

QL RESOURCES BERHAD (“QL” OR THE “COMPANY”)

- (i) **ACQUISITION OF 20,640,000 ORDINARY SHARES IN BOILERMECH HOLDINGS BERHAD ("BOILERMECH" OR THE "OFFEREE") BY QL GREEN RESOURCES SDN BHD (“QLGR” OR THE "OFFEROR"), A WHOLLY-OWNED SUBSIDIARY OF QL, FOR A TOTAL CASH CONSIDERATION OF RM19,608,000 ("ACQUISITION"); AND**
 - (ii) **CONDITIONAL MANDATORY TAKE-OVER OFFER BY QLGR TO ACQUIRE ALL THE REMAINING ORDINARY SHARES IN BOILERMECH NOT ALREADY HELD BY THE OFFEROR (“OFFER SHARE(S)”) FOR A CASH CONSIDERATION OF RM0.95 PER OFFER SHARE (“OFFER PRICE”)**
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1. INTRODUCTION

On behalf of the Board of Directors (“**Board**”) of QL, UOB Kay Hian Securities (M) Sdn Bhd (“**UOBKH**”) wishes to announce that QLGR had, on 3 December 2020, entered into an unconditional share acquisition agreement with Leong Yew Cheong (“**Vendor**”) to acquire 20,640,000 ordinary shares in Boilermech (“**Boilermech Share(s)**”) (representing 4.00% equity interest in Boilermech) for a total cash consideration of RM19,608,000 or RM0.95 per Boilermech Share (“**SAA**”). The Acquisition is undertaken by QL group as part of its strategy to increase its exposure to businesses within the Environmental, Social and Governance sector (“**ESG Sector**”). Boilermech, being a leading clean energy and environmental technology specialist in Malaysia, fits into QL group’s growth strategy.

Upon completion of the Acquisition, the equity interest of the Offeror in Boilermech will increase from approximately 44.15% to approximately 48.15%. Accordingly, pursuant to Section 218(2) of the Capital Markets and Services Act 2007 (“**CMSA**”) and Paragraph 4.01(b) of the Rules on Take-overs, Mergers and Compulsory Acquisitions issued by the Securities Commission Malaysia (“**SC**”) (“**Rules**”), the Offeror is obliged to extend a conditional mandatory take-over offer to acquire all the Offer Shares at the Offer Price of RM0.95 per Offer Share (“**Offer**”). The Board deems this Offer as a technical general take-over offer to comply with the Rules and as such, it is the intention of the Board to maintain the listing status of Boilermech on the Main Market of Bursa Securities.

In view thereof, UOBKH, on behalf of the Offeror, had served the notice on the Offer to the board of directors of Boilermech (“**Boilermech Board**”) on even date (“**Notice**”) in accordance with Paragraph 9.10(1) of the Rules.

Further details on the Acquisition and the Offer (collectively referred to as the “**Proposals**”) are set out in the ensuing sections.

2. DETAILS OF THE PROPOSALS

2.1 Background of the Acquisition

The Acquisition entails the acquisition of 20,640,000 Boilermech Shares (“**Sale Shares**”) by QLGR, a wholly-owned subsidiary of QL, from the Vendor (who is the Managing Director and existing substantial shareholder of Boilermech) for a total cash consideration of RM19,608,000 (“**Purchase Consideration**”).

2.2 Salient details of the SAA

2.2.1 Purchase Consideration

- (a) The Purchase Consideration was arrived at based on a willing buyer-willing seller basis.
- (b) The Acquisition shall be inclusive of:-

- (i) all securities which are distributed in respect of the Sale Shares after the date of the SAA;
 - (ii) any Boilermech Shares issued or to be issued to the Vendor hereafter in respect of any capitalization issue, subdivision, consolidation, reduction, options or otherwise of shares in the equity of Boilermech; and
 - (iii) all rights and benefits attached to the Sale Shares as at the date of the SAA, including but without limitation, all bonuses, rights, dividends and distributions declared, paid or made in respect thereof after the date of the SAA.
- (c) The SAA is not subject to any condition precedent.

