

LOTUS CIRCULAR BERHAD (FORMERLY KNOWN AS MESB BERHAD) (“LCB” OR THE “COMPANY”)

- (I) PROPOSED ACQUISITIONS;**
 - (II) PROPOSED EXEMPTION; AND**
 - (III) PROPOSED NEW SHAREHOLDERS’ MANDATE**
-

1.0 INTRODUCTION

1.1 On behalf of the board of directors of LCB (“**Board**”), KAF Investment Bank Berhad (“**KAF IB**”) wishes to announce that:-

- (i) the Company had on 19 December 2024 entered into a conditional share purchase agreement (“**SPA**”) for the proposed acquisitions of the entire equity interest in Earthwise Resources Sdn Bhd (“**Earthwise**”) from Lotus Essential Sdn Bhd (“**LESB**”) and the entire equity interest in Expert Resource Management Sdn Bhd (“**Expert**”) from Datuk Wong Sak Kuan (“**DWSK**”), Chen, JianHua (“**CJH**”) and Lee Wai Fun (“**LWF**”) for a total purchase consideration of RM100,000,000 (“**Purchase Consideration**”), to be satisfied via a combination of cash consideration of RM35,011,000 (“**Cash Consideration**”) and the issuance of 156,600,000 new ordinary shares in LCB (“**Consideration Shares**”) at an issue price of RM0.415 per Consideration Share (“**Issue Price**”) (“**Proposed Acquisitions**”); and
- (ii) in conjunction with the Proposed Acquisitions, DWSK/LESB and the persons acting in concert with them (who hold shares in LCB currently or upon issuance of the Consideration Shares or who is the director of LCB pursuant to subsections 216(2) and 216(3) of the Capital Markets and Services Act 2007 (“**CMSA**”), namely CJH, LWF, Yau Ming Teck and Wong Yu Perng (collectively referred to as “**PACs**”) intend to seek an exemption from the Securities Commission Malaysia (“**SC**”) under subparagraph 4.08(1)(a) of the Rules on Take-Overs, Mergers and Compulsory Acquisitions issued by the SC pursuant to section 377 of the CMSA (“**Rules**”) from the obligation to undertake a mandatory take-over offer for the remaining ordinary shares in LCB (“**LCB Shares**” or “**Shares**”) not already owned by them upon issuance of the Consideration Shares (“**Mandatory Offer**”) (“**Proposed Exemption**”).

Earthwise and Expert shall collectively be known as the “**Acquiree Companies**” and each an “**Acquiree Company**”, whereas LESB, DWSK, CJH and LWF shall collectively be known as the “**Vendors**”. The Proposed Acquisitions and Proposed Exemption are collectively referred to as the “**Proposals**”.

1.2 Pursuant thereto, the Board (save for the Interested Directors as defined in Section 10.0 below) has appointed DWA Advisory Sdn Bhd (“**DWA Advisory**” or “**Independent Adviser**”) to act as the independent adviser for the Proposals.

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

1.3 In addition, LCB will also be procuring its shareholders’ mandate for recurrent related party transactions expected to be entered into by the Acquiree Companies with other companies related to DWSK, following the completion of the Proposed Acquisitions (“**New RRPTs**”). In this regard, the Company will seek the approval of its shareholders for the New RRPTs, at the forthcoming extraordinary general meeting of the Company (“**EGM**”) (“**Proposed New Shareholders’ Mandate**”).

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

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2.0 DETAILS OF THE PROPOSED ACQUISITIONS

2.1 Background information of the Proposed Acquisitions

The Proposed Acquisitions entail the proposed acquisitions by LCB of the entire equity interests in the Acquiree Companies, comprising:-

- (i) 1,300,000 ordinary shares in Earthwise from LESB for a purchase consideration of RM68,000,000, to be satisfied via a combination of cash consideration of RM23,807,480 and the issuance of 106,488,000 Consideration Shares at the Issue Price; and
- (ii) 1,000,000 ordinary shares in Expert from DWSK, CJH and LWF for a purchase consideration of RM32,000,000, to be satisfied via a combination of cash consideration of RM11,203,520 and the issuance of 50,112,000 Consideration Shares at the Issue Price in the following manner:-

Name	Total (RM)	Cash consideration (RM)	Value of Consideration Shares (RM)	No. of Consideration Shares
DWSK	17,600,000	6,161,936	11,438,064	27,561,600
CJH	11,200,000	3,921,232	7,278,768	17,539,200
LWF	3,200,000	1,120,352	2,079,648	5,011,200
Total	32,000,000	11,203,520	20,796,480	50,112,000

subject to the terms and conditions as set out in the SPA. Please refer to the Appendix I for the salient terms of the SPA.

2.2 Information on Earthwise

Earthwise was incorporated in Malaysia on 16 August 2001 as a private limited company under the Companies Act 2016 (“Act”). Earthwise is principally engaged in the sales and purchases of recycling material. As at 20 November 2024, being the latest practicable date prior to this announcement (“LPD”), Earthwise has an issued share capital of RM1,300,000 comprising 1,300,000 ordinary shares. The directors of Earthwise are DWSK and LWF. Earthwise is the wholly-owned subsidiary of LESB and it does not have any subsidiary or associated company.

