjudicator given on 14 January 2021.

The Honourable Court had on 5 January 2021 rendered its judgement and ordered that the Remitted Questions to be remitted to the Adjudicator. The court's decision on KESG' as stated in the announcement made on 28 August 2020 are held over pending the Adjudicator Determination of the Remitted Questions.

By way of summary, KESG submits that the Claimant's Adjudication's Application ("**AA**") was lodged prematurely and that the AA is therefore invalid, with the costs to be borne by the Claimant. For avoidance of doubt, the written submissions herein relate only to Package 2 Subcontract.

On 28 January 2021, KESG had received the Adjudicator Determination dated 27 January 2021 for the Remission Application. Based on the timelines in the Building and Construction Industry Security of Payment Act, the Adjudicator determined that the Claimant's adjudication application SOP/AA52/2020 was not lodged prematurely and the Respondent shall bear 100% of the costs of the Remission Application amounting to SGD4,840.68.

Following the Adjudicator's determination that the Claimant's Adjudication Application in SOP/AA52/2020 was not lodged prematurely, a further affidavit was filed by Mutiara on 5 March 2021 presenting evidence of their ongoing business/ projects, its latest available financial information, the Guaranteed Sum of SGD679,070.00 has been paid out to KESG, and there is no other ongoing litigation/arbitration involving Mutiara, apart from the ongoing arbitration.

KESG had on 12 April 2021 received a Court Order dated 5 April 2021 from the High Court of the Republic of Singapore and the Court ordered that:-

1. KESG's application for set aside the AD in relation to Adjudication Application SOP/AA52 is dismissed;
2. KESG's application for an order to stay the enforcement of the AD pending the disposal of the ongoing arbitration proceedings between KESG and Mutiara is dismissed;
3. The sum of SGD1,739,893.22 paid into court by KESG together with any interest accrued thereon, is to be paid out and released to Mutiara; and
4. KESG to pay the costs of SGD25,000 plus reasonable disbursements to Mutiara.

KESG had on 7 April 2021 made a payment amounting to SGD41,709.43 to Mutiara, being payment for the costs plus reasonable disbursements incidental to the Court application.

Date of 5 April 2021
Suit/Arbitration

APPENDIX II - FURTHER INFORMATION (CONT'D)

	Estimate maximum exposure to liabilities	Not applicable.
	Solicitors'/Directors' opinion of outcome	The conclusion of adjudication proceedings are not expected to have a material impact on the earnings per Share and the net assets per Share of Kelington for the FYE 31 December 2021.
	Status	The Security of Payment process was concluded on 5 April 2021.
iii.	Arbitration Proceeding	commenced by Kelington Engineering (S) Pte Ltd, a wholly-owned subsidiary of Kelington, against Mutiara (FE) Pte Ltd;
	Name of Parties	Claimant : Kelington Engineering (S) Pte Ltd Respondent : Mutiara (FE) Pte Ltd
	Background	<p>On 16 March 2020, KESG served a Notice of Arbitration dated 18 March 2020 as the Claimant on Mutiara to refer KESG's claims on back charges and liquidated damages in respect of Mutiara's failure, refused and/or neglected to complete the works timely and with due diligence and/or to carry out its contractual obligations under the sub contracts.</p> <p>The Arbitration proceedings commenced under the Notice of Arbitration filed pursuant to the Arbitration Rules of the Singapore International Arbitration Centre.</p> <p>The arbitration proceeding is commenced against Mutiara to seek, among others, the following relief:-</p> <ol style="list-style-type: none">1. Value of work done (including variations) by Mutiara to be assessed;2. A declaration that Mutiara has breached its obligations under the sub-contracts;3. An award for the sum of SGD6,375,475.00 being the payment that is due and payable by Mutiara to KESG as back charges and liquidated damages and scope deductions incurred to rectify the defects and/or non-compliant works, pursuant to the terms and conditions of the various purchase orders;4. Losses and damages incurred by KESG arising out of Mutiara's breached of sub contracts and/or disputes in relation to the valuation of work done (including variations) by KESG and/or such other losses to be assessed; and5. Interest, costs, and other relief that the arbitrator shall deemed fit. <p>On 16 September 2020, KESG filed a Statement of Claim under the Arbitration Rules of the Singapore International Arbitration Centre and sets out its claims against Mutiara as follows:-</p> <ol style="list-style-type: none">1. Back charges and/or claims in the sum of SGD5,033,066.99 and/or any amounts to be assessed by the Tribunal;2. Liquidated damages in the sum of SGD738,535.88 in respect of the Package 1 Subcontract and liquidated damages in the sum of SGD780,384.80 in respect of the Package 2 Subcontract and/or any amounts to be assessed by the Tribunal;3. Further and/or in the alternative, general damages to be assessed;4. A credit of the sum of SGD373,732.85 that was overpaid in respect of the Package 1 Subcontract and a credit of the sum of SGD693,266.00 that will be overpaid in respect of the Package 2 Subcontract and/or any amounts to be assessed by the Tribunal;5. Costs on an indemnity basis;6. Interest; and7. Such further and other relief as may be deemed appropriate by the Tribunal.

