

## **TECHNODEX BHD (“TDEX” OR THE “COMPANY”)**

### **PROPOSED PLACEMENT OF UP TO 30% OF THE TOTAL NUMBER OF ISSUED SHARES OF TDEX (“PROPOSED PLACEMENT”)**

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#### **1. INTRODUCTION**

On behalf of the Board of Directors of TDEX (“**Board**”), Mercury Securities Sdn Bhd (“**Mercury Securities**”) wishes to announce that the Company proposes to undertake the Proposed Placement.

#### **2. DETAILS OF THE PROPOSED PLACEMENT**

##### **2.1 Size of the Proposed Placement**

As at 3 October 2019, being the latest practicable date prior to this announcement (“**LPD**”), the Company has an issued share capital of RM40,862,819.43 comprising 590,421,123 ordinary shares in TDEX (“**Shares**”).

Based on the above, the Proposed Placement entails the issuance of up to 177,126,300 new Shares (“**Placement Shares**”), representing up to 30% of the total number of issued Shares of the Company.

##### **2.2 Pricing of the Placement Shares**

The Board will determine and announce the issue price of the Placement Shares (“**Issue Price**”) at a later date (“**Price Fixing Date**”) after receipt of all relevant approvals for the Proposed Placement. The Issue Price is proposed to be priced at up to 20% discount to the weighted average market price (“**WAMP**”) of the Shares for the 5 market days immediately before the Price Fixing Date.

The maximum discount of 20% will allow flexibility for the Board to accommodate fluctuations in market conditions when implementing the Proposed Placement.

For illustrative purposes, based on the 5-day WAMP of the Shares up to and including the LPD of RM0.05 (*Source: Bloomberg*), the indicative Issue Price will be RM0.04 per Placement Share, representing a discount of 20% to the 5-day WAMP of the Shares.

##### **2.3 Ranking of the Placement Shares**

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

##### **2.4 Listing of and Quotation for the Placement Shares**

An application will be made to Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the listing of and quotation for the Placement Shares on the ACE Market of Bursa Securities.

## 2.5 Placement Arrangement

The Placement Shares shall be placed to 3<sup>rd</sup> party investor(s) to be identified at a later date who falls under Schedules 6 and/or 7 of the Capital Markets and Services Act 2007. Unless TDEX's shareholders approve the specific allotment to be made to such person in a general meeting, the Placement Shares will not be placed out to the following parties:

- (i) a director, major shareholder or chief executive of TDEX or a holding company of TDEX ("Interested Person");
- (ii) a person connected with the Interested Person; and
- (iii) nominee corporations, unless the name of the ultimate beneficiaries is disclosed.

Subject to the prevailing market conditions and timing of identification of placee(s), the Proposed Placement may be implemented in one or more tranches within 6 months from the date of approval from Bursa Securities for the Proposed Placement or any extended period as may be approved by Bursa Securities.

## 2.6 Utilisation of Proceeds

For illustrative purposes, the Proposed Placement is expected to raise gross proceeds of up to RM7.1 million based on the indicative Issue Price of RM0.04 per Placement Share, which are intended to be utilised in the manner set out below:

Purposes	Notes	RM'million	Estimated timeframe for utilisation of proceeds (from date of listing of the Placement Shares)
Information technology ("IT") contracts and/or orders	(i)	5.2	Within 18 months
Business expansion	(ii)	1.5	Within 18 months
Estimated expenses	(iii)	0.4	Within 1 months
<b>Total</b>		<b>7.1</b>	

Notes:

- (i) *The Company and its subsidiaries (collectively, the "Group") are principally involved in IT sector and generate their revenue from several sources including:*
  - (a) *securing IT contracts for the provision of computer hardware leasing service, development of software application and supply of computer hardware from government agencies and the private sector; and*
  - (b) *securing orders for the supply of computer and point of sales hardware as well as related accessories and peripherals such as barcode scanners, printers, cash drawers, receipt printers, touchable screens, service calling buttons and keyboards from resellers.*

*As at 30 September 2019, the Group has tendered 24 IT contracts for the provision of computer hardware leasing service, development of software application and supply of computer hardware totalling approximately RM226.7 million. As at the LPD, the Group has secured 2 of these IT contracts amounting to approximately RM18.7 million, while the remaining tenders are still pending evaluation by the respective contract awarders. In addition, the Group has also secured an order to supply computer and point of sales hardware of up to RM24.0 million. Please refer to Section 3 of this announcement for further details of the IT contracts and order secured by the Group.*