The historical financial information of Earthwise for the past three (3) financial years from financial year ended (“FYE”) 30 April 2022 to FYE 30 April 2024 and the latest unaudited financial information of 6-month financial period ended (“FPE”) 31 October 2024 are as follows:-

	<----- Audited ----->			Unaudited
	FYE 30 April 2022	FYE 30 April 2023	FYE 30 April 2024	6-month FPE 31 October 2024
	RM	RM	RM	RM
Revenue	35,695,480	36,546,443	29,669,975	16,988,589
Profit before taxation (“PBT”)	2,898,758	2,135,634	1,118,687	1,284,061
Profit after taxation (“PAT”)	2,148,660	1,504,634	571,786	975,886
Shareholders’ equity / Net assets (“NA”)	2,533,686	2,238,320	2,810,106	3,785,992
Issued share capital	1,300,000	1,300,000	1,300,000	1,300,000
Total borrowings	155,771	239,026	174,973	277,734
Earnings per share (“EPS”)	1.65	1.16	0.44	0.75
NA per share	1.95	1.72	2.16	2.91
Current ratio (times)	1.47	1.39	1.60	1.36
Gearing ratio (time)	0.06	0.11	0.06	0.07

Earthwise recorded a lower revenue by 18.82% at RM29.67 million (FYE 30 April 2023: RM36.55 million) and in tandem, it registered a lower PAT at RM0.57 million (FYE 30 April 2023: RM1.50 million).

2.3 Information on Expert

Expert was incorporated in Malaysia on 17 December 2020 as a private limited company under the Act. Expert is principally engaged in the remediation activities and other waste management services. As at the LPD, Expert has an issued share capital of RM1,000,000 comprising 1,000,000 ordinary shares. The directors and shareholders of Expert are DWSK, CJH and LWF. Their respective shareholdings in Expert are as follows:-

Name	Nationality	Direct		Indirect	
		No. of shares	%	No. of shares	%
DWSK	Malaysian	550,000	55.00	-	-
CJH	Foreigner - Chinese	350,000	35.00	-	-
LWF	Malaysian	100,000	10.00	-	-

Expert has a wholly-owned subsidiary, namely Tudor Energy Sdn Bhd (“**Tudor**”). Tudor was incorporated in Malaysia on 7 July 2022 as a private limited company under the Act. Tudor is principally engaged in waste management and materials recovery for recycling business. As at the LPD, Tudor has an issued share capital of RM1 comprising one (1) ordinary share. The directors of Tudor are DWSK, CJH and LWF.

The historical consolidated financial information of Expert and its subsidiary (“**Expert Group**”) for the past three (3) financial years from FYE 30 June 2022 to FYE 30 June 2024 and the latest unaudited financial information of 4-month FPE 31 October 2024 are as follows:-

	----- Audited -----			Unaudited
	FYE 30 June 2022 RM	FYE 30 June 2023 RM	FYE 30 June 2024 RM	4-month FPE 31 October 2024 RM
Revenue	5,615,336	10,832,836	17,783,260	6,317,980
PBT	2,957,703	3,584,675	3,961,963	1,271,051
PAT	2,287,161	2,851,637	2,942,475	965,999
Shareholders’ equity / NA	2,577,074	5,428,711	7,861,432	8,827,431
Issued share capital	1,000,000	1,000,000	1,000,000	1,000,000
Total borrowings	-	-	1,550,987	1,529,189
EPS	2.29	2.85	2.94	0.97
NA per share	2.58	5.43	7.86	8.83
Current ratio (times)	3.44	2.24	1.60	1.30
Gearing ratio (times)	-	-	0.20	0.17

Expert recorded a higher revenue by 64.17% to RM17.78 million (FYE 30 June 2023: RM10.83 million) and a higher PAT of RM2.94 million (FYE 30 June 2023: RM2.85 million).

2.4 Information of LESB

LESB was incorporated in Malaysia on 26 July 2005 as a private limited company under the Act. The principal activities of LESB are those of investment holding, involvement in import, export and trading of steam coal, corn starch, tapioca starch, wheat, diesel, building material, recycling materials and chemicals as well as other services incidental to land transportation including international freight forwarding agent and warehousing. 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	%
DWSK	Malaysian	13,080,000	99.05	-	-
Wong Kim Loong	Malaysian	125,000	0.95	-	-

2.5 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 the following:-

- (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 6.3 of this announcement;
- (ii) the fair equity value ranges (“**Valuation Ranges**”) as appraised by Asia Equity Research Sdn Bhd (“**AER**”), vide its valuation letter dated 20 November 2024 (“**Valuation Letter**”) as follows:-
 - (a) fair equity value range for Earthwise of between RM62.4 million and RM71.3 million; and
 - (b) fair equity value range for Expert Group of between RM29.1 million and RM33.1 million.

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

- (aa) equity discount rates of 9.2%;
 - (bb) a terminal value based on the assumed annual steady state growth rate of 0%; and
 - (cc) the annual projected aggregated net margin for the Acquiree Companies of 11.4% to 15.6% between the FYEs 30 April 2025/30 June 2025 and 30 April 2029/30 June 2029.
- (iii) a two (2)-year profit guarantee of RM16.0 million (“**Profit Guarantee**”) in aggregate on the PAT of the Acquiree Companies for the FYE 30 April 2025/30 June 2025 and FYE 30 April 2026/30 June 2026, which represents an implied price-to-earnings multiple of 12.5 times based on an average profit guarantee of RM8.0 million per year.

Premised on the above, the Board (save for the Interested Directors as defined in Section 10.0 below) is of the opinion that the Purchase Consideration is justifiable.

2.6 Basis and justification of arriving at the Issue Price

The Issue Price, was arrived at after taking into consideration, amongst others, the following:-

- (i) the historical share prices of LCB; and
- (ii) a discount of RM0.0035 or 0.84% to the five (5)-day volume-weighted average market price of LCB Shares up to and including 18 December 2024, being the last full trading day immediately preceding the date of this announcement of RM0.4185.