APPENDIX II - FURTHER INFORMATION (CONT'D)

On 3 February 2021, KESG as Claimant had filed a Statement of Reply and Defence to Counterclaim under the Arbitration Rules of the Singapore International Arbitration Centre. The following claims against KESG as stated in the Respondent's Statement of Defence and Counterclaim dated 25 November 2020 was denied:-

1. The sum of SGD5,845,018.31 (excluding GST) being the balance value of work (including variations) done under the terms of the Subcontracts or under general law or on a quantum meruit to be assessed and determined by the Tribunal;
2. Loss and expense to be assessed arising from the prolongation of the Subcontracts;
3. Costs and expenses of SGD195,725.05 (excluding GST) incurred by the Respondent in SOP process;
4. The Guaranteed Sum paid under the Performance Bond (SGD679,070);
5. The additional costs and expenses incurred by the Respondent to procure workers without man-year entitlement under the terms of the Subcontracts or under general law or on a quantum meruit to be assessed and determined by the Tribunal;
6. Financing and/or interest charges as special damages;
7. GST on all amounts to be found due to the Respondent;
8. Costs on an indemnity basis;
9. Interest; and
10. Such further or other relief as this Tribunal may deem fit or appropriate.

In addition, KESG as Claimant has provided particulars of the Respondent's failure, refusal and/or negligence to carry out and/or complete the works satisfactorily, on a timely basis and/or with due diligence, as well as the Claimant's responses to the Respondent's allegations in respect of the Claimant's alleged delay and/or acts of prevention and/or omissions. Accordingly, the Claimant avers that the Respondent has no basis to claim for the claims set out above.

Date of Suit/Arbitration	of 14 April 2021				
Estimate maximum exposure to liabilities	Not applicable except legal cost incurred.				
Solicitors'/Directors' opinion of outcome	<p>Pending outcome of the Arbitrator's decision, it is too preliminary at this stage to ascertain the potential financial gain or loss that could arise from the arbitration. This arbitration does not have any material financial impact on the Company for the time being.</p> <p>Based on our solicitors review of the case, there is a reasonable chance for KESG to succeed in the arbitration.</p>				
Status	The Respondent had on 14 April 2021 provided KESG with further and better particulars in respect of their Defence and Counterclaim. To date, the matter is ongoing.				
iv.	Adjudication proceeding between Kelington Technologies Sdn Bhd, a wholly owned subsidiary of KGB, against JCT Industries Group Sdn Bhd; and				
Name of Parties	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Claimant</td> <td style="width: 50%;">: Kelington Technologies Sdn Bhd</td> </tr> <tr> <td>Respondent</td> <td>: JCT Industries Group Sdn Bhd</td> </tr> </table>	Claimant	: Kelington Technologies Sdn Bhd	Respondent	: JCT Industries Group Sdn Bhd
Claimant	: Kelington Technologies Sdn Bhd				
Respondent	: JCT Industries Group Sdn Bhd				