2.2.2 Completion

- (a) Unless otherwise agreed by the parties in writing, the completion of the Acquisition shall take place immediately on the next market day following the date of SAA, or on such later date as the parties shall mutually agree in writing ("**Completion Date**").
- (b) On the Completion Date, the Sale Shares shall be transferred by the Vendor to QLGR through a direct business transaction ("**DBT**"). The DBT shall be made in accordance with the rules of Bursa Malaysia Securities Berhad ("**Bursa Securities**"), and each party shall comply with all the rules and requirements of Bursa Securities and/or the dealers of the respective parties are required to ensure smooth and successful execution of the aforesaid DBT.
- (c) QLGR shall pay and settle the Purchase Consideration in full to the Vendor via its dealer within two (2) market days from the Completion Date in accordance with the rules of Bursa Securities.
- (d) Subject to the payment of the Purchase Consideration, the Vendor warrants that the transfer of the Sale Shares to QLGR shall be effected in favour of QLGR in accordance with the rules of Bursa Securities.
- (e) Each party shall bear its own cost in respect of the Acquisition, which includes the brokerage fee and clearing fee. The payment of stamp duty with regards to the Acquisition shall be fully borne by QLGR.
- (f) Notwithstanding the above terms, QLGR shall not be obliged to complete the Acquisition unless the representations, warranties and undertakings of the Vendor as set out in the SAA have been complied with and remain true and correct in all respects at the Completion Date.

2.2 Details of the Offer

The Offeror holds 227,826,936 Boilermech Shares, representing approximately 44.15% of the total issued shares in the Offeree as at the date of this Announcement. Following the completion of the Acquisition, the equity interest of the Offeror in Boilermech will increase from approximately 44.15% to approximately 48.15%. Accordingly, pursuant to Section 218(2) of the CMSA and Paragraph 4.01(b) of the Rules, the Offeror is obliged to extend the Offer. In relation thereto, UOBKH had, on behalf of the Offeror, served the Notice on the Boilermech Board on 3 December 2020.

The Offer will be made to each of the holders of the Offer Shares (“**Holders**”) equally and in respect of all or part of their Offer Shares.

The Offer will be conditional upon the Offeror having received before the closing of the Offer, valid acceptances (provided that such acceptances are not, where permitted, subsequently withdrawn), in respect of the Offer Shares, which would result in the Offeror, together with such Boilermech Shares that are already acquired, held or entitled to be acquired or held by the Offeror, if any, more than 50% of the voting shares or voting rights of Boilermech (“**50% Acceptance Condition**”). The 50% Acceptance Condition shall be fulfilled on or before 5.00 p.m. (Malaysia time) on the closing date of the Offer, failing which the Offer shall lapse and the Offer will cease to be capable of further acceptances and all acceptances shall be returned to Holders who accepted the Offer and the Offeror will thereafter cease to be bound by any such prior acceptance of the Offer.

The Offeror intends to maintain the listing status of Boilermech on the Main Market of Bursa Securities. The Offeror also does not intend to invoke the provisions of Section 222(1) of the CMSA to compulsorily acquire any remaining Offer Shares from the Holders who have not accepted the Offer even if the conditions stipulated in Section 222(1) of the CMSA are fulfilled.

Further details of the Offer are set out in the Notice.

2.3 **Basis and justification of arriving at the Purchase Consideration and the Offer Price**

The Purchase Consideration (per Boilermech Share) and the Offer Price represent a premium to the following volume weighted average price (“**VWAP**”) of Boilermech Shares up to and including 2 December 2020, being the last full trading day prior to the date of the Notice:-

