

MESB BERHAD (“MESB” OR “COMPANY”)

(I) PROPOSED DISPOSALS;

(II) PROPOSED ACQUISITIONS; AND

(III) PROPOSED RENEWAL OF SHAREHOLDERS’ MANDATE

1.0 INTRODUCTION

1.1 On behalf of the board of directors of MESB (“**Board**”), KAF Investment Bank Berhad (“**KAF IB**”) wishes to announce that the Company had on 22 September 2022 entered into the following agreements:-

- (i) a conditional share sale agreement for the proposed disposals of the entire equity interests in Active Fit Sdn Bhd (“**Active Fit**”) and MESB Capital & Development Sdn Bhd (“**MCD**”) as well as 45% equity interest in Miroza Leather (M) Sdn Bhd (“**Miroza**”) (collectively known as the “**Disposal Companies**”) to Trend Navigator Sdn Bhd (“**Trend**” or “**Purchaser**”) for a total cash consideration of RM46,000,000 (“**Proposed Disposals**”); and
- (ii) a conditional share purchase agreement for the proposed acquisitions of the entire equity interests in N.U. Recycle Sdn Bhd (“**NURSB**”), Formidex Sdn Bhd (“**Formidex**”) and Waier Trading Sdn Bhd (“**Waier**”) (collectively known as the “**Acquiree Companies**”) from the Vendors (as defined herein) for a total cash consideration of RM51,000,000 (“**Proposed Acquisitions**”).

The Proposed Disposals and Proposed Acquisitions are collectively referred to as the “**Proposals**”, whilst the conditional share sale agreement for the Proposed Disposals (“**Disposal SSA**”) and the conditional share purchase agreement for the Proposed Acquisitions (“**Acquisition SSA**”) are collectively referred to as the “**Agreements**”.

Further details of the Proposals are set out in the ensuing sections.

1.2 In addition, MESB will also be procuring its shareholders’ mandate for recurrent related party transactions expected to be entered into by MESB and its subsidiaries (“**MESB Group**” or “**Group**”) with companies related to Datuk Wong Sak Kuan (“**DWSK**”), a Vendor, following the completion of the Proposed Acquisitions (“**New RRPTs**”) in addition to the on-going recurrent related party transactions (“**Existing RRPTs**”) where MESB had procured the general mandate from its shareholders on 7 December 2021 (“**General Mandate**”).

The General Mandate shall, in accordance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) (“**Listing Requirements**”), expire at the forthcoming annual general meeting, unless approval for its renewal is obtained from its shareholders. In this regard, the Company will seek the approval of its shareholders for a renewal of General Mandate, including the New RRPTs, at the forthcoming general meeting to be convened (“**Proposed Renewal of Shareholders’ Mandate**”).

A circular to the shareholders of MESB setting out details of the Proposed Renewal of Shareholders’ Mandate will be issued in due course.

2. DETAILS OF THE PROPOSALS

2.1 Background information on the Proposed Disposals

The Proposed Disposals entail the disposal by MESB of:-

- (i) 10,670,000 ordinary shares in Active Fit, representing 100% of the issued share capital of Active Fit (“**Active Fit Sale Shares**”);
- (ii) 2,666,974 ordinary shares in MCD, representing 100% of the issued share capital of MCD (“**MCD Sale Shares**”); and
- (iii) 3,870,000 ordinary shares in Miroza, representing 45% of the issued share capital of Miroza (“**Miroza Sale Shares**”),

for a total cash consideration of RM46,000,000 (“**Disposal Consideration**”) and subject to the terms and conditions as set out in the Disposal SSA.

Pursuant to the Disposal SSA, the Proposed Disposals shall be implemented in two (2) tranches as follows:-

- (a) 80% or 8,536,000 Active Fit Sale Shares together with the entire 2,666,974 MCD Sale Shares and 3,870,000 Miroza Sale Shares (“**First Tranche Sale Shares**”) are expected to be disposed by the first completion date, which is within three (3) months from the date the Disposal SSA becomes unconditional (“**First Completion Date**”); and
- (b) the remaining 20% or 2,134,000 Active Fit Sale Shares (“**Second Tranche Sale Shares**”) are expected to be disposed within seven (7) months from the First Completion Date (“**Second Completion Date**”), subject to and conditional upon the release of a subsisting corporate guarantee provided by MESB in favour of Active Fit (“**Active Fit Corporate Guarantee**”).

The Active Fit Sale Shares, MCD Sale Shares and Miroza Sale Shares are collectively referred to as the “**Sale Shares**”.

The Disposal Consideration to be received by MESB for the Disposal Companies are as below:-

	Disposal Consideration (RM)			
	Active Fit	MCD	Miroza	Total
First Completion Date	8,000,000	3,000,000	33,000,000	44,000,000
Second Completion Date	2,000,000	-	-	2,000,000
Total	10,000,000	3,000,000	33,000,000	46,000,000

Upon completion of the Proposed Disposals, Active Fit and MCD will cease to be the subsidiaries of MESB, whilst Miroza will remain as a 55%-owned subsidiary of MESB.

Please refer to Appendix I of this announcement for the salient terms of the Disposal SSA.

2.1.1 Information on the Disposal Companies

2.1.1.1 Active Fit

Active Fit was incorporated in Malaysia on 31 July 2004 as a private limited company under the Companies Act, 2016 (“**Act**”). It is principally involved in brand building, concept development, fashion designing, sourcing, marketing, distribution and retailing of casual apparel and accessories.

As at 30 August 2022, being the latest practicable date prior to this announcement (“**LPD**”), Active Fit has an issued share capital of RM10,670,000 comprising 10,670,000 ordinary shares. The directors of Active Fit are Loke Lee Ping and Chua Jin Kau. Active Fit is a wholly-owned subsidiary of MESB.

The historical financial information of Active Fit for the past three (3) financial years/periods from 15-month financial period ended (“**FPE**”) 30 June 2019 to financial years ended (“**FYE**”) 30 June 2021 and the latest unaudited FYE 30 June 2022 are as follows:-

	<----- Audited ----->			Unaudited
	15-month FPE 30 June 2019 RM’000	FYE 30 June 2020 RM’000	FYE 30 June 2021 RM’000	FYE 30 June 2022 RM’000
Revenue	47,155	27,306	29,046	39,972
Profit/(Loss) before taxation (“ PBT ”/“(LBT)”))	179	(2,183)	3,303	(10,633)
Profit/(Loss) after taxation (“ PAT ”/“(LAT)”))	179	(2,183)	3,303	(10,633)
Shareholders’ funds/Net assets (“ NA ”)	17,286	17,183	20,486	9,853
Issued share capital	8,590	10,670	10,670	10,670
Earnings/(Loss) per share (“ EPS ”/“(LPS)”) (RM)	0.02	(0.20)	0.31	(1.00)
NA per share (RM)	2.01	1.61	1.92	0.92

In line with a 6.37% increase in revenue to RM29.05 million (FYE 30 June 2020: RM27.31 million) wage subsidy and lower administrative expenses, Active Fit recorded a PAT of RM3.30 million as opposed to an LAT of RM2.18 million incurred during FYE 30 June 2020.

2.1.1.2 MCD

MCD was incorporated in Malaysia on 18 October 1990 as a private limited company under the Act. It is principally engaged in investment holding activities. As at the LPD, MCD has an issued share capital of RM2,666,974 comprising 2,666,974 ordinary shares. The directors of MCD are Loke Lee Ping and Chua Jin Kau. MCD is a wholly-owned subsidiary of MESB.

The historical financial information of MCD for the past three (3) financial years/periods from 15-month FPE 30 June 2019 to FYE 30 June 2021 and the latest unaudited FYE 30 June 2022 are as follows:-

	<----- Audited ----->			Unaudited
	15-month FPE 30 June 2019 RM	FYE 30 June 2020 RM	FYE 30 June 2021 RM	FYE 30 June 2022 RM
Revenue	54,000	43,200	27,400	49,400
(LBT)	(38,254)	(33,418)	(51,084)	(31,222)
(LAT)	(47,654)	(44,958)	(56,360)	(41,904)
Shareholders' funds/NA	2,636,732	2,591,774	2,535,414	2,493,510
Issued share capital	2,666,974	2,666,974	2,666,974	2,666,974
(LPS) (RM)	(0.02)	(0.02)	(0.02)	(0.02)
NA per share (RM)	0.99	0.97	0.95	0.93

In line with a 36.57% decrease in revenue to RM0.03 million (FYE 30 June 2020: RM0.04 million) due to lower sales recorded during coronavirus 2019 ("COVID-19"). MCD recorded a higher LAT of RM0.06 million as compared to the LAT recorded in FYE 30 June 2020 of RM0.04 million.

