

VERTICE BERHAD (“VERTICE” OR THE “COMPANY”)

PROPOSED DISPOSAL

(Unless stated otherwise or defined herein, the abbreviations used in this Announcement shall be defined in Appendix I.)

1. INTRODUCTION

On 13 December 2018, Vertice announced that it had on even date entered into the Principal SSA with Seow Khim Soon for the disposal of 60% equity interest in Kumpulan Voir for a total cash consideration of approximately RM32.62 million.

Thereafter, a series of announcements were made by the Company (on 15 March 2019, 13 May 2019, 15 July 2019, 29 August 2019, 24 February 2020 and 10 April 2020) for the mutual agreement by parties to the Principal SSA to extend the deadline for the fulfilment of conditions precedent in the Principal SSA, mainly due to the time required to obtain the consents of certain financiers of Kumpulan Voir. The aforementioned consents were fully obtained on 30 June 2020 and the Principal SSA became unconditional on even date (“**Principal SSA Unconditional Date**”).

As there had been a decline in the NA (i.e. the basis used in determining the initial disposal consideration of RM32.62 million) of Kumpulan Voir from the date of the Principal SSA and the Principal SSA Unconditional Date, the parties had on 21 October 2020 entered into the Supplemental Principal SSA to vary the disposal consideration from approximately RM32.62 million to approximately RM16.41 million.

The Initial 60% Disposal was subsequently completed on 24 December 2020 and Kumpulan Voir became a 40% associate company of Vertice.

On 27 September 2021, Vertice entered into the Subscription Agreement with Seow Khim Soon and Kumpulan Voir for the subscription of 14,880,000 new ordinary shares in Kumpulan Voir for a subscription consideration of RM14.88 million. The subscription consideration was satisfied entirely via the capitalisation of the amount owing by Kumpulan Voir to Vertice. The Subscription was completed on 21 October 2021.

As Seow Khim Soon had also subscribed for an amount equivalent to his proportion of shareholdings in Kumpulan Voir (i.e. 60% equity interest) pursuant to the Subscription Agreement, the shareholding structure of Kumpulan Voir did not change as a result of the Subscription.

Further to the above, the Board wishes to announce that Vertice had on even date entered into the Disposal SSA with Distinct Seasons for the proposal disposal of 40% equity interest in Kumpulan Voir for a total cash consideration of RM9.0 million.

2. DETAILS OF THE PROPOSED DISPOSAL

The Proposed Disposal entails the Company disposing of its remaining 40% equity interest in Kumpulan Voir to Distinct Seasons for the Disposal Consideration, subject to the terms and conditions as set out in the Disposal SSA.

Upon completion of the Proposed Disposal, Kumpulan Voir will cease to be an associate company of Vertice.

Please refer to Appendix II for the salient terms of the Disposal SSA.

2.1 Information on Kumpulan Voir

Kumpulan Voir was incorporated as a private limited company in Malaysia on 14 April 1988 and commenced business operations in 1988. The principal activities of Kumpulan Voir are in designing, branding and retailing of fashionable ladies' apparel, footwear and accessories and in property and investment holding activities.

As at the LPD, Kumpulan Voir has an issued share capital of RM40,265,000 comprising 40,265,000 ordinary shares. The shareholders of Kumpulan Voir are Vertice (40% equity interest) and Seow Khim Soon (60% equity interest).

The directors of Kumpulan Voir are Seow Khim Soon and Wong Seow Mooi.

The details of the subsidiaries of Kumpulan Voir as at the LPD are as follows:

Name of company	Date of incorporation	Country of incorporation	Share capital (RM)	Effective equity interest (%)	Principal activities
Green Point Sdn Bhd	29 March 1991	Malaysia	500,000	100.0	Inactive
Triple A Sports Sdn Bhd	17 May 2012	Malaysia	600,000	50.1	Inactive

As at the LPD, Kumpulan Voir does not have any associate company and joint venture.

