

MALAYSIAN BULK CARRIERS BERHAD ("MBC" OR THE "COMPANY")

HEADS OF AGREEMENT IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE GROCERY RETAIL BUSINESS AND OTHER GROCERY RETAIL RELATED BUSINESS ("GROCERY BUSINESS") FROM THE VENDORS (AS DEFINED HEREINAFTER)

1. INTRODUCTION

On behalf of the Board of Directors of MBC ("**Board**"), Kenanga Investment Bank Berhad ("**Kenanga IB**") wishes to announce that the Company had on 26 August 2022 entered into a heads of agreement ("**HOA**") with Dato' Chin Yoke Kan, Dato' Chin Yoke Choon, Chin Polling, Chin Poh Yung and Chin Poh Yun (collectively referred to as the "**Vendors**") for the acquisition of the entire Grocery Business carried out by the Vendors via the acquisition of the entire issued share capital of Tunas Manja Sdn Bhd ("**TMSB**") and its subsidiaries and such related companies to be identified and determined ("**Target Group**") ("**Sale Shares**"), for a purchase consideration to be determined later ("**Purchase Consideration**") ("**Proposed Acquisition**").

For information, the Company had on 15 August 2022 entered into a conditional collaboration agreement with TMSB ("**Collaboration Agreement**") to undertake the Grocery Business ("**Proposed Collaboration**"). Kindly refer to the announcement dated 15 August 2022 for further information on the Proposed Collaboration.

2. DETAILS OF THE PROPOSED ACQUISITION

Pursuant to the terms of the HOA, the Company and the Vendors (collectively referred to as the "**Parties**") intend to enter into share sale agreement(s) and any other relevant agreements (if applicable) in connection with the Proposed Acquisition ("**Definitive Agreement**"), on the terms and subject to the conditions contained in the Definitive Agreement.

The Proposed Acquisition is subject to the examination and verification of the financial, legal, business and other affairs of the Target Group by accountants, auditors, valuers and solicitors, or such other professionals appointed by the Company for the purposes of the HOA and the Definitive Agreement ("**Due Diligence**").

The Company proposes to satisfy the Purchase Consideration for the Proposed Acquisition either by way of cash and/or via the allotment and issuance of new ordinary shares in the Company ("**MBC Shares**" or "**Shares**") at the issue price of RM0.42 per Share ("**Consideration Shares**"), subject to the Purchase Consideration and the number of Consideration Shares to be negotiated and agreed upon by the Parties prior to the execution of the Definitive Agreement upon completion of the Due Diligence, and any completion adjustment provided for in the Definitive Agreement and valuation(s) to be carried out by the independent valuers appointed by the Company (if required).

The Vendors acknowledge that there are certain existing minority shareholders within the Target Group and the Vendors shall procure all such minority shareholders within the Target Group (if any) to sell and/or transfer and the Company shall purchase all such Sale Shares as set out in the Definitive Agreement.

The Definitive Agreement will be entered into between the Parties within 180 days following the date of the HOA, with an automatic extension of 30 days upon expiry of such 180 days period, or such further extended date as the Parties may mutually agree upon ("**Expiry Date**").

A detailed announcement on the Proposed Acquisition will be made upon the execution of the Definitive Agreement.

3. SALIENT TERMS OF THE HOA

The Parties have entered into the HOA with the aim to commence good faith negotiations between them as a precursor to the Definitive Agreement.

The salient terms of the HOA are as follows:-

3.1 Definitive Agreement to be executed in furtherance of the HOA

The Parties agree that the HOA shall not be tantamount to a disposal and transfer of the Sale Shares and the Definitive Agreement shall be executed in furtherance of and in addition to the terms and provisions of the HOA.