	Share price (RM)	Premium	
		(RM)	(%)
5-day VWAP of Boilermech Shares up to and including 2 December 2020	0.9189	0.03	3.38%
1-month VWAP of Boilermech Shares up to and including 2 December 2020	0.8366	0.11	13.55%
3-month VWAP of Boilermech Shares up to and including 2 December 2020	0.7492	0.20	26.80%
6-month VWAP of Boilermech Shares up to and including 2 December 2020	0.6798	0.27	39.75%
12-month VWAP of Boilermech Shares up to and including 2 December 2020	0.6423	0.31	47.91%

(Source: Bloomberg)

2.4 **Liabilities to be assumed**

Save for the existing liabilities incurred in the ordinary course of business of Boilermech Group, there are no other liabilities, including contingent liabilities and guarantees to be assumed by QL and its subsidiaries (“**QL Group**”) pursuant to the Proposals.

2.5 **Source of funding**

The Proposals will be funded via internally generated funds and/or borrowings.

3. INFORMATION ON THE OFFEREE

Boilermech was incorporated in Malaysia on 8 April 2010 as a private limited company under the name Boilermech Holdings Sdn Bhd and was then converted to a public limited company on 14 May 2010. Boilermech was subsequently listed on the ACE Market of Bursa Securities on 5 May 2011. Boilermech was transferred to the Main Market of Bursa Securities on 4 December 2014.

Boilermech is principally engaged in investment holding whilst its subsidiaries are involved in the manufacturing, installation and repair of bio-energy systems (which involve the generation of energy from bio-based materials) and trading of related parts and accessories as well as the contractor of water treatment chemicals and equipment. Boilermech had also ventured into the solar energy sector through the acquisition of Tera VA Sdn Bhd ("**Tera**") on 22 May 2020.

The directors of Boilermech as at the date of this Announcement are Chia Song Kun, Leong Yew Cheong, Chia Lik Khai, Chia Seong Fatt (Alternate Director to Chia Lik Khai), Gan Chih Soon, Tee Seng Chun, Ho Cheok Yuen, Adrian Chair Yong Huang, Rina Meileene binti Adam and Ng Swee Weng.

As at 2 December 2020, being the latest practicable date prior to this announcement ("**LPD**"), the issued share capital of Boilermech is RM51,600,000 comprising 516,000,000 Boilermech Shares.

Based on the audited consolidated financial statements of Boilermech for the financial year ended ("**FYE**") 31 March 2020, the net profit and net assets ("**NA**") of Boilermech and its group of companies ("**Boilermech Group**") was approximately RM24.08 million and RM212.38 million respectively.

4. RATIONALE AND PROSPECTS OF THE PROPOSALS

The Proposals are undertaken by QL Group as part of its strategy to increase its exposure to businesses within the ESG Sector. With an increased stake, QL is expected to benefit from accretive and larger earnings contribution from Boilermech Group.

Boilermech Group has been expanding its footprint in the clean energy and sustainable technology sector by diversifying its biomass engineering portfolio into the water treatment sector and solar energy industry (through the recent acquisition of Tera). The Board envisages that the biomass and solar energy sector will provide a strong growth impetus to Boilermech Group due to the rising demand as the preferred renewable energy sources.

QL Group is confident that Boilermech will continue to grow and cement its position as a leading clean energy and environmental technology specialist in Malaysia. The Board believes that Boilermech is well positioned to participate in the megatrend of clean energy and sustainable technology growth.

All in all, the Proposals represents a good opportunity for QL Group to further increase its strategic investment in Boilermech. For information purposes, the equity interest of QL Group in Boilermech has increased substantially from the initial 35.03% upon listing on the ACE Market of Bursa Securities to 44.15% as at the LPD, and upon completion of the Acquisition, 48.15%.

The Offer provides the Holders with liquidity opportunity to realise their investment in Boilermech for cash at the Offer Price, with premiums ranging from 3.38% to 47.91% over the 5-day VWAP, 1-month VWAP, 3-month VWAP, 6-month VWAP and 12-month VWAP of Boilermech Shares up to and including the LPD. It is the intention of the Offeror to maintain the listing status of Boilermech on the Main Market of Bursa Securities.