2.1.1.3 Miroza

Miroza was incorporated in Malaysia on 17 June 1992 as a private limited company under the Act. It is principally engaged in trading of leather products and apparels. As at the LPD, Miroza has an issued share capital of RM8,637,000 comprising 8,600,000 ordinary shares. The directors of Miroza are Loke Lee Ping and Chua Jin Kau. Miroza is a wholly-owned subsidiary of MESB.

The historical financial information of Miroza for the past three (3) financial years/periods from 15-month FPE 30 June 2019 to FYE 30 June 2021 and the latest unaudited FYE 30 June 2022 are as follows:-

	<----- Audited ----->			Unaudited
	15-month FPE 30 June 2019 RM'000	FYE 30 June 2020 RM'000	FYE 30 June 2021 RM'000	FYE 30 June 2022 RM'000
Revenue	187,209	121,051	106,955	149,073
PBT	10,397	1,093	8,821	22,216
PAT	7,494	566	6,506	17,055
Shareholders' funds/NA	44,930	48,096	54,602	71,658
Issued share capital	6,037	8,637	8,637	8,637
EPS (RM)	1.25	0.07	0.76	1.98
NA per share (RM)	7.49	5.59	6.35	8.33

Although the revenue decreased by 11.64% to RM106.96 million (FYE 30 June 2020: RM121.05 million), Miroza recorded a substantially higher PAT to RM6.51 million pursuant to lower operating expenses and wage subsidy.

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2.1.2 Information on the Purchaser

Trend was incorporated in Malaysia on 2 August 2022 as a private limited company under the Act. It is currently dormant but is intended for investment holding activities. As at the LPD, Trend has an issued share capital of RM10,000 comprising 10,000 ordinary shares. The directors and shareholders of Trend are Siow Sea Nen and Chen Mui Yong. Their respective shareholdings in Trend are as follows:-

Directors	Nationality	No. of ordinary shares			
		Direct	%	Indirect	%
Siow Sea Nen	Malaysian	9,900	99.0	-	-
Chen Mui Yong	Malaysian	100	1.0	-	-

2.1.3 Basis of arriving at and justifications for the Disposal Consideration

The Disposal Consideration was arrived at on a “willing-buyer willing-seller” basis after taking into consideration:-

- (i) the historical financial results of the Disposal Companies as given in Section 2.1.1 of this announcement; and
- (ii) the fair equity value range of the Sale Shares of between RM44.80 million and RM51.20 million (“**Disposal Valuation Range**”) as appraised by Asia Equity Research Sdn. Bhd. (“**AER**”), vide its valuation letter dated 30 August 2022 (“**Disposal Valuation Letter**”).

The Disposal Valuation Range was appraised by AER based on the following:-

- (a) the minimum Disposal Valuation Range of RM44.80 million was arrived based on the aggregate of the proportionate unaudited NA of Active Fit and Miroza as at 30 June 2022 as well as the unaudited adjusted NA of MCD after incorporating the revaluation surplus of its investment property of RM0.24 million via income approach; and
- (b) the maximum Disposal Valuation Range of RM51.20 million was arrived based on the following assumptions:-
 - (aa) Active Fit and Miroza
 - price to book multiple approach (“**PBR**”) of 1.0 time, where the median PBRs of comparable companies listed on Bursa Securities selected by AER (“**Comparable Companies**”) is 0.7 times;
 - price to earnings multiple approach (“**PER**”) of 7.0 times, being the median PERs of the Comparable Companies;
 - enterprise value to earnings before interest, taxes, depreciation and amortisation approach (“**EV/EBITDA**”) of 4.0 times, being the median EV/EBITDAs of the Comparable Companies; and
 - a discount for lack of marketability of 15% is applied for each Disposal Company computed using PER and EV/EBITDA.
 - (bb) MCD
 - unaudited adjusted NA after incorporating the revaluation surplus of its investment property of RM1.64 million via comparison approach.

Premised on the above, the Board is of the opinion that the Disposal Consideration is justifiable as it falls within the Disposal Valuation Range.

2.1.4 Mode of settlement of the Disposal Consideration

The Disposal Consideration shall be fully satisfied in cash on the First Completion Date and Second Completion Date as set out in Section 2.1 of this announcement.

2.1.5 Assumption of liabilities

There are no other liabilities, including contingent liabilities, which will remain with the Group upon the First Completion Date and no guarantee has been given by MESB to MCD, Active Fit or the Purchaser, save for the Active Fit Corporate Guarantee which shall be released prior to the Second Completion Date.

The Active Fit Corporate Guarantee shall be for all amounts due under the relevant licensing agreement, including, without limitation, all minimum guaranteed royalty payments, all royalties, and all other amounts due, which shall be no less than the cumulative minimum guaranteed royalty amount of United States Dollar (“USD”) 1,675,000 (equivalent to approximately RM7,502,325 based on an exchange rate as at LPD of USD1 : RM4.4790). Pursuant to the Disposal SSA, the Purchaser and MESB agreed that from the First Completion Date to the release of the Active Fit Corporate Guarantee by MESB, any liabilities arising from the Active Fit Corporate Guarantee, is to be borne by the Purchaser and MESB proportionately based on their respective shareholdings in Active Fit upon the First Completion Date, namely 80% by the Purchaser and 20% by MESB.

As for Miroza, where MESB will retain a 55.0% equity interest upon completion of the Proposed Disposals, it will continue to be accounted for by MESB via consolidation and hence, all liabilities of Miroza will continue to be consolidated to the MESB Group after completion of the Proposed Disposals.

2.1.6 Date and original cost of investment

The dates and original costs of investment of MESB in the Disposal Companies are as follows:-

Disposal Companies	Date of investment	No. of shares	Original cost of investment (RM)
Active Fit	15 October 2015	2,500,000	19,000,000
	25 April 2019	6,090,000	6,090,000
	19 June 2020	2,080,000	2,080,000
			27,170,000
MCD	10 February 1996	2	2
	31 March 2014	2,666,972	2,666,972
			2,666,974
Miroza	18 August 2004	6,000,000	*34,636,458
	19 June 2020	2,600,000	2,600,000
			37,236,458
			67,073,432

Note *:- Excluding the shortfall of the profit guarantee of RM1,363,542 in accordance with the audited financial statement as at 31 December 2005.

2.1.7 Proposed utilisation of the proceeds from the Proposed Disposals

The total gross proceeds of RM46.0 million arising from the Proposed Disposals are proposed to be utilised in the following manner:-

Utilisation	Estimated timeframe	RM'000
Part settlement of the purchase consideration for the Proposed Acquisitions of RM51,000,000 (“ Purchase Consideration ”)	Within 24 months	44,700
Estimated expenses *	Upon completion of the Proposals	1,300
Total		46,000

*Note *:- Being the estimated expenses incidental to the Proposals, such as professional fees, stamp duty, tax, fees to authorities, printing, postage, advertising and other miscellaneous expenses. Any surplus or shortfall for such expenses will be adjusted accordingly against the amount allocated for part settlement of the Purchase Consideration.*

2.2 Background information on the Proposed Acquisitions

The Proposed Acquisitions entail the acquisition by MESB of the entire equity interests of the Acquiree Companies, comprising:-

- (i) 1,099,104 ordinary shares in NURSB from Lotus Essential Sdn Bhd (“LESB”), DWSK and Lee Wai Fun (“LWF”);
 - (ii) 190,002 ordinary shares in Formidex from LESB; and
 - (iii) 100,000 ordinary shares in Waier from LESB,
- (collectively refer to as the “Acquisition Shares”),

for the Purchase Consideration and subject to the terms and conditions as set out in the Acquisition SSA.

DWSK, LWF and LESB are collectively referred to as the “Vendors”.

The portions of the Purchase Consideration payable for the Acquiree Companies are as below:-

Vendors	Purchase Consideration (RM)			
	NURSB	Formidex	Waier	Total
LESB	14,028,000	11,200,000	9,800,000	35,028,000
DWSK	12,972,000	-	-	12,972,000
LWF	3,000,000	-	-	3,000,000
Total	30,000,000	11,200,000	9,800,000	51,000,000

Upon completion of the Proposed Acquisitions, the Acquiree Companies shall become the wholly-owned subsidiaries of MESB.

