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PENTAMASTER INTERNATIONAL LIMITED
檳傑科達國際有限公司
(Incorporated in the Cayman Island with limited liability)
(Stock code: 1665)

DISCLOSEABLE TRANSACTION
PROPOSED ACQUISITION OF TP CONCEPT SDN. BHD.

The Board is pleased to announce that, on 26 September 2019, **PQ**, a direct wholly-owned subsidiary of the Company has entered into the SSA with all the existing shareholders of **TP (the “Vendors”)** to acquire 100% equity interest in TP comprising 250,000 ordinary shares (“**Shares**”) each fully paid up for a total purchase consideration of **MYR** twenty one million (MYR21,000,000) (“**Purchase Consideration**”).

Completion and / or Termination of the Proposed Acquisition is conditional upon the satisfaction or waiver of the Conditions as stipulated in the SSA. Upon Completion, TP will become an indirect wholly-owned subsidiary of the Company.

As the applicable percentage ratios for the transactions contemplated under the SSA are more than 5% but less than 25%, the SSA and the transactions contemplated thereunder constitute a discloseable transaction under Rule 14.07 of the Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As completion of the Proposed Acquisition is conditional on the satisfaction or waiver of the Conditions, it may or may not proceed. Shareholders of the Company and potential investors should exercise caution when dealing in the shares of the Company.

1. SSA

The Board is pleased to announce that **PQ**, a direct wholly-owned subsidiary of the Company, on 26 September 2019, entered into a **SSA** with all the existing shareholders of **TP** to acquire 100% equity interest in TP comprising 250,000 ordinary shares (“**Shares**”) each fully paid up for a total purchase consideration of MYR twenty one million (MYR 21,000,000).

2. DETAILS OF THE PROPOSED ACQUISITION

2.1 Information on the Vendors

Details of the Vendors and Shares are as follows:

| <u>No.</u> | <u>Name of Vendors</u> | <u>Nationality</u> | <u>No. of Shares</u> | <u>Purchase Consideration (MYR)</u> |
|------------|------------------------|--------------------|----------------------|---|
| 1. | Yong Weng Kian | Malaysian | 75,000 | 6,300,000 |
| 2. | Ong Chee Heong | Malaysian | 25,000 | 2,100,000 |
| 3. | Yeoh Seok Pheng | Malaysian | 50,000 | 4,200,000 |
| 4. | Goh Kheng Sneah | Malaysian | 50,000 | 4,200,000 |
| 5. | Ong Thean Lye | Malaysian | 50,000 | 4,200,000 |
| | Total | | <u>250,000</u> | <u>21,000,000</u> |

2.2 Information on PIL

PIL was incorporated in the Cayman Islands on 12 June 2017 under the Companies Law as an exempted company with limited liability. PIL’s principal activity is investment holding and it is listed on the Main Board of the Stock Exchange.

2.3 Information on PQ

PQ was incorporated in Malaysia on 2 August 2006 and the principal activity of PQ is equipment design and manufacturing services and manufacturing of high precision machine parts.

The current paid-up capital of PQ is MYR13,160,000 comprising of 13,160,000 ordinary shares. The directors of PQ are Chuah Choon Bin and Gan Pei Joo. PQ is a direct wholly-owned subsidiary of PIL.

2.4 Information on TP

TP was incorporated in Malaysia on 3 December 2010 and the principal activity of TP is manufacturing and assembling of medical machines and manufacturing of die casting parts.

The current paid-up capital of TP is MYR250,000 comprising of 250,000 ordinary shares. The directors of TP are Yong Weng Kian, Ong Thean Lye and Ong Chee Heong.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquires, the Vendors are third parties independent of the Company and its connected persons as at the date of this announcement.

A summary of the audited financial information of TP for two financial years ended 31 March 2018 and 2019 respectively is set out below:-

| | Financial Year Ended 31 March 2019 | Financial Year Ended 31 March 2018 |
|-------------------|---|---|
| | MYR'000 | MYR'000 |
| Revenue | 25,365 | 12,295 |
| Profit before tax | 5,413 | 5,123 |
| Profit after tax | 5,412 | 5,123 |
| Total assets | 18,118 | 12,643 |
| Total liabilities | 9,753 | 9,690 |
| Total equity | 8,365* | 2,953 |
| Gearing (times) | Nil | Nil |

