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If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers immediately.

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Boustead Heavy Industries Corporation Berhad

(Registration No. 197101000758 (11106-V))
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS IN RELATION TO:

PART A

- (I) **PROPOSED DISPOSAL OF 27,000,001 ORDINARY SHARES IN LUMUT NAVAL SHIPYARD SDN. BHD. (FORMERLY KNOWN AS BOUSTEAD NAVAL SHIPYARD SDN. BHD.) ("LUNAS") HELD BY PERSTIM INDUSTRIES SDN. BHD., AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD ("BHIC") TO OCEAN SUNSHINE BERHAD FOR A CASH CONSIDERATION OF RM1.00 AND THE WAIVER OF TRADE RECEIVABLES OWING BY LUNAS TO BHIC AND ITS RELEVANT SUBSIDIARIES OF THE AMOUNT OF APPROXIMATELY RM334.73 MILLION PURSUANT TO THE PROPOSED ITRSA (AS DEFINED HEREIN) ("PROPOSED DISPOSAL"); AND**
- (II) **PROPOSED INTERCOMPANY TRADE RECEIVABLES SETTLEMENT AGREEMENT ("ITRSA") ("PROPOSED ITRSA")**

(COLLECTIVELY REFERRED TO AS "PROPOSALS")

PART B

**INDEPENDENT ADVICE LETTER FROM ASIA EQUITY RESEARCH SDN BHD TO THE NON-INTERESTED SHAREHOLDERS OF BHIC IN RELATION TO THE PROPOSALS
AND**

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal Adviser



MALACCA SECURITIES SDN. BHD.

(Registration No. 197301002760 (16121-H))
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Independent Adviser



ASIA EQUITY RESEARCH SDN BHD

(Registration No. 201401027762 (1103848-M))
(Licensed to provide advisory in corporate finance and investment advice)

The Extraordinary General Meeting ("EGM") of the Company will be conducted virtually using the remote participation and voting ("RPV") facilities provided by the poll administrator via TIIH Online website at <https://tiah.online> or <https://tiah.com.my> and will be held on Tuesday, 30 April 2024 at 2.30 p.m. or any adjournment thereof. The Notice of the EGM of the Company for the Proposals and the Proxy Form are enclosed together with this Circular and can also be downloaded from the Company's website at www.bhic.com.my.

As a shareholder, you are encouraged to go online, participate, and vote at the EGM using the RPV facilities. If you wish to appoint a proxy to participate and vote on your behalf, you may deposit your Proxy Form at the office of the poll administrator at participate and vote on your behalf, you may deposit your Proxy Form at the office of the poll administrator at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, Bangsar South, 59200 Kuala Lumpur, Malaysia or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, or alternatively, you may lodge your Proxy Form by electronic means via TIIH Online website at <https://tiah.online/>, not less than 48 hours before the time set for holding the EGM as indicated below or any adjournment thereof. Details of the EGM are as follows:

Date and time of the EGM	: Tuesday, 30 April 2024, at 2.30 p.m. or any adjournment thereof
Last day and time for lodging the Form of Proxy	: Sunday, 28 April 2024 at 2.30 p.m.
Broadcast Venue	: Amphitheatre, Level 23, The Bousteador, No. 10, Jalan PJU 7/6, Mutiara Damansara, 47800 Petaling Jaya, Selangor, Malaysia

This Circular is dated 15 April 2024

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular and the appendices thereto:

“AECL”	: Allowance for expected credit losses
“AER” or “Independent Adviser”	: Asia Equity Research Sdn Bhd (Registration No. 201401027762(1103848-M))
“Act”	: Companies Act 2016
“Announcement”	: Announcement dated 3 April 2024 in relation to the Proposed ITRSA
“BDT”	: BHIC Defence Techservices Sdn Bhd (Registration No. 199801000165 (456291-H)), a wholly-owned subsidiary of BHIC
“Board”	: Board of Directors of BHIC
“Bursa Securities”	: Bursa Malaysia Securities Berhad (Registration No. 200301033577 (635998-W))
“BHB”	: Boustead Holdings Berhad (Registration No. 196001000193 (3871-H))
“BHIC and its Relevant Subsidiaries”	: BHIC, Boustead Penang Shipyard Sdn. Bhd., BHIC Electronics and Technologies Sdn. Bhd., BHIC Allied Defence Technology Sdn. Bhd., BHIC Defence Techservices Sdn. Bhd., BHIC Navaltech Sdn. Bhd., BHIC Marine Technology Academy Sdn. Bhd. and BSES
“BHIC” or “Company”	: Boustead Heavy Industries Corporation Berhad (Registration No. 197101000758 (11106-V))
“BHIC Group” or “Group”	: BHIC and its subsidiaries, collectively
“BHIC Share(s)” or “Share(s)”	: Ordinary share(s) in BHIC
“BRSB”	: Boustead Realty Sdn Bhd (Registration No. 199301015908 (270648-A)), a wholly-owned subsidiary of BHB
“BSES”	: BHIC Submarine Engineering Services Sdn Bhd (Registration No. 200301029101 (631521-V)), a wholly-owned subsidiary of BHIC
“BTS”	: Boustead Travel Sdn Bhd (Registration No. 197201000101 (11708-P)), a wholly-owned subsidiary of BHB
“Circular”	: This circular to shareholders of the Company dated 15 April 2024 in relation to the Proposals
“Crowe” or “Reporting Accountants”	: Crowe Malaysia PLT (LLP0018817-LCA & AF 1018)

DEFINITIONS (CONT'D)

“Debt Settlement”	: Collectively, <ul style="list-style-type: none">(i) the settlement of the amounts owing by BHIC to BHB of up to RM234,000,000 via the issuance of up to 84,658,462 RCPS B, 78,947,368 RPS C and 246,920,486 BHIC Shares all at an issue price of RM0.57 each; and(ii) partial settlement of outstanding financing facilities by BHIC to Affin Bank Berhad, MBSB Bank Berhad and AmBank Islamic Berhad of up to RM183,255,323 via cash payment of up to RM45 million, the issuance of up to 23,625,548 RCPS A, 132,165,050 RCPS-i A and 68,901,458 BHIC Shares all at an issue price of RM0.57 each, which was approved by the shareholders of BHIC in an EGM convened on 29 December 2023.
“Director”	: A director of the Company and shall have the meaning given in Section 2(1) of the Capital Markets and Services Act 2007 and includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon: <ul style="list-style-type: none">(i) a director of the Company, its subsidiary or holding company; and(ii) a chief executive of the Company, its subsidiary or holding company
“Disposal Announcement”	: Announcement in relation to the Proposed Disposal dated 21 August 2023
“Disposal Consideration”	: A total cash consideration of RM1.00 ⁽¹⁾ in respect of the Proposed Disposal <i>Note:</i> <ul style="list-style-type: none">(1) <i>Subsequent to the SSA, on 15 December 2023, MOF Inc via LUNAS’ letter to BHIC, had made a final offer amounting to the Repayment Sum as the full and final settlement amount for the Total Outstanding Sum. Pursuant to the Proposed ITRSA which is a condition precedent to the SSA, the waiver of trade receivables of approximately RM334.73 million will be considered as part of the total value of the consideration for the Proposed Disposal</i>
“EGM”	: The extraordinary general meeting of the Company
“EPS”	: Earnings per share
“FYE”	: Financial year ending/ended, as the case may be
“IAL”	: The independent advice letter from the Independent Adviser to the non-interested shareholders of BHIC in relation to the Proposals, as set out in Part B of this Circular
“Interested Major Shareholders”	: Collectively, BHB and LTAT
“Interested Directors”	: Collectively, Izaddeen Daud, Fahmy Ismail, General Tan Sri Dato’ Seri Zamrose Mohd Zain (Retired) and Mohd Khairul Anuar Mohd Nor
“ITRSA”	: The intercompany trade receivables settlement agreement to be entered into between BHIC and LUNAS after BHIC has obtained its shareholders’ approval for the Proposed ITRSA
“LAT”	: Loss after tax

DEFINITIONS (CONT'D)

"LBT"	: Loss before tax
"LCS"	: Littoral Combat Ship
"Listing Requirements"	: Main Market Listing Requirements of Bursa Securities
"LOA"	: The letter of agreement dated 3 April 2024 issued by BHIC to and accepted by LUNAS in relation to their agreement to enter into the ITRSA after BHIC has obtained its shareholders' approval for the Proposed ITRSA
"LOV"	<p>: Letter of variation dated 9 April 2024 issued by PISB to OSB, duly accepted on 15 April 2024 by OSB. PISB and OSB have agreed to vary the SSA with effect from 9 April 2024 as follows:</p> <p>(a) to delete the existing definition of intercompany trade receivables reorganisation agreement ("ITRRA") in its entirety and substitute with the following:</p> <p style="padding-left: 40px;"><i>"ITRSA - means the intercompany trade receivables settlement agreement to be entered between BHIC (as authorised by its relevant subsidiaries) and the LUNAS for the repayment of the Total Repayment Sum owing by LUNAS to BHIC and its Relevant Subsidiaries".</i></p> <p>(b) to delete the existing Conditions Precedent on ITRRA in its entirety and substitute with "<i>the execution of an ITRSA</i>".</p> <p>(c) to insert the shareholders' approval of BHIC on the sale and purchase of the Sale Shares under the SSA as new Condition Precedent.</p> <p>(d) to refer to the "ITRRA" appearing in the SSA as "ITRSA".</p>
"LPD"	: 4 April 2024, being the latest practicable date prior to the printing of this Circular
"LTAT"	: Lembaga Tabung Angkatan Tentera, established under the Tabung Angkatan Tentera Act 1973 (Act 101)
"LUNAS"	Lumut Naval Shipyard Sdn. Bhd. (formerly known as Boustead Naval Shipyard Sdn. Bhd.) ("Registration No.: 199001007732 (199302-K))
"Major Shareholder(s)"	<p>: A person who has an interest or interests in one or more voting shares in a corporation and the number or aggregate number of those shares, is:</p> <p>(a) 10% or more of the total number of voting shares in the corporation; or</p> <p>(b) 5% or more of the total number of voting shares in the corporation where such person is the largest shareholder of the corporation; and</p> <p>includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a Major Shareholder of the listed issuer or any other corporation which is its subsidiary or holding company.</p>
"Malacca Securities" or "Principal Adviser"	: Malacca Securities Sdn Bhd (Registration No. 197301002760 (16121-H))

DEFINITIONS (CONT'D)

“MOF Inc”	: Minister of Finance Malaysia (Incorporated)
“NA”	: Net asset(s)
“OSB” or “Purchaser”	: Ocean Sunshine Berhad (Registration No.: 202201021686 (1467383-T))
“PBT”	: Profit before tax
“PISB” or “Vendor”	: Perstim Industries Sdn. Bhd (Registration No.: 199501002704 (331898-A)), an indirect wholly-owned subsidiary of BHIC
“Proposals”	: Proposed Disposal and Proposed ITRSA, collectively
“Proposed Disposal”	: Proposed disposal of 27,000,001 ordinary shares in LUNAS held by PISB, an indirect wholly-owned subsidiary of BHIC, to OSB for a cash consideration of RM1.00 and the waiver of trade receivables owing by LUNAS to BHIC and its Relevant Subsidiaries of the amount of approximately RM334.73 million pursuant to the Proposed ITRSA
“Proposed ITRSA”	: The proposed ITRSA which involves the settlement of the Total Outstanding Sum via a cash payment of RM49,700,000 by LUNAS to BHIC in accordance with the terms of the ITRSA
“Repayment Sum”	: A cash sum of RM49,700,000.00 payable by LUNAS to BHIC as the full and final settlement amount of the Total Outstanding Sum owing by LUNAS to BHIC and its Relevant Subsidiaries
“RM” and “sen”	: Ringgit Malaysia and sen, respectively
“RCPS”	: Redeemable convertible preference shares
“RCPS-i A”	: Islamic RCPS A
“RPS C”	: Redeemable preference shares C
“Sale Shares”	: A total of 27,000,001 LUNAS Shares, representing approximately 20.77 ⁽¹⁾ of the equity interest in LUNAS to be sold by PISB to OSB in accordance with the terms and conditions of the SSA

Note:

(1) As at the LPD, PISB's equity interest in LUNAS is 7.30%. PISB's equity interest in LUNAS was diluted from 20.77% to 7.30% when LUNAS completed a share issuance of 240,000,000 shares to OSB at an issue price of RM1.00 per share for a cash consideration of RM240.0 million.