Please refer to Appendix II of this announcement for the salient terms of the Acquisition SSA.

2.2.1 Information on the Acquiree Companies

2.2.1.1 NURSB

NURSB was incorporated in Malaysia on 20 November 2007 as a private limited company under the Act. NURSB is principally engaged in the sale and purchase of recycling materials. As at the LPD, NURSB has an issued share capital of RM1,105,274 comprising 1,099,104 ordinary shares. The directors of NURSB are DWSK, LWF and Gui Kim Hoo. NURSB’s shareholders and the shareholders’ shareholdings are as follows:-

Name	Country of Incorporation / Nationality	Direct		Indirect	
		No. of shares	%	No. of shares	%
LESB	Malaysia	513,930	46.76	-	-
DWSK	Malaysian	475,264	43.24	*513,930	*46.76
LWF	Malaysian	109,910	10.00	-	-

*Note *:- Deemed interested by virtue of his interest in LESB pursuant to Section 8 of the Act.*

The historical financial information of NURSB for the past three (3) financial years/periods from FYE 30 June 2019 to 14-month FPE 30 June 2021 and the unaudited financial information of FYE 30 June 2022 are as follows:-

	<----- Audited ----->			Unaudited
	FYE 30 April 2019 RM	FYE 30 April 2020 RM	14-month FPE 30 June 2021 RM	FYE 30 June 2022 RM
Revenue	14,258,698	9,541,998	19,128,309	27,681,824
PBT	810,228	217,211	1,727,726	2,477,987
PAT	601,228	55,296	1,319,111	1,883,270
Shareholders' funds/NA	1,052,181	1,107,477	1,679,198	3,562,468
Issued share capital	1,105,274	1,105,274	1,105,274	1,105,274
EPS (RM)	0.55	0.05	1.20	1.71
NA per share (RM)	0.96	1.01	1.53	3.24

In tandem with an increase in revenue by 100.52% to RM19.13 million (FYE 30 April 2020: RM9.54 million), NURSB recorded a substantially higher PAT of RM1.32 million (FYE 30 June 2020: RM0.05 million).

2.2.1.2 Formidex

Formidex was incorporated in Malaysia on 25 June 2014 as a private limited company under the Act. It is principally involved in the provision of slitting service and trim waste sales. As at the LPD, Formidex has an issued share capital of RM190,002 comprising 190,002 ordinary shares. The directors of Formidex are DWSK and LWF. Formidex is a wholly-owned subsidiary of LESB.

The historical financial information of Formidex for the past three (3) FYE 30 April 2019 to FYE 30 April 2021 and the unaudited financial information of FYE 30 April 2022 are as follows:-

	<----- Audited ----->			Unaudited
	FYE 30 April 2019 RM	FYE 30 April 2020 RM	FYE 30 April 2021 RM	FYE 30 April 2022 RM
Revenue	1,976,557	1,953,624	1,283,026	2,181,044
(LBT)/PBT	675,256	676,321	258,526	866,417
(LAT)/PAT	539,334	502,868	202,030	658,477
Shareholders' funds/NA	935,253	1,200,618	622,648	1,281,125
Issued share capital	190,002	190,002	190,002	190,002
(LPS)/EPS (RM)	2.84	2.65	1.06	3.47
NA per share (RM)	4.92	6.32	3.28	6.74

In tandem with a decrease in revenue by 34.36% to RM1.28 million (FYE 30 April 2020: RM1.95 million), Formidex recorded a lower PAT of RM0.20 million (FYE 30 April 2020: RM0.50 million).

2.2.1.3 Waier

Waier was incorporated in Malaysia on 27 December 2002 as a private limited company under the Act. It is principally involved in the business of recycle materials. As at the LPD, Waier has an issued share capital of RM100,000 comprising 100,000 ordinary shares. The directors of Waier are DWSK and LWF. Waier is a wholly-owned subsidiary of LESB.

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The historical financial information of Waier for the past three (3) FYE 30 April 2019 to FYE 30 April 2021 and the unaudited financial information of FYE 30 April 2022 are as follows:-

	<----- Audited ----->			Unaudited
	FYE 30 April 2019	FYE 30 April 2020	FYE 30 April 2021	FYE 30 April 2022
	RM	RM	RM	RM
Revenue	4,325,001	4,611,003	7,734,680	7,242,271
(LBT)/PBT	(72,732)	(154,636)	711,701	480,269
(LAT)/PAT	(59,755)	(142,758)	609,329	365,004
Shareholders' funds/NA	661,522	518,764	1,128,093	1,493,097
Issued share capital	100,000	100,000	100,000	100,000
(LPS)/EPS (RM)	(0.60)	(1.43)	6.09	3.65
NA per share (RM)	6.62	5.19	11.28	14.93

In line with an increase in revenue by 67.68% to RM7.73 million (FYE 30 April 2020: RM4.61 million), Waier recorded a PAT of RM0.61 million as opposed to an LAT of RM0.14 million incurred during FYE 30 April 2020.

2.2.2 LESB

LESB was incorporated in Malaysia on 26 July 2005 as a private limited company under the Act. The principal activities of LESB are that of investment holding, trading of industrial and food grade starches and industrial coal for power and steam generation, and recycling of paper and plastics. As at the LPD, LESB has an issued share capital of RM13,205,000, comprising 13,205,000 ordinary shares.

The directors and shareholders of LESB are DWSK and Wong Kim Loong. Their respective shareholdings in LESB are as follows:-

Name	Nationality	Direct		Indirect	
		No. of shares	%	No. of shares	%
Wong Kim Loong	Malaysian	125,000	0.95	-	-
DWSK	Malaysian	13,080,000	99.05	-	-

2.2.3 Basis and justifications of arriving at the Purchase Consideration

The Purchase Consideration was arrived at on a “willing-buyer willing-seller” basis after taking into consideration:-

- (i) the future earnings potential of the Acquiree Companies pursuant to the outlook and prospects of the waste recycling industry, where the Acquiree Companies are involved in as more particularly set out in Section 5.3 of this announcement;
- (ii) the fair equity value range of the Acquiree Companies of between RM49.40 million and RM52.70 million (“**Acquisition Valuation Range**”) as appraised by AER, vide its valuation letter dated 30 August 2022 (“**Acquisition Valuation Letter**”).

In arriving at the Acquisition Valuation Range, AER has adopted, amongst others, the following parameters:-

- (a) equity discount rates of between 15.0% to 16.0%;
 - (b) a terminal value based on the assumed annual steady state growth rate of 0%; and
 - (c) the Acquiree Companies’ projected net margin of 12%, 12% and 11% for the 12-month FYE/FPE 30 June 2023, 30 June 2024 and 30 June 2025 respectively.
- (iii) a two (2)-year profit guarantee of RM10.0 million in aggregate on the PAT of the Acquiree Companies for the 12-month FYE/FPE 30 June 2023 and 30 June 2024, which represents an implied price-to-earnings multiple of 10.2 times based on an average profit guarantee of RM5.0 million per year.

Premised on the above, the Board is of the opinion that the Purchase Consideration is justifiable.

2.2.4 Sources of funding

The Purchase Consideration shall be fully satisfied by way of cash, via a combination of the proceeds arising from the Proposed Disposals as set out in Section 2.1.7 of this announcement as well as internally-generated funds and/or bank borrowings.

2.2.5 Assumption of liabilities

MESB will not assume any liability, including contingent liabilities and guarantees, pursuant to the Proposed Acquisitions. The existing liabilities of the Acquiree Companies will be settled by the companies concerned in the ordinary course of their business.

2.2.6 Additional financial commitment required

Save for the Purchase Consideration, there is no other financial commitment required in putting the Acquiree Companies on stream on the premise that the Acquiree Companies are already in operations and profitable.