The Board (save for the Interested Directors as defined in Section 10.0 below) is of the view that the issuance of the Consideration Shares is appropriate after taking into consideration the gearing ratio, level of borrowings and cash flow requirements of LCB and its subsidiaries (“**LCB Group**” or “**Group**”) as it will provide the Group with flexibility to utilise its existing financial resources for the working capital requirements and/or to fund the growth of the Group’s businesses.

2.7 Ranking of the Consideration Shares

The Consideration Shares shall, upon allotment and issuance, rank equally in all respects with the then existing LCB Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or any other forms of distribution which may be declared, made or paid to the shareholders of LCB, the entitlement date of which is prior to the date of allotment and issuance of the Consideration Shares.

An application will be made to Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the listing of and quotation for the Consideration Shares on the Main Market of Bursa Securities.

2.8 Sources of funding

The Cash Consideration shall be funded by the Group’s internally-generated funds and/or bank borrowings. Pursuant to the SPA, the Cash Consideration shall be settled by the Company within 36 months from the completion date of the SPA.

2.9 Assumption of liabilities

LCB 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 businesses.

2.10 Additional financial commitment required

Save for the Cash 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.

2.11 Date and original cost of investment

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

Name	Date of investment	No. of shares	Original cost of investment (RM)
<u>Expert</u>			
DWSK	17 December 2020	65	65
	25 February 2022	45	45
	18 June 2022	549,890	549,890
			<hr/> 550,000
CJH	17 December 2020	35	35
	25 February 2022	35	35
	18 June 2022	349,930	349,930
			<hr/> 350,000
LWF	25 February 2022	20	20
	18 June 2022	99,980	99,980
			<hr/> 100,000
			<hr/> 1,000,000
<u>Earthwise</u>			
LESB	9 August 2016	500,000	1,200,000
	19 December 2017	800,000	800,000
			<hr/> 800,000
			<hr/> 2,000,000

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3.0 DETAILS OF THE PROPOSED EXEMPTION

As at the LPD, DWSK directly holds 38,407,898 LCB Shares, representing approximately 26.62% of the total issued share capital of LCB.

Upon completion of the Proposed Acquisitions:-

- (i) the shareholding of DWSK, which includes the Shares held by LESB (a company in which DWSK holds a 99.05% controlling interest), in LCB is expected to increase from 26.62% to 57.31%; and
- (ii) the collective shareholdings of DWSK/LESB and their PACs in LCB are expected to increase from 38.70% to 70.60%,

as illustrated in the table below:-

	As at the LPD		After the Proposed Acquisitions	
	No. of Shares	%	No. of Shares	* %
DWSK	38,407,898	26.62	65,969,498	21.92
LESB	-	-	106,488,000	35.39
	38,407,898	26.62	172,457,498	57.31
<u>PACs</u>				
Yau Ming Teck	11,324,206	7.85	11,324,206	3.76
LWF	6,104,801	4.23	11,116,001	3.70
CJH	-	-	17,539,200	5.83
Wong Yu Perng	-	-	-	-
	17,429,007	12.08	39,979,407	13.29
Total	55,836,905	38.70	212,436,905	70.60

Note *:- Based on the enlarged issued share capital of LCB of 300,894,425 Shares after the Proposed Acquisitions.

Pursuant thereto, DWSK/LESB and their PACs will be obliged to undertake the Mandatory Offer pursuant to subparagraph 4.01(b) of the Rules. However, it is not the intention of DWSK/LESB and their PACs to undertake the Mandatory Offer as a result of the Proposed Acquisitions.

In this regard, DWSK/LESB and their PACs intend to seek an exemption from the SC pursuant to subparagraph 4.08(1)(a) of the Rules from the obligation to undertake the Mandatory Offer, after obtaining the approval from the non-interested shareholders of the Company for the Proposed Exemption, by way of poll, at the forthcoming EGM.

4.0 RATIONALE FOR THE PROPOSALS

4.1 Proposed Acquisitions

The Proposed Acquisitions present a strategic opportunity for the LCB Group to expand its footprint within the waste recycling business (“**Recycling Business**”). This aligns with the Group’s long-term strategy to deepen its penetration into the Recycling Business, thereby increasing revenue contributions from this business segment and reducing reliance on its retail business. Moreover, the Proposed Acquisitions are expected to enhance the LCB Group’s market share within the Recycling Business industry. The resulting growth in market share is anticipated to strengthen the LCB Group’s competitive position, enabling it to leverage economies of scale. This in turn will facilitate more favourable negotiations with suppliers and customers, thereby improving the Group’s financial performance and operational efficiency.

In addition, the Profit Guarantee given pursuant to the Proposed Acquisitions will, to a great extent, provide assurance to the Group on the profitability of the Acquiree Companies during the transition period following the completion of the Proposed Acquisitions. This is expected to strengthen the Group's asset base and enhance its overall earnings through the consolidation of the financial performance of the Acquiree Companies.

Barring any unforeseen circumstances, the Board believes that the Proposed Acquisitions will potentially impact the Group's growth prospects in the medium to long term, and create additional value for the LCB Group's shareholders. In short, the Proposed Acquisitions represent a significant step forward for the LCB Group to capitalise on the growth opportunities within the Recycling Business.

4.2 Proposed Exemption

The Proposed Exemption will relieve DWSK/LESB and their PACs from the obligation to undertake the Mandatory Offer upon completion of the Proposed Acquisitions as it is not their intention to undertake the Mandatory Offer. As the Proposed Acquisitions and the Proposed Exemption are inter-conditional upon each other, the Proposed Exemption is necessary for the successful completion of the Proposed Acquisitions.

