

MALAYSIAN BULK CARRIERS BERHAD (“MBC” OR THE “COMPANY”)

ACQUISITION OF 100% EQUITY INTEREST IN EMT SYSTEMS SDN BHD (FORMERLY KNOWN AS E METALL SYSTEMS SDN BHD) (“EMTS”) FOR A PURCHASE CONSIDERATION OF RM70,000,000 (“ACQUISITION”)

(For consistency, the abbreviations used throughout this announcement shall have the same meanings as defined in the announcement dated 18 January 2023 in relation to the Acquisition, where applicable, unless stated otherwise or defined herein.)

Reference is made to the announcement dated 18 January 2023 in relation to the Acquisition (“**Announcement**”).

On behalf of the Board, Kenanga IB wishes to announce the following additional information:-

- 1. To provide the rationale to pay a Deferred Dividend of all the amount in excess of RM10,000,000 of the shareholders’ fund of EMTS to the Vendors when the audited accounts for the FYE 2022 of EMTS has been finalised and issued, notwithstanding the completion of the Agreement. In addition, to state the indicated amount.**

The sum of RM10,000,000 of shareholders’ fund of EMTS as at 31 December 2022 was a negotiated and agreed sum between MBC and the Vendors, and is based on the unaudited shareholders’ fund of EMTS of approximately RM10.64 million as at 30 November 2022. The Deferred Dividend is included in the SSA as the actual shareholders’ fund can only be determined upon the issuance of the audited financial statements of EMTS for the FYE 31 December 2022 which shall be within 120 days following the end of the financial year.

The amount to be paid via the Deferred Dividend is expected to be not more than RM1.50 million.

- 2. To incorporate the principal activities, share capital and number of issued shares of Lienteh.**

The principal activities of Lienteh are manufacturing, importing, exporting and trading of pharmaceutical and medical goods such as latex and nitrile gloves.

As at the LPD, Lienteh has an issued share capital of RM30.00 million comprising 30,000,000 ordinary shares in Lienteh.

- 3. To provide the names of the directors, shareholders and their respective shareholdings in Lienteh.**

As at the LPD, the directors of Lienteh are Goh Ting Hong and Tan Kian Chuan.

The shareholders of Lienteh and their direct shareholdings in Lienteh as at the LPD are as follows:-

Name	No. of Shares	%
Eonmetall	15,300,000	51.00
Envy Venture Sdn Bhd	6,370,000	21.23
EMTS	4,655,000	15.52
Medical Spring International Health Management (Hong Kong) Co. Limited	2,205,000	7.35
Elogistic and Industrial Estate Developer Sdn Bhd	1,470,000	4.90
Total	30,000,000	100.00

On 8 August 2022, Eonmetall Group Berhad (“**Eonmetall**”), a 51% shareholder of Lienteh, entered into a share sale agreement with the other shareholders of Lienteh, namely Envy Venture Sdn Bhd, EMTS, Medical Spring International Health Management (Hong Kong) Co. Limited and Elogistic and Industrial Estate Developer Sdn Bhd, (collectively referred to as the “**Lienteh Shareholders**”), to dispose its 51% equity interest in Lienteh to the Lienteh Shareholders for a total consideration of RM35.70 million to be satisfied in cash, being the original investment sum in Lienteh (“**Disposal by Eonmetall**”).

As at the LPD, the Disposal by Eonmetall is pending completion. EMTS has paid its corresponding sum of RM11,305,000 to Eonmetall and is pending the transfer of Lienteh Shares from Eonmetall.

For illustrative purposes, the shareholders of Lienteh and their direct shareholdings in Lienteh after the completion of the Disposal by Eonmetall are as follows:-

Name	No. of Shares	%
Envy Venture Sdn Bhd	13,000,000	43.33
EMTS	9,500,000	31.67
Medical Spring International Health Management (Hong Kong) Co. Limited	4,500,000	15.00
Elogistic and Industrial Estate Developer Sdn Bhd	3,000,000	10.00
Total	30,000,000	100.00

4. To incorporate the rationale and salient terms of Lienteh SSA, mode of payment, basis and justifications for the consideration.