2.2.7 Date and original cost of investment

The respective original costs and dates of investment in the Acquiree Companies by the Vendors are as follows:-

(i) NURSB

<u>Vendors</u>	<u>Date of investment</u>	<u>No. of shares</u>	<u>Original cost of investment (RM)</u>
LESB	31 October 2016	220,100	1,000,000
	1 May 2018	293,830	300,000
			<u>1,300,000</u>
DWSK	29 April 2019	200,209	200,209
	23 May 2019	220,100	220,100
	2 August 2022	54,955	54,955
			<u>475,264</u>
LWF	29 April 2019	109,910	109,910
			<u>1,885,174</u>

(ii) Formidex

<u>Vendor</u>	<u>Date of investment</u>	<u>No. of shares</u>	<u>Original cost of investment (RM)</u>
LESB	31 October 2016	190,002	800,000

(iii) Waier

<u>Vendor</u>	<u>Date of investment</u>	<u>No. of shares</u>	<u>Original cost of investment (RM)</u>
LESB	31 October 2016	100,000	800,000

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3.0 RATIONALE OF THE PROPOSALS

The Board is of the view that the Proposed Disposals represent an opportunity for the Company to unlock and realise part of its investment in apparel related businesses and at the same time, the proceeds arising therefrom can be utilised to part finance the Proposed Acquisitions, which serve as an avenue for the Group to further expand into the waste recycling business (“**Recycling Business**”) with the aim to bolster its earnings stream and market share in such business segment following the business diversification sought by MESB in April 2021 for the same. Following the completion of the Proposed Disposals, MESB will still retain a controlling 55.0% equity interest in Miroza, which carries a brand portfolio comprises Crocodile, Ducati, Alain Delon, Pierre Cardin, Feraud, Giamax, Giossardi and Tocco Toscano.

4.0 RISK FACTORS

4.1 Completion risk

The Proposals are conditional upon fulfilment of the respective conditions precedent of the Agreements. There is a possibility that the Proposals cannot be completed within the time period permitted under the Agreements due to failure in fulfilling the conditions precedent. In the event that the conditions precedent are not fulfilled within the stipulated time period or any approvals required under Agreements shall contain terms which are not acceptable to the parties to Agreements, the completion of the Proposals may be affected. In this regard, the Board shall endeavour to ensure that there is no delay in fulfilling all the conditions precedent by the parties concerned and should there be any delay beyond the agreed time period, the Board shall negotiate with the with the relevant parties to Agreements to mutually extend the relevant period prior to its expiry.

4.2 Loss of future contribution from the Disposal Companies

Pursuant to the Proposed Disposals, Active Fit and MCD will cease to be the subsidiaries of MESB and that MESB’s equity interest in Miroza will reduce to 55.0%. In this regard, there is no assurance that after the completion of the Proposals, the Group will be able to generate the desired return from its remaining business. Nevertheless, MESB is optimistic about the future financial performance of the Group with the consolidation of the earnings from the Acquiree Companies pursuant to the Proposed Acquisitions.

4.3 Business risk

The Board does not foresee any material risks pursuant to the Proposed Acquisitions except for the inherent risk factors associated with the Recycling Business in which the MESB Group is already involved in. The Proposed Acquisitions, nevertheless, will result in an increase in exposure to such inherent risks. It is therefore to be noted that the general business risks and risks inherent in the Recycling Business may have a greater impact on the enlarged MESB Group upon the completion of the Proposed Acquisitions. Nevertheless, leveraging on the experiences of the Group and the Acquiree Companies in the Recycling Business, the enlarged MESB Group is expected to prevail over any adversities and sustain its business operations.

5.0 INDUSTRY OVERVIEW AND PROSPECTS

5.1 Overview and outlook of the Malaysian economy

The Malaysian economy registered a strong growth of 8.9% in the second quarter of 2022 (1Q 2022: 5.0%). While growth was lifted to some extent by the low base from the Full Movement Control Order in June 2021, growth in April and May 2022 was particularly robust, underpinned by the continued recovery in labour market conditions and policy support. The improvement also reflected normalising economic activity as the country moved towards endemicity and reopened international borders. Exports remain supported by strong demand for electrical and electronics products. In terms of economic activity, the services and manufacturing sectors continued to drive growth. On a quarter-on-quarter seasonally-adjusted basis, the economy increased by 3.5% (1Q 2022: 3.8%).

During the quarter, domestic demand registered a higher growth of 13.0% (1Q 2022: 4.4%). This was mainly supported by a robust growth in private expenditure amid further normalisation of economic activity, as well as improving labour market conditions. On the external front, demand for Malaysia's exports, particularly for electrical and electronics products, remained strong.

Private consumption grew at a faster pace of 18.3% (1Q 2022: 5.5%), driven by higher spending on necessities and selected discretionary items such as restaurants and hotels, recreational services and household furnishings. The strength in consumer expenditure was primarily driven by the recovery in the labour market. Policy support, including the implementation of minimum wage hike, Bantuan Keluarga Malaysia and an Employees Provident Fund related measure also provided additional lift to consumer spending. Public consumption expanded at a moderate pace of 2.6% (1Q 2022: 6.7%), weighed down by lower supplies and services spending, reflecting smaller COVID-19 related expenditure.

Gross fixed capital formation registered a higher growth of 5.8% (1Q 2022: 0.2%) as capital spending by both private and public sectors improved. By type of asset, investments in structures and other assets expanded by 3.8% (1Q 2022: -7.9%) and 0.2% (1Q 2022: -0.9%) respectively. Meanwhile, machinery and equipment investments grew by 9.6% (1Q 2022: 12.0%). Private investment expanded by 6.3% (1Q 2022: 0.4%), supported by increased capital spending in the services and manufacturing sectors. Structures investments improved, as businesses across the key sectors resumed investment projects, particularly in the non-residential segment. Furthermore, capital spending in manufacturing and Information and Communications Technology related machinery and equipment continued to lift investment growth. This is in line with firms' efforts to expand capacity amid continued demand and further adoption of automation and digitalisation. Public investment registered a growth of 3.2% (1Q 2022: -0.9%), driven mainly by improvement in capital expenditure by public corporations in the oil and gas, and telecommunication sectors.

(Source: Quarterly Bulletin 2Q 2022, Bank Negara Malaysia)

5.2 Overview and outlook of the retail sector in Malaysia

Malaysia's retail sale is anticipated to see a 6.3% growth for 2022, an improvement over a prior estimate of 6% made in November last year, according to independent retail research firm Retail Group Malaysia ("RGM"). Although the industry looks forward to a recovery, it is cognisant of the challenges in the year, particularly the impact of the Omicron wave that had resulted in a high number of new infections and increased hospitalisation rates.

RGM pointed out that daily positive cases climbed to a high of 20,000 on Feb 11 and has translated to a gradual drop in car traffic as infections remain above that threshold. Nonetheless, it pointed out that the retail industry expects the first quarter of 2022 to report a 16.5% growth on the back of Chinese New Year celebrations and further relaxation of standard operating procedures.

RGM estimated department store cum supermarket operators to maintain its recovery momentum with a growth rate of 28.2% for Q1'22, while department store operators are expecting a 29.9% growth and operators of mini-market, convenience store and cooperative are anticipating a growth of 9.5%. On the other hand, the supermarket and hypermarket sub-sector will see its business to decline by 6% for the first quarter of 2022.

For the fashion and fashion accessories sector, it had eyed a strong recovery with a 34% growth in the quarter and retailers in the children and baby products is expected to see a 14.3% growth. Similarly, pharmacy operators expected a 12.3% expansion and those in the personal care sub-sector are hopeful for a 20.5% growth. Retailers of furniture & furnishing, home improvement as well as electrical & electronics are expecting to maintain their growth momentum with a growth rate of 14.0% in Q1.

In Q2'22, it projected retail to grow 4.2% attributed to the Hari Raya festival, followed by a third quarter growth of 3.4% on the back of a low base in the same period last year. By then, Malaysia should have begun its endemic phase of Covid-19. For the final quarter of 2022, Malaysia's retail industry is hopeful of a 3.6% growth rate after a rosy performance a year ago.

(Source: "RGM: Malaysia's retail sale to grow 6.3% in 2022" dated 9 March 2022, The Sun Daily)

5.3 Overview and outlook of the recycling industry in Malaysia

In Malaysia, the population is increasing rapidly, reaching 32.8 million in 2021, generating a tremendous amount of solid waste, which is estimated to be 38,427 metric tonnes per day in 2021 (1.17 kg/capita/day). Of which, 82.5 per cent is disposed in landfills. By 2022, the amount of municipal solid waste collected would be 14 million metric tonnes per annum, enough to fill the Petronas Twin Towers every seven days. Therefore, there is an urgent need to respond to these mounting issues and provide new facilities as Malaysia's rate has exceeded the Japan International Cooperation Agency study's proposed rate of 30,000 metric tonnes per day in 2020 for Malaysia. Meanwhile, the Solid Waste Corporation reported that the recycling rate achieved in 2020 is 30.67 per cent and is lower than other developed countries such as Singapore (59 per cent), Korea (49 per cent), and Taiwan (60 per cent).