5.0 RISK FACTORS

5.1 Completion risk

The Proposed Acquisitions are conditional upon fulfilment of the respective conditions precedent of the SPA. There is a possibility that the Proposed Acquisitions cannot be completed within the time period permitted under the SPA 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 SPA shall contain terms which are not acceptable to the parties to SPA, the completion of the Proposed Acquisitions 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 relevant parties to mutually extend the relevant period prior to its expiry.

5.2 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 LCB 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 LCB 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 LCB Group is expected to prevail over any adversities and sustain its business operations.

6.0 INDUSTRY OVERVIEW AND PROSPECTS

6.1 Overview and outlook of the Malaysian economy

The Malaysian economy advanced by 5.9% in the second quarter of 2024 (1Q 2024: 4.2%). The growth is driven by stronger domestic demand and further expansion in exports. Household spending increased amid sustained positive labour market conditions and larger policy support. Investment activity was underpinned by continued progress in multi-year projects and capacity expansion by firms. Exports improved amid higher external demand and positive spillovers from the global tech upcycle. Most supply-side sectors registered higher growth. The manufacturing sector was supported by broad-based improvement across all clusters, particularly in electrical and electronics. The services sector recorded strong growth, driven by consumer and business-related subsectors. On a quarter-on-quarter seasonally-adjusted basis, the economy expanded by 2.9% (1Q 2024: 1.5%).

Headline and core inflation averaged 1.8% in the first half of 2024. During the quarter, both headline and core inflation edged higher to 1.9% (1Q 2024: 1.7% and 1.8% respectively). This was largely driven by higher housing and utilities inflation at 3.1% (1Q 2024: 2.6%). The share of Consumer Price Index (CPI) items recording monthly price increases was higher at 49.4% during the quarter (1Q 2024: 44.2%; second quarter average from 2011-2019: 43.9%), reflecting in part the price adjustments during the festive season and several policy measures by the Government during the period.

For the year until 13 August 2024, the ringgit has appreciated by 3.1% against the United States (“US”) Dollar (“USD”). On a nominal effective exchange rate basis, the ringgit also appreciated by 5.3%. This was in part due to growing expectations among financial market participants on US policy rate cuts, which has alleviated pressure on regional currencies, including the ringgit.

The coordinated initiatives by the Government and Bank Negara Malaysia (“BNM”) with the Government-Linked Companies and Government-Linked Investment Companies alongside engagements with corporates, exporters and investors continue to provide support to the ringgit. These efforts have resulted in greater and more consistent flows into the foreign exchange market. The daily average foreign exchange (“FX”) trading volume has risen to USD18.0 billion during the period of 26 February – 13 August 2024 (2 January – 23 February 2024: USD15 billion). The bid-ask spread is also narrower, indicating improved liquidity in the domestic FX market.

Credit growth to the private non-financial sector increased to 5.4% (1Q 2024: 5.2%), following higher growth in outstanding business loans (5.6%; 1Q 2024: 5.1%) and outstanding corporate bonds (3.4%; 1Q 2024: 3.2%). Outstanding business loan growth increased amid higher growth in both investment-related and working capital loans. By sector, the stronger growth was recorded in the construction and manufacturing sectors. For households, outstanding loan growth was sustained across most loan purposes (6.2%; 1Q 2024: 6.2%). Demand for household loans remained forthcoming, particularly for mortgages.

On the domestic front, household spending will be underpinned by continued employment and wage growth as well as policy measures. Investment activities will be driven by progress in multi-year projects across private and public sectors. Catalytic initiatives announced in national master plans and the higher realisation of approved investments are also key drivers for investment activities. Externally, the ongoing global tech upcycle and continued strong demand for non-electrical and electronics goods are expected to lift exports. Improvement in tourist arrivals and spending are expected to continue. Upside risks to growth include greater spillover from the tech upcycle, robust tourism activities, and faster implementation of existing and new investment projects. Downside risks to Malaysia’s growth prospects stem from a downturn in external demand, an escalation in geopolitical conflicts and lower-than-expected commodity production.

Headline and core inflation are expected to edge higher in second half of 2024 mainly due to the rationalisation of diesel subsidies. However, the impact will remain manageable given mitigation measures by the Government to minimise cost impact to businesses. For the rest of the year, upside risks to inflation depend on the extent of the spillover effects from further domestic policy measures on subsidies and price controls to broader price trends, as well as global commodity prices and financial market developments. Overall, headline and core inflation for the year are projected to remain within the forecast ranges of 2.0% – 3.5% and 2.0% – 3.0% respectively.

(Source: Economic and Financial Developments in Malaysia in the Second Quarter of 2024, BNM)

6.2 Overview and outlook of the retail sector in Malaysia

Malaysia’s retail sector recorded a better-than-expected growth rate of 7.8 per cent in retail sales, as compared to the same period in 2023, according to the latest report from Retail Group Malaysia (“RGM”) released today.

RGM said members of Malaysia Retailers Association and Malaysia Retail Chain Association had projected the third quarter growth at 1.7 per cent. The robust growth was fueled by various factors including the Chinese New Year festivities, extended school holidays from February to March, and the beginning of Ramadan on March 12.

These events boosted consumer spending, alongside the distribution of Sumbangan Tunai Rahmah Phase 1 to 8.2 million Malaysians and increased tourist arrivals attracted by favourable exchange rates and visa-free entry for Chinese visitors. However, challenges persisted due to rising food prices and global geopolitical tensions, which led to boycotts of certain international brands, affecting market dynamics.