5. EFFECTS OF THE PROPOSALS

5.1 Share capital and substantial shareholders' shareholdings

The Proposals will not have any effect on the issued and paid-up share capital as well as the substantial shareholders' shareholdings in QL as the Proposals do not involve any issuance of ordinary shares of QL.

5.2 Earnings

Moving forward, assuming the Offeror achieves 50% Acceptance Level on or before the close of the Offer, the Proposals is expected to contribute positively to the earnings and earnings per share of the QL Group for the FYE 31 March 2021.

5.3 NA and gearing

Based on the latest audited consolidated financial statements of QL Group as at 31 March 2020, the proforma effects of the Offer (provided for illustrative purposes only assuming that the Proposals was effected on that date and the Offeror achieving level of acceptances of 100% on or before the close of the Offer) on the QL Group's NA and gearing are as follows:-

	Audited as at 31 March 2020 (RM'000)	⁽¹⁾ Subsequent adjustments up to the LPD (RM'000)	Proforma I After the Offer ⁽⁴⁾ (RM'000)
Share capital	620,025	620,025	620,025
Translation reserves	(136,276)	(136,276)	(136,276)
Hedging reserves	(31,926)	(31,926)	(31,926)
Retained earnings	1,565,693	1,492,583	1,492,582
Shareholders' funds / NA	2,017,516	1,944,406	1,944,406
No. of QL Shares ('000)	1,622,438	2,433,657	2,433,657
NA per share (RM)	1.24	0.80	0.80
Cash and cash equivalents	308,200	308,200	308,200
Net borrowings	997,643	997,643	⁽²⁾ 1,271,407
Net gearing⁽³⁾ (times)	0.49	0.51	0.65

Notes:-

- (1) After adjusting for the following:-
- (i) final single-tier dividend of 4.50 sen per QL Share, which was paid on 15 October 2020.
 - (ii) issuance of 811,218,880 bonus shares pursuant to the bonus issue exercise, which was completed on 16 October 2020 ("**Bonus Issue**") and after deducting the estimated expenses in relation to the Bonus Issue of RM100,000.
- (2) Assuming that the consideration of the Acquisition and the Offer will be financed entirely via bank borrowings.
- (3) The gearing was computed based on the net borrowings divided by shareholders' funds.
- (4) Does not take into account the consolidation of Boilermech Group's business.

6 INDUSTRY OVERVIEW AND PROSPECTS OF THE BOILERMECH GROUP

6.1 Overview and outlook of the Malaysian economy

In line with the reopening of the economy from earlier COVID-19 containment measures and improving external demand conditions, the Malaysian economy recorded a smaller contraction of 2.7% in the third quarter. This recovery is seen across most economic sectors, particularly the manufacturing sector, which turned positive on account of strong electrical and electronics (E&E) production activity. On the expenditure side, domestic demand contracted at a slower pace, while net exports rebounded. On a quarter-on-quarter seasonally adjusted basis, the economy turned around to register an expansion of 18.2% (2Q 2020: -16.5%).

Growth in the manufacturing sector rebounded to 3.3% (2Q 2020: -18.3%), supported by a broad-based improvement across all the major manufacturing clusters. In the E&E cluster, growth rebounded strongly as production increased to fulfil order backlogs from the previous quarter as well as to cater for front-loading activities amid concerns of rising trade tensions. Growth in the consumer-related cluster also turned positive as Government measures, such as the exemption of export duties and car sales tax, supported the production of refined palm oil and passenger motor vehicles respectively. Meanwhile, the turnaround in the primary-related cluster was driven mainly by strong demand for rubber and pharmaceutical products. Although manufacturing activity in the construction related cluster continued to record negative growth, the contraction eased as construction activities resumed after the Movement Control Order (MCO) period.

Contraction in the mining sector eased considerably (-6.8%; 2Q 2020: -20.0%) as oil and natural gas production improved amid gradual recovery in external demand. The improvement is also supported by a smaller decline in the other mining segment as production resumed after the MCO period.