APPENDIX II - FURTHER INFORMATION (CONT'D)

Background	<p>On 14 August 2020, Kelington Technologies Sdn Bhd (Company No.: 562280-U") ("KTSB"), a wholly-owned subsidiary of Kelington served a Notice of Adjudication to JCT Industries Group Sdn Bhd (Company No. 1215578-P) ("JCT") in accordance with Section 7 and 8 of Construction Industry Payment & Adjudication Act 2012 ("CIPAA") to seek following reliefs or remedies from JCT:-</p> <ol style="list-style-type: none"> 1. Payment Certificates issued and unpaid - RM7,134,518.81; 2. Variation works not certified and unpaid - RM244,800.00; 3. Interest due to late payment - RM417,624.67; 4. Interest on the unpaid amounts from 15 February 2020 to the date full payment is received at the rate of 7.40% per annum; and 5. All costs incurred by KTSB in referring the dispute to adjudication, including but not limited to our claim consultant's cost, the registration and administrative fee of Asian International Arbitration Centre, and the adjudicator's fee. <p>KTSB was appointed by JCT as the Contractor pursuant to a letter of award dated 25 April 2018 ("Contract") to construct the main factory, warehouses, TNB Sub Station and infrastructural work in Kuala Muda, Kedah Darul Aman ("Works"). The Works were completed on 30 August 2019.</p> <p>As JCT had failed to make payment to KTSB, KTSB had on 18 February 2020 served a Payment Claim to JCT in accordance with Section 5 of CIPAA for the sum of RM8,226,943.48 together with interest on the sum from 14 February 2020 to the date full payment is received at the interest rate of 7.4% per annum.</p> <p>On 5 August 2020 and after the service of Payment Response, JCT made a further payment of RM430,000.00. Therefore, the total unpaid amount for the payment certificates issued is now reduced to RM7,134,518.81.</p>
Date of Suit/Arbitration	Not applicable. CIPAA Construction Claim Process commenced on 14 August 2020.
Estimate maximum exposure to liabilities	Nil. Fully impaired as relected in the unaudited financial statements as at 31 December 2020.
Solicitors'/Directors' opinion of outcome	Depending on the outcome of the adjudication, any recovery of the claimed sum will have positive impact on the Company's earnings and net assets for the FYE 31 December 2021.
Status	<p>KTSB had served the Adjudication Claim and the Adjudication Reply on JCT on 8 March 2021 and 30 March 2021 respectively. JCT had also served the Adjudication Response on 23 March 2021.</p> <p>The Adjudicator shall deliver the Adjudication Decision by or before 8 June 2021.</p>

- v. Commencement of arbitration proceeding by JCT Industries Group Sdn Bhd against Kelington Technologies Sdn Bhd, a wholly owned subsidiary of Kelington.

Name of Parties	Claimant	: JCT Industries Group Sdn Bhd
	Respondent	: Kelington Technologies Sdn Bhd

APPENDIX II - FURTHER INFORMATION (CONT'D)

Background	<p>On 30 November 2020, KTSB received a Notice of Arbitration dated 27 November 2020 served on behalf of JCT. The Arbitration proceedings commenced under the Notice of Arbitration filed pursuant to the Arbitration Act 2005 and the PAM Arbitration Rules. The Claimant had alleged that KTSB had failed to complete the Works within the stipulated completion timeframe as stipulated in the Contract and failed, refused and/or neglected to make good of its defects despite demand from the Claimant. The Claimant will be seeking against KTSB in the arbitration for the following reliefs:-</p> <ol style="list-style-type: none">1. Liquidated damages to be ascertained by the tribunal;2. Damages for defects to be ascertained by the tribunal;3. Such other claims as may be raised in due course in the Statement of Claim;4. Interest;5. Costs; and6. Such further and/or other reliefs.
Date of Suit/Arbitration	30 November 2020
Estimate maximum exposure to liabilities	Nil. Fully impaired as reflected in the unaudited financial statements as at 31 December 2020.
Solicitors'/Directors' opinion of outcome	Pending outcome of the Arbitrator's decision, it is too preliminary at this stage to ascertain the potential financial gain or loss that could arise from the arbitration. In view that the arbitration process might take years, this arbitration does not have any material financial impact on the Company for the time being.
Status	KTSB to reply the Notice of Arbitration dated 27 November 2020 and propose appointment of Arbitrator.