“SSA”	: The conditional share sale agreement dated 18 August 2023 entered into between PISB and OSB for the Proposed Disposal. The SSA was varied by the LOV.
“Total Outstanding Sum”	: The net trade receivables of RM384,433,009 owing by LUNAS to BHIC and its Relevant Subsidiaries

Any reference to “we”, “us”, “our” and “ourselves” are to the Company, and where the context otherwise requires, our subsidiaries. All references to “you” are to the shareholders of the Company.

Words incorporating the singular shall, where applicable, include the plural and vice versa. Words incorporating the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Any reference to persons shall include a corporation, unless otherwise specified.

DEFINITIONS (CONT'D)

Any reference in this Circular to any statutes, rules, regulations or rules of the stock exchange is a reference to such statutes, rules, regulations or rules of the stock exchange currently in force and as may be amended from time to time and any re-enactment thereof.

Any reference to a time or date in this Circular shall be a reference to Malaysian time, unless otherwise stated.

Any discrepancy in the tables included in this Circular between the amounts listed, actual figures and the totals thereof are due to rounding.

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EXECUTIVE SUMMARY

THIS EXECUTIVE SUMMARY SETS OUT THE SALIENT INFORMATION OF THE PROPOSALS. YOU ARE ADVISED TO READ AND CONSIDER CAREFULLY THE ENTIRE CONTENTS OF THIS CIRCULAR INCLUDING THE IAL (AS SET OUT IN PART B OF THIS CIRCULAR) TOGETHER WITH ITS APPENDICES WITHOUT RELYING SOLELY ON THIS EXECUTIVE SUMMARY IN FORMING A DECISION BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT OUR FORTHCOMING EGM

Key information	Description	Reference to Circular															
Details of the Proposed Disposal	The Proposed Disposal entails the disposal of 27,000,001 Sale Shares to OSB for the Disposal Consideration of RM1.00 and the waiver of trade receivables owing by LUNAS to BHIC and its Relevant Subsidiaries of the amount of approximately RM334.73 million pursuant to the Proposed ITRSA, subject to the terms and conditions of the SSA.	Section 2.1 of Part A of this Circular															
Basis and justifications of determining the Disposal Consideration	<p>The Disposal Consideration in respect of the Proposed Disposal is determined at a nominal amount of RM1.00⁽¹⁾ with due consideration to:</p> <ul style="list-style-type: none"> (i) The latest audited net liabilities position of LUNAS of RM848,451,000 as at 31 December 2022; and (ii) The rationale for the Proposed Disposal as set out in Section 4, Part A of this Circular. <p><i>Note:</i></p> <p>(1) Subsequent to the SSA, on 15 December 2023, MOF Inc via LUNAS' letter to BHIC, had made a final offer amounting to the Repayment Sum as the full and final settlement amount for the Total Outstanding Sum. Pursuant to the Proposed ITRSA which is a condition precedent to the SSA, the waiver of trade receivables of approximately RM334.73 million will be considered as part of the total value of the consideration for the Proposed Disposal.</p>	Section 2.1.5 of Part A of this Circular															
Details of the Proposed ITRSA	<p>The Proposed ITRSA involves the settlement of the Total Outstanding Sum via the Repayment Sum by LUNAS to BHIC in accordance with the terms of the ITRSA.</p> <p>Pursuant to the LOA, BHIC and LUNAS will enter into the ITRSA after BHIC obtains the approval of its shareholders on the Proposed ITRSA at an EGM to be convened.</p>	Section 2.2 of Part A of this Circular															
Basis and justification in arriving at the Repayment Sum	<p>The Repayment Sum was arrived at after taking the following into consideration:</p> <ul style="list-style-type: none"> (i) the Repayment Sum amounting to RM49.7 million is a final offer made by the MOF Inc via LUNAS and OSB as the full and final settlement amount for the Total Outstanding Sum. Considering the net liabilities position of LUNAS, non-acceptance of the Repayment Sum will result in zero payment from LUNAS; and (ii) the rationale and justification for the Proposed ITRSA as set out in Section 4, Part A of this Circular. 	Section 2.2.3 of Part A of this Circular															
Utilisation of proceeds	<p>The Company intends to utilise the proceeds from the Proposals in the following manner:</p> <table border="1"> <thead> <tr> <th>Utilisation</th><th>Amount (RM'000)</th><th>Estimated utilisation timeframe from receipt of proceeds</th></tr> </thead> <tbody> <tr> <td>Redemption of redeemable preference shares</td><td>45,000</td><td>Within 12 months</td></tr> <tr> <td>Working capital</td><td>3,700</td><td>Within 12 months</td></tr> <tr> <td>Estimated expenses relating to the Proposals</td><td>1,000</td><td>Immediate</td></tr> <tr> <td>Total</td><td>49,700</td><td></td></tr> </tbody> </table>	Utilisation	Amount (RM'000)	Estimated utilisation timeframe from receipt of proceeds	Redemption of redeemable preference shares	45,000	Within 12 months	Working capital	3,700	Within 12 months	Estimated expenses relating to the Proposals	1,000	Immediate	Total	49,700		Section 3 of Part A of this Circular
Utilisation	Amount (RM'000)	Estimated utilisation timeframe from receipt of proceeds															
Redemption of redeemable preference shares	45,000	Within 12 months															
Working capital	3,700	Within 12 months															
Estimated expenses relating to the Proposals	1,000	Immediate															
Total	49,700																

EXECUTIVE SUMMARY (CONT'D)

Key information	Description	Reference to Circular
Rationale and justification for the Proposals	<p>The Proposed Disposal serves to facilitate the decision of the Government of Malaysia to ensure the completion of the LCS project. Through the MOF Inc's letter to the Company dated 25 May 2023, the Company was informed by MOF Inc that MOF Inc intends to acquire 100% of the shares in LUNAS. It is also part of the Company's operational and organisational restructuring to streamline and re-align entities within the Company and its relevant subsidiaries, while ensuring that LUNAS is able to complete the construction and delivery of the LCS to the Royal Malaysian Navy within the stipulated timeframe pursuant to the LCS contract.</p> <p>The Proposed Disposal is conditional on the Proposed ITRSA as one of the conditions precedents is the execution of the ITRSA to be entered into between BHIC (as authorised by its relevant subsidiaries) and LUNAS for the repayment of a sum of approximately RM383.94 million and/or such other sum due and owing by LUNAS to BHIC and its Relevant subsidiaries which shall be mutually agreed by the parties in the ITRSA, being the total repayment sum owing by LUNAS to BHIC and its Relevant subsidiaries.</p> <p>On 15 December 2023, MOF Inc via LUNAS' letter to BHIC, had made a final offer amounting to the Repayment Sum as the full and final settlement amount for the Total Outstanding Sum due and owing by LUNAS to the Group ("Offer"). On 16 February 2024, the solicitors of OSB reiterated the Offer, indicating that the Offer shall lapse unless the ITRSA is executed by 31 March 2024. On 1 March 2024, BHIC issued a letter to OSB informing that BHIC is committed to sign the ITRSA by 31 March 2024, subject to the terms contained therein.</p> <p>Notwithstanding the above, BHIC had, via a letter issued to OSB dated 14 March 2024, requested for a further extension of the conditional period for the SSA. Subsequently, the solicitors of OSB had, via a letter issued to BHIC dated 29 March 2024, agreed to grant a further extension of the conditional period for the SSA until 30 April 2024. In addition, the solicitors of OSB reiterated the Offer, indicating that the Offer shall lapse unless the ITRSA is executed by 30 April 2024. As such, BHIC has issued and LUNAS has accepted the LOA to facilitate the Proposed ITRSA.</p> <p>Moving forward, the Group aims to maximise its shareholders value following the completion of the Proposals. BHIC will be able to utilise the proceeds from the Proposals and improve the Group's immediate cash flow. BHIC intends to redeem the RPS C as the RM45 million that was advanced by BHB to BHIC in exchange for RPS C was utilised to meet a request for cash settlement from BHIC's financiers and therefore was given priority in redemption. Furthermore, part of the proceeds from the Proposals have been allocated to fund the working capital requirements of the Group's remaining businesses, specifically for staff cost such as staff salaries, statutory contributions and staff benefits.</p>	Section 4 of Part A of this Circular
Risk factors of the Proposals	<p>(i) Completion risk</p> <p>The completion of the Proposals is conditional upon the terms and conditions as set out in the SSA, LOA and ITRSA. In the event that any of the parties commit a breach or fails to observe and/or perform any of its covenants and obligations under the SSA, LOA and ITRSA, the Proposals may be delayed or terminated.</p> <p>There can be no assurance that all of the terms and conditions are able to be observed and/or performed under the SSA, LOA and ITRSA. Nevertheless, the Group anticipates that such risk can be mitigated by proactively engaging with the relevant authorities/parties to obtain all the necessary approvals and documents required for the completion of the SSA, LOA and ITRSA.</p>	Section 6 of Part A of this Circular

EXECUTIVE SUMMARY (CONT'D)

