



SARAWAK CONSOLIDATED INDUSTRIES BERHAD

(Registration No.: 197501003884 (25583-W))

(Incorporated in Malaysia)

SUBJECT: PROPOSED ACQUISITION OF THE 100% EQUITY INTEREST IN KENCANA PRECAST CONCRETE SDN. BHD. (“KPCSB”) (“PROPOSED ACQUISITION”)

DESCRIPTION: CONDITIONAL SHARE SALE AGREEMENT ENTERED INTO BETWEEN SARAWAK CONSOLIDATED INDUSTRIES BERHAD (“SCIB” OR “THE COMPANY”) AND NOORAZYLAWATI BINTI ABU BAKAR, MOHD KHAIRIL BIN MOHD HATTA AND IBRAHIM BIN MOHD NOOR

1. INTRODUCTION

The Board of Directors of SCIB wishes to announce that the Company (hereinafter referred to as “**the Purchaser**”) had on 14 April 2021 entered into a conditional Share Sale Agreement (“**SSA**”) with Noorazylawati Binti Abdul Bakar, Mohd Khairil Bin Mohd Hatta and Ibrahim Bin Mohd Noor (hereinafter and collectively referred to as “**the Vendors**”), who are non-related third parties, with the objective of exploring business expansion plans in Peninsular Malaysia.

Upon the completion of the Proposed Acquisition, KPCSB will become a wholly-owned subsidiary of SCIB.

2. INFORMATION OF THE VENDORS

Noorazylawati Binti Abdul Bakar (“**NAB**”), Mohd Khairil Bin Mohd Hatta (“**MKMH**”) and Ibrahim Bin Mohd Noor (“**IMN**”) are Malaysian citizens having residential address in Malaysia.

As at 1 April 2021 (being the latest practicable date of this announcement) (“**LPD**”), the Vendors’ respective shareholdings in KPCSB are as follows:

Vendors	Number of Sale Shares	Percentage of total issued
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		capital of KPCSB
NAB	750,000	75%
MKMH	150,000	15%
IMN	100,000	10%
Total	1,000,000	100%

3. DETAILS OF THE PROPOSED ACQUISITION

The Proposed Acquisition involves the acquisition of 1,000,000 ordinary shares representing the entire issued and paid-up capital of KPCSB by SCIB from the Vendors, for a total cash consideration of RM4,980,000.00, subject to the terms and conditions of the SSA.

3.1 Information on KPCSB

(i) Background information

Kencana Precast Concrete Sdn. Bhd. (hereinafter referred as “**KPCSB**” or “**the Target Company**”) was incorporated in Malaysia on 10 June 2010 as a private limited company having its registered address at Annex A, Centre Court, 2nd Floor, Lot 2, Jalan Enggang, Kawasan Perindustrian PKNS, Hulu Kelang, 54200 Kuala Lumpur, Malaysia and having its business address at No. 39-1, Jalan Putra Permai 1A, Taman Equine, 43300 Seri Kembangan, Selangor.

As at LPD, KPCSB has an issued and paid-up capital of RM1,000,000 comprising of 1,000,000 ordinary shares (“KPCSB Shares”). The Vendors are also the directors of the Company.

KPCSB is principally involved in the business of construction.

(ii) Financial information of KPCSB

	Unaudited Financial Statement for the financial year ended 2020	Unaudited Financial Statement for the financial year ended 2019
Total Revenue (RM)	51,000.00	776,230.00

Net Profit attributable to owners of KPCSB	(117,478.00)	(619,254.00)
Total Assets (RM)	6,367,122.00	6,880,146.00
Total Liabilities (RM)	7,382,085.00	7,677,638.00
Total Net Assets (RM)	(1,014,963.00)	(797,492.00)
Earnings/ (Loss) per share (sen)	(0.12)	(0.62)
Net Assets per share	(1.01)	(0.80)

3.2 Basis and justification in arriving at the Purchase Consideration

The Purchase Consideration was arrived at on a willing-buyer willing-seller basis and after taking into consideration the market value of a parcel of land owned by KPCSB of RM5 million (about RM 47.00 per square feet) as appraised by Spectrum International Valuers & Consultants Sdn. Bhd based on its Report dated on 17 June 2019.

3.3 Mode of payment

Pursuant to the terms of the SSA, the Proposed Acquisition entails the acquisition of 1,000,000 ordinary shares in KPCSB from the Vendors, representing the entire issued and paid-up capital of KPCSB for the Purchase Consideration to be paid in three (3) tranches as set out below:

- (i) An amount of Ringgit Malaysia Two Million (RM2,000,000) (“**Deposit**”) which was paid to the Vendors in the proportion of the respective shareholdings as set out in the SSA;
- (ii) upon the execution of the SSA, an amount of Ringgit Malaysia Two Million Four Hundred and Eighty Two Thousand (RM2,482,000), being ninety per cent (90%) of the balance of the Purchase Consideration (“**Part Payment**”) shall be paid by the Purchaser to the Vendors in the proportion set out in the SSA;
- (iii) subject to the fulfilment of the Conditions Precedents, an amount of Ringgit Malaysia Four Hundred and Ninety-Eight Thousand (RM498,000), being the remaining balance of the Purchase Consideration (“**Final Balance Payment**”)

shall be paid by the Purchaser to the Vendors in the proportion of the respective shareholdings as set out in the SSA.