** The directors of TP have proposed a final dividend amounting to MYR5.5 million in respect of the financial year ended 31 March 2019 which has been approved by TP's shareholders at its annual general meeting subsequent to the financial year end. Accordingly, the total equity of TP should be adjusted by MYR5.5 million.*

2.5 Basis of arriving at and justification for the purchase consideration

The purchase consideration of MYR21,000,000 was arrived at after arm's length negotiations between the Purchaser and the Vendors and was determined with reference to the earnings and future prospects of TP, coupled with its technology properties and medical equipment sector's valuation and the reasons and benefits of the Proposed Acquisition as stated under the section headed "Reasons and benefits of the Proposed Acquisition" in this announcement. The negotiated and agreed purchase consideration represents a price-to-earnings ("**PE**") multiple of approximately 3.9 times based on the **PAT** in the latest audited financial statements of TP for **FYE 2019**.

The Vendors guarantee that the aggregate **PAT** in respect of TP for **FYE 2020** and **FYE 2021** shall not be less than MYR12,000,000 ("**Guaranteed Profit**"). In the event the aggregate profit guarantee is not achieved, the Vendors shall be liable to pay the shortfall to PQ.

Based on the profit guarantee of MYR6,000,000 for each of FYE 2020 and FYE 2021, the purchase consideration of MYR21,000,000 represents a PE multiple of 3.5 times of the forward earnings for FYE 2020.

2.6 Profit Guarantee

The Vendors jointly and severally warrant, represent and undertake to PQ that:

- a) The aggregate PAT in respect of TP for FYE 2020 and FYE 2021 shall not be less than MYR12,000,000 (“**Aggregate Profit Guarantee**”). In the event the Aggregate Profit Guarantee is not achieved, the Vendors shall be liable to pay the shortfall to PQ up to MYR12,000,000 (“**Profit Guarantee Shortfall**”).

The Profit Guarantee Shortfall shall be calculated as follows:

Profit Guarantee Shortfall = Aggregate Profit Guarantee - PAT for FYE 2020 and FYE 2021

- b) Subject to clause (e) below (Deduction of Claim), PQ, within 14 business days after receiving the financial statement of TP for FYE 2020, release to the Vendors part of Balance Purchase Price equivalent to the PAT for FYE 2020 in accordance to the Vendors’ percentage shareholding as defined under Section 2.1 (“**1st Balance Release**”) provided that the maximum Balance Purchase Price to be released shall be MYR6,000,000. For the avoidance of doubt, any PAT of TP for FYE 2020 in excess of MYR6,000,000 shall be used in the calculation of PAT of TP for FYE 2021.
- c) Subject to clause (e) below (Deduction of Claim), if the Aggregate Profit Guarantee is achieved in FYE 2021, PQ shall within 14 business days, after receiving the financial statement for FYE 2021, release to the Vendors the remaining Balance Purchase Price in accordance to the Vendors’ percentage shareholding as defined under Section 2.1 (“**Final Balance Release**”).
- d) Subject to clause (e) below (Deduction of Claim), if the Aggregate Profit Guarantee is not achieved and there is a Profit Guarantee Shortfall for FYE 2020 and FYE 2021 in aggregate (“**Lower PAT**”), the Vendors shall only receive part of the Balance Purchase Price equivalent to the aggregate PAT for FYE 2020 and FYE 2021 (“**Lower Balance Release**”) and the remaining Balance Purchase Price shall be used to pay back to PQ. For the avoidance of doubt, the Vendors have to refund to PQ on any amount in excess of Lower Balance Release (if any) within 14 Business Days upon receiving written notice from PQ.
- e) The Vendors irrevocably authorise PQ to withhold or deduct from the 1st Balance Release, Final Balance Release and Lower Balance Release on any claims by PQ due to any breach of warranties and undertakings under clauses in respect of warranties, Profit Guarantee Shortfall and post completion obligation by the Vendors pursuant to the SSA.

2.7 Mode of settlement of the Purchase Consideration

Pursuant to the terms of the SSA the mode of settlement of the Purchase Price shall be in the following manner:

| | Payment to be received by the Vendors (MYR) |
|--|--|
| Upon execution of the SSA & upon meeting the Conditions Precedent set forth in the SSA | 9,000,000 |
| To be withheld by the Purchaser and paid upon TP achieving PAT as set out in paragraph 2.6 for FYE 2020 as confirmed by PQ | 6,000,000* |
| To be withheld by the Purchaser and paid upon TP achieving PAT as set out in paragraph 2.6 for FYE 2021 as confirmed by PQ | 6,000,000* |
| Total | <hr/> 21,000,000 <hr/> |

**Note: Maximum amount payable to the Vendors. Any Profit Guarantee Shortfall will be dealt with pursuant to the terms of the Profit Guarantee set out in paragraph 2.6 above.*

2.8 Source of funding

The Proposed Acquisition is financed through internally generated funds and proceeds raised from the initial public offering of PIL.