5. MATERIAL CONTRACTS

As at the LPD, Kelington Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the 2 years immediately preceding the date of this Circular.

6. MATERIAL COMMITMENTS

As at the LPD, our Board is not aware of any material commitments incurred or known to be incurred by Kelington Group that has not been provided for which, upon becoming enforceable, may have a material impact on Kelington Group's financial results/ position.

7. CONTINGENT LIABILITIES

Save as disclosed below, as at the LPD, our Board is not aware of any contingent liabilities incurred or known to be incurred which, upon becoming enforceable, may have a material impact on Kelington Group's financial results/ position:-

	RM'000
Bank guarantee and insurance bond given to third party as performance bond or warranty bond	27,238

APPENDIX II - FURTHER INFORMATION (CONT'D)

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at our registered office at 10th Floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia during the normal business hours from Monday to Friday (except public holidays) from the date of this Circular up to the time stipulated for the holding of the EGM:-

- (i) Constitution of Kelington;
- (ii) Audited consolidated financial statements of Kelington Group for the past 2 financial years up to the FYE 31 December 2020 and the latest unaudited results for the 3-month financial period ended 31 March 2021;
- (iii) Deed Poll;
- (iv) The letter of consent and declaration of conflict of interests referred to in Sections 2 and 3 above, respectively; and
- (v) Cause papers referred to in Section 4 above.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK
--

KELINGTON GROUP BERHAD
(Registration No.: 199901026486 (501386-P))
(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting ("**EGM**") of Kelington Group Berhad ("**Kelington**" or the "**Company**") will be conducted fully virtual from the Broadcast Venue at Lot 9-11 Menara Sentral Vista, No. 150, Jalan Sultan Abdul Samad, Brickfields, 50470 Kuala Lumpur on Tuesday, 15 June 2021 at 12.00 p.m. or at any adjournment thereof, for the purpose of considering and if thought fit, passing with or without modifications the following resolutions:-

ORDINARY RESOLUTION 1

PROPOSED BONUS ISSUE OF UP TO 322,623,476 NEW ORDINARY SHARES IN KELINGTON ("KELINGTON SHARE(S)" OR "SHARE(S)") ("BONUS SHARE(S)") ON THE BASIS OF 1 BONUS SHARE FOR EVERY 1 EXISTING SHARE HELD ON AN ENTITLEMENT DATE TO BE DETERMINED AND ANNOUNCED LATER BY THE BOARD OF DIRECTORS OF KELINGTON ("BOARD") ("BONUS ENTITLEMENT DATE") ("PROPOSED BONUS ISSUE OF SHARES")

"**THAT** subject to the approvals of all relevant authorities and/ or parties (where applicable), authority be and is hereby given to the Board to issue and allot up to 322,623,476 Bonus Shares to be credited as fully paid up in the share capital of Kelington to the shareholders whose names appear in the Record of Depositors of Kelington as at the close of business on the Bonus Entitlement Date on the basis of 1 Bonus Share for every 1 existing Kelington Share held;

THAT all fractional entitlement, if any, arising from the Proposed Bonus Issue of Shares shall be disregarded and that the Board be and is hereby authorised to deal with any fractional entitlements from the Proposed Bonus Issue of Shares, if any, in such a manner at its absolute discretion as the Board may deem fit and expedient and in the best interest of Kelington;