MBC only intends to acquire the assets relating to the core business of EMTS and had required the exclusion of all other assets and investments held by EMTS. In relation thereto, the Vendors had entered into the Lienteh SSA to acquire 9,500,000 ordinary shares in Lienteh (“**Lienteh Shares**”) for a total cash consideration of RM9.50 million being the original cost of investment in the Lienteh Shares.

To avoid any confusion, the Vendors shall be referred to as the “Lienteh Shares Purchasers” for the purpose of this item 4 only.

The salient terms of the Lienteh SSA are as follows:-

(i) Sale and purchase of the Lienteh Shares

EMTS as vendors shall sell and the Lienteh Shares Purchasers as purchasers shall purchase 9,500,000 Lienteh Shares owned by EMTS, free from all charges or liens or other encumbrances and with all rights attaching thereto including all rights to dividends and other distribution declared made and paid thereafter.

(ii) Consideration

In consideration for the Lienteh Shares, the Lienteh Shares Purchasers agree to pay EMTS a total consideration of RM9,500,000 to be settled on the Completion Date in accordance with the terms as set out in item (iii) below.

The Lienteh Shares shall be purchased by the Lienteh Shares Purchasers in the following proportions:-

Party	No. of Lienteh Shares	%
Goh Ting Hong	2,850,000	30.00
Grand East Metal (Kulim) Sdn Bhd	6,650,000	70.00
Total	9,500,000	100.00

(iii) Completion

The completion of the Lienteh SSA shall take place within 1 month from the date the Lienteh Shares Purchasers receive confirmation from EMTS that the Lienteh Shares are ready to be transferred to the Lienteh Shares Purchasers or any other such date as may be mutually agreed between EMTS and the Lienteh Shares Purchasers in writing ("**Completion Date**"). On the Completion Date and subject to the solicitors' confirmation that the duly executed instrument of transfer of the Lienteh Shares have been perfected in favour of the Lienteh Shares Purchasers and the original certificate of the Lienteh Shares are in the solicitors' custody, the Lienteh Shares Purchasers shall make full payment of the consideration for the Lienteh Shares to EMTS.

(iv) Default

In the event the Lienteh Shares Purchasers fail to pay the consideration for the Lienteh Shares to EMTS by the Completion Date ("**Event of Default**"), the Lienteh Shares Purchasers shall pay a late payment interest of eight per centum (8%) per annum on the outstanding payment, calculated on daily basis from the date the Event of Default arises until the date of full payment of the said amount which shall not be later than three (3) months from the date the Event of Default arises and if the Lienteh Shares Purchasers fails to rectify the Event of Default upon expiry of the said three (3) months period, EMTS shall be entitled to the remedy of specific performance of the Lienteh SSA under the Specific Relief Act, 1950 without any prejudice to EMTS' right or rights to claim against the Lienteh Shares Purchasers any damages, losses, costs, expenses or outgoings whatsoever arising from or in connection with the Event of Default.

5. To clarify whether the valuation of EMTS has taken into account the sales of shares in Lienteh and Eonmetall Group Berhad ("Eonmetall**").**

The valuation of EMTS as set out in the valuation letter from BDO Capital Consultants Sdn Bhd ("**BDO Capital**") dated 16 January 2023 is based on the financial projections of EMTS only and excludes the proceeds from the disposal of shares in Lienteh and Eonmetall.

6. To elaborate the relationship between EMTS and Eonmetall and also to provide the reason to incorporate the salient term "exclude any profits/effects of the transaction(s) involving the sale of shares in Eonmetall".