A summary of the financial information of Kumpulan Voir for the past 3 financial years up to FYE 31 March 2021 as well as the 9-month FPE 31 December 2021 are as follows:

	Unaudited	Audited		
	9-month FPE 31 December 2021 (RM'000)	FYE 31 March 2021 (RM'000)	FYE 31 March 2020 (RM'000)	15-month FPE 31 March 2019 (RM'000)
Revenue	51,931	60,905	103,615	151,844
Loss before tax	(10,630)	(16,951)	(21,620)	(5,116)
Loss after tax	(11,739)	(16,951)	(21,449)	(4,274)
Loss attributable to:				
- owner of Kumpulan Voir	(12,580)	(16,961)	(20,750)	(4,345)
- non-controlling interests	841	10	(699)	71
	(11,739)	(16,951)	(21,449)	(4,274)
NA	38,364	13,746	30,707	51,595
Weighted average number of shares in issue ('000)	12,805	3,065	3,065	3,065
LPS (RM)	(0.98)	(5.53)	(6.77)	(1.42)
NA per share (RM)	3.72	4.48	10.02	16.83

2.2 Basis and justification for the Disposal Consideration

The Disposal Consideration of RM9.0 million was arrived at on a willing buyer-willing seller basis after taking into consideration the following:

- (i) the consecutive losses incurred by Kumpulan Voir over the past few financial years;
- (ii) unaudited consolidated NA of Kumpulan Voir as at 31 December 2021 of RM38.36 million; and
- (iii) the rationale of the Proposed Disposal as set out in Section 3 of this Announcement.

The Disposal Consideration of RM9.0 million represents a discount of 41.35% to Vertice's share of 40% of the unaudited consolidated NA of Kumpulan Voir as at 31 December 2021 (i.e. RM15.34 million).

2.3 Original cost and date of investment

The total cost of investment of Vertice for the remaining 40% equity interest in Kumpulan Voir is approximately RM35.60 million, computed as follows:

Date of investment / divestment	Number of ordinary shares	Amount (RM)
17 August 2007 ⁽¹⁾	3,065,000	37,137,598
24 December 2020 ⁽²⁾	(1,839,000)	(16,414,345)
21 October 2021 ⁽³⁾	14,880,000	14,880,000
Total	16,106,000	35,603,253

Notes:

- (1) Being the acquisition of ordinary shares in Kumpulan Voir pursuant an internal restructuring undertaken by the Company for its initial public offering.
- (2) Being the disposal of ordinary shares in Kumpulan Voir for a total cash consideration of approximately RM16.41 million pursuant to the Initial 60% Disposal.
- (3) Being the subscription of ordinary shares in Kumpulan Voir for a subscription consideration of RM14.88 million pursuant to the Subscription.

2.4 Information on Distinct Seasons

Distinct Seasons is a private limited company incorporated in Malaysia on 29 August 2007. It is principally involved in investment holding.

As at the LPD, the issued share capital of Distinct Seasons is RM2 comprising 2 ordinary shares. The shareholders and directors of Distinct Seasons and their respective shareholdings are as follows:

Shareholders / Directors	Number of shares	%
Lee Kah Lin	1	50.0
Puah Lai Huat	1	50.0
Total	2	100.0

2.5 Expected gain / (loss) from the Proposed Disposal

Based on the latest unaudited consolidated financial statements of Vertice for the 9-month FPE 31 December 2021, the Proposed Disposal is expected to result in a loss on disposal of RM8.40 million, being the difference between the Disposal Consideration of RM9.0 million and the net book value of Vertice's investment in Kumpulan Voir of RM17.40 million.

2.6 Liabilities to be remained at the Group

There are no liabilities, contingent liabilities and guarantees that will remain with the Group upon completion of the Proposed Disposal.

2.7 Utilisation of proceeds

The Company intends to use the Disposal Consideration in the following manner:

Utilisation of proceeds	Estimated utilisation timeframe from receipt of proceeds	Amount (RM'000)
(i) Working capital ⁽¹⁾	Within 12 months	8,900
(ii) Estimated expenses for the Proposed Disposal ⁽²⁾	Within 1 month	100
Total		9,000

Notes:

- (1) This includes financing the Group's operating expenses and administrative expenses such as utilities, rental cost, transportation cost, upkeep of office, marketing costs, payment to contractors / sub-contractors / suppliers and/or other miscellaneous items. The actual breakdown of these expenses cannot be determined at this juncture as it will depend on the actual administrative requirements of the Group at the relevant time.
- (2) This comprises professional fees and other miscellaneous expenses related to the Proposed Disposal.