3.2 Conditions Precedent

- (a) The obligations of the parties that are set out in the HOA in respect of the Proposed Acquisition are conditional upon the Parties entering into the Definitive Agreement and the various applicable conditions precedent as set out in Section 3.2(c) below or such other relevant conditions precedent to be set out in the Definitive Agreement ("**Conditions Precedent**") being obtained / fulfilled within such period as shall be agreed upon by the Parties and stipulated in the Definitive Agreement ("**Cut-Off Date**").
- (b) MBC shall, within a period of 180 days following the date of execution of the HOA or such extended period as may be agreed upon between the Parties, embark on and complete the Due Diligence at its own cost and expense whereby the Company shall examine and verify the financial and legal affairs, accounts, assets, share capital and structure, commitments, contracts, business and other affairs of the Target Group in such manner and to such extent as may be required by the Company.
- (c) The following Conditions Precedent shall be obtained / fulfilled / waived by the Cut-Off Date:
 - (i) the Company being satisfied at its absolute discretion with the results of the Due Diligence;
 - (ii) the Company having obtained the approval of its shareholders at an extraordinary general meeting ("**EGM**") to be convened for the acquisition of the Sale Shares and the issuance of the Consideration Shares in accordance with the terms and conditions of the Definitive Agreement;
 - (iii) the Vendors having obtained the approval or consent of the financiers / creditors of the Target Group for, *inter alia*, the sale and transfer of the Sale Shares in favour of the Company, upon the terms and subject to the conditions of the HOA and the Definitive Agreement, where required;
 - (iv) the Vendors having obtained the approval or consent of any other party which has entered into any subsisting arrangement, contract or undertaking or guarantee with or involving the Target Group, where required, in each case to the extent that at the Completion Date (as hereinafter defined) the same remain to be completed or performed or remain in force;
 - (v) the Company having obtained the approval of Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the listing of and quotation for the new MBC Shares comprised in the Consideration Shares on the Main Market of Bursa Securities, where required;

- (vi) the Company having obtained the approval of Securities Commission Malaysia for the Proposed Acquisition, if required;
- (vii) any other approvals, waivers or consents of any authorities or parties as may be required by law or regulation or deemed necessary by the Parties; and
- (viii) such other conditions precedent as shall be mutually agreed by the Parties and stipulated in the Definitive Agreement.

3.3 Manner of settlement of Purchase Consideration

Subject to any completion adjustment provided for in the Definitive Agreement (if any) and valuation(s) to be carried out by the independent valuers appointed by the Company (if required), in respect of the Target Group, the Purchase Consideration shall be satisfied by the Company on the date fixed for completion under the Definitive Agreement ("**Completion Date**") either by way of:

- (i) cash consideration of a sum to be determined later; and/or
- (ii) allotment and issuance of the Consideration Shares at an issue price of RM0.42 per MBC Share,

to the Vendors and/or the Vendor's nominee on the Completion Date.

3.4 Best endeavours to negotiate and execute Definitive Agreement

- (a) The Parties shall use their best endeavours and efforts to negotiate in good faith and execute the Definitive Agreement, together with such other agreements as the Parties may agree upon pursuant to the further advice of their respective legal counsels, within the Expiry Date.
- (b) If the Definitive Agreement together with such other agreements as the parties may agree upon are not executed by the Expiry Date, and if neither Party elects not to pursue the remedy of specific performance set out in the HOA (where applicable), the HOA shall terminate. Upon termination of the HOA, no party shall have any continuing obligation as provided herein to the other save for any antecedent breaches or outstanding obligation as provided in the HOA.

3.5 Exclusivity Period

The Parties agree, covenant and undertake that they will not, and will ensure that their related corporations will not, directly or indirectly (whether jointly or in conjunction with another party), initiate, solicit or entertain any discussion, negotiation, agreement or arrangement or otherwise deal in any way with any other person other than the other party in connection with –

- (i) the Proposed Acquisition;
- (ii) the acquisition or subscription of or for shares in the Target Group; or
- (iii) the terms and conditions of any agreement governing the subject matter of the aforesaid clauses, including without limitation, the Definitive Agreement,

at any time prior to the Expiry Date.