On 9 February 2021, Eonmetall entered into a share sale agreement with the Lienteh Shareholders (which was subsequently supplemented by a letter agreement dated 27 April 2021 and a supplemental share sale agreement dated 7 March 2022) for the acquisition of 51% equity interest in Lienteh, which was satisfied entirely via the issuance of 72,857,142 ordinary shares in Eonmetall ("**Eonmetall Shares**"). The acquisition was completed on 12 May 2022 and EMTS (one of the Lienteh Shareholders) received 23,071,428 Eonmetall Shares for the sale of 4,845,000 Lienteh Shares to Eonmetall at a consideration of RM11,305,000.

Subsequently, on 8 August 2022, Eonmetall entered into a share sale agreement with the Lienteh Shareholders for the Disposal by Eonmetall. Pursuant to the Disposal by Eonmetall, EMTS will reacquire 4,845,000 Lienteh Shares from Eonmetall at the same consideration of RM11,305,000, which has been satisfied in cash by EMTS in November 2022.

The Guaranteed PAT of EMTS of RM6.00 million for each of the FYE 2022 and FYE 2023 is intended to only include profits derived from the ordinary course of business of EMTS and shall therefore exclude any one-off gain or loss on disposal of Eonmetall Shares.

7. To clarify whether the completion of Lienteh disposal will have any financial and/or operational effect to Maybulk Group due to the Condition Subsequent as well as the effect of the Lienteh SSA on the Acquisition.

The disposal of Lienteh is an excluded item in the SSA and as such, will not have any financial and/or operational effect to the MBC Group due to the Condition Subsequent as well as on the Acquisition.

8. To incorporate the rationale for BDO Capital Consultants Sdn Bhd to adopt the discounted cash flow valuation methodology instead of other valuation methodology to derive at the estimated range of indicative values of RM75.4 million to RM84.8 million for EMTS.

In determining the valuation methodology to be adopted for the valuation of EMTS, BDO Capital had considered various approaches, including the discounted cash flow (“**DCF**”) approach, earnings multiple approach and the adjusted net assets approach.

For the purpose of valuing EMTS, BDO Capital adopted the DCF approach as its main approach in view of the nature of the business of EMTS which is expected to generate profits in the future and the estimated future cash flows can be projected by the management of EMTS. For the avoidance of doubt, the future cash flows exclude any contribution from the business operations of Lienteh which is being disposed by EMTS to the Vendors.

9. To provide the basis and assumptions made for the discounted cash flow valuation methodology.

The key bases and assumptions adopted by BDO Capital in carrying out the valuation of EMTS are as follows:-

- (i) that the DCF valuation implicitly assumes that a generic investor has sufficient control of the business cash flow to determine the dividend policy, capital structure and major capital expenditures/developments;
- (ii) that the projected revenue, revenue growth and its profit margin to be derived from the supply, design, consult fabricate and installation work of basic iron and steel products will be achieved;
- (iii) that the projected revenue to be derived from the new product development (i.e. high density fibre board product, gondola & accessories product and steel trading product) will be achieved during the financial projections period;
- (iv) that it is assumed that EMTS will obtain all the relevant licences, permits, approvals, agreements, contracts or any other contractual agreements to carry out the business on the trading of basic iron and steel products (“**Licences/Agreements**”). There are no breaches and there will not be any breaches of any provision in the Licences/Agreements and that the Licences/Agreements are renewed upon expiry;
- (v) that EMTS will comply with all applicable regulations and laws;

- (vi) that the business interest and assets of EMTS are free and clear of any liens or encumbrances;
- (vii) that there will be no material changes in the present legislation, government regulations, inflation rates, interest rates, foreign exchange rates, bases and rates of taxation, and other lending guidelines which will affect the activities of EMTS;
- (viii) that there are no undisclosed actual or contingent assets or liabilities, including but not limited to, any contracts and/or off-balance sheet financial instruments, no unusual obligations or commitments other than in the ordinary course of business, nor any pending litigation which would have a material effect on the financial position or operations of EMTS in the future;
- (ix) that the indicative valuation has been carried out on the entire business of EMTS as a whole without consideration to any specific parcel of business interest or classes of equity; and
- (x) that there will be no event of force majeure occurring such as any act of God, act of public enemies, war, act of terrorism, restraint of Government or people of any nation, riots, insurrections, civil commotion, floods, fire, restrictions due to quarantines, epidemics, storms, or any other causes beyond the reasonable control of the management of EMTS, which could materially affect the financial position and business operations of EMTS.