3.4 Source of Funding

The Purchase Consideration is to be settled by way of cash and will be funded through a combination of internally generated funds and/or bank borrowings.

4 SALIENT TERMS OF THE SHARE SALE AGREEMENT

4.1 Conditions Precedents

The obligations of the Parties that are set out in the SSA are conditional upon the following being fulfilled, obtained or waived within the Conditional Period (means thirty (30) days from the date of the SSA or such other extended date the Parties may mutually agree in writing):-

- (a) the Vendors shall procure and maintain the validity and enforceability of all the relevant licenses, permits, approvals, authorizations and consents (including any renewal(s) thereof) that are necessary for the business operation of KPCSB in the name of KPCSB;
- (b) all the necessary approval, consent, permission or no objection (as the case may be) including but not limited to the operational permit, generating licenses and any other permits or licenses required from all the relevant regulatory authorities and third parties (including any licensed financial institutions which may have granted financing or credit facilities to the KPCSB) having been obtained in accordance with the SSA;
- (c) the Vendors shall provide a letter of indemnity to the Purchaser in the form and substance agreed by the Purchaser to agree to refund the Deposit and Part Payment (as defined under Section 3.3(i) & (ii) of this Announcement) in the event the Completion of the SSA does not take place and indemnify and keep the Purchaser indemnified against any loss, damage, liabilities, cost or expenses suffered or incurred by the Purchaser at any time before and up to the Completion Date as a result of any breach, violation or non-compliance by the Vendors of the conditions or statutory provisions stipulated under any licenses, permits and approvals granted to KPCSB;

Since the date hereof, no event or events shall have occurred, which, individually or in the aggregate, have had, or could reasonably be expected

to have a material adverse effect in the financial condition or the going-concern of the business operations of KPCSB;

- (d) a valuation from an accredited valuer indicating the current market value of the Land shall be procured;
- (e) the Vendors shall provide the audited financial statements of KPCSB for the financial year ended 31 December 2019 and 31 December 2020;
- (f) the Vendors shall provide a letter of undertaking to the Purchaser in the form and substance agreed by the Purchaser to undertake to be liable to settle all borrowings, outstanding loans, debts and/or liabilities of KPCSB up to the Completion Date; and
- (g) the Purchaser shall have completed its legal, financial and technical due diligence review and other inquiries and investigations on KPCSB (“**Due Diligence**”) to its satisfaction.

The Parties hereby covenant to the other (as the case may be) that they shall use their best endeavours to do all acts or things as may be necessary, to procure the fulfilment of the Conditions Precedent within the Conditional Period.

4.2 Completion

If the Conditions Precedent are fulfilled, obtained or waived, as the case may be, (in accordance with the provisions of the SSA) within the Conditional Period and subject to the fulfilment of delivery of documents and registration of Transfer of Sale Shares by the Vendor, the Completion of the sale and purchase of Sale Shares shall take place at such place as may be agreed between the Parties, on the Completion Date.

4.3 Termination

If, a Party becomes aware that a Condition Precedent cannot be satisfied, and the Purchaser is not willing to waive the Condition Precedent, the Purchaser shall, in its absolute discretion, be entitled (but not obliged) to terminate the SSA forthwith by written notice served on the Vendors and without prejudice to the Purchaser’s rights and remedies at law and/or hereunder in respect of any antecedent breaches of the SSA. Upon termination of the SSA, the Vendors shall refund the Deposit and Part Payment (with no interest) to the Purchaser within three (3) days upon the receipt of a letter from the Purchaser or its solicitors confirming that the SSA shall no longer have any effect and there is no claim whatsoever from the Purchaser against the Vendor.

5 RATIONALE AND PROSPECTS OF THE PROPOSED ACQUISITION

The property market is widely expected to start recovering in 2021, on the back of a more positive outlook for the economy. Bank Negara Malaysia (BNM) states that a more positive outlook is supported by a recovery in global demand, and turnaround in public and private sector expenditure amidst continued support from policy measures. Despite prevailing subdued market sentiments, the Malaysia market performed better than expected in 2020, placing it in good position to make positive gains in the coming year, albeit at a gradual and cautious pace.

SCIB and its Group of Companies (“Group”) is principally engaged in the manufacturing of concrete products for use in the construction and infrastructure sectors such as pre-stressed spun pile, reinforced concrete square pile, spun concrete pipe, reinforced concrete box culvert, prestressed beam, concrete roofing tiles and prefabricated concrete elements or IBS components such as hollowcore slab, wall panel, column and beam.