3.6 Establishment of new outlets

The Parties agree that further to the terms of the Collaboration Agreement, the Vendors shall procure and ensure that during the exclusivity period stipulated in Section 3.5 above, MBC will be granted and shall enjoy the first right of refusal to establish and open new outlets and logistics and distribution centres in areas outside the agreed Territory (as defined in the Collaboration Agreement as being the whole of the Federal Territories of Kuala Lumpur and Putrajaya and the states of Selangor, Negeri Sembilan and Melaka, Malaysia) ("**Non-Territory New Openings**"). Save and except for sites for new outlets which the Target Group has already identified and is in the midst of establishing and opening as at the date of the HOA, MBC shall have the right of first refusal to effect Non-Territory New Openings by the Target Group throughout the exclusivity period.

3.7 Collaboration Agreement

The Parties agree that on completion of the sale and purchase of the Sale Shares in connection with the Proposed Acquisition as contemplated under the terms of the HOA and Definitive Agreement,, the Collaboration Agreement shall be terminated by mutual agreement of the parties to the Collaboration Agreement and cease to take any further force or effect.

3.8 Binding effect

Save and except for sections 3.5 and 3.6 as mentioned above and the confidentiality obligations pursuant to the HOA, the provisions of the HOA are not legally binding and nothing in the HOA is intended to create any binding legal obligations on any party until and unless the Definitive Agreement is duly executed by the relevant parties.

3.9 Termination

(a) If –

- (i) at any time prior to the expiry of the Cut-Off Date, any of the Conditions Precedent shall have been refused and appeal or appeals to the relevant authorities or persons against such refusal have not been successful; or
- (ii) on the expiry of the Cut-Off Date, any of the Conditions Precedent have not been obtained or fulfilled; or
- (iii) at any time prior to the expiry of the Cut-Off Date, any of the Conditions Precedent shall have been granted subject to the terms and conditions which are not acceptable to the affected party being terms and conditions which affect the affected party, and further representations to the relevant authorities or persons to vary such terms and conditions have not been successful, and the affected party is not willing to accept such terms and conditions then imposed by the relevant authorities or persons,

then either Party shall be entitled to terminate the HOA and the Definitive Agreement (if executed) by giving a notice of termination to that effect to the Vendors or the Company (as the case may be), whereupon the Parties shall not have any further rights under the HOA and the Definitive Agreement except in respect of –

- (i) any obligations under the HOA which is expressed to apply after the termination of the HOA and the Definitive Agreement; and

- (ii) any rights and obligations which have accrued in respect of any breach of any of the provisions of the HOA and the Definitive Agreement to either party prior to such termination.

4. BASIS OF DETERMINING AND JUSTIFICATION FOR THE ISSUE PRICE OF THE CONSIDERATION SHARES

The issue price of RM0.42 per Consideration Share was arrived at after taking into consideration that it represents:-

- (i) a discount of 2.05% to the 5-day volume-weighted average market price (“**VWAP**”) of MBC Shares of RM0.4288;
- (ii) a premium of 1.30% over the 1-month VWAP of MBC Shares of RM0.4146; and
- (iii) a premium of 4.76% over the 3-month VWAP of MBC Shares of RM0.4009,

up to and including 25 August 2022, being the last trading day prior to the execution of the HOA on 26 August 2022.

5. RATIONALE FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Group is principally involved in the ownership and operating of vessels as well as ship management. On 15 August 2022, the Company entered into a conditional Collaboration Agreement with TMSB for the Proposed Collaboration. The Company envisaged that the Proposed Collaboration will enable the Group to mitigate the risk of overdependence on its existing core business which is subject to fluctuations in ship charter prices which are beyond the Group’s control and diversify its revenue and income stream by establishing a new business segment.

The Proposed Acquisition represents a strategic opportunity for the Company to expand its Grocery Business and would enable the Company to consolidate the ownership of the “TMG” brand name under the MBC Group. The Proposed Acquisition also allows the Group to achieve the following benefits:-

- (i) enable the MBC Group to capitalise on the technical expertise, know-how and skills of the Target Group to grow the Grocery Business;
- (ii) eliminate / mitigate potential conflict of interests situation in view of the interests of Dato’ Chin Yoke Kan and Dato’ Chin Yoke Choon (collectively, referred to as the “**Interested Directors**”), both of whom are also directors and major shareholders of the Company; and
- (iii) enable the MBC Group to open outlets beyond the Territory.