Economically, Malaysia saw a 4.2 per cent growth overall in the first quarter, with retail sales climbing by 7.8 per cent. This growth was supported by strong consumer spending, increased investments, a stable labour market, and a rise in tourist numbers.

Fashion and fashion accessories led the charge with a 12.6 per cent growth, while children and baby products saw a 4.8 per cent increase and pharmacies grew by 8.2 per cent. In April, the introduction of Employees Provident Fund's flexible Account 3 allowed members under 55 to withdraw funds, resulting in RM8.78 billion in applications by May 22, likely bolstering retail spending.

Moreover, the Government's decision to float diesel prices and initiate a subsidy program from June 10 could impact transportation costs and retail prices. The planned High-Value Goods Tax has been postponed indefinitely, while tourism has shown signs of recovery with targeted arrivals of 27.3 million tourists and receipts amounting to RM102.7 billion for 2024.

With civil servant salaries set to increase by over 13 per cent from December 1, with a minimum salary rise to RM2,000 per month, year-end retail sales are expected to receive a significant boost. RGM projects a 2.5 per cent growth in the retail sector for the third quarter and aims for a 3.2 per cent increase in the fourth quarter following last year's subdued performance.

(Source: "RGM: Malaysia's retail sector surge with 7.8% growth in Q1 2024" dated 18 June 2024, Malay Mail)

6.3 Overview and outlook of the recycling industry in Malaysia

The Malaysian Investment Development Authority ("MIDA") and the Malaysian Plastics Manufacturers Association ("MPMA") are working closely to drive industry collaboration and understand the demand and supply of recycled plastic resources, which are crucial for many industry players in their decarbonisation efforts.

MIDA said in a statement today that the ongoing collaboration between MIDA and MPMA is set to continue driving Malaysia's advancements in the plastics industry, ensuring sustained progress and innovation. MIDA chief executive officer Sikh Shamsul Ibrahim Sikh Abdul Majid said the growth and transformation of the plastics industry in Malaysia are remarkable, showcasing the nation's commitment to innovation and sustainability.

"As we advance towards a circular economy, we see a significant increase in recycling activities, creating new markets for advanced recycling technologies. Our continued progress in this sector is a testament to Malaysia's dedication to environmental stewardship and economic growth. Malaysia is committed to achieving net zero carbon by 2050," he said in the statement.

Meanwhile, MPMA president CC Cheah said the main challenge facing the industry is that most of the plastics are disposed after use.

"MPMA has recently proposed a Plastics Neutrality Masterplan which provides thought leadership to drive towards zero plastics to landfills by 2050. In Malaysia, achieving plastics circularity and neutrality poses several formidable challenges. The masterplan addresses the challenges by promoting a multifaceted approach, involving policy reforms, investments in infrastructure, public education campaigns and collaboration among stakeholders across the plastics value chain," he said.

(Source: MIDA's website, <https://www.mida.gov.my/mida-news/mida-mpma-collaborate-in-plastic-recycling-efforts/>)

6.4 Prospects of the Group

The Group's operations comprise two (2) segments, namely retailing and waste recycling segments. The breakdown of the revenue and PAT generated from the said segments based on the latest audited consolidated financial statements of LCB for the FYEs 30 June 2023 and 2024 is as follows:-

Business segments	Audited Revenue (RM'000)		Audited PAT attributable to owners of the Company (RM'000)	
	FYE 30.6.2023	FYE 30.6.2024	FYE 30.6.2023	FYE 30.6.2024
Retailing	191,680	140,752	12,188	4,706
Waste recycling	10,785	46,903	583	7,448

The Group's financial performance for the waste recycling segment had significantly improved during the FYE 30 June 2024, following the successful acquisition of three (3) waste recycling companies in June 2023. This was evident by the substantial increase in revenue from RM10.79 million for the FYE 30 June 2023 to RM46.90 million for the FYE 30 June 2024. Similarly, the associated PAT has hiked from RM0.58 million to RM7.45 million over the same period.

Hence, the Proposed Acquisitions, which aligned with the Company's strategy to further expand its business in waste recycling sector, are expected to strengthen LCB's market position, enhance its operational capabilities and further improve its financial performance. The management of LCB is confident that the continued investment in the Recycling Business will contribute positively to the Group's overall financial performance.

The Board remains optimistic about LCB's prospects in the waste recycling industry. LCB's strong financial performance in the waste recycling segment thus far demonstrates its capability to manage and grow the Recycling Business. The Board believes that, with the right strategies and continued focus on operational excellence, LCB can successfully capitalise on the numerous opportunities within the waste recycling industry, reinforcing its position as a key player in this industry.

In short, the waste recycling industry offers significant growth potential as further disclosed in Section 6.3 of this announcement, and LCB's strategies are well-aligned to seize these opportunities. The Board is confident in LCB's ability to reap the growth of the Recycling Business in the future.

(Source: The management of LCB)

7.0 EFFECTS OF THE PROPOSALS

The Proposed Exemption will not have any effect on the Company's issued share capital, substantial shareholders' shareholdings, consolidated NA per Share as well as gearing and consolidated EPS.

7.1 Issued share capital

The pro forma effects of the Proposed Acquisitions on the issued share capital of LCB are as follows:-

As at the LPD	No. of Shares	RM
	144,294,425	69,908,568
To be issued pursuant to the Proposed Acquisitions	156,600,000	* 64,989,000
Enlarged issue share capital after the Proposed Acquisitions	300,894,425	134,897,568

Note *:- Computed based on the Issue Price per Consideration Share.

7.2 Earnings and EPS

Barring any unforeseen circumstances and on the assumption that the Proposed Acquisitions will be completed by the second quarter of 2025, the Proposed Acquisitions are not expected to have any material effect on the consolidated earnings and EPS of the Company for the FYE 30 June 2025.