2.9 Liabilities to be assumed

Save for the obligations and liabilities disclosed in the financial statements of TP at the point of acquisition, there are no liabilities, including contingent liabilities and guarantees, to be assumed by PQ or PIL arising from the Proposed Acquisition.

2.10 Additional financial commitment required

Save for the purchase consideration, there is no additional financial commitment required by PQ to put the business of TP on-stream as it is an on-going business entity with operation.

2.11 Salient terms of the SSA

Salient terms of the SSA, other than those relating to the Profit Guarantee set out in paragraph 2.6 above are as follows:

2.11.1 Conditions precedent (“Conditions”)

The obligations of the Vendors to sell and of the Purchaser to buy the Shares on the terms of the SSA are conditional on:

- a) the Purchaser being satisfied with the results of any due diligence and/or other investigations and inquiries carried out by the Purchaser and/or its auditors, tax agent, solicitors and/or other agents or professional advisers in relation to the Company; and
- b) approval of the Purchaser’s board of directors to enter into the SSA.

2.11.2 Purchase Consideration and Payment

The total purchase consideration for the Shares shall be MYR Twenty One Million (MYR21,000,000) (**the “Purchase Price”**). The parties agree that the Purchase Price was derived at on a willing buyer and willing seller basis.

The payment terms shall be as follows:

- a) Upon execution of the SSA, the Purchaser shall deposit 5 cheques in favour of the respective Vendors to form part of Purchase Price (**“1st Purchase Price”**) (“the Cheques”) with the Purchaser’s Solicitors to hold as a stakeholder subject to the terms and conditions below:
 - (i) all parties irrevocably authorise the Purchaser’s Solicitors to release the Cheques to the representative of the Vendors either Yong Weng Kian or Ong Thean Lye (whose receipt shall be a good and sufficient discharge to the Purchaser) upon the existing company secretary provides all relevant statutory documents to the satisfactory of Purchaser’s Solicitors that the transfers of ownership of the Shares in favour of the Purchaser has been duly registered in the Register of Member, share certificate is issued to the Purchaser and the transfer forms are duly stamped with the CCM database which has shown the Purchaser as the owner of the Shares;
 - (ii) all parties irrevocably agree that in the event that Purchaser’s Solicitors receives from the Purchaser the termination notice issued by the Purchaser to the Vendors under the SSA, the Purchaser’s Solicitors will return the Cheques to the Purchaser for cancellation.
- b) the balance of the Purchase Price being Ringgit Malaysia Twelve Million (MYR12,000,000) (**“Balance Purchase Price”**) shall be withheld by the Purchaser as the security for the Profit Guarantee and to be dealt with in accordance to the terms and conditions as stated in the clause on Profit Guarantee.

2.11.3 Completion

Completion of the sale and purchase of the Shares shall take place at the Completion Address on the Last Completion Date when the Vendors shall deliver to the Purchaser:

- a) such waivers, consents or other documents as may be required to give good title to the Shares and to enable the Purchaser to become their registered holders, if any;
- b) the certificates in respect of the Shares and transfer of Shares in favour of the Purchaser in the valid transfer form and duly signed by each Vendors;
- c) board resolution to approve the transfer of Shares in favour of the Purchaser and authorise the company secretary to enter the Purchaser as a member of TP immediately after the stamp duty of the transfer of Shares is paid and to make the necessary lodgement to CCM;
- d) board resolution for the resignation of Ong Chee Heong and Ong Thean Lye (undated) as directors of TP with letters of resignation and confirming no claims against TP and appointment of two (2) directors to be nominated by the Purchaser under Companies Act 2016;
- e) board resolution to vary the bank accounts' signatories as nominated by the Purchaser with the cheque books and banking kits;
- f) execution of service contract of TP by Yong Weng Kian for a period of 3 years from the commencement date as stated in the service contract and subject to the terms and conditions of the service contract;
- g) execution of service contract of TP by Ong Chee Heong for a period of 3 years from the commencement date as stated in the service contract and subject to the terms and conditions of the service contract;
- h) execution of service contract of TP by Ong Thean Lye for a period of 3 years from the commencement date as stated in the service contract subject to the terms and conditions of the service contract;
- i) undated letter of resignation from existing auditors, tax agent and company secretary of TP.