Key information	Description	Reference to Circular
Risk factors of the Proposals (Cont'd)	<p>(ii) Contractual risk</p> <p>BHIC is subject to certain contractual risks including, but not limited to, the representation, warranties and covenants which are given or to be given pursuant to the SSA, LOA and ITRSA. BHIC may be subject to contractual risks if the obligations under the SSA, LOA and ITRSA are not fulfilled and/or in the event of any breach of the terms and conditions as set out in the SSA, LOA and ITRSA.</p> <p>BHIC shall endeavour to ensure full compliance in relation to the fulfilment of its obligations under SSA, LOA and ITRSA.</p>	
Effects of the Proposals	<p>(i) The Proposals will not have any effect on the issued share capital and the substantial shareholders' shareholding in the Company as the Proposals do not involve the issuance of any new shares in the Company;</p> <p>(ii) The pro forma NA will increase from approximately RM60.67 million as at 31 December 2022 to approximately RM106.09 million, the pro forma NA per Share will decrease from RM0.24 as at 31 December 2022 to RM0.19, and the pro forma gearing will decrease from 4.06 times as at 31 December 2022 to 0.30 times after the completion of the Proposals;</p> <p>(iii) The pro forma LAT will increase from approximately RM19.92 million as at 31 December 2022 to RM282.28 million after the completion of the Proposals. The pro forma loss per share, based on the number of BHIC Shares as at 31 December 2022 of approximately 248.46 million Shares, will increase from 8.02 sen to 113.61 sen. The pro forma loss per share, based on the number of BHIC Shares as at the LPD of approximately 564.28 million Shares, will increase from 3.53 sen to 50.02 sen.</p>	Section 7 of Part A of this Circular
Approvals required	<p>The Proposals are subject to the following approvals being obtained:</p> <p>(i) the shareholders of BHIC at an EGM to be convened; and</p> <p>(ii) any other relevant authority or party.</p> <p>The Proposed Disposal is conditional on the Proposed ITRSA as the execution of the ITRSA is a condition precedent for the SSA.</p> <p>The Proposals are not conditional upon any other corporate exercise of the Company.</p>	Section 9 of Part A of this Circular
Interests of Directors, major shareholders and/or persons connected with them	<p>The Interested Major Shareholders, being BHB and LTAT, will abstain from voting in respect of their direct and indirect shareholdings in BHIC on the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of BHIC. The Interested Major Shareholders will also undertake to ensure that all persons connected to them will abstain from voting in respect of their direct and/or indirect shareholdings in BHIC on the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of BHIC.</p> <p>The Interested Directors, being General Tan Sri Dato' Seri Zamrose Mohd Zain (Retired), Izaddeen Daud, Fahmy Ismail and Mohd Khairul Anuar Mohd Nor, have abstained and shall continue to abstain from all deliberations and voting at the relevant Board meetings in respect of the Proposals. The Interested Directors will abstain from voting in respect of their direct and indirect shareholdings in BHIC, if any, on the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of BHIC. The Interested Directors will also undertake to ensure that all persons connected to them will abstain from voting in respect of their direct and/or indirect shareholdings in BHIC on the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of BHIC.</p>	Section 11 of Part A of this Circular

EXECUTIVE SUMMARY (CONT'D)

Key information	Description	Reference to Circular
Directors' statement	<p>The Board (save for the Interested Directors), after having considered all aspects of the Proposals (including but not limited to the rationale, risks and effects of the Proposals as well as the evaluation and opinion by AER, being the Independent Adviser for the Proposals), is of the opinion that the Proposals are in the best interest of the Group.</p> <p>Accordingly, our Board (save for the Interested Directors) recommends that you vote in favour of the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM.</p>	Section 15 of Part A of this Circular

Please refer to Part B of this Circular for the Independent Adviser's views and recommendation in relation to the Proposals.

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PART A

LETTER TO THE SHAREHOLDERS OF BHIC IN RELATION TO THE PROPOSALS



Boustead Heavy Industries Corporation Berhad

(Registration No. 197101000758 (11106-V))
(Incorporated in Malaysia)

Registered Office:
17th Floor, Menara Boustead
69, Jalan Raja Chulan
50200 Kuala Lumpur
Malaysia

15 April 2024

Board of Directors:

Tan Sri Dato' Wira Aziah Ali (*Independent Non-Executive Director*)
(Dr.) Salihin Abang (*Independent Non-Executive Director*)
Hajah Saadatul Nafisah Bashir Ahmad (*Independent Non-Executive Director*)
Vice Admiral Dato' Syed Zahiruddin Putra Syed Osman (Retired) (*Independent Non-Executive Director*)
Izaddeen Daud (*Non-Independent Non-Executive Director*)
Fahmy Ismail (*Non-Independent Non-Executive Director*)
General Tan Sri Dato' Seri Zamrose Mohd Zain (Retired) (*Non-Independent Non-Executive Director*)
Mohd Khairul Anuar Mohd Nor (*Non-Independent Non-Executive Director*)

To: The shareholders of BHIC

Dear Sir/Madam,

(I) PROPOSED DISPOSAL

(II) PROPOSED ITRSA

1. INTRODUCTION

On 29 May 2023, BHIC announced that the Board had acknowledged the receipt of a letter from the MOF Inc of its intention to acquire via OSB (its indirectly owned company), 20.77% of BHIC's entire equity interest in LUNAS, held via PISB, where the terms of the proposed acquisition are subject to negotiations between the parties.

On 21 August 2023, the Board announced that PISB had on 18 August 2023, entered into the conditional SSA in relation to the Proposed Disposal. On 15 April 2024, the Board announced that PISB had issued the LOV dated 9 April 2024 to OSB, duly accepted on 15 April 2024 by OSB whereby PISB and OSB have agreed to vary the SSA with effect from 9 April 2024.

The Proposed Disposal is conditional on the Proposed ITRSA as one of the conditions precedents is the execution of the ITRSA to be entered into between BHIC (as authorised by its relevant subsidiaries) and LUNAS for the repayment of a sum of approximately RM383.94 million and/or such other sum due and owing by LUNAS to BHIC and its Relevant Subsidiaries which shall be mutually agreed by the parties in the ITRSA, being the total repayment sum owing by LUNAS to BHIC and its Relevant Subsidiaries. As at the LPD, the conditional period for the SSA has been extended up to 30 April 2024.

On 3 April 2024, Malacca Securities had announced, on behalf of the Board, that BHIC had on even date issued a LOA to LUNAS and LUNAS has accepted the LOA to enter into an ITRSA after BHIC has obtained its shareholders' approval for the Proposed ITRSA, which is one of the conditions precedent to be fulfilled in the SSA.

The Proposals are deemed related party transactions pursuant to Paragraph 10.08 of the Listing Requirements in view of the interests of the Interested Major Shareholders and Interested Directors as set out in Section 11, Part A of this Circular.

Accordingly, in compliance with Paragraph 10.08(2)(c) of the Listing Requirements, our Board (save for the Interested Directors), had appointed AER to act as the Independent Adviser to advise the non-interested Directors and non-interested shareholders of BHIC on the fairness and the reasonableness of the Proposals respectively and whether the Proposals are detrimental to the non-interested shareholders of BHIC. The IAL in relation to the Proposals is set out in Part B of this Circular.

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

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE RELEVANT INFORMATION ON THE PROPOSALS AS WELL AS TO SEEK YOUR APPROVAL FOR THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE FORTHCOMING EGM OF THE COMPANY. THE NOTICE OF EGM AND THE FORM OF PROXY ARE ENCLOSED TOGETHER WITH THIS CIRCULAR.

YOU ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS LETTER IN PART A OF THIS CIRCULAR AND THE IAL IN PART B OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CONTAINED HEREIN BEFORE VOTING ON THE ORDINARY RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE FORTHCOMING EGM.

2. DETAILS OF THE PROPOSALS

2.1 Details of the Proposed Disposal

The Proposed Disposal entails the disposal of 27,000,001 Sale Shares to OSB for the Disposal Consideration of RM1.00 and the waiver of trade receivables owing by LUNAS to BHIC and its Relevant Subsidiaries of the amount of approximately RM334.73 million pursuant to the Proposed ITRSA, subject to the terms and conditions of the SSA, the salient terms of which are as set out in Appendix I of this Circular.

Subject to the terms and conditions of the SSA, PISB as the legal, registered and beneficial owner of the Sale Shares shall sell and OSB, relying on the warranties and representations by the Vendor, shall purchase the Sale Shares, free from any and all interest or equity of any person (including any right to acquire, option or right of pre-emption) or any mortgage, charge, pledge, lien, assignment, hypothecation, security interest, title retention or any other security agreement or arrangement and together with all rights, benefits and entitlement now or hereafter attaching thereto including but not limited to all dividends and distributions declared, made or paid after the completion date of the SSA i.e. within 7 business days from the date when all the conditions precedent as set out in the SSA are fulfilled.

Upon completion of the Proposed Disposal, PISB shall cease to hold any equity interest in LUNAS.

2.1.1 Information on LUNAS

LUNAS was incorporated in Malaysia on 13 June 1990 under the Companies Act, 1965 and is deemed registered under the Act as a private limited company under the name of Naval Dockyard Sdn. Bhd.. It changed its name to PSC-Naval Dockyard Sdn. Bhd. on 21 November 1997 and subsequently to Boustead Naval Shipyard Sdn. Bhd. on 4 August 2006. It assumed its current name on 17 January 2024.

LUNAS is principally involved in construction, repair and maintenance of naval ships, weapons and electronics, design and engineering, fabrication of steel structures and commercial shipbuilding.

As at the LPD, the issued share capital of LUNAS is RM370,000,003 comprising 370,000,002 ordinary shares and 1 special share. The shareholders of LUNAS are as follows:

Name	Shareholding	
	No. of shares	%
MOF Inc	1 ⁽¹⁾	-*
OSB	343,000,001	92.70
PISB ⁽²⁾	27,000,001	7.30

Notes:

* Negligible.

- (1) Special share with the right attached thereto pursuant to the privatisation agreement dated 11 December 1995 executed by, among others, The Government of Malaysia, PISB, LTAT, Boustead Penang Shipyard Sdn. Bhd., Suria Barisan Sdn. Bhd. and Permodalan Perak Berhad.
- (2) PISB is an indirect wholly-owned subsidiary of BHIC. PISB had formerly held 20.77% equity interest in LUNAS. PISB's equity interest in LUNAS was diluted from 20.77% to 7.30% when LUNAS completed a share issuance of 240,000,000 shares to OSB at an issue price of RM1.00 per share for a cash consideration of RM240.0 million.

As at the LPD, the directors of LUNAS are as follows:

Name	Designation
Datuk Dr. Shahrazat Haji Ahmad	Chairman/Director
Dato' Dr. Amiruddin Muhamed	Director
Datuk Rosli Yaakub	Director
Admiral Tan Sri Abdul Rahman Ayob	Director
Admiral Tan Sri Mohd Reza Mohd Sany (Retired)	Director
Dr. Mohd Bakhari Ismail	Director
Encik Mohammad Abiddin Abd Rahman	Alternate Director to Dr. Mohd Bakhari Ismail
Dato' Andri Aidham Dato' Ahmad Badri	Director

Based on the latest audited financial statements of LUNAS for the FYE 31 December 2022, LUNAS recorded net liabilities of RM848.45 million while the LAT of LUNAS recorded was RM148.66 million with revenue of RM64.73 million.

Please refer to Appendix II of this Circular for further information on LUNAS.

2.1.2 Information on OSB

OSB was incorporated in Malaysia on 17 June 2022 under the Act as a public limited company. OSB is principally involved in repair and maintenance of equipment and construction of ships and floating structures.

As at the LPD, the issued share capital of OSB is RM241,000,000 comprising 241,000,000 ordinary shares in OSB. The shareholders of OSB are as follows:

	Direct		Indirect	
	No. of OSB shares	%	No. of OSB shares	%
AES Solutions Sdn. Bhd.	241,000,000	100.0	-	-
MOF Inc	-	-	241,000,000	100.0 ⁽¹⁾
Pesuruhjaya Tanah Persekutuan	-	-	241,000,000	100.0 ⁽¹⁾

Note:

- (1) Deemed interest by virtue of its interest in AES Solutions Sdn. Bhd. pursuant to Section 8 of the Act.