The Proposed Acquisition of KPCSB was undertaken with a view to penetrate into the manufacturing and construction sector of supplying precast concrete components, such as precast beam, column, wall staircase, half slab and plank to the market in Peninsular Malaysia. Looking ahead, the Proposed Acquisition will enable the Group to participate in the expected implementation of new and on-going infrastructure projects such as the such as the East Coast Rail Link, MRT2 (SSP Line, Sungai Buloh-Putrajaya), LRT3 (Bandar Utama-Klang), Lebuhraya Putrajaya (Mex-KLIA-KLIA2).

Source:

1. https://cdncms.pgimgs.com/pmi/2020/12/PropertyGuru_Malaysia_PropertyMarketOutlook_2021_Full_Report.pdf
2. Real Estate Market Outlook 2020, CBRE/WTW/Research/APAC

6 FINANCIAL EFFECTS

6.1 Issued share capital and substantial shareholders’ shareholdings

The Proposed Acquisition of KPCSB has no effect on the issued and paid-up share capital and the substantial shareholders’ interest in SCIB as it does not involve the issuance of new shares in SCIB.

6.2 Net Assets and gearing

The Proposed Acquisition is not expected to have any material effect on the audited consolidated Net Assets and Net Assets per share of SCIB for the financial year ending 31 December 2021.

The actual effect on the gearing level of the SCIB would vary accordingly to the proportion of such internally generated funds and/or bank borrowings to be undertaken to fund its financing obligations pursuant to the Proposed Acquisition.

6.3 Earnings and earnings per share (“EPS”)

The Proposed Acquisition is expected to contribute positively to the consolidated earnings and EPS of SCIB in the future through its shareholdings in KPCSB.

The effects of the Proposed Acquisition on the future consolidated earnings and/or EPS of SCIB would depend on, amongst others, the future performance of KPCSB and funding costs associated with the bank borrowings, if any, to be taken for the Proposed Acquisition.

7 LIABILITIES TO BE ASSUMED

Following the completion of the Proposed Acquisition, SCIB will not assume any liabilities, including contingent liabilities or guarantees pursuant to the Proposed Acquisition.

8 RISK FACTORS

The risks associated with the Proposed Acquisition, which are not exhaustive, are as follows:

(i) Investment risk

The Proposed Acquisition is expected to further enhance the Group’s revenue. However, there is no assurance that the potential synergistic benefits of the Proposed Acquisition will be realised or that the Group will be able to generate sufficient profits arising from the Proposed Acquisition to offset the associated acquisition costs incurred.

In view of the above, the Group will vest their best endeavors to ensure optimization of return of the Proposed Acquisition.

(ii) Financial risk

The Proposed Acquisition will be funded through a combination of internally generated funds and/or bank borrowings. Incurring additional bank borrowings will correspondingly increase the borrowing and gearing level of the Group. The abovementioned would expose the Group to additional interest rate and debt servicing risks while any utilization of internal funds is expected to result in a reduction of funds available for working capital purposes, which may have an adverse effect on the Group's cash flow position.

Notwithstanding the above, the Group will endeavor to manage its cash flow position and funding requirements prudently, to address the above risks.

(iii) Operational risk

Sub-optimal operations of the factory can potentially result in premature degradation and wear-and-tear due to poor maintenance, leading to higher replacement cost/ operating expenses.

In order to perform to the highest standard and on par with the nominal acceptable requirement and specification of the project, the Group will engage an experienced Operating & Maintenance ("O&M") contractor with a long and proven track record in operating in the construction industry mainly in IBS.

9 DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

None of the Directors and/or major shareholders of the Company and/ or person connected to them have any interest, whether direct and/or indirect, in the SSA.

10 STATEMENT BY DIRECTORS

The Board of Directors of the Company is in the opinion that the above SSA is in the best interest of the Company.

11 HIGHEST PERCENTAGE RATIO

The highest percentage ratio applicable to the Proposed Acquisition pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is 9.6% based on the audited consolidated financial statements of SCIB for the financial year ended 31 December 2019.

12 APPROVALS REQUIRED

The SSA is not subject to the approval of the shareholders of SCIB or any regulatory authorities.

13 EXPECTED TIMEFRAME TO COMPLETE THE PROPOSED ACQUISITION

The Proposed Acquisition is expected to complete by the second quarter of year 2021.

14 DOCUMENT AVAILABLE FOR INSPECTION

The SSA is available for inspection for three (3) months from the date of this announcement during normal business hours at the Corporate Office of SCIB at 1-07-01, Block 1, Star Central Corporate Park, Lingkaran Cyber Point Timur, Cyber 12, 63000, Cyberjaya, Selangor.

Date of Announcement: 14 April 2021