Addressing these concerns, the Government of Malaysia (“**Government**”) seeks to increase the recycling rate of household waste to 40 per cent under the Twelfth Malaysia Plan. This five-year development roadmap from 2021 to 2025 aims to advance green growth by implementing a clean, green and resilient development agenda with a whole-of-nation approach. Waste will be managed holistically and sustainably by enforcing waste separation at the source and intensifying the reduce, reuse and recycle initiative. Waste separation and recycling facilities will be enhanced, particularly in residential, institutional, and commercial areas. These efforts are in line with the National Cleanliness Policy 2019 to reduce waste pollution as well as to promote the circular economy and waste-to-wealth initiatives.

As Malaysia commits in supporting the circular economy, other areas that are emphasised include adopting the extended producer responsibility approach, user-pays and polluter-pays principles, as well as self-regulation among industries. The circular economy principles are applied in the form of sustainable sourcing or designing, enabling production waste to be fed back into the process to make other products or eventually to generate renewable energy, i.e. waste to energy. Businesses are encouraged to leverage economic instruments, environmentally motivated subsidies, existing green financing incentives and tax incentives to support their green activities.

Aimed at curbing waste generation, the Government provides targeted incentives to companies that undertake recycling of waste such as toxic and non-toxic waste, chemicals and reclaimed rubber. These companies can be considered for a Pioneer Status with 70 per cent tax exemption on the statutory income for five (5) years or an Investment Tax Allowance with 60 per cent tax exemption on the qualifying capital expenditure incurred within five years.

As of September 2021, a total of 372 recycling projects were approved with a total investment of RM15.13 billion. The companies involved are mainly from the paper, printing and publishing industry with investments of RM6.11 billion, followed by the chemicals and chemical products industry (RM3.17 billion) and the rubber products industry (RM2.15 billion).

In exploring more integrated waste management solutions, the Government, through Budget 2020, has extended the Green Technology incentive to 31 December 2023, which was introduced in Budget 2014.

The incentive is expected to encourage firms to rethink their approach by incorporating waste management techniques that include collection, storage, composting and disposal with other core recycling, recovery or waste treatment activities. This aims to further strengthen the green technology ecosystem in Malaysia and enhance firms' operations to include a more holistic approach to waste management.

The rise in environmental degradation in developing countries can no longer be ignored. As the population grows, the increasing waste generation, urbanisation and open dumping ensuing the lack of landfill capacity are causing mounting environmental concerns. Despite policies to encourage consumer waste management through recycling efforts, it is significantly noticeable that the main contributor to waste is the externalities from industrial processes. Therefore, there is a greater need to incorporate and shift to integrated and sustainable waste management practices at all levels to improve and maintain environmental quality.

(Source: Malaysian Investment Development Authority (“MIDA”) e-Newsletter December 2021, MIDA)

5.4 Prospects of the Group

Upon completion of the Proposals, MESB will:-

- (i) continue to hold a substantial interest in apparel and leather accessories related business through its 55.0% equity interest in Miroza, which contributed approximately 74.72% of the Group's total revenue from apparel retail business of RM149.07 million based on the unaudited consolidated financial statements of MESB for FYE 30 June 2022; and
- (ii) be able to further expand into the Recycling Business through the Acquiree Companies with the aim to bolster its earnings stream and market share in such business segment following the business diversification sought by MESB in April 2021 for the same.

Since the commencement of operations during the 4th quarter of FYE 30 June 2021, the Recycling Business segment of the Group had registered a PAT of RM0.11 million on the back of a revenue of RM1.10 million for the FYE 30 June 2021. In line with the favourable and expected growth of the recycling industry, the Board is optimistic of the long term prospects of its Recycling Business segment, particularly with the acquisitions of the Acquiree Companies, which will contribute positively to the future financial performance of the Group. In fact, the Vendors had, pursuant to the Acquisition SSA, provided a two (2)-year profit guarantee of RM10.0 million in aggregate on the PAT of the Acquiree Companies as an assurance of the profitability of the Acquiree Companies for the 12-month FYE/FPE 30 June 2023 and 30 June 2024.

(Source: The management of MESB)

6.0 EFFECTS OF THE PROPOSALS

6.1 Share capital and substantial shareholders' shareholdings

The Proposals are not expected to have any effect on the share capital and the substantial shareholders' shareholdings of the Company as no new ordinary shares of MESB ("MESB Share" or "Share") will be issued pursuant thereto.

6.2 Earnings and EPS

Barring any unforeseen circumstances and on the assumption that the Proposals will be completed by the first quarter of 2024:-

- (i) the Proposed Disposals will result in a proforma loss on disposal of RM1.59 million based on the audited consolidated financial statements of MESB for the FYE 30 June 2021, after taking into consideration, inter alia, the associated cost of investment and expenses incidental to the Proposed Disposals, which will be translated into a consolidated LPS of approximately 1.35 sen to the Company after taking into consideration of MESB's existing issued share capital of 118,040,800 Shares as at the LPD; and
- (ii) the Proposed Acquisitions are expected to contribute positively to the consolidated earnings and EPS of the Group for the FYE 30 June 2023.

Based on the audited consolidated financial statements of MESB for the FYE 30 June 2021 and assuming that the Proposals had been completed at the end of FYE 30 June 2021, the proforma effects of the Proposals on the consolidated earnings and EPS of MESB are as follows:-

	Audited as at FYE 30 June 2021	Upon completion of the Proposals
PAT (RM'000)	9,202	⁽ⁱ⁾ 5,193
No. of Shares ('000)	106,750	106,750
EPS (sen)	8.62	4.86

Note:-

- (i) After adjusted for the following:-
- (a) deconsolidating the audited PAT of Active Fit of RM3.30 million and audited LAT of MCD of RM0.06 million for FYE 30 June 2021;
 - (b) incorporating a proforma loss on disposal of RM1.59 million pursuant to the Proposed Disposals;
 - (c) incorporating 100% of the Acquiree Companies' audited PAT for the FYE 30 April 2021 / 30 June 2021 of RM2.13 million; and
 - (d) the estimated expenses for the Proposals of RM1.30 million.

In relation to the proforma loss on disposal of RM1.59 million, the Company wishes to highlight that the basis in determining the Disposal Consideration include:-

- (a) the historical financials of the Disposal Companies, the latest being unaudited FYE 30 June 2022; and
- (b) the Disposal Valuation Range, which was assessed by AER with due consideration to the latest audited and unaudited consolidated financial statements of the Disposal Companies for the FYEs 30 June 2021 and 2022 respectively.

Solely for the purpose of illustration, based on the latest unaudited consolidated financial statements of MESB for the FYE 30 June 2022 and assuming that the Proposed Disposals had been completed at the end of FYE 30 June 2022, the Proposed Disposals will result in a proforma gain on disposal of RM1.41 million.

6.3 NA and gearing

The effects of the Proposals on the consolidated NA per share and gearing of MESB based on the audited consolidated financial statements of MESB for the FYE 30 June 2021 are as follows:-

	Audited as at 30.6.2021 RM'000	(I) After subsequent events up to LPD RM'000	(II) After (I) and the Proposals RM'000
Share capital	58,645	⁽ⁱ⁾ 62,032	62,032
Retained earnings	23,194	23,194	⁽ⁱⁱ⁾ 20,302
Shareholders' equity	81,839	85,226	82,334
Non-controlling interest	-	-	24,571
Total equity / NA	81,839	85,226	106,905
No. of Shares ('000)	106,750	⁽ⁱ⁾ 118,041	118,041
NA per Share (RM)	0.77	0.72	0.91
Borrowings (RM'000)	17,209	17,209	14,260
Gearing (times)	0.21	0.20	0.13

Notes:-

- (i) After adjusted for the exercise of 11,290,800 warrants 2017/2022 of MESB ("Warrants") at an exercise price of RM0.30 per Warrant.
- (ii) After adjusted for a proforma loss on disposal of RM1.59 million and estimated expenses of RM1.30 million for the Proposals.