THAT the Bonus Shares will, upon allotment and issuance, rank equally in all respects with the existing Kelington Shares, save and except that the Bonus Shares will not be entitled to any dividends, rights, allotments and/ or any other forms of distribution that may be declared, made or paid before the Bonus Entitlement Date;

AND THAT the Board be and is hereby authorised to sign and execute all documents, do all acts, deeds and things as may be required to give effect to and to complete the Proposed Bonus Issue of Shares with full power to assent to any conditions, variations, modifications and/ or amendments in any manner as may be required or permitted by any relevant authorities and to deal with all matters relating thereto and to take all such steps and do all acts, deeds and things for and on behalf of Kelington in any manner as they may deem fit or necessary or expedient to implement, finalise and give full effect to the Proposed Bonus Issue of Shares."

ORDINARY RESOLUTION 2

PROPOSED ISSUANCE OF UP TO 215,082,317 FREE WARRANTS IN KELINGTON ("WARRANT(S)") ON THE BASIS OF 1 WARRANT FOR EVERY 3 SHARES HELD ON AN ENTITLEMENT DATE, WHICH WILL BE AFTER THE BONUS ENTITLEMENT DATE, TO BE DETERMINED AND ANNOUNCED LATER BY THE BOARD ("WARRANTS ENTITLEMENT DATE") ("PROPOSED ISSUANCE OF FREE WARRANTS")

"**THAT** subject to the passing of Ordinary Resolution 1 and the approvals of all relevant authorities and/ or parties (where applicable), authority be and is hereby given to the Board to issue and allot up to 215,082,317 Warrants (at an exercise price to be determined at a later date) in the share capital of Kelington credited to the shareholders whose names appear in the Record of Depositors of Kelington as at the close of business on the Warrants Entitlement Date on the basis of 1 Warrant for every 3 Kelington Shares held;

THAT the Board be and is hereby authorised to enter into and execute a deed poll constituting the Warrants ("**Deed Poll**") with full powers to assent to any condition, modification, variation and/ or amendment in any manner as may be required or imposed by the relevant authorities or as the Board may deem necessary or expedient in the best interest of Kelington, and with full powers for the Board to implement, finalise and give full effect to the Deed Poll;

THAT the Board be and is hereby authorised to issue and allot such appropriate number of Warrants in accordance with the provisions of the Deed Poll and where required, to adjust the exercise price and/ or the number of Warrants to be issued (including, without limitation, any additional Warrants as may be required or permitted to be issued) in consequence of the adjustments pursuant to the provisions of the Deed Poll;

THAT the Board be and is hereby authorised to issue and allot such appropriate number of new Shares pursuant to the exercise of the Warrants by the holders of the Warrants in accordance with the provisions of the Deed Poll, including such appropriate number of new Shares arising from the exercise of subscription rights represented by the additional Warrants;

THAT all fractional entitlement, if any, arising from the Proposed Issuance of Free Warrants shall be disregarded and that the Board be and is hereby authorised to deal with any fractional entitlements from the Proposed Issuance of Free Warrants, if any, in such a manner at its absolute discretion as the Board may deem fit and expedient and in the best interest of Kelington;

THAT the new Kelington Shares to be issued pursuant to the exercise of the Warrants will, upon allotment and issuance, rank equally in all respects with the existing Kelington Shares, save and except that the new Kelington Shares to be issued arising from the exercise of the Warrants will not be entitled to any dividends, rights, allotments and/ or any other forms of distribution that may be declared, made or paid prior to the exercise of Warrants;

THAT the Board be and is hereby authorised to use the proceeds to be raised from the exercise of the Warrants for such purposes and in such manner as set out in Section 2.2.5 of the circular to shareholders of Kelington dated 31 May 2021 ("**Circular**"), and the Board be authorised with full powers to vary the manner and/ or purpose of the use of such proceeds in such manner as the Board may deem fit, necessary and/ or expedient, subject to the approval of the relevant authorities (where required) and in the best interest of Kelington;

AND THAT the Board be and is hereby authorised to sign and execute all documents, do all acts, deeds and things as may be required to give effect to and to complete the Proposed Issuance of Free Warrants with full power to assent to any conditions, variations, modifications and/ or amendments in any manner as may be required or permitted by any relevant authorities and to deal with all matters relating thereto and to take all such steps and do all acts, deeds and things for and on behalf of Kelington in any manner as they may deem fit or necessary or expedient to implement, finalise and give full effect to the Proposed Issuance of Free Warrants."