As at the LPD, the directors of OSB are Mohd Nizam Mohd Khir and Iszad Jeffri Ismail.

2.1.3 Information on PISB

PISB was incorporated in Malaysia on 24 January 1995 under the Companies Act, 1965 and is registered under the Act as a private limited company under the name of Perstima Industries Sdn. Bhd. PISB assumed its present name on 10 March 2001. PISB is principally involved in investment holding.

As at the LPD, the issued share capital of PISB is RM51,155,724.00 comprising 51,155,724 ordinary shares. The shareholders of PISB are as follows:

	Direct		Indirect	
	No. of shares	%	No. of shares	%
Boustead Penang Shipyard Sdn. Bhd.	51,155,723	100	1	-(1)
BHIC Defence Technologies Sdn. Bhd.	1	-*	-	-
BHIC	-	-	51,155,723	100(1)

Notes:

* Negligible.

(1) Deemed interest by virtue of its interest in BHIC Defence Technologies Sdn Bhd pursuant to Section 8 of the Act.

(2) Deemed interest by virtue of its interest in Boustead Penang Shipyard Sdn. Bhd. pursuant to Section 8 of the Act.

As at the LPD, the sole Director of PISB is Sharifuddin Md. Zaini Al-Manaf.

2.1.4 Salient terms of the SSA

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

2.1.5 Basis and justifications of determining the Disposal Consideration

The Disposal Consideration in respect of the Proposed Disposal is determined at a nominal amount of RM1.00⁽¹⁾⁽²⁾ with due consideration to:

- The latest audited net liabilities position of LUNAS of RM848,451,000 as at 31 December 2022;
- LUNAS has been making losses based on the past 3 audited FYE 31 December 2022 as well as the latest unaudited 12-month FYE 31 December 2023; and
- The rationale for the Proposed Disposal as set out in Section 4, Part A of this Circular.

Note:

- Subsequent to the SSA, on 15 December 2023, MOF Inc via LUNAS' letter to BHIC, had made a final offer amounting to the Repayment Sum as the full and final settlement amount for the Total Outstanding Sum. Pursuant to the Proposed ITRSA which is a condition precedent to the SSA, the waiver of trade receivables of approximately RM334.73 million will be considered as part of the total value of the consideration for the Proposed Disposal. The waiver of trade receivables of approximately RM334.73 million is arrived at after deducting the Repayment Sum of RM49.70 million from the Total Outstanding Sum of approximately RM383.43 million.
- Consideration is a concept of contract law and is a necessity for contracts. An agreement made without consideration is void. As such, the Disposal Consideration was set at a nominal amount of RM1.00.

As the waiver of trade receivables of approximately RM334.73 million (part of the total value of the consideration for the Proposed Disposal) is arrived at after deducting the Repayment Sum of RM49.70 million from the Total Outstanding Sum of approximately RM383.43 million, the Board has also considered the basis and justification in arriving at the Repayment Sum as set out in Section 2.2.3 of this Circular.

Additionally, the Board (save for the Interested Directors), had appointed AER to act as the Independent Adviser to advise the non-interested Directors and non-interested shareholders of BHIC on the fairness and the reasonableness of the Proposals respectively and whether the Proposals are detrimental to the non-interested shareholders of BHIC and the Board (save for the Interested Directors) has considered the evaluation and opinion by AER

Premised on the above and after having considered all aspects of the Proposals in entirety, the Board (save for the Interested Directors) is of the opinion that the Disposal Consideration and the waiver of trade receivables of approximately RM334.73 million are fair and reasonable and not detrimental to BHIC Group.

2.1.6 Original cost of investment

The Company's original cost of investment in LUNAS is as follows:

Date of investment	No. of LUNAS shares	Cost of investment (RM'000)
From 4 th April 1996 to 31 st December 2005	27,000,001	53,580

2.1.7 Expected gain/(loss) arising from the Proposed Disposal

Upon the completion of the Proposed Disposal, BHIC Group is expected to realise a net gain of RM1.00 arising from the Proposed Disposal as illustrated below:-

	(RM'000)
Unquoted shares, at cost	53,580
Cumulative share of post-acquisition losses	(20,752) ⁽¹⁾
Less: Accumulated impairment losses	(32,828) ⁽²⁾
	-

	(RM)
Disposal consideration	1
Gain on disposal	1

Notes:

- (1) The cumulative share of post-acquisition losses represents share of losses of interest in LUNAS when applying the equity method up to its interest in the associate company.
- (2) Accumulated impairment losses were recognised in the profit and loss in FYE 31 December 2019 of RM32.8 million and relates to the investment in LUNAS. The impairment was undertaken after taking into consideration that LUNAS has reported losses and depleting shareholders' funds indicating that the carrying amount of investment may be impaired.

The Proposed Disposal is conditional on the Proposed ITRSA as the execution of the ITRSA is a condition precedent for the SSA. Pursuant to the Proposals, after taking into consideration the Total Outstanding Sum of approximately RM384.43 million and the Repayment Sum of RM49.70 million, the net trade receivables amount to be waived by BHIC will amount to approximately RM334.73 million.

Pursuant to the Proposed ITRSA, the provision for AECL⁽¹⁾ of RM261.36 million made by BHIC for the FYE 31 December 2023 will be realised as a loss to the Group upon completion of the Proposed ITRSA. The loss of RM261.36 million has been recognized in FYE 2023 and will not be accounted for in FYE 2024

Note:

- (1) The AECL provided in FYE 31 December 2023 of RM261.36 million is the remaining trade receivables as at 31 December 2022 after deducting the possible settlement of RM49.7 million.

The potential impact to BHIC arising from the waiver of the trade receivables of RM334.73 million is as follows:

(i) NA per Share

	Audited as at 31 December 2022 (RM'000)	After the Proposals (RM'000)
Shareholders' funds	60,668	106,092 ⁽¹⁾
NA per Share (RM)	0.24	0.19

Note:

(1) After taking into consideration the following:

- (a) Implementation of the Debt Settlement;
- (b) Full redemption of the RPS C pursuant to the utilisation of proceeds of the Proposed ITRSA;
- (c) Estimated loss in relation to the Proposed ITRSA amounting to approximately RM261.36 million, deducting estimated expenses in relation to the Proposals of RM1.0 million and the transfer of share issuance cost to accumulated losses amounting to approximately RM0.32 million; and
- (d) After taking into consideration the net gain on disposal pursuant to the Proposed Disposal of RM1.00.

(ii) Loss per Share

	(RM'000)
LAT as at 31 December 2022	(19,924)
Add:	
Net gain on disposal pursuant to the Proposed Disposal	-(1)
Less:	
Expected loss in relation to the Proposed ITRSA	(261,356)
Estimated expenses for the Proposals	(1,000)
Pro forma LAT	(282,280)
No. of BHIC Shares as at 31 December 2022 ('000)	248,458
Loss per share before the Proposals (sen)	(8.02)
Loss per Share after the Proposals (sen)	(113.61)
No. of BHIC Shares as at the LPD ('000)	564,280
Loss per share before the Proposals (sen)	(3.53)
Loss per Share after the Proposals (sen)	(50.02)

Note:

(1) After taking into consideration the net gain on disposal pursuant to the Proposed Disposal of RM1.00.

Please refer to Section 7.2 and Section 7.3, Part A of this Circular, for further information on the effects of the Proposals on the NA per Share and Loss per Share

2.2 Details of the Proposed ITRSA

The Proposed ITRSA involves the settlement of the Total Outstanding Sum via the Repayment Sum by LUNAS to BHIC in accordance with the terms of the ITRSA.

The execution of the ITRSA is a condition precedent of the SSA. Upon the execution of the ITRSA and the fulfilment of the other conditions precedent of the SSA, the SSA will be deemed unconditional and completed. As such, the Board intends to obtain shareholder approval for the Proposed ITRSA prior to execution of the ITRSA.

Pursuant to the LOA, BHIC and LUNAS will enter into the ITRSA after BHIC obtains the approval of its shareholders on the Proposed ITRSA at an EGM to be convened.

Please refer to Sections 2.2.1 and 2.2.2, Part A of this Circular, for the salient terms of the LOA and ITRSA, respectively.

2.2.1 Salient terms of the LOA

The salient terms of the LOA are as follows:

- (i) the LOA serves as a record of both BHIC's and LUNAS' agreement to execute the ITRSA within three days from date of the approval of shareholders of BHIC on the ITRSA at an EGM;
- (ii) in the event the said approval is not obtained, BHIC and LUNAS shall initiate and continue in good faith further negotiations* towards the execution of a final ITRSA; and
- (iii) the LOA shall be governed by laws of Malaysia and shall be binding between BHIC and LUNAS.

Note:

* *In the event the negotiations between BHIC and LUNAS lead to material changes to the terms of ITRSA which trigger the requirement for BHIC's shareholders' approval pursuant to the Listing Requirements, BHIC will accordingly seek its shareholders' approval at an EGM.*

2.2.2 Salient terms of the ITRSA

The salient terms of the ITRSA are as follows:

Effective Date	:	Date of the ITRSA																														
Total Outstanding Sum	:	<p>LUNAS owes to BHIC and its Relevant Subsidiaries the Total Outstanding Sum as at the Cut-Off Date, details on the breakdown of which are set out as follows:</p> <table border="1"> <thead> <tr> <th>No.</th><th>BHIC and its Relevant Subsidiaries</th><th>Outstanding sum (RM)</th></tr> </thead> <tbody> <tr> <td>1.</td><td>BHIC</td><td>976,391</td></tr> <tr> <td>2.</td><td>Boustead Penang Shipyard Sdn. Bhd.</td><td>351,033,198</td></tr> <tr> <td>3.</td><td>BHIC Electronics and Technologies Sdn. Bhd.</td><td>20,479,165</td></tr> <tr> <td>4.</td><td>BHIC Allied Defence Technology Sdn. Bhd.</td><td>1,094,244</td></tr> <tr> <td>5.</td><td>BHIC Defence Techservices Sdn. Bhd.</td><td>7,364,975</td></tr> <tr> <td>6.</td><td>BHIC Navaltech Sdn. Bhd.</td><td>3,216,582</td></tr> <tr> <td>7.</td><td>BHIC Marine Technology Academy Sdn. Bhd.</td><td>385,461</td></tr> <tr> <td>8.</td><td>BHIC Submarine Engineering Services Sdn. Bhd.</td><td>(117,007)</td></tr> <tr> <td colspan="2">Total Outstanding Sum</td><td>384,433,009</td></tr> </tbody> </table>	No.	BHIC and its Relevant Subsidiaries	Outstanding sum (RM)	1.	BHIC	976,391	2.	Boustead Penang Shipyard Sdn. Bhd.	351,033,198	3.	BHIC Electronics and Technologies Sdn. Bhd.	20,479,165	4.	BHIC Allied Defence Technology Sdn. Bhd.	1,094,244	5.	BHIC Defence Techservices Sdn. Bhd.	7,364,975	6.	BHIC Navaltech Sdn. Bhd.	3,216,582	7.	BHIC Marine Technology Academy Sdn. Bhd.	385,461	8.	BHIC Submarine Engineering Services Sdn. Bhd.	(117,007)	Total Outstanding Sum		384,433,009
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8.	BHIC Submarine Engineering Services Sdn. Bhd.	(117,007)																														
Total Outstanding Sum		384,433,009																														
Cut-Off Date	:	31 December 2022																														
Consideration	:	<p>LUNAS shall pay a Repayment Sum of Ringgit Malaysia Forty-Nine Million Seven Hundred Thousand (RM49,700,000.00) to BHIC as the full and final satisfaction of the Total Outstanding Sum owing by LUNAS to BHIC and its Relevant Subsidiaries.</p> <p>LUNAS is not relieved from any liabilities with respect to the Total Outstanding Sum until and unless the entire Repayment Sum is fully and finally paid to BHIC in accordance with the ITRSA.</p>																														