*In order to facilitate the delivery of the secured and/or potential IT contracts/orders as well as to tender for other IT contracts, the Group intends to utilise up to approximately RM5.2 million of the proceeds to fund amongst others, the performance bonds required for the IT contracts, purchase of inventories, insurance, IT contracts mobilisation cost and staff cost for the implementation of the IT contracts as well as expenses to be incurred to tender for future IT contracts. The detailed breakdown of the abovementioned utilisation of proceeds cannot be determined at this juncture as the actual utilisation is subject to the contract awarders' requirements, value and financing obtained for each contract and/or order as well as the number of tenders to be participated by the Group.*

- (ii) *The Group also plans to grow its IT businesses by increasing its marketing activities and expanding its presence in the South East Asia region. Pursuant thereto, the Group intends to utilise approximately RM1.5 million for its business expansion as follows:*

	<i>RM' million</i>
<i>Regional expansion<sup>(a)</sup></i>	<i>0.6</i>
<i>Sales and marketing expenses<sup>(b)</sup></i>	<i>0.9</i>
<b><i>Total</i></b>	<b><i>1.5</i></b>

*Notes:*

- (a) *The Group currently operates its IT businesses from Malaysia and intends to set up regional office(s) and/or collaborate with business partner(s) in the other countries in the South East Asia region as part of its business expansion plan. The regional office(s) and/or collaboration with business partner(s) in the South East Asia region is expected to capture the demand for computer and point of sales hardware in the region and enable the Group to better serve its existing customers as well as secure new customers in the region. The regional expansion cost includes, amongst others, purchase of office equipment, rental, renovation works, mechanical and electrical works as well as staff cost. Please refer to Section 3 of this announcement for further details of the Group's business expansion plan.*
- (b) *Comprise, amongst others, sales and marketing staff cost, costs of participating in exhibitions and organising product briefing events as well as digital marketing via social media to increase awareness on the products/services that the Group is distributing/offering in order to boost the Group's sales.*

*Any variation in the actual utilisation for the sales and marketing expenses will be adjusted accordingly to/from the proceeds allocated for regional expansion.*

- (iii) *Includes professional fees, placement fees, fees payable to authorities and other miscellaneous expenses in relation to the Proposed Placement. Any excess or shortfall in the actual amount utilised for estimated expenses will be adjusted to/from the proceeds allocated for the Group's IT contracts/orders.*

The actual proceeds to be raised from the Proposed Placement are dependent on the Issue Price and number of Placement Shares successfully placed out to 3<sup>rd</sup> party investor(s). Any excess or shortfall in the actual gross proceeds raised from the above amount would be reallocated to/from the amount earmarked for the Group's IT contracts/orders.

Prior to utilisation for the above purposes, the proceeds from the Proposed Placement will be placed in interest-bearing deposits with financial institutions as the Board in its absolute discretion deems fit and in the best interest of the Group. The interest income derived from such short-term placements will be used for the Group's IT contracts/orders.

### 3. RATIONALE FOR THE PROPOSED PLACEMENT

Presently, the Group is principally involved in the IT sector and provides the following IT solutions and services:

- (i) application support, services and hardware, comprising:
  - (a) information, communication and technology (“**ICT**”) professional services;
  - (b) data solutions and services;
  - (c) cyber security solutions and services;
  - (d) IT hardware, support and managed maintenance services:
    - (aa) trading of computer and point of sales hardware;
    - (bb) support and managed maintenance services; and
  - (e) smart community management system;
- (ii) IT manpower outsourcing and recruitment services; and
- (iii) e-commerce and specified application services, comprising:
  - (a) property data sales and consulting services, which provide value added services and property information to the financial, real estate and consumer industries;
  - (b) SurfsTek GlobalLinQ System, which hosts hotel distribution database and provides reservation management solutions; and
  - (c) SurfsTek rSupport Intelligent Solution, a cloud based remote support solutions based on internet of things (IOT) architecture.

The Group has been incurring losses for the financial year ended (“**FYE**”) 30 April 2018 and the 14-month financial period ended (“**FPE**”) 30 June 2019. The summary of the Group’s historical financial performance are set out and discussed in Appendix 1 of this announcement.

To improve its financial performance, the Group has been tendering for more IT contracts for the provision of computer hardware leasing service, development of software application and supply of computer hardware as well as securing more orders for the supply of computer and point of sales hardware. As at 30 September 2019, the Company has *via* its subsidiaries, including SurfsTek Resources (R&D) Sdn Bhd (“**SurfsTek R&D**”), tendered for 24 IT contracts totalling approximately RM226.7 million. As at the LPD, the Group successfully secured 2 of the IT contracts, of which the details are as follows:

No.	Contracts	Contract Duration	Total Contract Value
			RM'000
1.	Provision of computer hardware leasing services	1 Oct 2019 to 30 Sep 2022	5,768
2.	Provision of computer hardware leasing services	1 Apr 2019 to 30 Sep 2022	12,968
			<b>18,736</b>

In addition, the Group has also secured an order to supply computer and point of sales hardware of up to RM24.0 million for a duration of 12 months from 5 July 2019 to 4 July 2020.