Any shortfall or excess in funds allocated for estimated expenses will be funded from or used for working capital.

3. RATIONALE FOR THE PROPOSED DISPOSAL

Prior to the Initial 60% Disposal, the Group operates the fashion retailing business through Kumpulan Voir (then a wholly-owned subsidiary). The Group had faced various challenges as a result of stiff competition from international brands and other established brands in the local market, changing consumers' taste and preference as well as rising operating costs.

The challenging operating environment has translated to a decline in the financial performance of Kumpulan Voir and Kumpulan Voir has recorded net losses since 2017. Due to the limited growth in the fashion retailing business, the Group has since 2016 ventured into the construction business via its wholly-owned subsidiary, Vertice Construction Sdn Bhd. In addition, the Group has also partially divested its stake in Kumpulan Voir via the Initial 60% Disposal.

Further, since the imposition of containment measures by the Government as a result of the COVID-19 pandemic, the business of Kumpulan Voir has seen further decline. Following this, Vertice and Seow Khim Soon have undertaken the Subscription to ease the financial burden of Kumpulan Voir (the funds were mainly utilised to partially settle the amount owing by Kumpulan Voir to Vertice as well as the repayment to creditors). Nonetheless, Kumpulan Voir's business continued to show further decline after the Subscription, despite gaining financial support from its shareholders via the Subscription.

Given the above, the Proposed Disposal represents a strategic move by Vertice for the following reasons:

- (i) the Group will be able to fully divest its exposure to Kumpulan Voir, which has been incurring consecutive losses over the past few financial years and is facing challenging times due to the COVID-19 pandemic;
- (ii) due to the dismal performance of Kumpulan Voir, Kumpulan Voir requires the Group to incur further financing to support the business operations of Kumpulan Voir. The Proposed Disposal will allow the Group to limit its financing obligations in this regard (if such obligation arises);
- (iii) monetise its investment in Kumpulan Voir. The Group will be able to utilise the proceeds from the Proposed Disposal of RM9.0 million in the manner set out in Section 2.7 of this Announcement which is expected to allow the Group to ease funding requirements from working capital for its business operations;
- (iv) to focus on its construction business; and
- (v) capitalise on the opportunity that there is a ready buyer for the Group's stake in Kumpulan Voir which will enable the Group to immediately realise the benefits as set out above.

4. RISK FACTORS FOR THE PROPOSED DISPOSAL

4.1 Completion risk

The completion of the Proposed Disposal is conditional upon the conditions precedent as set out in the Disposal SSA being fulfilled and/or waived, as the case may be, as well as the compliance with, amongst others, the warranties and covenants under the terms of the Disposal SSA. The non-fulfilment of the aforementioned conditions precedent or the failure to perform or comply with warranties and covenants may result in the termination of the Disposal SSA. Pursuant thereto, Vertice will not be able to complete the Proposed Disposal.

Notwithstanding the above, the Board will endeavour to take all necessary steps to ensure that the conditions precedent and other terms in the Disposal SSA and actions required to be undertaken by the Company are fulfilled in a timely manner to facilitate the completion of the Proposed Disposal.

Nonetheless, in the event that the Proposed Disposal does not materialise for any reason, the Group will still continue to own its stake in Kumpulan Voir.

4.2 Loss of contribution from Kumpulan Voir

Upon completion of the Proposed Disposal, Kumpulan Voir will cease to be an associate company of Vertice and the financial contribution of Kumpulan Voir will cease to be recorded in the financial statements of the Company. For the latest audited FYE 31 March 2021, Kumpulan Voir recorded a loss after tax of RM16.95 million. Nonetheless, there can be no guarantee that Kumpulan Voir will not be profitable in the future.

However, it should be noted that the Proposed Disposal will allow the Group to achieve its objectives set out in Section 3 above, in particular, fully divesting its exposure to the underperforming business of Kumpulan Voir.