Payment of the Repayment Sum	:	<p>LUNAS shall pay the Repayment Sum in one (1) lumpsum to BHIC within thirty (30) days from the date of the ITRSA ("Payment Due Date").</p> <p>In the event that LUNAS fails to pay any parts of the Repayment Sum on or before the Payment Due Date, then BHIC shall be entitled to the following:</p> <p>(a) to charge a late payment interest at the rate of six per centum (6%) per annum on the outstanding amount of the Total Outstanding Sum (after deducting the actual sum paid), calculated on daily basis from the Payment Due Date up to the date of actual payment of Repayment Sum ("Late Payment Interest"). Charge and/or receipt of Late Payment Interest by BHIC shall not operate as or shall be deemed to be waiver of any of BHIC's right to exercise its rights to terminate the ITRSA and/or to require strict performance by LUNAS of the terms and conditions in the ITRSA; and/or</p> <p>(b) to terminate the ITRSA.</p>
Events of Default and Termination	:	<p>Either party shall be entitled to terminate the ITRSA upon occurrence of an event of default as set forth below whereby BHIC or LUNAS, as the case may be, has not agreed in writing to waive such breach:</p> <p>(i) if LUNAS fails to pay the Repayment Sum or any part thereof in accordance with the provisions hereof; or</p> <p>(ii) if either party commits any breach of or fails to observe and/or perform any of its covenants and obligations under the ITRSA that is incapable of remedy or if capable of remedy, is not remedied within thirty (30) days of it being given notice to do so; or</p> <p>(iii) if either party is being served with any other petition for winding-up and such petition is not set aside within sixty (60) days from the date of the petition being served or an order is made for the winding-up of BHIC and/or LUNAS, as the case may be; or</p> <p>(iv) an administrator or receiver or receiver and manager is appointed over, or distress, attachment or execution is levied or enforced upon, any part of the assets or undertaking of the party; or</p> <p>(v) the party becomes insolvent or is unable to pay its debts or admits in writing its ability to pay its debts as and when they fall due or enter into any composition or arrangement with its creditors or makes a general assignment for the benefit of its creditors; or</p> <p>(vi) the party ceases or threatens to cease or carry on the whole or any substantial part of its business (except for the purposes of a bona fide reconstruction or amalgamation which would not result or cause any failure or inability to duly perform or fulfil any obligation under the ITRSA); or</p> <p>(vii) any representation, warranty or other statement (financial or otherwise) made or furnished by or on behalf of one party to the other party, or as an inducement to that other party to enter into the ITRSA, shall be false, incorrect, incomplete or misleading in any material respect when made or furnished.</p>
Consequences of Events of Default	:	<p>In the event that the ITRSA is terminated due to a breach or default by LUNAS, then BHIC shall be entitled to exercise its rights, including but not limited to:</p> <p>(a) make a demand on LUNAS in respect of all or any part of the Total Outstanding Sum remaining outstanding and such sum shall immediately become due and payable to BHIC and if applicable, the Late Payment Interest payable and any costs or expenses related thereof;</p> <p>(b) exercise any and all of its rights and remedies arising as a result of, or in connection with, any antecedent breaches of the ITRSA, which it may have against LUNAS;</p>

		<p>(c) institute or commence any claims, action or legal proceedings against LUNAS to recover any part of the Total Outstanding Sum, Late Payment Interest (if any) payable and any costs, expenses, fees or payment payable thereof without any prior notice to or concurrence on the part of LUNAS.</p> <p>Notwithstanding BHIC's right to terminate under the ITRSA, in the event of occurrence of an Event of Default due to a breach or default by LUNAS, BHIC is at liberty to elect to commence proceedings against LUNAS for specific performance hereof, at the cost and expense of LUNAS.</p> <p>In the event that the ITRSA is terminated due to a breach or default by the defaulting party, the non-defaulting party shall be entitled to exercise its right, including without limitation to exercise any and all of its rights and remedies which it may have against the defaulting party and LUNAS shall remain liable to pay the balance Total Outstanding Sum and the Late Payment Interest (if any).</p>
Amendment	:	The ITRSA may only be varied or replaced by a document duly executed by the parties.
Costs	:	Each party shall be responsible for its own costs and disbursements incidental to the ITRSA.
Governing Law and Jurisdiction	:	The ITRSA shall be governed by and construed in accordance with the laws of Malaysia and the parties shall submit to the exclusive jurisdiction of the courts of Malaysia.
Rights and Remedies	:	The rights and remedies provided in the ITRSA are cumulative and are not exclusive of any right or remedy of either party as provided by law, and no failure or delay in the exercise or the partial exercise of any such right or remedy or the exercise of any other right or remedy shall affect or impair any such right or remedy.

For avoidance of doubt, the salient terms of the ITRSA had been agreed and finalised between BHIC and LUNAS upon the execution of the LOA on 3 April 2024 and will remain the same upon the execution of the ITRSA. BHIC will make an immediate announcement upon the execution of the ITRSA including any amendments, material variation or modification to the salient terms of the ITRSA as disclosed above. Pursuant to paragraph 8.22 of the Listing Requirements, BHIC will also seek its shareholders' approval in the event it proposes to make a material amendment, modification or variation to the Proposals after it has been approved by its shareholders at the EGM to be convened.

2.2.3 Basis and justification in arriving at the Repayment Sum

The Repayment Sum was arrived at after taking the following into consideration:

- (i) the Repayment Sum amounting to RM49.7 million is a final offer made by the MOF Inc via LUNAS and OSB as the full and final settlement amount for the Total Outstanding Sum; and
- (ii) the rationale and justification for the Proposed ITRSA as set out in Section 4, Part A of this Circular.

The Board (save for the Interested Directors) wishes to highlight that the Repayment Sum amounting to RM49.7 million is a non-negotiable final offer made by the MOF Inc via LUNAS and OSB to the BHIC Group. Considering the net liabilities position of LUNAS, the Board (save for the Interested Directors) is of the view that non-acceptance of the Repayment Sum may result in zero payment from LUNAS which is to the detriment of BHIC Group.

In order to maintain a beneficial collaboration with the Government of Malaysia, BHIC had decided not to exercise its legal rights to demand for payment of the Total Outstanding Sum from LUNAS and OSB after taking the following into consideration:

- (i) to protect and preserve BHIC's existing contracts with the Government of Malaysia and/or Ministry of Defence Malaysia which are due to be renewed in the coming years; and
- (ii) to preserve BHIC's reputation and ability to secure future contracts from the Government of Malaysia, Ministry of Defence Malaysia and/or Ministry of Home Affairs of Malaysia.

Additionally, the Board (save for the Interested Directors), had appointed AER to act as the Independent Adviser to advise the non-interested Directors and non-interested shareholders of BHIC on the fairness and the reasonableness of the Proposals respectively and whether the Proposals are detrimental to the non-interested shareholders of BHIC and the Board (save for the Interested Directors) has considered the evaluation and opinion by AER.

Premised on the above and after having considered all aspects of the Proposals in entirety, the Board (save for the Interested Directors) is of the opinion that the Repayment Sum is fair and reasonable and not detrimental to BHIC Group.

2.2.4 Estimated loss from the Proposed ITRSA

BHIC had been making provisions by way of recording AECL for the net trade debts owing by LUNAS since FYE 31 December 2019. The amount of accumulated AECL recorded in the latest audited consolidated financial statements of BHIC for the FYE 31 December 2022 was RM73.38 million.

For the FYE 31 December 2023, BHIC had also made provisions for the net trade debts owing by LUNAS in its unaudited consolidated financial statements for the amount of RM261.36 million. Pursuant to the Proposed ITRSA, the provision for AECL of RM334.73 million made by BHIC for the FYE 31 December 2023 will be realised as a loss to the Group upon completion of the Proposed ITRSA.

The amount of provisions for AECL made by the Group since FYE 31 December 2019 are as follows:

FYE 31 December	AECL (from LUNAS' receivables) RM'000	AECL RM'000
2019	11,350	11,350
2020	18,500	29,850
2021	11,039	40,889
2022	32,488	73,377
2023	261,356	334,733

BHIC will not recognise any other losses other than those stated above.

Please refer to Section 7.3, Part A of this Circular, for further information on the effects of the Proposed ITRSA on the earnings of BHIC.

2.3 Liabilities to be assumed

The Proposed Disposal is conditional on the Proposed ITRSA as the execution of the ITRSA is a condition precedent for the SSA. Pursuant to the Proposals, after taking into consideration the Total Outstanding Sum of approximately RM384.43 million and the Repayment Sum of RM49.70 million, the net trade receivables amount to be waived by BHIC will amount to approximately RM334.73 million.

Save as disclosed above, there are no other liabilities, including contingent liabilities, in relation to LUNAS which will remain with BHIC pursuant to the Proposals.

BHIC has not provided or given any guarantees to OSB or LUNAS.

2.4 Cash Company or PN17 Company

After taking into consideration the settlement of the Total Outstanding Sum via a Repayment Sum by LUNAS to BHIC in accordance with the terms of the ITRSA, the Proposals will not result in the Company being no longer suitable for continued listing on the Official List of Bursa Securities such as triggering any of the criteria in respect of a cash company, having an inadequate level of operations to warrant continued listing on the Official List of Bursa Securities (i.e., becoming an affected listed issuer) or becoming a Practice Note 17 Issuer pursuant to Paragraphs 8.03, 8.03A and Practice Note 17 of the Listing Requirements, respectively.

3. UTILISATION OF PROCEEDS

The Company intends to utilise the proceeds from the Proposals in the following manner:

Utilisation	Notes	Amount* (RM'000)	Estimated utilisation timeframe from receipt of proceeds
Redemption of redeemable preference shares	(1)	45,000	Within 12 months
Working capital	(2)	3,700	Within 12 months
Estimated expenses relating to the Proposals	(3)	1,000	Immediate
Total		49,700	

Notes:

* Includes the Disposal Consideration of RM1.00.

(1) BHIC intends to allocate RM45.0 million for the full redemption of RPS C that were issued to BHB, the major shareholder of BHIC, pursuant to the Debt Settlement, which was approved by the shareholders of BHIC in an EGM convened on 29 December 2023. The amount owing to BHB by BHIC had accumulated over the years arising mainly from the repayment of the financing facilities taken by the Group. As part of the Debt Settlement, the financiers of BHIC had requested for partial cash settlement to be incorporated as part of the settlement scheme. Pursuant thereto, BHB had agreed to advance to BHIC a further RM45.0 million, and in exchange, BHIC has issued the RPS C to BHB for this amount of RM45.0 million. A total of 78,947,368 RPS C were issued to BHB at an issue price of RM0.57 per RPS C.