(Source: Economic and Financial Developments in the Malaysian Economy in the Third Quarter of 2020, Bank Negara Malaysia)

6.2 Overview and prospects of renewable energy sector in Malaysia

Malaysia's population, at 32 million in 2017 is forecast to grow to 45 million in 2050, with almost 90% expected to live in cities. Rapid urbanisation will trigger increased demand for energy to sustain city dwellers and satisfy urban lifestyle needs. While cost remains a key consideration with regards to fuel choices – the removal of gas subsidies may make it a relatively costly option - countries are also mindful of their international commitments to reduce carbon emissions.

Malaysia is a signatory to the 2016 Paris Agreement that commits countries to reducing their carbon emissions. With this, renewable energy has gained traction as the fuel of the future. In Malaysia, the target is for renewable energy to make up 20% of the capacity mix by 2025. The preferred renewable source is solar energy that is infinite. Malaysia's gas component makes up about 35% of the total energy mix in 2018 with coal holding steady at 57% in the coming years. The remaining percentage is currently contributed by a relatively smaller share of renewable energy sources, which needs to be increased in the coming years. While certain conventional fuels such as coal and gas will be retained in the future energy mix, the task at hand is to expand the renewable energy capacity in the national energy mix as well as improving energy efficiency and to see a much larger contribution from renewable energy sources. The main ones that show potential are solar, hydro, biomass, biogas, and geothermal in which many listed companies have diversified into renewable energy business namely solar, mini-hydro and biogas to take advantage of earning concession revenue income from the FiT system in Malaysia.

(Source: Volume 19, 2019 & 20, 2020, Energy Commission Malaysia)

7 RISK FACTORS

Shareholders should consider the following risk factors (which may not be exhaustive) pertaining to the Proposals as follows:-

(a) Acquisition risks

The Board does not foresee QL taking on any additional or new risks as a result of the Proposals as Boilermech is an associate company of QL Group. Although the Board believes that QL Group may derive benefits from the Proposals, there is no assurance that the anticipated benefits arising from the Proposals will be realized in the near term.

However, QL Group has mitigated such risks by adopting prudent investment strategies and conducting assessment and review prior to making this investment decision.

(b) 50% Acceptance Level

The Offer will be conditional upon the Offeror achieving 50% Acceptance Level as at the close of the Offer.

In the event QL is unable to fulfill the 50% Acceptance Level on or before the closing date of the Offer, the Offer shall lapse and all acceptances received pursuant to the Offer shall be returned.

8 APPROVALS REQUIRED FOR THE OFFER

The SAA is not subject to any approvals. However, the Offer is subject to the following conditions and/or approvals:-

- (a) 50% Acceptance Condition; and
- (b) any other relevant parties, if required.

The SAA and Offer is not conditional upon any other corporate exercise(s) to be undertaken by the Company.

9 INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

None of the Directors, major shareholders and/or persons connected to them has any interest, whether direct or indirect, in the Proposals.

10 ESTIMATED TIMEFRAME FOR COMPLETION

The Offer is expected to be completed in the first quarter of calendar year 2021.

11 HIGHEST PERCENTAGE RATIOS

The Proposals do not require the approval of the shareholders of QL as the highest percentage ratio applicable pursuant to paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Securities is only 10.53% on the assumption that the level of acceptances under the Offer reaches 100%.

12 DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposals, is of the opinion that the terms of the SAA and the Offer are in the best interest of the QL Group.

The view of the Board was arrived at after having considered the terms and conditions and rationale for the Proposals, as well as the effects of the Proposals on the QL Group.

13 ADVISER

UOBKH has been appointed as the Principal Adviser for the Proposals.

14 DOCUMENTS FOR INSPECTION

The SAA and the Notice will be made available for inspection at the registered office of the Company at No. 16A, Jalan Astaka U8/83, Bukit Jelutong 40150 Shah Alam, Selangor Darul Ehsan, during normal business hours (*except public holidays*) for a period of three (3) months from the date of this Announcement.

This announcement is dated 3 December 2020.