ORDINARY RESOLUTION 3

PROPOSED DIVERSIFICATION OF THE EXISTING PRINCIPAL ACTIVITIES OF KELINGTON AND ITS SUBSIDIARIES ("KELINGTON GROUP" OR THE "GROUP") TO INCLUDE MANUFACTURING, DISTRIBUTION AND TRADING OF INDUSTRIAL AND SPECIALTY GASES ("INDUSTRIAL GASES BUSINESS") ("PROPOSED DIVERSIFICATION")

"**THAT**, subject to the approvals of the relevant authorities and/ or parties being obtained, approval be and is hereby given to Kelington Group to diversify its existing principal activities to include Industrial Gases Business as described in the Circular;

AND THAT the Directors of Kelington be and are hereby authorised to take all steps as are necessary or expedient to implement or to give effect to the Proposed Diversification with full powers to amend and/ or assent to any conditions, modifications, variations or amendments (if any) as may be imposed by the relevant governmental/ regulatory authorities from time to time and with full power to do all such acts and things thereafter in accordance with the Companies Act 2016, the provisions of Kelington's Constitution and the requirements of Bursa Malaysia Securities Berhad and all other relevant governmental/ regulatory authorities."

By Order of the Board

LIM LEE KUAN (SSM PC No. 202008001079 & MAICSA 7017753)
TEO MEE HUI (SSM PC No. 202008001081 & MAICSA 7050642)
Company Secretaries

Kuala Lumpur
31 May 2021

Notes:

1. *The EGM will be conducted fully virtual through live streaming and online remote voting via the Remote Participation and Voting ("RPV") facilities to be provided by Dvote Services Sdn Bhd via its Dvote Online website at <https://Dvote.my>. Please follow the procedures provided in the Administrative Details for the EGM in order to register, participate and vote remotely via the RPV facilities.*
2. *The broadcast venue is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 and Clause 59 of the Company's Constitution which require the Chairman of the EGM to be present at the main venue of the EGM. Members/proxies will not be allowed to be physically present at the Broadcast Venue.*
3. *A member may appoint up to two (2) proxies to attend, participate, speak and vote at the EGM. If a member appoints more than one (1) proxy, he shall specify the proportions of his holdings to be represented by each proxy, failing which the appointment shall be valid. A proxy may, but need not, be a member of Kelington and there shall be no restriction as to the qualification of the proxy.*
4. *The instrument appointing a proxy shall be in writing, under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.*
5. *Where a member of Kelington is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA"), it may appoint not more than two (2) proxies in respect of each securities account it holds in ordinary shares of Kelington standing to the credit of the said securities account.*
6. *Where a member of Kelington is an exempt authorised nominee which holds ordinary shares in Kelington for multiple beneficial owners in one (1) securities account ("Omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of the SICDA.*
7. *The appointment of proxy may be made in hard copy or in electronic form. The instrument appointing a proxy must be submitted in the following manners, at least forty-eight (48) hours before the time for holding the EGM or any adjournment thereof:-*
 - (i) *In hard copy form*
To be deposited at Kelington's Share Registrar's office at 11th Floor, Menara Symphony, No. 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor Darul Ehsan; or
 - (ii) *By electronic means*
To be sent via e-mail to Khairul.Iqram@boardroomlimited.com
8. *For the purpose of determining who shall be entitled to attend this EGM, Kelington shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to Kelington pursuant to Clause 62 of the Constitution of Kelington, a Record of Depositors as at 8 June 2021 and only a Depositor whose name appear on such Record of Depositors shall be entitled to attend this EGM.*



KELINGTON GROUP BERHAD
(Registration No.: 199901026486 (501386-P))
(Incorporated in Malaysia)

FORM OF PROXY

No. of Shares Held	CDS Account No.