The RPS C is ahead in priority in terms of redemption to the other preference shares (i.e. RCPS A, Islamic RCPS A and RCPS B issued to the financiers and BHB pursuant to the Debt Settlement. Please refer to the circular to shareholders of BHIC dated 14 December 2023 for further details on the Debt Settlement.

(2) The Group intends to allocate RM3.7 million for working capital purposes specifically for staff cost such as staff salaries, statutory contributions and staff benefits. The actual proceeds to be used for working capital may differ subject to the Group's operating requirements at the time of the utilisation of the allocated proceeds.

(3) Mainly comprising professional fees, fees payable to relevant authorities and other ancillary expenses in relation to the Proposals. Any surplus or shortfall to the amount allocated for the estimated expenses for the Proposals, will be used for or funded from the working capital of the Group.

Pending utilisation of the proceeds from the Proposals, the money will be placed in interest-bearing deposits with financial institutions and/or short-term money market instruments as the Board (save for the Interested Directors) may deem fit. The interests derived from the deposits with financial institutions and/or any gain arising from the short-term money market instruments will be used for the Group's working capital requirements.

4. RATIONALE AND JUSTIFICATION FOR THE PROPOSALS

The Proposed Disposal serves to facilitate the decision of the Government of Malaysia to ensure the completion of the LCS project. Through the MOF Inc's letter to the Company dated 25 May 2023, the Company was informed by MOF Inc that MOF Inc intends to acquire 100% of the shares in LUNAS. It is also part of the Company's operational and organisational restructuring to streamline and re-align entities within the Company and its relevant subsidiaries, while ensuring that LUNAS is able to complete the construction and delivery of the LCS to the Royal Malaysian Navy within the stipulated timeframe pursuant to the LCS contract.

The Proposed Disposal is conditional on the Proposed ITRSA as one of the conditions precedents is the execution of the ITRSA to be entered into between BHIC (as authorised by its relevant subsidiaries) and LUNAS for the repayment of a sum of approximately RM383.94 million and/or such other sum due and owing by LUNAS to BHIC and its relevant subsidiaries which shall be mutually agreed by the parties in the ITRSA, being the total repayment sum owing by LUNAS to BHIC and its relevant subsidiaries.

On 15 December 2023, MOF Inc via LUNAS' letter to BHIC, had made a final offer amounting to the Repayment Sum as the full and final settlement amount for the Total Outstanding Sum due and owing by LUNAS to the Group ("**Offer**"). On 16 February 2024, the solicitors of OSB reiterated the Offer, indicating that the Offer shall lapse unless the ITRSA is executed by 31 March 2024. On 1 March 2024, BHIC issued a letter to OSB informing that BHIC is committed to sign the ITRSA by 31 March 2024, subject to the terms contained therein.

Notwithstanding the above, BHIC had, via a letter issued to OSB dated 14 March 2024, requested for a further extension of the conditional period for the SSA. Subsequently, the solicitors of OSB had, via a letter issued to BHIC dated 29 March 2024, agreed to grant a further extension of the conditional period for the SSA until 30 April 2024. In addition, the solicitors of OSB reiterated the Offer, indicating that the Offer shall lapse unless the ITRSA is executed by 30 April 2024. As such, BHIC has issued and LUNAS has accepted the LOA to facilitate the Proposed ITRSA.

The following factors were also taken into consideration by the Board when deliberating the Proposed ITRSA:

- (i) the Repayment Sum is a final offer made by the MOF Inc via LUNAS and OSB as the full and final settlement amount for the Total Outstanding Sum. Considering the net liabilities position of LUNAS, non-acceptance of the Repayment Sum will result in zero payment from LUNAS;
- (ii) the Proposed ITRSA will facilitate the Government of Malaysia's aspirations to complete the LCS project by taking over LUNAS so as to have complete control and oversight of the LCS project;
- (iii) to protect and preserve BHIC's existing contracts with the Government of Malaysia and/or Ministry of Defence Malaysia which are due to be renewed in the coming years; and
- (iv) to preserve BHIC's reputation and ability to secure future contracts from the Government of Malaysia, Ministry of Defence Malaysia and/or Ministry of Home Affairs of Malaysia.

Moving forward, the Group aims to maximise its shareholders value following the completion of the Proposals. BHIC will be able to utilise the proceeds from the Proposals in the manner as set out in Section 3, Part A of this Circular, and improve the Group's immediate cash flow. BHIC intends to redeem the RPS C as the RM45 million that was advanced by BHB to BHIC in exchange for RPS C was utilised to meet a request for cash settlement from BHIC's financiers and therefore was given priority in redemption. Furthermore, part of the proceeds from the Proposals have been allocated to fund the working capital requirements of the Group's remaining businesses, specifically for staff cost such as staff salaries, statutory contributions and staff benefits, as stated in Section 3, Part A of this Circular.

5. BUSINESS SEGMENTS OF THE GROUP

5.1 Performance and future plans of the business segments of the Group

The Group is involved in the following business segments:

- Defence and security : principally engaged in shipbuilding and maintenance, repair and overhaul (“**MRO**”) of the Royal Malaysian Navy’s patrol vessels. In addition, this segment is also involved in manufacturing, supply and maintenance of defence related electronic products.
- Commercial : principally engaged in the heavy engineering, shipbuilding, MRO of non-defence related vessels, providing trainings, trading of goods and MRO of aircraft wheels and brakes.
- Others : principally engaged in interest income charged to the subsidiaries on the advances provided and the management fee charged to subsidiaries and joint ventures

The PBT/(LBT) of the Group's business segments are as follows:

	FYE 31 December		
	2021 (RM'million)	2022 (RM'million)	2023 (RM'million)
Defence and security	44.06	22.65	(215.52)
Commercial	(3.07)	3.90	(1.71)
Others	(17.59)	(42.89)	(313.74)

FYE 31 December 2021

The Group recorded a PBT of RM44.06 million for its defence & security segment, a decrease of 48.59% from the preceding year which was mainly due to higher maintenance, repair and overhaul activities and lower costs. The Group recorded a LBT of RM3.07 million for its commercial segment, an increase of 77.36% from the preceding year which was mainly due to lower operating costs. For the Group's Others segment, it recorded a LBT of RM17.59 million, an decrease of 73.0% from the preceding year which was mainly due to lower costs and significant expected credit losses provided in the preceding year.

FYE 31 December 2022

The Group recorded a PBT of RM22.65 million for its defence & security segment, a decrease of 48.59% from the preceding year which was mainly due to higher allowance for expected credit losses. The Group recorded a PBT of RM3.90 million for its commercial segment, an increase of 227.04% from the preceding year which was mainly due to higher allowance for expected credit losses. For the Group's Others segment, it recorded a LBT of RM42.89 million, an increase of 143.83% from the preceding year, mainly due to higher operating and finance costs.

FYE 31 December 2023

The Group recorded a LBT of RM215.12 million for its defence & security segment, a decrease of 1,049.76% from the preceding year which was mainly due to high allowance for expected credit losses. The Group recorded a LBT of RM1.71 million for its commercial segment, a decrease of 143.85% from the preceding year which was mainly due to higher operating and finance costs. For the Group's Others segment, it recorded a LBT of RM313.74 million, an increase of 631.42% from the preceding year, mainly due to higher operating costs and higher impairment on investment of subsidiaries and higher expected credit losses.

The future plans of each of the Group's business segments are as follows:

Business segment	Future plans
Defence and security	<p>(i) To continue to provide MRO services to the Royal Malaysian Navy for their submarine, helicopters and Bofor guns as well as Full Flight Simulator Training for Royal Malaysian Air Force EC725 helicopter pilots; and</p> <p>(ii) To explore opportunities in the ammunition and propellant market.</p>
Commercial	To venture into logistics services.
Others	To venture into oil and gas services via acquisition of existing service providers.

5.2 Industry outlook of the defence and security sector in Malaysia

In 2023, the revised Malaysian Government Development Expenditure (“DE”) is maintained at RM97 billion to sustain the progress of programmes and projects under the Twelfth Malaysia Plan, 2021 – 2025. In terms of sectors, the economic sector remains the largest beneficiary at 56.7%, followed by the social (27.4%), security (11.9%) and general administration (4%).

The security sector, which comprises defence and internal security subsectors, received an allocation of RM11.5 billion or 11.9% of DE. The allocation aims to further strengthen national security, with RM6.4 billion allocated to the defence subsector, while the remaining RM5.1 billion is for the internal security subsector. The remaining DE, amounting to RM3.9 billion or 4% of DE, was allocated to the general administration sector, of which the bulk of the outlays are for upgrading of ICT network system as well as maintenance of offices and equipment.

In 2024, the Government will continue to pursue its two-pronged fiscal stance, namely diversifying revenue sources and optimising budget allocation.

The Federal Government remains steadfast to allocate its resources to strengthen capital formation towards ensuring long-term growth sustainability. In this regard, a sum of RM393.8 billion or 19.9% of GDP is allocated for Budget 2024.

The Government places a significant emphasis on preserving national security and safeguarding public safety. The security sector is allocated RM12.5 billion, with RM7.4 billion and RM5.1 billion are channelled for the defence and internal security subsectors, respectively. These allocations are for development projects, including the acquisition of new assets, upgrading of existing military and security equipment as well as construction and refurbishment of police stations, military camps and quarters for security personnel.

(Source: Fiscal Outlook and Federal Government Revenue Estimates 2024, Ministry of Finance Malaysia)

6. RISK FACTORS OF THE PROPOSALS

6.1 Completion risk

The completion of the Proposals is conditional upon the terms and conditions as set out in the SSA, LOA and ITRSA. In the event that any of the parties commit a breach or fails to observe and/or perform any of its covenants and obligations under the SSA, LOA and ITRSA, the Proposals may be delayed or terminated.

There can be no assurance that all of the terms and conditions are able to be observed and/or performed under the SSA, LOA and ITRSA. Nevertheless, the Group anticipates that such risk can be mitigated by proactively engaging with the relevant authorities/parties to obtain all the necessary approvals and documents required for the completion of the SSA, LOA and ITRSA.

6.2 Contractual risk

BHIC is subject to certain contractual risks including, but not limited to, the representation, warranties and covenants which are given or to be given pursuant to the SSA, LOA and ITRSA. BHIC may be subject to contractual risks if the obligations under the SSA, LOA and ITRSA are not fulfilled and/or in the event of any breach of the terms and conditions as set out in the SSA, LOA and ITRSA.

BHIC shall endeavour to ensure full compliance in relation to the fulfilment of its obligations under SSA, LOA and ITRSA.

7. EFFECTS OF THE PROPOSALS

7.1 Share capital and substantial shareholders' shareholdings

The Proposals will not have any effect on the issued share capital and the substantial shareholders' shareholding in the Company as the Proposals do not involve the issuance of any new shares in the Company.