The Completion Date is the date whereby all the documents mentioned in (a) to (i) above are received by the Purchaser.

2.11.4 Termination

Without prejudice to the Purchaser's rights under the general or common law, the Purchaser may (but shall not be obliged to) at any time by notice to the Vendors before the Completion Date terminate the SSA if:

- a) any of the Conditions is not satisfied by the last day of the period of 2 weeks from the agreement date or such other extended period as may be agreed by both parties in writing; or
- b) it appears that any of the warranties and/or representations given by the Vendors under or in relation to the SSA is or has become inaccurate or misleading; or
- c) material breach of any provisions of the SSA by the Vendors.

3. REASONS AND BENEFITS OF THE PROPOSED ACQUISITION

The Proposed Acquisition will enable PIL to diversify its involvement into medical sector that are synergistic, strategic and value enhancing to the Group's current operations.

The Board believes that there will be synergistic benefits to be derived from integrating the business of TP into PIL and the Proposed Acquisition presents an opportunity for PIL to diversify and strengthen its capabilities into the medical segment of the automated equipment industry which is a growing business segment.

Barring unforeseen circumstance, the Board believes that the Proposed Acquisition would contribute positively to PIL's financial performance in the medium to long term.

The Board also took note that the terms of the SSA were arrived by the parties thereto after arm's length negotiations, with reference to the future prospects and financial position and results of TP.

In view of the above, in particular, the Guaranteed Profit, the Board considers that the terms of the SSA and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

4. PROSPECTS

Global Medical Devices Market was valued at US\$ 425.5 billion in 2018 and is expected to reach US\$ 612.7 billion by the end of 2025* (*source: Fortune Business Insights, Aug 2019*). With rising geriatric population, prevalence of chronic conditions, along with growth in surgical procedures, and complex surgeries, global medical devices market shall witness a steady organic growth.

The medical devices sector has also been designated as one of the “3+2” high growth sub sectors under the Eleventh Malaysia Plan. Presently this sector has predominantly been dominated by multinational companies that are 90% exported. Likewise, the Chinese medical device industry was valued at US\$18.8 billion in 2016 and is projected to grow modestly through 2019, when it should reach over US\$24 billion. China's 13th Five-Year Plan has also prioritises health and innovation, which will improve prospects for medical device manufacturers given the importance to treat chronic and age-related disease fueled by its aging population* (*source: Emergo website*)

With the Proposed Acquisition, PIL is positioning itself in propelling it to the next level of growth and that enables the Company to expand its presence and further its market share in the industry that it has outlined as part of its business strategy plan.

5. RISK FACTORS

The Proposed Acquisition will not materially change the risk profile of PQ and PIL as PQ is involved in a similar business as TP i.e. manufacturing of automated equipment. Hence, the enlarged PIL would be exposed to similar business, operational and financial risks inherent in the equipment manufacturing industry upon completion of the Proposed Acquisition. However, potential risks that may have an impact on the enlarged PIL, which may not be exhaustive pertaining to the Proposed Acquisition are set out below:

5.1 Non-completion of the Proposals

Under the terms of the SSA, the completion of the Proposed Acquisition is subject to the satisfaction of the conditions precedent and completion terms of the SSA as set out in Section 2.11 of this announcement.

There is no assurance that all the conditions precedent and completion terms of the SSA will be satisfied and that the completion will occur within the stipulated timeframe. In the event any of the conditions precedent or completion terms are not satisfied or waived (in accordance with the terms of the SSA), the Proposals will not be completed.

Notwithstanding the foregoing, PQ shall endeavour to ensure that the conditions precedent and completion terms set out in the SSA are fulfilled in a timely manner to facilitate the completion of the Proposed Acquisition.

5.2 Investment risks

The various synergistic benefits to be realised from the Proposed Acquisition are dependent upon the successful integration of TP into PIL. The Proposed Acquisition is expected to contribute positively to the future performance of PIL. However, there is no assurance that the anticipated benefits of the Proposed Acquisition will be realised after the completion of Proposed Acquisition.