Solely for the purpose of illustration, based on the audited consolidated financial statements of LCB for the FYE 30 June 2024 and assuming that the Proposed Acquisitions had been completed at the beginning of FYE 30 June 2024, the pro forma effects of the Proposed Acquisitions on the consolidated earnings and EPS of LCB are as follows:-

	Audited as at 30.6.2024 RM'000	After the Proposed Acquisitions RM'000
PAT attributable to the owners of LCB	10,306	⁽¹⁾ 12,620
No. of Shares ('000)	144,294	300,894
EPS (sen)	7.14	4.19

Note:-

(1) After adjusted for the following:-

- (i) the audited PAT of Earthwise for the FYE 30 April 2024 of RM0.57 million;
- (ii) the audited PAT of Expert for the FYE 30 June 2024 of RM2.94 million; and
- (iii) the estimated expenses incidental to the Proposals of approximately RM1.20 million.

Premised on the above and barring any unforeseen circumstances, the Proposed Acquisitions are expected to contribute positively to the future earnings of the LCB Group.

7.3 NA and gearing

The pro forma effects of the Proposed Acquisitions on the consolidated NA per Share and gearing of LCB based on the latest audited consolidated financial statements of LCB as at 30 June 2024 are as follows:-

	Audited as at 30.6.2024 RM'000	After the Proposed Acquisitions RM'000
Share capital	69,909	134,898
Retained earnings	47,191	⁽¹⁾ 45,991
Shareholders' equity	117,100	180,889
Non-controlling interest	42,021	42,021
Total equity / NA	159,121	222,910
No. of Shares ('000)	144,294	300,894
NA per Share (RM)	1.10	0.74
Borrowings (RM'000)	1,721	3,447
Gearing (times)	0.01	0.02

Note:-

(1) After deducting the estimated expenses incidental to the Proposed Acquisitions of approximately RM1.20 million.

As the purchase price allocation exercise pertaining to the Proposed Acquisitions is currently on-going, the associated effect has not been reflected in the aforesaid pro forma effects.

7.4 Substantial shareholders' shareholdings

The pro forma effects of the Proposed Acquisitions on the substantial shareholders' shareholdings in the Company are as follows:-

Substantial shareholders	As at the LPD				After the Proposed Acquisitions			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
DWSK	38,407,898	26.62	-	-	65,969,498	21.92	*106,488,000	35.39
Yau Ming Teck	11,324,206	7.85	-	-	11,324,206	3.76	-	-
LESB	-	-	-	-	106,488,000	35.39	-	-
CJH	-	-	-	-	17,539,200	5.83	-	-

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

7.5 Convertible securities

As at the LPD, the Company does not have any convertible securities in issue.

8.0 APPROVALS REQUIRED

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

- (i) Bursa Securities for the listing of and quotation for the Consideration Shares to be issued pursuant to the Proposed Acquisitions on the Main Market of Bursa Securities;
- (ii) the SC for the Proposed Exemption, of which the approval will be sought after the EGM;
- (iii) non-interested shareholders of the Company for the Proposals at the EGM to be convened; and
- (iv) any other relevant authorities and/or parties, if required.

The Proposals are not conditional upon any other proposal undertaken or to be undertaken by the Company, whilst the Proposed Acquisitions and the Proposed Exemption are inter-conditional upon each other.

9.0 HIGHEST PERCENTAGE RATIO

Pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Securities (“**Listing Requirements**”), the highest percentage ratio applicable to the Proposed Acquisitions is 165.60% based on the latest audited consolidated financial statements of LCB for the FYE 30 June 2024.

10.0 INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED WITH THEM

Save as disclosed below, none of the directors, major shareholders, chief executive and/or persons connected with them have any interest, direct or indirect, in the Proposals:-

- (i) DWSK, being the director and major shareholder of LCB, as well as the director and shareholder/ultimate shareholder of the Acquiree Companies;
- (ii) CJH, being the director of LCB, the director and shareholder of Expert, and PAC to DWSK;
- (iii) LWF, being a shareholder of LCB, the director and shareholder of Expert, a director of Earthwise and PAC to DWSK;

- (iv) Wong Yu Perng, being the director of LCB and PAC to DWSK; and
- (v) Yau Ming Teck, being the substantial shareholder of LCB and PAC to DWSK.

DWSK, CJH and Wong Yu Perng are collectively referred to as the “**Interested Directors**”, whilst DWSK, LWF, Wong Yu Perng and Yau Ming Teck are collectively referred to as the “**Interested Parties**”.

In view of the below and with due regard to the inter-conditionality of the Proposals, the Interested Directors have abstained and will continue to abstain from all deliberations and voting on the resolutions pertaining to the Proposals at the relevant board meetings. In addition, the Interested Directors and Interested Parties will also abstain from voting and have undertaken to ensure that persons connected with them will abstain from voting in respect of their respective direct and/or indirect shareholdings in LCB on the resolutions pertaining to the Proposals to be tabled at the EGM to be convened.