7.2 NA per share and gearing

The pro forma effects of the Proposals on the NA and gearing of the Group based on the latest audited consolidated financial statements of the Group as at 31 December 2022 are as follows:

	Audited as at 31 December 2022	(I) After adjusting for subsequent events⁽¹⁾	(II) After (I) and the Proposed ITRSA	(III) After (II) and the Proposed Disposal
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Share capital	248,458	427,211	427,211	427,211
RCPS-A	-	13,372	13,372	13,372
RCPS-I A	-	74,804	74,804	74,804
RCPS B	-	47,916	47,916	47,916
RPS C	-	44,684	-(2)	-
Accumulated losses	(187,790)	(194,539)	(457,211) ⁽³⁾	(457,211) ⁽⁴⁾
Shareholders' funds	60,668	413,448	106,092	106,092
No. of BHIC Shares ('000)	248,458	564,280	564,280	564,280
NA per Share (RM)	0.24	0.73	0.19	0.19
Borrowings	246,025	32,006	32,006	32,006
Gearing (times)	4.06	0.08	0.30	0.30

Notes:

- (1) After taking into consideration the implementation of the Debt Settlement.
- (2) After taking into consideration the full redemption of the RPS C pursuant to the utilisation of proceeds of the Proposed ITRSA.
- (3) After taking into account the estimated loss in relation to the Proposed ITRSA amounting to approximately RM261.36 million, deducting estimated expenses in relation to the Proposals of RM1.0 million and the transfer of share issuance cost to accumulated losses amounting to approximately RM0.32 million.
- (4) After taking into consideration the net gain on disposal pursuant to the Proposed Disposal of RM1.00.

7.3 Earnings per share

BHIC had fully written off the total investment cost of LUNAS by recording cumulative share of post-acquisition losses and accumulated impairment losses (*refer to Note 1 below*). As a result, for the audited FYE 31 December 2022, LUNAS did not contribute any loss or profit to the BHIC Group.

The Proposals are expected to be completed in the 2nd quarter of 2024. For illustration purposes, based on the audited consolidated statements of comprehensive income for the FYE 31 December 2022 and assuming the Proposals had been completed on 1 January 2022, the pro forma effects to the earnings and EPS of the Group are as follows:

	(RM'000)
LAT as at 31 December 2022	(19,924)
Add:	
Net gain on disposal pursuant to the Proposed Disposal	-(1)
Less:	
Expected loss in relation to the Proposed ITRSA	(261,356)
Estimated expenses for the Proposals	(1,000)
Pro forma LAT	(282,280)
No. of BHIC Shares as at 31 December 2022 ('000)	248,458
Loss per share before the Proposals (sen)	(8.02)
Loss per Share after the Proposals (sen)	(113.61)
No. of BHIC Shares as at the LPD ('000)	564,280
Loss per share before the Proposals (sen)	(3.53)
Loss per Share after the Proposals (sen)	(50.02)

Note:

(1) Net gain on disposal pursuant to the Proposed Disposal is illustrated as follows:

	(RM'000)
Unquoted shares, at cost	53,580
Cumulative share of post-acquisition losses	(20,752)
Less: accumulated impairment losses	(32,828)
	-

	(RM)
Disposal Consideration	1
Net gain on disposal	1

8. CORPORATE EXERCISE ANNOUNCED BUT PENDING COMPLETION

Save for the Proposals, the Company does not have any other corporate exercises which have been announced but are pending completion before the printing of this Circular.

9. APPROVALS REQUIRED

The Proposals are subject to the following approvals being obtained:

- (i) the shareholders of BHIC at an EGM to be convened; and
- (ii) any other relevant authority or party.

The Proposed Disposal is conditional on the Proposed ITRSA as the execution of the ITRSA is a condition precedent for the SSA.

The Proposals are not conditional upon any other corporate exercise of the Company.

10. HIGHEST PERCENTAGE RATIO

The highest percentage ratio applicable to the Proposals pursuant to Paragraph 10.02(g) of the Listing Requirements is approximately 551.75% computed based on approximately RM334.73 million representing the aggregate of the Disposal Consideration of RM1.00 and the net trade receivables amount to be waived by the Group of approximately RM334.73 million pursuant to the Proposed ITRSA over the NA of BHIC for the FYE 31 December 2022 of approximately RM60.69 million.

11. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

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

Interested Major Shareholders

- (i) BHB is the major shareholder of BHIC. BHB was also the major shareholder of LUNAS on the date the SSA was entered into; and
- (ii) LTAT is the sole shareholder of BHB which is a major shareholder of BHIC. LTAT was also a major shareholder of LUNAS on the date the SSA was entered into.

As at the LPD, the shareholdings of the Interested Major Shareholders in BHIC are as follows:

	Direct		Indirect	
	No. of BHIC Shares	%	No. of BHIC Shares	%
BHB	408,417,934	72.38	-	-
LTAT	-	-	408,417,934 ⁽¹⁾	72.38

Note:

- (1) Deemed interested by virtue of its shareholdings in BHB in accordance with Section 8 of the Act.

In view of the above, the Interested Major Shareholders will abstain from voting in respect of their direct and indirect shareholdings in BHIC on the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of BHIC. The Interested Major Shareholders will also undertake to ensure that all persons connected to them will abstain from voting in respect of their direct and/or indirect shareholdings in BHIC on the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of BHIC.

Interested Directors

- (i) General Tan Sri Dato' Seri Zamrose Mohd Zain (Retired) being our Non-Independent Non-Executive Director of BHIC and a nominee of LTAT is deemed interested in the Proposals in view of his directorship in the Company;
- (ii) Izaddeen Daud being our Non-Independent Non-Executive Director of BHIC and the Group Chief Executive Officer of BHB is deemed interested in the Proposals in view of his directorship in our Company as well as being a key senior management of BHB. He was a director of LUNAS on the date the SSA was entered into;
- (iii) Fahmy Ismail being our Non-Independent Non-Executive Director of BHIC and the Group Chief Financial Officer of BHB is deemed interested in the Proposals in view of his directorship in our Company as well as being a key senior management of BHB; and

- (iv) Mohd Khairul Anuar Mohd Nor being our Non-Independent Non-Executive Director of BHIC and a nominee of LTAT and the Head of Defence and Strategic Business of LTAT is deemed interested in the Proposals in view of his directorship in our Company as well as being a key senior management of LTAT.

As at the LPD, the Interested Directors do not have any direct and/or indirect shareholdings in the Company.

In view of the above, the Interested Directors have abstained and shall continue to abstain from all deliberations and voting at the relevant Board meetings in respect of the Proposals. The Interested Directors will abstain from voting in respect of their direct and indirect shareholdings in BHIC, if any, on the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of BHIC. The Interested Directors will also undertake to ensure that all persons connected to them will abstain from voting in respect of their direct and/or indirect shareholdings in BHIC on the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of BHIC.

12. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to the required approvals being obtained, the Proposals are expected to be completed within the 2st quarter of 2024.

The tentative timetable in relation to the Proposals are as follows:

Date	Event
30 April 2024	<ul style="list-style-type: none"> - EGM for the Proposals - Execution of ITRSA - Fulfilment or satisfaction of the conditions precedent of the SSA
Early-May 2024	- Completion of the Proposed Disposal
Mid-May 2024	- Completion of the Proposed ITRSA

13. TRANSACTIONS WITH THE SAME RELATED PARTY FOR THE PRECEDING 12 MONTHS

Save for the Proposals and as disclosed below, there were no other transactions entered into by the Group with LUNAS, BHB, LTAT and their respective subsidiaries for the preceding 12 months from the date of the LPD:

Transacting parties	Nature of transaction	Amount (RM'000)
BHB as service provider and BHIC as service recipient	Provision of training, management and related services	588
BHIC as tenant and BRSB as landlord	Tenancy agreement dated 1 January 2023 for the rental of premises located at the 17 th and 25 th Floor Menara Boustead, No. 69 Jalan Raja Chulan, 50200 Kuala Lumpur, at a monthly rental of RM58,670.00 for a tenure commencing from 1 January 2023 to 31 December 2025	744
BSES as tenant and BRSB as landlord	(i) Tenancy agreement for the rental of the premises located at the 19 th Floor Menara Boustead, No. 69 Jalan Raja Chulan, 50200 Kuala Lumpur, at a monthly rental of RM9,705.00 for a tenure commencing from 1 January 2023 to 31 December 2025	201

Transacting parties	Nature of transaction	Amount (RM'000)
	(ii) Tenancy agreement for the rental of the premises located at the 19 th Floor Menara Boustead, No. 69 Jalan Raja Chulan, 50200 Kuala Lumpur, at a monthly rental of RM11,725.00 for a tenure commencing from 1 October 2023 to 31 December 2025	
BSES as service recipient and BTS as service provider	Provision of transport and related services	514
BHIC as service recipient and BTS as service provider	Provision of transport and related services	10
BDT as service recipient and LUNAS as service provider	Provision of ship repair works and related services	172
BDT as tenant and LUNAS as registered leaseholder	Master agreement dated 1 March 2021 for the rental of office facilities in the premises located at the RMN Naval Base, 32100 Lumut, Perak Darul Ridzuan, at a monthly rental of RM24,678.00 for a tenure commencing from 1 January 2021 to 31 December 2023	213
BHIC Marine Technology Academy Sdn Bhd as tenant and LUNAS as registered leaseholder	Agreement for the provision of facilities dated 14 April 2022 for the rental of the premises located at the RMN Naval Base, 32100 Lumut, Perak Darul Ridzuan, at a monthly rental of RM633.00 for a tenure commencing from 1 January 2022 to 31 December 2023	6
Total		2,448

14. AUDIT COMMITTEE'S STATEMENT

The Audit Committee of the Company acknowledges that the Proposals are not on normal commercial terms. However, the Audit Committee takes cognisance that the Repayment Sum is a non-negotiable final offer made by the MOF Inc via LUNAS and OSB and considering the net liabilities position of LUNAS, the Audit Committee is of the view that non-acceptance of the Repayment Sum may result in zero payment from LUNAS which is to the detriment of BHIC Group.

The Audit Committee has considered the basis and justification in arriving at the Disposal Consideration and the Repayment Sum as set out in Sections 2.1.5 and 2.2.3 of this Circular respectively.

The Audit Committee has also taken note that in an effort to maintain a beneficial collaboration with the Government of Malaysia, BHIC had decided not to exercise its legal rights to demand for payment of the Total Outstanding Sum from LUNAS and OSB after taking the following into consideration:

- (i) to protect and preserve BHIC's existing contracts with the Government of Malaysia and/or Ministry of Defence Malaysia which are due to be renewed in the coming years; and
- (ii) to preserve BHIC's reputation and ability to secure future contracts from the Government of Malaysia, Ministry of Defence Malaysia and/or Ministry of Home Affairs of Malaysia.

Additionally, the Board (save for the Interested Directors), had appointed AER to act as the Independent Adviser to advise the non-interested Directors and non-interested shareholders of BHIC on the fairness and the reasonableness of the Proposals respectively and whether the Proposals are detrimental to the non-interested shareholders of BHIC and the Audit Committee has considered the evaluation and opinion by AER

Premised on the above and after having considered all aspects of the Proposals in entirety, the Audit Committee is of the opinion that the Proposals are:

- (i) in the best interest of the Group;
- (ii) fair and reasonable; and
- (iii) not detrimental to the interest of the non-interested shareholders of the Company.