In arriving at the DCF valuation of EMTS, BDO Capital have discounted the projected free cash flows to firm of EMTS at the weighted average cost of capital as derived using the following assumptions:-

Item	Key bases and assumptions
(a) Valuation date	30 November 2022
(b) Free cash flow to firm	Based on the financial projections of EMTS for the period from 1 December 2022 to 31 December 2026
(c) Debt to equity ratio	0.01 - 0.11 times
(d) Tax rate	24% (based on Malaysia statutory tax rate of 24.0%)
(e) Beta	0.549 (based on the average ungeared betas of the selected comparable listed companies)
(f) Risk-free rate of return	4.52% (based on the Malaysian's gross yield for the Malaysian Government Securities as at 30 November 2022 with remaining term to maturity of 29 years as extracted from Bank Negara Malaysia)
(g) Expected market return	9.18% (based on market return of Malaysia as at 30 November 2022 as extracted from Bloomberg)
(h) Cost of equity	7.1% - 7.3% (based on the Capital Asset Pricing Model)
(i) Adjusted cost of equity	10.7% - 12.2% (after adjusting for the size of EMTS relative to the selected comparable listed companies, the unlisted status of EMTS and the risks and uncertainties of the financial projections)

Item	Key bases and assumptions
(j) Cost of debt	2.58% (net of tax of 24.0%)
(k) WACC	10.2% - 12.0%

Based on the assumptions above, BDO Capital estimates the equity value of EMTS as follows:-

	<u>Low</u>	<u>High</u>
	(RM' million)	(RM' million)
Enterprise value	72.0	81.4
Add: Net cash	3.4	3.4
Estimated values of 100% equity interest in EMTS	75.4	84.8

10. To incorporate the mitigating factor pertaining to the Acquisition Risk.

Pursuant to the Acquisition, the MBC Group will be subject to new business and operational risks relating to the shelving and storage solutions industry. The MBC Group seeks to mitigate this risk by leveraging on the established brand name, existing products and customer network of EMTS, an existing industry player.

In addition, the MBC Group shall also enter into a management service contract with Jason Goh for him to continue to act as the managing director of EMTS for a period of 3 years upon the completion of the SSA. Through this, the MBC Group will be able to leverage on the experience, expertise and business network of Jason Goh for the day-to-day operations and future growth of EMTS.

11. To discuss further on the measures put in place to safeguard the profit guarantee.

In considering the Profit Guarantee provided by the Vendors, the Board has taken into consideration amongst others, the valuation of EMTS conducted by BDO Capital based on the financial projections of EMTS, the historical financial performance of EMTS, the future prospects of EMTS and the 11-month operating PAT of RM5.49 million based on the latest management accounts of EMTS for the 11-month financial period ended 30 November 2022. Based on the above, the Board is of the opinion that the Profit Guarantee provided is realistic.

Pursuant to the SSA, in the event that EMTS fails to achieve the Guaranteed PAT for any of the Profit Guarantee Periods, the Vendors shall, on demand from the Purchaser, make payment to EMTS within 21 business days of such demand of the Shortfall Sum.

In addition, pursuant to the Management Service Contract, Jason Goh, a Vendor and party to the Profit Guarantee, will continue to act as the managing director of EMTS and drive the business for a period of 3 years upon the completion of the SSA.

Further to a due diligence exercise conducted on the Vendors, nothing has come to the attention of the Board that the Vendors would be unable to fulfil their obligations under the Profit Guarantee should EMTS fail to achieve the Guaranteed PAT for the Profit Guarantee Periods.