Notwithstanding the foregoing, PIL will constantly monitor the progress and performance of TP and to leverage on its management and technical expertise to properly manage the business and operations of TP. For the avoidance of doubt, the directors and management team of TP are expected to continue with the daily operations of TP upon completion of the Proposed Acquisition. Additionally, the Board will continue to exercise due care and take appropriate measures such as, amongst others, identify and evaluate the risk in planning the successful integration of TP with PQ's existing business operations.

6. SUBSTANTIAL SHAREHOLDERS' SHAREHOLDING

The Proposed Acquisition will not have any effect on the substantial shareholders' shareholdings in PIL.

7. CONDITIONALITY

The Proposed Acquisition is not conditional upon any other corporate proposals undertaken or to be undertaken by PIL.

8. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposed Acquisition is expected to be completed within a period of two (2) weeks from the SSA date.

9. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

None of the directors and/or major shareholders of PIL and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Acquisition.

10. LISTING RULES IMPLICATIONS

As the applicable percentage ratios for the transactions contemplated under the SSA are more than 5% but less than 25%, the SSA and the transactions contemplated thereunder constitute a discloseable transaction under Rule 14.07 of the Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

11. DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

| | |
|-------------------------|--|
| “Board” | the board of Directors |
| “CCM” | Companies Commission of Malaysia |
| “Completion” | Actual completion of the matters provided for in clauses 8.1 (Delivery of documents) subject to any waiver under the provisions of clause 8.2 (Waiver rights) |
| “Completion Address” | The office of the Purchaser’s Solicitor, Wong Beh & Toh of 1st Floor, Nos. 174 & 175, Jalan Kelab Cinta Sayang, Taman Ria Jaya, 08000 Sungai Petani, Kedah or such other place as the Purchaser may from time to time specify by notice to the Vendors in relation to the Completion |
| “Completion Date” | The date of Completion |
| “Companies Law” | the Companies Law (as revised) of the Cayman Islands as amended, supplemented and/or otherwise modified from time to time |
| “Conditions” | The conditions precedent set out in clause 6.1 (Matters to be satisfied) |
| “Director(s)” | the director(s) of the Company |
| “FYE 2019” | Financial year ended 31 March 2019 (the duration from 1 April 2018 till 31 March 2019) |
| “FYE 2020” | Financial year ending 31 March 2020 (the duration from 1 April 2019 till 31 March 2020) |
| “FYE 2021” | Financial year ending 31 March 2021 (the duration from 1 April 2020 till 31 March 2021) |
| “Last Completion Date “ | The last day of the period of one (1) week after the Unconditional Date or such earlier date (after the Unconditional Date) or later date as the parties may from time to time agree as being the last date for Completion |

| | |
|--------------------------|--|
| “Last Conditions Date” | The last day of the period of two (2) weeks from the Agreement date or such other extended period as may be agreed by both parties in writing from the Agreement Date |
| “Listing Rules” | the Rules Governing the Listing of Securities on Main Board of the Stock Exchange |
| “MYR” | Ringgit Malaysia, the lawful currency of Malaysia |
| “PAT” | Profit after tax |
| “PIL” or “Company” | Pentamaster International Limited 檳傑科達國際有限公司, an exempted company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange (stock code: 1665) |
| “PQ” | Pentamaster Equipment Manufacturing Sdn Bhd, a private limited company incorporated under the laws of Malaysia and a 100% subsidiary of PIL |
| “Proposed Acquisition” | Proposed acquisition of 100% equity interest in TP comprising 250,000 ordinary shares |
| “Purchaser” | PQ |
| “Purchaser’s Solicitors” | Wong Beh & Toh of 1st Floor, Nos. 173 & 174, Jalan Kelab Cinta Sayang, 08000 Sungai Petani, Kedah |
| “SSA” | the sale and purchase agreement dated 26 th September 2019 entered into between PQ and TP in relation to the acquisition of 100% equity interest in TP |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “TP” | TP Concept Sdn Bhd, a private limited company incorporated under the laws of Malaysia |
| “Unconditional Date” | The date when the Conditions are fulfilled or otherwise waived by the Purchaser |

By order of the Board
Pentamaster International Limited
Chuah Choon Bin
Chairman and Executive Director

Malaysia, 26 September 2019

As at the date of this announcement, the Board comprises Mr. Chuah Choon Bin and Ms. Gan Pei Joo as executive Directors; Mr. Leng Kean Yong as non-executive Director; and Ms. Chan May May, Dr. Chuah Jin Chong and Mr. Sim Seng Loong @ Tai Seng as independent non-executive Directors.