Further, the Group has been appointed by 5 international principals to distribute their computer and point of sales hardware as well as related accessories and peripherals within the South East Asia region that is, Malaysia, Thailand, Singapore, Philippines, Vietnam, Indonesia and/or Cambodia. In view of the regional distributorships, the Group is also in discussion with other prospective principals to secure additional distributorships to expand its product range to its customers. The Group plans to expand its presence by setting up regional office(s) and/or collaborate with business partner(s) in the other countries in the South East Asia region to capture the demand for computer and point of sales hardware in the region and enable the Group to better serve its existing customers and secure new customers in the region.

In view of the above, the Board proposes to undertake the Proposed Placement to raise the required funds for the purposes as detailed in Section 2.6 of this announcement.

The Board has also considered the following aspects in relation to the Proposed Placement:

**(i) Value creation of the Proposed Placement to TDEX and its shareholders**

The utilisation of proceeds from the Proposed Placement is expected to enhance the Group's financial performance and thereby its value, when the Group fulfils the IT contracts/orders and realised the benefits therefrom. The IT contracts/orders are also expected to generate recurring income from after sales services that is, support and maintenance services) provided by the Group.

Part of the proceeds earmarked for business expansion that is, regional expansion and marketing activities is also expected to increase the Group's sales and thus, improve its financial performance.

In addition, the Proposed Placement will strengthen the Company's capital base, which was gradually depleted from financial losses incurred in the past.

**(ii) Impact of the Proposed Placement on TDEX and its shareholders**

The Company's shareholders' shareholdings will be diluted proportionately to the actual number of Placement Shares to be issued pursuant to the Proposed Placement.

Based on the indicative Issue Price of RM0.04 per Placement Share as set out in Section 2.2 of this announcement, the Proposed Placement is expected to lower the Group's net assets ("NA") per Share from RM0.08 to RM0.07 as the Issue Price is lower than its audited NA per Share of RM0.08 as at 31 December 2018. Further details of the pro forma effects of the Proposed Placement are set out in Section 4 of this announcement.

Notwithstanding the above, the enlarged capital base *via* the issuance of the Placement Shares is expected to strengthen the Group's financial position while the benefits from the utilisation of proceeds from the Proposed Placement are expected to improve the Group's future financial performance. In addition, the increase in the number of Shares in issue may also improve the trading liquidity of the Shares.

**(iii) Steps and actions taken/will be taken to improve the Group's financial condition**

The Company had increased its equity interests in 2 profitable subsidiaries, namely Idealseed Resources Sdn Bhd ("Idealseed") and SurfsTek R&D in December 2017. These acquisitions have increased the Group's control in Idealseed and SurfsTek R&D and further consolidate the Group's earnings as they had become subsidiaries of TDEX.

In addition, the Company has also taken the initiatives as stated in Section 3 of this announcement, *via* SurfTek R&D and other subsidiaries to improve its financial performance.

**(iv) Adequacy of the Proposed Placement in addressing the Company's financial concerns**

The Proposed Placement is expected to raise gross proceeds of up to RM7.1 million which will mainly be utilised for the purposes as detailed in Section 2.6 of this announcement. Premised on the above and the efforts to improve the financial performance of the Group, the Board is of the view that the Proposed Placement is currently adequate to address the immediate financial concerns of the Group.

After due consideration of various fundraising options including rights issue and bank borrowings, the Board is of the view that the Proposed Placement is the most appropriate avenue of raising funds based on the following:

- (i) it allows TDEX to raise funds in cost effective and expeditious manner;
- (ii) it provides an avenue for TDEX to raise funds without having to incur interest cost as compared to bank borrowings or other interest-bearing debt instruments; and
- (iii) upon completion of the Proposed Placement, TDEX's enlarged capital base is expected to strengthen its financial position and widen its shareholders' base.

**4. EFFECTS OF THE PROPOSED PLACEMENT**

**4.1 Share Capital**

The pro forma effects of the Proposed Placement on the Company's issued share capital are as follows:

	<b>No. of Shares</b>	<b>RM</b>
Issued share capital as at the LPD	590,421,123	40,862,820
To be issued pursuant to the Proposed Placement <sup>(1)</sup>	177,126,300	7,085,052
<b>Enlarged issued share capital</b>	<b>767,547,423</b>	<b>47,947,872</b>

*Note:*

- (1) Assuming 177,126,300 Placement Shares are issued at the indicative Issue Price of RM0.04 per Placement Share.