As at the LPD, the direct and indirect shareholdings of the Interested Directors and Interested Parties in LCB are as follows:-

Name	Relationship	Direct		Indirect	
		No. of Shares	%	No. of Shares	%
<u>Interested Directors and Interested Parties</u>					
DWSK	Being the Non-Independent Non-Executive Director and major shareholder of LCB as well as the director and shareholder/ultimate shareholder of the Acquiree Companies	38,407,898	26.62	-	-
Wong Yu Perng	Being the Non-Independent Non-Executive Director of LCB and the son of DWSK, and thus, is deemed as a PAC to DWSK by virtue of paragraph 216(3)(h) of the CMSA	-	-	-	-
<u>Interested Director</u>					
CJH	Being the Independent Non-Executive Director of LCB, the director and shareholder of Expert and thus, is deemed as a PAC to DWSK by virtue of paragraph 216(3)(h) of the CMSA	-	-	-	-
<u>Interested Parties</u>					
LWF	Being a shareholder of LCB, the director and shareholder of Expert, a director of Earthwise and thus, is deemed as a PAC to DWSK by virtue of paragraph 216(3)(h) of the CMSA	6,104,801	4.23	-	-
Yau Ming Teck	Being a substantial shareholder of LCB as well as he was the joint offeror with DWSK in the conditional mandatory take-over offer undertaken on 2 November 2020, and thus, is deemed as a PAC to DWSK by virtue of paragraph 216(2)(a) of the CMSA and subparagraph 4.03(1)(a) of the Rules	11,324,206	7.85	-	-

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 LCB Group and DWSK and/or persons connected with him for the preceding twelve (12) months prior to the LPD.

Transactions	RM'000
Trading of wastepaper, plastic scrap and scrap ferrous metal among N.U. Recycle Sdn Bhd (“ NU ”), Waier Trading Sdn Bhd (“ Waier ”), Formidex Sdn Bhd (“ Formidex ”) and Asia KG Fibre Supplier Sdn Bhd *	57
Trading of wastepaper, plastic scrap and scrap ferrous metal among MESB Resources Sdn Bhd (“ MRSB ”) and Earthwise *	459
Trading of plastic scrap and scrap ferrous metal among MRSB, Formidex and Expert *	4,207
Trading of wastepaper, plastic scrap and scrap ferrous metal among MRSB, NU, Waier, Formidex and Future Recycle Sdn Bhd *	22
Commission on recycling material supply paid by MRSB to Primahir Recycle Sdn Bhd *	159
Provision of transportation services to MRSB, NU, Waier and Formidex by Ria Insan Sdn Bhd*	1,140
Rental of factory and lorry by MRSB from Sing Foong Niap Engineering Sdn Bhd (“ SFN ”) *	483
Rental of factory by NU from SFN	540
Provision of sludge waste disposals by Waier to SFN	4,576

*Note * :- Asia KG Fibre Supplier Sdn Bhd, Earthwise, Expert, Future Recycle Sdn Bhd, Primahir Recycle Sdn Bhd, Ria Insan Sdn Bhd and SFN are companies related to DWSK.*

11.0 ADVISERS

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

The Company has appointed DWA Advisory on 19 December 2024 as the independent adviser in relation to the Proposals as follows:-

- (i) Proposed Acquisitions:-
 - (a) to comment as to whether the Proposed Acquisitions are fair and reasonable, so far as the non-interested shareholders of LCB are concerned, including the reasons for the key assumptions made and the factors taken into consideration in forming such opinion;
 - (b) to advise the non-interested shareholders of LCB whether they should vote in favour of the Proposed Acquisitions; and
 - (c) to take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in subparagraphs (a) and (b) above; and
- (ii) Proposed Exemption ~ to advise the non-interested directors and non-interested shareholders of the Company in relation to the Proposed Exemption pursuant to subparagraph 4.08(3) of the Rules.

12.0 DIRECTORS' STATEMENT / RECOMMENDATION

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

13.0 AUDIT AND RISK MANAGEMENT COMMITTEE'S STATEMENT

The Audit and Risk Management Committee of LCB (save for DWSK), after having considered all relevant aspects of the Proposals, including but not limited to the rationale and financial effects, the salient terms of the SPA and the basis and justification for the Purchase Consideration as well as the views of the Independent Adviser, is of the opinion that the Proposals are:-

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

14.0 ESTIMATED TIMEFRAME FOR SUBMISSION TO THE AUTHORITIES AND COMPLETION

The applications to the relevant authorities in relation to the Proposals are expected to be submitted within two (2) months from the date of this announcement.

Barring any unforeseen circumstances, the Proposals are expected to be completed by the second quarter of 2025.

15.0 DOCUMENTS AVAILABLE FOR INSPECTION

The SPA dated 19 December 2024 and the Valuation Letter are available for inspection at the registered office of LCB at Unit 521, 5th Floor, Lobby 6, Block A, Damansara Intan, No. 1, Jalan SS20/27, 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 19 December 2024.

SALIENT TERMS OF THE SPA

The salient terms of the SPA are as follows:-

1.0 AGREEMENT

1.1 Sale and Purchase of Sale Shares

The Vendors as the legal and beneficial owner of all the ordinary shares in Earthwise and Expert, comprising 100% of the total issued share capital of Earthwise and Expert (“**Sale Shares**”) agree to sell to the Company and the Company agrees to purchase the Sale Shares free from security interest 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 SPA as at the completion of the SPA (“**Completion**”).

1.2 Purchase Consideration

The Purchase Consideration for the Sale Shares was arrived at on a “willing buyer-willing seller” basis.

1.2.1 Mode of Payment

The Purchase Consideration for the Sale Shares shall be satisfied by a combination of Cash Consideration and issuance of Consideration Shares in the following manner:-

- (i) via the issuance and allotment of 156,600,000 Consideration Shares at the Issue Price to the Vendors (or such person(s) nominated by the Vendors) in the proportion and manner as set out in the SPA, representing and amounting to RM64,989,000.00 only on the completion date of the SPA (“**Completion Date**”); and
- (ii) via the payment of RM35,011,000.00 only in cash to the Vendors (or such person(s) nominated by the Vendors) in the proportion and manner as set out in the SPA by way of electronic transfer within 36 months from the Completion Date.