Barring unforeseen circumstances, the Proposed Acquisition is expected to contribute positively to the future earnings of the Group. Kindly refer to the announcement dated 15 August 2022 in relation to the Proposed Collaboration for the outlook and prospects of the grocery retail industry.

6. EFFECTS OF THE PROPOSED ACQUISITION

The pro forma effects of the Proposed Acquisition on the issued share capital, net assets, gearing, substantial shareholders shareholdings, earnings and earnings per share of the Company can only be illustrated upon finalisation of the terms of the Proposed Acquisition via the Definitive Agreement.

7. APPROVALS REQUIRED

The execution of the HOA is not subject to the approvals of the shareholders of the Company or any relevant authorities.

Nevertheless, the Proposed Acquisition is subject to approvals being obtained as set out in Section 3.2(c) of this announcement.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE OF THE COMPANY AND/OR PERSONS CONNECTED TO THEM

Save as disclosed below, none of the Directors, major Shareholders, chief executive and/or persons connected with them have any interest, direct or indirect, in the Proposed Acquisition as at the date of this announcement:-

Name	Direct shareholdings		Indirect shareholdings	
	No. of Shares	(1)%	No. of Shares	(1)%
Tunas Capital Sdn Bhd	160,000,000	16.00	-	-
Dato' Chin Yoke Kan	-	-	(2)160,000,000	16.00
Dato' Chin Yoke Choon	-	-	(2)160,000,000	16.00

Notes:-

(1) Based on the Company's issued share capital of 1,000,000,000 ordinary shares as at the date of this announcement.

(2) Deemed interest by virtue of his direct shareholdings in Tunas Capital Sdn Bhd.

Pursuant to Paragraph 10.08 of the Listing Requirements, the Proposed Acquisition is deemed as a related party transaction by virtue of the following:-

- (i) Dato' Chin Yoke Kan, being an Executive Director and indirect major shareholder of the Company by virtue of his interests in Tunas Capital Sdn Bhd, is also a director and major shareholder of the Target Group (*saved for one of the related companies*). He is the brother of Dato' Chin Yoke Choon;
- (ii) Dato' Chin Yoke Choon, being an Executive Director and indirect major shareholder of the Company by virtue of his interests in Tunas Capital Sdn Bhd, is also a director and major shareholder of the Target Group (*saved for one of the related companies*). He is the brother of Dato' Chin Yoke Kan; and
- (iii) Tunas Capital Sdn Bhd is a major shareholder of the Company. It is also a person connected to Dato' Chin Yoke Choon and Dato' Chin Yoke Kan.

The Interested Directors and Tunas Capital Sdn Bhd (collectively referred to as the "**Interested Parties**") are deemed interested in the Proposed Acquisition.

The Proposed Acquisition will be classified as a related party transaction pursuant to Paragraph 10.08 of the Main Market Listing Requirements of Bursa Securities. In this respect, the Company will need to appoint an independent adviser prior to the execution of the Definitive Agreement to advise the non-interested directors and non-interested shareholders of the Company as to whether the Proposed Acquisition is fair and reasonable as far as the non-interested directors and non-interested shareholders of the Company are concerned and whether the Proposed Acquisition is to the detriment of the non-interested shareholders of the Company.

Accordingly, the Interested Directors have abstained and will continue to abstain from deliberating and voting at the relevant Board meetings of the Company pertaining to the Proposed Acquisition.

The Interested Parties will abstain and will undertake to ensure that persons connected with them (if any) will also abstain from voting in respect of their direct and/or indirect shareholdings in the Company on the resolutions pertaining to the Proposed Acquisition at an EGM to be convened.

9. ADVISERS APPOINTED

Kenanga IB has been appointed by the Company to act as the Principal Adviser in relation to the Proposed Acquisition.

10. DOCUMENTS FOR INSPECTION

A copy of the HOA is available for inspection at the registered office of the Company at Unit 11.03a, Level 11, Mercu 2, No. 3, Jalan Bangsar, KL Eco City, 59200 Kuala Lumpur during normal business hours for a period of 3 months from the date of this announcement.

This announcement is dated 26 August 2022.