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## 4.2 NA and Gearing

Based on the audited consolidated financial statements of TDEX as at 30 April 2018, the pro forma effects of the Proposed Placement on the NA per Share and gearing of the Group, assuming the Proposed Placement had been effected as at 30 April 2018, are as follows:

	<b>Audited as at 30 April 2018</b>	<b>(<sup>(1)</sup>After subsequent events</b>	<b>After the Proposed Placement</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Share capital	65,702	40,863	<sup>(2)</sup> 47,948
Accumulated losses	(24,671)	5,329	<sup>(3)</sup> 4,829
Shareholders' funds/NA	<u>41,031</u>	<u>46,192</u>	<u>52,777</u>
No. of Shares in issue ('000)	543,505	590,421	767,547
<b>NA per Share (RM)</b>	<b>0.08</b>	<b>0.08</b>	<b>0.07</b>
Total borrowings	3,657	3,657	3,657
<b>Gearing (times)</b>	<b>0.09</b>	<b>0.08</b>	<b>0.07</b>

Notes:

(1) After adjusted for the following:

- (a) issuance of 46,915,833 new Shares arising from the exercise of warrants at the exercise price of RM0.11. For information purpose, the warrants have expired on 21 September 2018; and
- (b) share capital reduction of RM30.0 million pursuant to Section 116 of the Companies Act 2016, which was duly completed on 18 February 2019.

(2) Assuming 177,126,300 Placement Shares are issued at the indicative Issue Price of RM0.04 per Placement Share.

(3) After deducting estimated expenses of approximately RM0.4 million in relation to the Proposed Placement.

## 4.3 Substantial Shareholders' Shareholdings

The pro forma effects of the Proposed Placement on the Company's substantial shareholders' shareholdings as at the LPD are as follows:

Substantial shareholders	As at the LPD				After the Proposed Placement			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
SurfTek Resources (M) Sdn Bhd	67,275,000	11.4	-	-	67,275,000	8.8	-	-
ACE Credit (M) Sdn Bhd	57,741,700	9.8	-	-	57,741,700	7.5	-	-
Tan Boon Wooi	33,065,000	5.6	-	-	33,065,000	4.3	-	-
Kerk Han Meng	31,731,086	5.4	-	-	31,731,086	4.1	-	-

#### **4.4 Earnings and Earnings per Share (“EPS”)**

The Placement Shares to be issued pursuant to the Proposed Placement will result in a dilution in the Group’s EPS due to the increase in the number of Shares in issue upon completion of the Proposed Placement.

Nevertheless, the Board expects the Proposed Placement will contribute positively to the future earnings of the Group when the benefits from the utilisation of proceeds are realised.

#### **4.5 Convertibles Securities**

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

### **5. APPROVALS REQUIRED**

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

- (i) Bursa Securities for the listing of and quotation for the Placement Shares on the ACE Market of Bursa Securities;
- (ii) TDEX’s shareholder at the extraordinary general meeting to be convened; and
- (iii) any other relevant authorities, if required.

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

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

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

### **7. DIRECTORS’ STATEMENT**

The Board, having considered all aspects of the Proposed Placement, including the rationale and effects of the Proposed Placement, is of the opinion that the Proposed Placement is in the best interest of the Company.

### **8. ESTIMATED TIMEFRAME FOR COMPLETION**

Barring any unforeseen circumstances, the application to the relevant authorities in relation to the Proposed Placement will be submitted within 2 months from the date of this announcement.

Subject to the relevant approvals being obtained, the Proposed Placement is expected to be completed by the 4<sup>th</sup> quarter of 2019.

### **9. ADVISER AND PLACEMENT AGENT**

Mercury Securities has been appointed as the Adviser and Placement Agent for the Proposed Placement.

This announcement is dated 4 October 2019.