1.3 Profit Guarantee

1.3.1 Guaranteed Profit

The Vendors warrant and undertake that the Acquiree Companies shall collectively achieve a minimum cumulative aggregate PAT of RM16,000,000.00 only for the FYE 30 April 2025/30 June 2025 and FYE 30 April 2026/30 June 2026, as the case may be (“**Guarantee Period**”).

For the purposes of this clause, the PAT of the Acquiree Companies for FYE 30 April 2025/30 June 2025 and FYE 30 April 2026/30 June 2026 (as the case may be) 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 Period, as audited by the Acquiree Companies’ auditors. The said auditor shall be acting as experts and not arbitrators and their determination of the PAT for FYE 30 April 2025/30 June 2025 and FYE 30 April 2026/30 June 2026 (as the case may be) shall (save for manifest error) be final and binding on the parties.

- 1.3.2 If the aggregate PAT of the Acquiree Companies for the Guarantee Period shall be less than the Profit Guarantee (any amount of such shortfall in the said Profit Guarantee shall hereinafter be referred to as the “**Profit Shortfall**”), then and in such an event, the Vendors shall make good the Profit Shortfall (based on the proportion of the Purchase Consideration to be paid to the Vendors for the respective Acquiree Company in accordance with the SPA) by paying to the Acquiree Companies the Profit Shortfall in cash within 90 days from the date of the audited accounts of the respective Acquiree Company for the FYE 30 April 2026/30 June 2026 (whichever is later).

SALIENT TERMS OF THE SPA (CONT'D)

1.3.3 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 Period, the Vendors shall pay to the Acquiree Companies (based on the proportion of the Purchase Consideration to be paid to the Vendors for the respective Acquiree Company in accordance with the SPA) the maximum amount equivalent to the Profit Guarantee in cash within 90 days from the date of the audited accounts of the respective Acquiree Company for the FYE 30 April 2026/30 June 2026 (whichever is later).

2.0 CONDITIONS PRECEDENT

2.1 The parties agree that the Proposed Acquisitions is conditional upon the effective fulfilment of the conditions precedent in the SPA as follows:-

- (i) the Company having obtained the approval of the non-interested shareholders of the Company at an EGM for the Proposals;
- (ii) the approval of the Board at the Board's meetings, for the Proposals;
- (iii) where applicable, the approval of the directors of the Vendors at the board of directors' meetings and the shareholders of the Vendors for the sale of the Sale Shares at a general meeting, in accordance with the terms of the SPA;
- (iv) the Company having obtained the approval of Bursa Securities for the listing of and quotation for the Consideration Shares on the Main Market of Bursa Securities;
- (v) the Company having obtained the approval of the SC for the Proposed Exemption;
- (vi) 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; and
- (vii) such other consents or approvals as may be necessary for the Proposals, from any governmental or regulatory body or competent authority, or third party, as mutually agreed upon by the parties, having been waived or obtained.

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

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

- (i) notify the other party in writing that the approval is not acceptable in which case the said condition precedent shall be deemed not fulfilled and section 2.6 below shall apply mutatis mutandis; or
- (ii) apply to the relevant authority to vary the terms and conditions of that approval, if avenues for such application exist, in which case section 2.5 below shall apply mutatis mutandis.

2.4 If no notice is given under section 2.3 above, an approval will be deemed to have been obtained.

2.5 If any party applies for variation of an approval under section 2.3(ii) above, that approval will not be deemed to be obtained for the purpose of this section 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.

SALIENT TERMS OF THE SPA (CONT'D)

2.6 Non-Fulfilment of the Conditions Precedent

Subject to the terms as set out in the SPA, unless specifically waived by the parties, if any of the conditions precedent are not fulfilled before the Conditional Period or such extended time as the parties agree in writing (or in the event of section 2.5 above), the SPA 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 SPA.

2.7 When Agreement becomes Unconditional

The SPA shall become unconditional when all the conditions precedent shall have been duly fulfilled (other than the conditions precedent which have been waived by written agreement of the parties) ("**Unconditional Date**").

3.0 COMPLETION

3.1 Subject always to the compliance in all respects with all applicable covenants and undertakings given by the Vendors, Completion shall take place on the Completion Date at 11:00 am (Malaysian time) or at such other time as the parties may mutually agree on the Completion Date.

3.2 The Vendors may at any time waive (by written notice to the Company) any obligation of the Company to observe and perform any of the relevant provisions in the SPA and the Company may at any time waive (by written notice to the Vendors) any obligation of the Vendors to observe and perform any of the relevant provisions in the SPA, 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 SPA.

4.0 PARTIES RIGHT TO TERMINATE

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

- (i) constitutes a breach by the other party of any of the provisions under the SPA;
- (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 the Acquiree Companies;
- (iv) a petition for winding up or bankruptcy is presented against the other party;
- (v) where the Terminating Party is the Company, an order is made or a member's resolution is passed for the winding up 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 subclauses (iv), (v) or (vi) above has occurred in any jurisdiction,

SALIENT TERMS OF THE SPA (CONT'D)

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 14 days from the date the Terminating Party gives written notice to the other party of any such breaches above.

- 4.2 All rights and obligations of the parties shall cease to have effect immediately upon termination of the SPA save for the clauses which are stated to continue in force following termination of the SPA (for whatever reason) and further save that termination of the SPA (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.

5.0 GOVERNING LAW AND JURISDICTION

- 5.1 The SPA is governed by and is to be construed in accordance with the laws of Malaysia.
- 5.2 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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