6.4 Convertible securities

As at the LPD, save for the outstanding 29,009,200 Warrants, MESB does not have any other convertible securities.

7.0 APPROVALS REQUIRED

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

- (i) the shareholders of MESB at an EGM to be convened for the Proposals, including the continued provision of the Active Fit Corporate Guarantee after the First Completion Date, in accordance with the Listing Requirements and the terms and conditions of the Disposal SSA; and
- (ii) any other relevant parties/authorities (if applicable).

The Proposals are inter-conditional upon each other.

Pursuant to Paragraph 10.02(g) of the Listing Requirements, the highest percentage ratio applicable to the Proposals are 67.10% and 62.32% respectively based on the latest audited consolidated financial statements of MESB for the FYE 30 June 2021.

8.0 INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSONS CONNECTED

Save for DWSK, who is deemed interested in the Proposals by virtue of him being the director and major shareholder of MESB as well as the director and shareholder/ultimate shareholder of the Acquiree Companies, none of the directors, major shareholders and/or persons connected with them has any interest, direct or indirect, in the Proposals. Accordingly, DWSK has abstained and will continue to abstain from deliberating and voting on the Proposals at the relevant board meetings. Further, DWSK shall abstain from voting and undertakes to ensure that the persons connected with him will abstain from voting in respect of their respective direct and/or indirect shareholdings in MESB on the ordinary resolutions pertaining to the Proposals to be tabled at the EGM to be convened.

The Proposed Acquisitions are related party transactions pursuant to Paragraph 10.08 of the Listing Requirements. Save for the Proposed Acquisitions and as disclosed below, there have been no transactions entered into between the MESB Group and DWSK and/or persons connected to him (“Interested Party”) for the preceding twelve (12) months prior to the date of this announcement.

<u>Transaction with Interested Party</u>	<u>RM'000</u>
Purchase of plastic scrap by MESB Resources Sdn Bhd (“MRSB”) from ERSB*	981
Selling of wastepaper, plastic scrap and scrap ferrous metal by MRSB to ERSB*	743
Purchase of plastic scrap and scrap ferrous metal by MRSB from ERMSB*	2,916
Purchase of plastic scrap by MRSB from FRSB*	5
Rental of factory by MRSB from SFN*	360
Rental of lorry by MRSB from SFN*	42
Commission paid by MRSB to PRSB*	193
Provision of transportation services to MRSB from RISB*	9

Note *:- ERSB, ERMSB, FRSB, SFN, PRSB and RISB are companies related to DWSK.

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9.0 ADVISERS

KAF IB has been appointed as the adviser to the Company for the Proposals.

The Company has appointed Malacca Securities Sdn Bhd (“**Independent Adviser**”) on 1 September 2022 as the independent adviser in relation to the Proposed Acquisitions for the following:-

- (i) to comment as to whether the Proposed Acquisitions are fair and reasonable, so far as the shareholders of MESB are concerned, including the reasons for the key assumptions made and the factors taken into consideration in forming such opinion;
- (ii) to advise the shareholders of MESB whether they should vote in favour of the Proposed Acquisitions; and
- (iii) to take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in subparagraphs (i) and (ii) above.

10.0 DIRECTORS’ STATEMENT / RECOMMENDATION

The Board (save for DWSK), having considered all aspects of the Proposals, including but not limited to the rationale, financial effects, terms of Agreements and risks associated with the Proposals, is of the opinion that the Proposals are in the best interest of the Company.

11.0 AUDIT AND RISK MANAGEMENT COMMITTEE’S STATEMENT

The audit and risk management committee of MESB, after having considered all relevant aspects of the Proposed Acquisitions, including but not limited to the rationale, the salient terms of Acquisition SSA, the basis and justification for the Purchase Consideration as well as the proforma effects of the Proposed Acquisitions as well as the views of the Independent Adviser, is of the opinion that Proposed Acquisitions are:-

- (i) in the best interest of MESB;
- (ii) fair, reasonable and on normal commercial terms; and
- (iii) not detrimental to the interest of non-interested shareholders of MESB.

12.0 ESTIMATED TIMEFRAME FOR SUBMISSION TO THE AUTHORITIES AND COMPLETION

The draft circular in relation to the Proposals is expected to be submitted to Bursa Securities within two (2) months from the date of this announcement. Barring any unforeseen circumstances, the Proposals are expected to be completed by the first quarter of 2024.

13.0 DOCUMENTS AVAILABLE FOR INSPECTION

The Agreements dated 22 September 2022, Disposal Valuation Letter and Acquisition Valuation Letter are available for inspection at the registered office of MESB at Third Floor, No. 77, 79 & 81, Jalan SS 21/60, Damansara Utama, 47400 Petaling Jaya, Selangor during normal business hours from Mondays to Fridays (except public holidays) up to the date of the EGM for the Proposals.

This announcement is dated 22 September 2022.

SALIENT TERMS OF DISPOSAL SSA

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

1.0 AGREEMENT

1.1 Sale and Purchase of Sale Shares

The Company as the legal and beneficial owner of the Sale Shares agrees to sell to the Purchaser and the Purchaser agrees to purchase the Sale Shares free from all claims, liens, pledges, charges, encumbrances and any equities whatsoever together with all rights attached and all dividends, rights and distributions declared, paid or made in respect of the same on the terms and conditions of the Disposal SSA as at the completion of the Disposal SSA (“**Disposal Completion**”).

1.2 Disposal Consideration

The Disposal Consideration for the Sale Shares shall be satisfied via cash by the Purchaser to the Company or such person(s) nominated by the Company in the proportion and manner as set out in the Disposal SSA.

1.3 Basis of Sale and Purchase

The parties expressly declare, acknowledge and agree that the sale and purchase of the Sale Shares pursuant to the Disposal SSA is on the basis that:-

- (i) at the completion date of the Disposal SSA (“**Disposal Completion Date**”), being the First Completion Date and the Second Completion Date, the Sale Shares are free from any security interest;
- (ii) at the Disposal Completion Date, the Company’s and the Purchaser’s respective representations and warranties set out in the Disposal SSA are true and accurate;
- (iii) the Sale Shares consist of the First Tranche Sale Shares and the Second Tranche Sale Shares, the sale and purchase of which are subject to the terms of this Disposal SSA; and
- (iv) on the First Completion Date, the Purchaser undertakes to execute and deliver a corporate guarantee in lieu of the Active Fit Corporate Guarantee or in supplement to the Active Fit Corporate Guarantee as joint guarantor, if required by the Company and/or the brand principal. The parties further agree that commencing from the First Completion Date to the fulfilment of the Second Tranche Condition Precedent (as defined below), any liabilities arising from the Active Fit Corporate Guarantee, is to be borne by the parties proportionately based on their respective shareholdings in Active Fit upon the completion of the transfer of the First Tranche Sale Shares (“**First Completion**”), namely 80% by the Purchaser and 20% by MESB. On the above basis and in consideration of the Company continuing to be a guarantor for the benefit of Active Fit, the Purchaser shall indemnify and keep the Company indemnified against all costs, expenses, claims, demands and liabilities arising from the Active Fit Corporate Guarantee which is in excess of the Company’s proportion of liability set out in this clause.

2.0 CONDITIONS PRECEDENT

2.1 Conditions

- 2.1.1 The parties agree that the Proposed Disposals are conditional upon the effective fulfilment of the conditions precedent in the Disposal SSA as follows:-

SALIENT TERMS OF DISPOSAL SSA (CONT'D)

(A) First Tranche Condition(s) Precedent

- (i) No material adverse findings on the Disposal Companies based on the results of the financial and/or legal due diligence inquiry conducted on the Disposal Companies and/or all due diligence findings having been rectified to the satisfaction of the Purchaser;
- (ii) The approval of the directors of the Company at the Board' meetings and the shareholders of the Company at a general meeting for (i) the sale of the Sale Shares, in accordance with the terms of the Disposal SSA and (ii) the continued provision of the Active Fit Corporate Guarantee after the First Completion, in accordance with the Listing Requirements and the terms of the Disposal SSA;
- (iii) The approval of the directors of the Purchaser at the board of directors' meetings and the shareholders of the Purchaser, for the purchase of the Sale Shares, subject to the basis of the sale and purchase and in accordance with the terms of the Disposal SSA;
- (iv) Such other consents or approvals as may be necessary for the Proposed Disposals, from any governmental or regulatory body or competent authority, or third party, having been waived or obtained; and
- (v) The Acquisition SSA being unconditional in respect of all its conditions precedent in accordance with the terms therein (other than the condition precedent for the Disposal SSA to be unconditional).