## APPENDIX 1 – HISTORICAL FINANCIAL PERFORMANCE

The Group's historical financial performance for the FYE 30 April 2017, 30 April 2018 and the 14-month FPE 30 June 2019 are summarised below:

	Audited		Unaudited
	FYE 30 April 2017	FYE 30 April 2018	14-month FPE 30 June 2019
	RM'000	RM'000	RM'000
Revenue	53,494	56,411	63,053
Profit before tax (“ <b>PBT</b> ”)/(Loss before tax) (“ <b>LBT</b> ”)	2,629	(1,334)	(12,597)
Profit/(Loss) after tax	2,323	(1,735)	(12,614)
Profit/(Loss) after tax and minority interest	430	(1,834)	(11,758)
No. of Shares ('000)	412,933	543,505	590,421
NA per Share (RM)	0.07	0.08	0.06
EPS/(loss per share) (sen)	0.10	(0.34)	(1.99)
Borrowings	3,250	3,657	5,064
Gearing (times)	0.11	0.09	0.15
Current ratio (times)	3.85	4.32	2.97

### (a) Financial commentary for the FYE 30 April 2017

The Group achieved a higher revenue of RM53.5 million in the FYE 30 April 2017 as compared to RM24.0 million in the previous financial year. The increase in revenue of RM29.5 million or 122.9% was mainly attributable to:

- (i) higher revenue of RM32.3 million generated mainly from ICT professional services as well as IT hardware, support and managed maintenance services segments in the FYE 30 April 2017 as a result of increased IT hardware sales contributed from SurfsTek R&D (FYE 30 April 2016: RM8.2 million); and
- (ii) higher revenue of RM17.6 million generated from manpower outsourcing and recruitment services segment in the FYE 30 April 2017 due to increased customers' demand and addition of new strategic clientele during the financial year (FYE 30 April 2016: RM11.8 million).

The Group recorded a higher PBT of RM2.6 million in the FYE 30 April 2017 as compared to RM2.3 million in the FYE 30 April 2016, representing an increase of RM0.3 million or 13.0%. The increase in PBT was mainly attributable to higher revenue as mentioned above which was offset by:

- (i) purchase costs for computer and point of sales hardware as well as related accessories and peripherals amounting to RM25.6 million (FYE 30 April 2016: nil); and
- (ii) higher other operating cost of RM17.9 million as a result of additional headcount for contractors, increase in incentive/commission payment to salesmen and license and maintenance fees which is in line with the increase in revenue for the FYE 30 April 2017 (FYE 30 April 2016: RM14.3 million).

## APPENDIX 1 – HISTORICAL FINANCIAL PERFORMANCE (cont'd)

### (b) Financial commentary for the FYE 30 April 2018

The Group recorded a higher revenue of RM56.4 million in the FYE 30 April 2018 as compared to RM53.5 million achieved in the FYE 30 April 2017. The increase in revenue of RM2.9 million or 5.4% was mainly attributable to an increase in revenue of RM6.8 million from IT hardware, support and managed maintenance services segment as a result of an increase in market share subsequent to adoption of competitive price and quality strategies, which was partially offset by a decrease in revenue of RM3.9 million from other segments.

Despite the higher revenue recorded during the financial year, the Group incurred a LBT of RM1.3 million as compared to a PBT of RM2.6 million recorded in the FYE 30 April 2017. The LBT incurred during the financial year was mainly due to:

- (i) the higher revenue from the IT hardware, support and managed maintenance services segment which earned lower profit margins as compared to other segments of the Group; and
- (ii) higher employment benefit of RM6.5 million as a result of hiring of new staff for the commercialisation of the Group's property data sales and consulting services, and data solutions and services segments as well as additional headcount for the Group's other segments (FYE 30 April 2017: RM4.8 million).

### (c) Financial commentary for the 14-month FPE 30 June 2019

On 25 October 2018, the Group changed its financial year end from 30 April to 30 June. Thus, the financial results for the period subsequent to the FYE 30 April 2018 comprised of 14 months from 1 May 2018 to 30 June 2019.

For the 14-month FPE 30 June 2019, the Group recorded a revenue of RM63.1 million as compared to RM56.4 million recorded in the FYE 30 April 2018, representing an increase of RM6.7 million or 11.9%. The increase in revenue was mainly attributable to the additional 2 months results, following the change in the financial year end from 30 April to 30 June.

Notwithstanding the higher revenue recorded by the Group during the financial period, the Group continued to record a higher LBT of RM12.6 million as compared to a LBT of RM1.3 million in the previous financial year, representing an increase of RM11.3 million. The increase in LBT was mainly due to:

- (i) higher revenue from the IT hardware, support and managed maintenance services segment which earned lower profit margins as compared to other segments of the Group;
- (ii) impairment losses of intangible assets, property, plant and equipment as well as trade and other receivables totalling RM2.8 million (FYE 30 April 2018: RM0.8 million); and
- (iii) higher research and development cost of RM1.3 million for the enhancement of e-commerce and specified application services segment in order for the Group to stay competitive and ahead of the technology curve (FYE 30 April 2018: nil).