As set out in Section 2.7 above, part of the proceeds arising from the Proposed Disposal is intended to be channelled towards working capital for the Group (i.e. the construction business or any future investments, if applicable). However, there is no assurance that the Group will be able to generate the desired return from the construction business and/or any of its future investments.

5. EFFECTS OF THE PROPOSED DISPOSAL

5.1 Issued share capital and substantial shareholders' shareholdings

The Proposed Disposal will not have any effect on the issued share capital and substantial shareholders' shareholdings of Vertice as it does not involve any issuance of new shares by Vertice.

5.2 NA and gearing

Based on the latest unaudited consolidated financial statements of Vertice for the 9-month FPE 31 December 2021, the Proposed Disposal is expected to result in a loss on disposal of approximately RM8.40 million, computed as follows:

	Amount (RM'000)
Disposal Consideration (determined based on the unaudited consolidated NA of Kumpulan Voir as at 31 December 2021)	9,000
Less: Net book value of Kumpulan Voir (based on the net book value of Vertice's investment in Kumpulan Voir as at 31 December 2021)	(17,397)
Loss on disposal	(8,397)

Saved for the above, the Group does not expect any material impact arising from the Proposed Disposal to the NA and gearing of the Group.

5.3 Earnings and EPS

Pursuant to the Initial 60% Disposal (completed on 24 December 2020), Kumpulan Voir became an associate company of Vertice. Kumpulan Voir was a subsidiary of the Group as at 1 April 2020 (beginning of the FYE 31 March 2021) but became an associate company of the Group before the end of the aforesaid financial year.

As such, the illustration below assumes that the Proposed Disposal was effected on 1 April 2021 (beginning of the 9-month FPE 31 December 2021), where Kumpulan Voir was already an associate company of the Group since the beginning of the financial period.

	Amount (RM'000)	Basic LPS (sen)
Loss after tax attributable to owners of the Company for the 9-month FPE 31 December 2021	(6,899)	(2.59)
Add: Share of loss of Kumpulan Voir, net of tax	5,032	
Less: Loss arising from the Proposed Disposal ⁽¹⁾	(8,397)	
Less: Estimated expenses for the Proposed Disposal	(100)	
Pro forma loss after tax attributable to owners of the Company for the 9-month FPE 31 December 2021	(10,364)	(3.89)

Note:

(1) Based on the expected loss on disposal as set out in Section 2.5 of this Announcement.

5.4 Convertible securities

As at the LPD, the Company has the following convertible securities:

- (i) 44,876,900 SIS Options that may be granted and exercised into 44,876,900 Shares pursuant to the maximum allowable amount under the SIS;
- (ii) 60,000,000 Warrants A which may be exercised into 60,000,000 Shares; and
- (iii) such number of RCPS (up to 500,000,000 RCPS) that may be issued and converted into 319,652,881 Shares pursuant to the maximum conversion shares threshold under the Issuance of RCPS.

6. APPROVALS REQUIRED

The Proposed Disposal is not subject to the approval of the Shareholders or any regulatory authority.

The Proposed Disposal is not conditional upon any other corporate exercise being or proposed to be undertaken by the Company.

Highest percentage ratio

The highest percentage ratio applicable for the Proposed Disposal pursuant to Paragraph 10.02(g) of the Listing Requirements is approximately 9.39%.

7. INTEREST OF DIRECTORS AND MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED

None of the Directors, major shareholders of Vertice and/or persons connected with them has any interest, direct or indirect, in the Proposed Disposal.

8. DIRECTORS' STATEMENT AND RECOMMENDATION

The Board, having considered all aspects of the Proposed Disposal, including but not limited to the salient terms of Disposal SSA, the basis and justification for the Disposal Consideration, the rationale for the Proposed Disposal as well as the effects of the Proposed Disposal, is of the opinion that the Proposed Disposal is in the best interest of the Company.

9. ESTIMATED TIMEFRAME FOR COMPLETION

Barring unforeseen circumstances, the Proposed Disposal is expected to be completed in the second quarter of 2022.

10. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Disposal SSA is available for inspection at the Company's registered office at B-3-9, 3rd Floor, Block B, Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Malaysia during normal business hours on Mondays to Fridays (except public holidays) for a period of 3 months from the date of this Announcement.

This Announcement is dated 20 April 2022.