(B) Second Tranche Condition Precedent

- (i) The release and discharge of the Company as a guarantor to the Active Fit Corporate Guarantee.
- 2.1.2 The parties undertake to procure the fulfilment of the conditions precedent that are applicable to them within 6 months from the date of the Disposal SSA or such other date(s) the parties may mutually agree in writing ("**Disposal SSA First Conditional Period**") and within 6 months from the First Completion Date or such other date(s) the parties may mutually agree in writing ("**Disposal SSA Second Conditional Period**").
- 2.1.3 If any approval contains terms and conditions which are not acceptable to any party, the relevant party may within fourteen (14) days from the date of receipt of that approval:-
- (i) notify the other party in writing that the approval is not acceptable; and
 - (ii) apply to the relevant authority to vary the terms and conditions of that approval.
- 2.1.4 If no notice is given under paragraph 2.1.3, an approval will be deemed to have been obtained.
- 2.1.5 If any party applies for variation of an approval under paragraph 2.1.3(i), that approval will not be deemed to be obtained for the purpose of this paragraph 2 until the relevant authority accedes to the request for variation. In the event the relevant authority does not accede to the request for variation, the respective condition shall be deemed not to be met and/or fulfilled.
- 2.2 Non Fulfilment of the Conditions Precedent
- 2.2.1 Subject to the terms as set out in the Disposal SSA, unless specifically waived by the parties, if any of the conditions precedent are not fulfilled before the Disposal SSA First Conditional Period and Disposal SSA Second Conditional Period respectively or such extended time as the parties agree in writing (or in the event of paragraph 2.1.5 above), the Disposal SSA shall cease and determine and neither party shall have any claims against the other for costs, damages, compensations or otherwise, save for any antecedent breach of any representation, undertaking and/or any of the terms of the Disposal SSA.

SALIENT TERMS OF DISPOSAL SSA (CONT'D)

2.3 When Disposal SSA becomes Unconditional

2.3.1 When all the First Tranche Conditions Precedent are fulfilled, the Disposal SSA shall become unconditional.

3.0 DISPOSAL SSA COMPLETION

3.1 The First Completion shall take place on the First Completion Date.

3.2 The completion of the transfer of the Second Tranche Sale Shares of the Disposal SSA ("**Second Completion**") shall take place on the Second Completion Date.

3.2 The Company or the Purchaser may waive in writing any obligation of the other to observe and perform the completion obligations pursuant to the Disposal SSA, provided always that any such waiver must not be prohibited by the relevant laws applicable to the parties, the Disposal Companies and/or the Proposed Disposals as contemplated under the Disposal SSA.

4.0 CONDUCT OF BUSINESS PENDING COMPLETION AND POST COMPLETION

4.1 Non-Compete and Non-Solicitation

4.1.1 The Company undertakes to the Purchaser acting for itself and as agent and trustee for the Disposal Companies that pending the Disposal Completion, the Company shall not, directly or indirectly:-

- (i) enter into or be involved in any discussion or negotiation with any person except the Purchaser in connection with the sale of Sale Shares (or any part thereof) and/or the Disposal Companies;
- (ii) enter into an agreement or arrangement with any person except the Purchaser in connection with the sale of Sale Shares (or any part thereof) and/or the Disposal Companies; or
- (iii) make available to any person except the Purchaser, its directors, officers, duly authorised representatives, advisers or agents any information relating to the sale of Sale Shares (or any part thereof) and/or the Disposal Companies.

5.0 PARTIES RIGHT TO TERMINATE

5.1 Any of the parties ("**Terminating Party**") may by written notice given to the other party any time prior to the Disposal Completion terminate the Disposal SSA if any fact, matter or event (whether existing or occurring on or before the Disposal SSA date or arising or occurring afterwards) comes to the notice of the Terminating Party at any time prior to the First Completion or the Second Completion (as applicable) which:-

- (i) constitutes a breach by the other party of any of the provisions under the Disposal SSA;
- (ii) constitutes a breach of any of the representations and warranties given by the other party;
- (iii) where the Terminating Party is the Purchaser, affects or is likely to affect in a materially adverse manner the business/operations, financial position or prospects of any of the Disposal Companies;
- (iv) a petition for winding up or bankruptcy is presented against the other party;
- (v) where the Terminating Party is the Purchaser, an order is made or a member's resolution is passed for the winding up of any of the Disposal Companies;

SALIENT TERMS OF DISPOSAL SSA (CONT'D)

- (vi) an administrator, a receiver and/or manager is appointed by the court or pursuant to any statute or regulation or by any creditor pursuant to a debenture or any other security document in favour of such creditor over the undertaking, assets and properties of the other party or any part of the other party's assets and properties; or
- (vii) an event analogous to any of the subparagraphs (iv), (v) or (vi) above has occurred in any jurisdiction,

the Terminating Party will only give such written notice of termination to the other party where the other party's breach is capable of being remedied, is not remedied within fourteen (14) days from the date the Terminating Party gives written notice to the other party of any such breaches above.

- 5.2 All rights and obligations of the parties shall cease to have effect immediately upon termination of the Disposal SSA save for the clauses which are stated to continue in force following termination of the Disposal SSA (for whatever reason) and further save that termination of the Disposal SSA (for whatever reason) shall be without prejudice to the respective rights and liabilities of each of the parties accrued prior to such termination including the right to claim for the loss, cost, expense, damage, consequence and third party claim for damages suffered directly or indirectly by the parties.

6.0 GOVERNING LAW AND JURISDICTION

- 6.1 The Disposal SSA is governed by and is to be construed in accordance with the laws of Malaysia.
- 6.2 Each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of Malaysia and waives any right to object to proceedings being brought in those courts.

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SALIENT TERMS OF ACQUISITION SSA

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

1.0 AGREEMENT

1.1 Sale and Purchase of Acquisition Shares

The Vendors as the legal and beneficial owner of the Acquisition Shares agree to sell to the Company and the Company agrees to purchase the Acquisition Shares free from all claims, liens, pledges, charges, encumbrances and any equities whatsoever together with all rights attached and all dividends, rights and distributions declared, paid or made in respect of the same on the terms and conditions of the Acquisition SSA as at the completion of the Acquisition SSA (“**Acquisition Completion**”).

1.2 Purchase Consideration

The Purchase Consideration for the Acquisition Shares shall be satisfied via cash by the Company to the Vendors or such person(s) nominated by the Vendors in the proportion and manner as set out below:

- (i) On the completion date of the Acquisition SSA (“**Acquisition Completion Date**”), the Company shall pay Ringgit Malaysia Forty-Five Million and Nine Hundred Thousand (RM45,900,000) (“**Completion Payment**”) to the Vendors or such person(s) nominated by the Vendors in the proportion and manner as set out in the Acquisition SSA; and
- (ii) Upon the expiry of 12 months from the Acquisition Completion (“**Retention Period**”), the Company shall release and pay to the Vendors Ringgit Malaysia Five Million and One Hundred Thousand (RM5,100,000) (“**Retained Consideration**”) or such person(s) nominated by the Vendors in the proportion and manner as set out in the Acquisition SSA. Prior to the payment of the Retained Consideration, there shall be deduction from the Retained Consideration for (i) any claims resulting or arising from the breach of any warranties, covenants and/or terms of the Acquisition SSA within the Retention Period; (ii) any claims arising from irregularities from the due diligence inquiry which had yet to be rectified to the satisfaction of the Company as at Acquisition Completion Date but subsequently moved to conditions subsequent at the discretion of the Company; and (iii) any claims being asserted by authorities, tax authorities or third parties arising from disclosure errors, irregularities or non-compliances, and potential penalties.

1.3 Basis of Sale and Purchase

The parties expressly declare, acknowledge and agree that the sale and purchase of the Acquisition Shares pursuant to the Acquisition SSA is on the basis that as at the Acquisition Completion Date:-

- (i) the Acquisition Shares are free from any security interest;
- (ii) the Vendors’ and Company’s respective representations and warranties set out in the Acquisition SSA are true and accurate.