*I/We
 *NRIC No./Passport No./Company No..... of
 being a Member(s) of **KELINGTON GROUP BERHAD** (Registration No. 199901026486 (501386-P)), hereby appoint

Name	Address	NRIC/ Passport No.	Proportion of Shareholdings (%)
*And/or (delete as appropriate)			

or failing him/her, #THE CHAIRMAN OF THE EXTRAORDINARY GENERAL MEETING ("EGM") of Kelington Group Berhad as *my/our proxy to vote for *me/us on *my/our behalf at the EGM to be conducted fully virtual from the Broadcast Venue at Lot 9-11 Menara Sentral Vista, No. 150, Jalan Sultan Abdul Samad, Brickfields, 50470 Kuala Lumpur on Tuesday, 15 June 2021 at 12.00 p.m. or at any adjournment thereof and to vote as indicated below:-

Ordinary Resolutions	For	Against
1. PROPOSED BONUS ISSUE OF SHARES		
2. PROPOSED ISSUANCE OF FREE WARRANTS		
3. PROPOSED DIVERSIFICATION		

Mark either box if you wish to direct the proxy how to vote. If no mark is made the proxy may vote on the resolution or abstain from voting as the proxy thinks fit. If you appoint two proxies and wish them to vote differently this should be specified.

If you wish to appoint other person(s) to be your proxy/proxies, kindly delete the words "The Chairman of the EGM" and insert the name(s) of the person(s) desired.

* Delete if not applicable.

Signed this.....day of.....2021

.....
Signature / Common Seal of Shareholder

Notes:

- The EGM will be conducted fully virtual through live streaming and online remote voting via the Remote Participation and Voting ("RPV") facilities to be provided by Dvote Services Sdn Bhd via its Dvote Online website at <https://Dvote.my>. Please follow the procedures provided in the Administrative Details for the EGM in order to register, participate and vote remotely via the RPV facilities.
- The broadcast venue is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 and Clause 59 of the Company's Constitution which require the Chairman of the EGM to be present at the main venue of the EGM. Members/proxies will not be allowed to be physically present at the Broadcast Venue.
- A member may appoint up to two (2) proxies to attend, participate, speak and vote at the EGM. If a member appoints more than one (1) proxy, he shall specify the proportions of his holdings to be represented by each proxy, failing which the appointment shall be valid. A proxy may, but need not, be a member of Kelington and there shall be no restriction as to the qualification of the proxy.
- The instrument appointing a proxy shall be in writing, under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.
- Where a member of Kelington is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA"), it may appoint not more than two (2) proxies in respect of each securities account it holds in ordinary shares of Kelington standing to the credit of the said securities account.
- Where a member of Kelington is an exempt authorised nominee which holds ordinary shares in Kelington for multiple beneficial owners in one (1) securities account ("Omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of the SICDA.
- The appointment of proxy may be made in hard copy or in electronic form. The instrument appointing a proxy must be submitted in the following manners, at least forty-eight (48) hours before the time for holding the EGM or any adjournment thereof:-
 - In hard copy form
To be deposited at Kelington's Share Registrar's office at 11th Floor, Menara Symphony, No. 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor Darul Ehsan; or
 - By electronic means
To be sent via e-mail to Khairul.Iqram@boardroomlimited.com
- For the purpose of determining who shall be entitled to attend this EGM, Kelington shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to Kelington pursuant to Clause 62 of the Constitution of Kelington, a Record of Depositors as at 8 June 2021 and only a Depositor whose name appear on such Record of Depositors shall be entitled to attend this EGM.



Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Share Registrar
Boardroom Share Registrars Sdn Bhd
11th Floor, Menara Symphony
No. 5, Jalan Prof. Khoo Kay Kim
Seksyen 13, 46200 Petaling Jaya, Selangor

1st fold here