1.4 Profit Guarantee

1.4.1 Guaranteed Profit

- (i) Subject to the payment of the Completion Payment in accordance with the terms and conditions of the Acquisition SSA, the Vendors warrant and guarantee to the Company a minimum aggregate profitability of the Acquiree Companies as set out in column 2 of the table below for the financial periods as set out in column 1 below:-

Column 1	Column 2
Guarantee Periods	Total Guaranteed Profit
Total guaranteed profit of the Acquiree Companies for 12-month FYE/FPE 30 June 2023 and 2024	Minimum aggregate PAT of RM10,000,000.00

SALIENT TERMS OF ACQUISITION SSA (CONT'D)

For the purposes of this paragraph 1.4.1, the profitability of the Acquiree Companies shall be based on the audited PAT of the Acquiree Companies to be determined in accordance with the applicable accounting standards as set out in the audited accounts of the Acquiree Companies for the Guarantee Periods as set out in Column 1 of the table above, as audited by the Acquiree Companies' auditors.

1.4.2 Shortfall in the Profit Guarantee or Net Loss

- (i) The Vendors further agree and covenant with the Company that, in the event the aggregate PAT of the Acquiree Companies for the Guarantee Periods shall be less than the Total Guaranteed Profit (any amount of such shortfall in the said Total Guaranteed Profit shall hereinafter be referred to as the "**Profit Shortfall**"), then and in such an event, the Vendors shall make good the Profit Shortfall by paying to the Acquiree Companies the Profit Shortfall in cash within ninety (90) days from the date of the audited accounts of the Acquiree Companies for the 12-month FYE/FPE 30 June 2024 ("**Profit Shortfall Payment Date**").
- (ii) The Vendors further agree and covenant that in the event the Acquiree Companies incur a net loss to be determined in accordance with the applicable accounting standards as shown in the audited accounts of the Acquiree Companies for the Guarantee Periods, the Vendors shall pay to the Acquiree Companies the maximum amount equivalent to the Total Guaranteed Profit in cash no later than the Profit Shortfall Payment Date.

2.0 CONDITIONS PRECEDENT

2.1 Conditions

2.1.1 The parties agree that the Proposed Acquisitions are conditional upon the effective fulfilment of the conditions precedent in the Acquisition SSA as follows:-

- (i) No material adverse findings on the Acquiree Companies based on the results of the financial and/or legal due diligence inquiry conducted on the Acquiree Companies and/or all due diligence findings having been rectified to the satisfaction of the Company;
- (ii) The approval of the directors of the Vendors, where relevant, at the board of directors' meetings and the shareholders of the Vendors for the sale of the Acquisition Shares at a general meeting, in accordance with the terms of the Acquisition SSA;
- (ii) The approval of the directors of the Company at the Board' meetings and the shareholders of the Company at a general meeting, for the purchase of the Acquisition Shares, subject to the basis of the sale and purchase and in accordance with the terms of the Acquisition SSA;
- (iii) Such other consents or approvals as may be necessary for the Proposed Acquisitions, from any governmental or regulatory body or competent authority, or third party, having been waived or obtained; and
- (iv) The Disposal SSA being unconditional in respect of all its conditions precedent in accordance with the terms therein (other than the condition precedent for the Acquisition SSA to be unconditional).

2.1.2 The parties undertake to procure the fulfilment of the conditions precedent that are applicable to them within 6 months from the date of the Acquisition SSA or such other date(s) the parties may mutually agree in writing ("**Acquisition SSA Conditional Period**").

2.1.3 If any approval contains terms and conditions which are not acceptable to any party, the relevant party may within fourteen (14) days from the date of receipt of that approval:-

- (i) notify the other party in writing that the approval is not acceptable; and

SALIENT TERMS OF ACQUISITION SSA (CONT'D)

- (ii) apply to the relevant authority to vary the terms and conditions of that approval.
- 2.1.4 If no notice is given under paragraph 2.1.3, an approval will be deemed to have been obtained.
- 2.1.5 If any party applies for variation of an approval under paragraph 2.1.3 (ii), that approval will not be deemed to be obtained for the purpose of this paragraph 2 until the relevant authority accedes to the request for variation. In the event the relevant authority does not accede to the request for variation, the respective condition shall be deemed not to be met and/or fulfilled.
- 2.2 Non Fulfilment of the Conditions Precedent
 - 2.2.1 Subject to the terms as set out in the Acquisition SSA, unless specifically waived by the parties, if any of the conditions precedent are not fulfilled before the Acquisition SSA Conditional Period or such extended time as the parties agree in writing (or in the event of paragraph 2.1.5 above), the Acquisition SSA shall cease and determine and other than costs and expenses in relation to the Proposed Acquisitions neither party shall have any claims against the other for costs, damages, compensations or otherwise, save for any antecedent breach of any representation, undertaking and/or any of the terms of the Acquisition SSA.
- 2.3 When Acquisition SSA becomes Unconditional
 - 2.3.1 When all the conditions precedent are fulfilled, the Acquisition SSA shall become unconditional.
- 3.0 DISPOSAL SSA COMPLETION**
 - 3.1 The completion of the Acquisition SSA shall take place on the Acquisition Completion Date.
 - 3.2 The Vendors or the Company may waive in writing any obligation of the other to observe and perform the completion obligations pursuant to the Acquisition SSA, provided always that any such waiver must not be prohibited by the relevant laws applicable to the parties, the Acquiree Companies and/or the Proposed Acquisitions as contemplated under the Acquisition SSA.
- 4.0 CONDUCT OF BUSINESS PENDING COMPLETION AND POST COMPLETION**
 - 4.1 Non-Compete and Non-Solicitation
 - 4.1.1 The Vendors undertake to the Company acting for themselves and as agent and trustee for the Acquiree Companies that pending the Acquisition Completion, the Vendors shall not, directly or indirectly:-
 - (i) enter into or be involved in any discussion or negotiation with any person except the Company in connection with the sale of Acquisition Shares (or any part thereof) and/or the Acquiree Companies;
 - (ii) enter into an agreement or arrangement with any person except the Company in connection with the sale of Acquisition Shares (or any part thereof) and/or the Acquiree Companies; or
 - (iii) make available to any person except the Company, its directors, officers, duly authorised representatives, advisers or agents any information relating to the sale of Acquisition Shares (or any part thereof) and/or the Acquiree Companies.

SALIENT TERMS OF ACQUISITION SSA (CONT'D)

5.0 PARTIES RIGHT TO TERMINATE

5.1 Any of the parties (“**Terminating Party**”) may by written notice given to the other party any time prior to the Acquisition Completion terminate the Acquisition SSA if any fact, matter or event (whether existing or occurring on or before the Acquisition SSA date or arising or occurring afterwards) comes to the notice of the Terminating Party at any time prior to the Acquisition Completion which:-

- (i) constitutes a breach by the other party of any of the provisions under the Acquisition SSA;
- (ii) constitutes a breach of any of the representations and warranties given by the other party;
- (iii) where the Terminating Party is the Company, affects or is likely to affect in a materially adverse manner the business/operations, financial position or prospects of any of the Acquiree Companies;
- (iv) a petition for winding up or bankruptcy is presented against the other party;
- (v) where the Terminating Party is MESB, an order is made or a member’s resolution is passed for the winding up of any of the Acquiree Companies;
- (vi) an administrator, a receiver and/or manager is appointed by the court or pursuant to any statute or regulation or by any creditor pursuant to a debenture or any other security document in favour of such creditor over the undertaking, assets and properties of the other party or any part of the other party’s assets and properties; or
- (vii) an event analogous to any of the subparagraphs (iv), (v) or (vi) above has occurred in any jurisdiction,

the Terminating Party will only give such written notice of termination to the other party where the other party’s breach is capable of being remedied, is not remedied within fourteen (14) days from the date the Terminating Party gives written notice to the other party of any such breaches above.

5.2 All rights and obligations of the parties shall cease to have effect immediately upon termination of the Acquisition SSA save for the clauses which are stated to continue in force following termination of the Acquisition SSA (for whatever reason) and further save that termination of the Acquisition SSA (for whatever reason) shall be without prejudice to the respective rights and liabilities of each of the parties accrued prior to such termination including the right to claim for the loss, cost, expense, damage, consequence and third party claim for damages suffered directly or indirectly by the parties.

6.0 GOVERNING LAW AND JURISDICTION

6.1 The Acquisition SSA is governed by and is to be construed in accordance with the laws of Malaysia.

6.2 Each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of Malaysia and waives any right to object to proceedings being brought in those courts.

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