15. DIRECTORS' STATEMENT

The Board (save for the Interested Directors), after having considered all aspects of the Proposals (including but not limited to the rationale, risks and effects of the Proposals as well as the evaluation and opinion by AER, being the Independent Adviser for the Proposals), is of the opinion that the Proposals are in the best interest of the Group.

Accordingly, our Board (save for the Interested Directors) recommends that you vote in favour of the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM.

16. ADVISERS

Malacca Securities has been appointed to act as the Principal Adviser for the Proposals.

In view that the Proposals are regarded as a related party transaction pursuant to Paragraph 10.08 of the Listing Requirements, the Board (save for the Interested Directors) had appointed AER on 12 March 2024 and 21 March 2024 to act as the Independent Adviser for the Proposed ITRSA and Proposed Disposal, respectively, to:

- (i) comment as to whether the Proposals are:
 - (a) fair and reasonable in so far as our non-interested shareholders are concerned;
and
 - (b) to the detriment of our non-interested shareholders,and such opinion must set out the reasons for, the key assumptions made and the factors taken into consideration in forming that opinion;
- (ii) advise our non-interested shareholders on whether they should vote in favour of the resolutions pertaining to the Proposals at our Company's forthcoming EGM; and
- (iii) take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in relation to items (i) and (ii) above.

Please refer to the IAL as set out in Part B of this Circular.

17. EGM

Our Company's EGM will be conducted virtually using the remote participation and voting ("RPV") facilities to be provided by the poll administrator via TIIH Online website at <https://tiih.online> or <https://tiih.com.my> on 30 April 2024 at 2.30 p.m. for the purpose of considering, and if thought fit, passing the ordinary resolutions, with or without modifications, to give effect to the Proposals as set out in the Notice of EGM and the Proxy Form which are enclosed in this Circular and are also available to be downloaded from our Company's website at www.bhic.com.my. As a shareholder, you are encouraged to go online, participate and vote at the EGM using the RPV facilities. If you wish to appoint a proxy to participate and vote on your behalf, you may deposit your Proxy Form at the office of the poll administrator or alternatively, you may lodge your Proxy Form by electronic means via TIIH Online website at <https://tiih.online> not less than 48 hours before the time set for holding the EGM or any adjournment thereof.

18. FURTHER INFORMATION

Shareholders are advised to refer to the ensuing appendices set out in this Circular for further information.

Yours faithfully,
For and on behalf of the Board of
BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD

(DR.) SALIHIN ABANG
Independent Non-Executive Director

PART B

**INDEPENDENT ADVICE LETTER FROM AER TO THE NON-INTERESTED SHAREHOLDERS
OF BHIC IN RELATION TO THE PROPOSALS**

EXECUTIVE SUMMARY

All definitions used in this IAL shall have the same meaning as the words and expressions provided in the “Definitions” section of this Circular and as defined in the IAL herein, except where the context herein requires otherwise or where otherwise defined in the table below. All references to “you” are references made to the non-interested shareholders of BHIC whilst references to “we”, “us” or “our” are references to Asia Equity Research Sdn Bhd (“AER”), being the Independent Adviser for the Proposals.

“Cut-off Date”	31 December 2022
“NL”	Net Liabilities
“LPS”	Loss per share
“Period under Review”	Audited financial statements for FYE 31 December 2018, FYE 31 December 2019, FYE 31 December 2020, FYE 31 December 2021 and FYE 31 December 2022

Set out hereunder is an executive summary which serves to highlight some of the salient points arising from AER’s independent evaluation of the Proposals. The non-interested shareholders are advised to read and understand the contents of the IAL and the entire Part A of this Circular, including the appendices thereof, for more comprehensive information, evaluation, and recommendation on the Proposals, before voting on the resolutions pertaining to the Proposals at the forthcoming EGM.

1. INTRODUCTION

Proposed Disposal

On 29 May 2023, BHIC announced that the Board had acknowledged the receipt of a letter from the MOF Inc of its intention to acquire via OSB (its indirectly owned company), 20.8% of BHIC’s entire equity interest in LUNAS, held via PISB, where the terms of the proposed acquisition are subject to negotiations between the parties.

On 21 August 2023, the Board announced that PISB had on 18 August 2023, entered into the conditional SSA in relation to the Proposed Disposal. On 15 April 2024, the Board announced that PISB had issued the LOV dated 9 April 2024 to OSB, duly accepted on 15 April 2024 by OSB. PISB and OSB have agreed to vary the SSA with effect from 9 April 2024.

The Proposed Disposal entails the disposal of 27,000,001 Sale Shares to OSB for the Disposal Consideration of RM1.00 and the waiver of trade receivables owing by LUNAS to BHIC and its Relevant Subsidiaries of the amount of approximately RM334.73 million, subject to the terms and conditions of the SSA, the salient terms of which are as set out in **Appendix I, Part A** of this Circular.

The Proposed Disposal is conditional on the Proposed ITRSA as one of the conditions precedents is the execution of the ITRSA to be entered into between BHIC (as authorised by its relevant subsidiaries) and LUNAS for the repayment of a sum of approximately RM383.94 million and/or such other sum due and owing by LUNAS to BHIC and its Relevant Subsidiaries which shall be mutually agreed by the parties in the ITRSA, being the total repayment sum owing by LUNAS to BHIC and its Relevant Subsidiaries. As at the LPD, the conditional period for the SSA has been extended up to 30 April 2024.

Proposed ITRSA

On 3 April 2024, Malacca Securities had announced, on behalf of the Board, that BHIC had on even date issued a LOA to LUNAS and LUNAS has accepted the LOA to enter into an ITRSA after BHIC has obtained its shareholders’ approval for the Proposed ITRSA, which is one of the conditions precedent to be fulfilled in the SSA.

As at the Cut-off Date, LUNAS owes to BHIC and its Relevant Subsidiaries a total net outstanding sum of RM 384,433,009. Under the Proposed ITRSA, LUNAS shall pay Repayment Sum of RM49,700,000 to BHIC as the full and final settlement of the Total Outstanding Sum owing by LUNAS to BHIC and its Relevant Subsidiaries.

EXECUTIVE SUMMARY

Tabulated below is a summary table that depicts the proforma of total net outstanding debts as at 31 December 2022, the Repayment Sum and the remaining debts.

Company	A	B	A - B
	Total Outstanding Sum, RM	Repayment Sum, RM	Net outstanding debts, RM
LUNAS	384,433,009	49,700,000	334,733,009

¹ The net outstanding debts after the ITRSA shall be RM 334,733,009. It is noted that BHIC had provided an aggregate sum of AECL amounting to RM 334.74 million. The summary details of the AECL were provided in the table below:-

Financial year ending of BHIC	Amount of AECL provided in RM million	Source
FYE 31 December 2021 and FYE 31 December 2022	73.38	Page 164, Independent Auditors' Report for FYE 31 December 2022 of BHIC
FYE 31 December 2023	261.36	Section 2.2.4, Part A of this Circular
Total	334.74	

The Proposals are deemed related party transactions pursuant to Paragraph 10.08 of the Listing Requirements in view of the interest of Interested Major Shareholders and Interested Directors as set out in Section 10, Part A of this Circular.

The Board (save for the Interested Directors) had appointed AER on 12 March 2024 as the Independent Adviser to advise the non-interested shareholders of the Company in relation to the Proposals, to provide the non-interested shareholders with:

- (a) comment as to –
 - (i) whether the Proposals are fair and reasonable so far as the non-interested shareholders are concerned; and
 - (ii) whether the Proposals are to the detriment of non-interested shareholders, and such opinion must set out the reasons for, the key assumptions made and the factors taken into consideration in forming that opinion;
- (b) advise non-interested shareholders on whether they should vote in favour of the Proposals; and
- (c) 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.

EXECUTIVE SUMMARY

2. EVALUATION OF THE PROPOSALS

In evaluating the Proposals, we have taken into consideration the following:

Section in the IAL	Area of evaluation	AER's Commentary
6.1	The basis and justification of the Repayment Sum	<p>The Repayment Sum equals to a recovery rate of approximately 12.9% (Repayment Sum of RM 49.7 million divided by the amount due from LUNAS of RM 384.43, to BHIC and its Relevant Subsidiaries as at Cut-off Date).</p> <p>We have evaluated the fairness and reasonableness of the Repayment Sum using the break-up basis approach after studying the financials of LUNAS for the Period under Review and concluded that LUNAS is in the financial distress state if no additional financial support is granted.</p> <p>We have performed three scenarios in our analysis.</p> <p><u>Scenario 1:</u> The Repayment Sum of RM 49.7 million in cash as a full and final settlement of the amount due from LUNAS to BHIC of RM 384.43 million, shall translate to a recovery percentage of 12.9%. Under scenario 1, we shall assume that LUNAS is operating as a going concern with financial stability where asset recovery shall be 100% on each asset carrying value on LUNAS's balance sheet as of 31 December 2022. Therefore, for the unsecured creditor, the recovery would be 41% on the outstanding amount owing. When we compare the Repayment Sum recovery of 12.9% with 41% under this scenario, we conclude that the Repayment Sum is <u>not fair</u> and <u>not reasonable</u>.</p> <p>We performed a financial analysis of LUNAS for the Period under Review, and noted as follows:-</p> <ul style="list-style-type: none"> i) increasing negative shareholders' fund which stood at negative RM 848.45 million as at 31 December 2022 ii) Net current liabilities (annual current liabilities exceeded the annual current assets) for the Period under Review. iii) LAT for the Period under Review iv) Gross loss for the Period under Review except for FYE 2020 <p>We conclude that on the assumption of LUNAS operating as a normal company without any going concern issues, the Repayment Sum under this scenario is <u>not reasonable</u>.</p> <p>Under <u>Scenario 2</u>, we shall assume that LUNAS is not considered a going concern. The Repayment Sum of RM 49.7 million in cash as a full and final settlement of the amount due from LUNAS to BHIC of RM 384.43 million is equivalent to a recovery percentage of approximately 12.9%. This translates to the asset recovery rate of 63% of the asset carrying value of LUNAS as at 31 December 2022, which is <u>higher</u> than the average actual recovery rate of 27% to 56% for the different types of equipment under a Force Liquidation Scenario. Therefore, we conclude that the Repayment Sum under this scenario, is <u>fair</u> and <u>reasonable</u>.</p>

EXECUTIVE SUMMARY

Section in the IAL	Area of evaluation	AER's Commentary
		Under <u>Scenario 3</u> , we shall assume that LUNAS is not considered a going concern and there was an additional cash injection of RM240 million in the balance sheet as at 31 December 2022. The Repayment Sum of RM 49.7 million in cash as a full and final settlement of the amount due from LUNAS to BHIC of RM 384.43 million is equivalent to a recovery percentage of approximately 12.9%. This shall translate to an asset recovery rate of approximately 41%, which is within the average actual recovery rate of 27% to 56% for the different types of equipment under a Force Liquidation Scenario. Hence, we conclude that the Repayment Sum under this scenario, is <u>fair</u> and <u>reasonable</u> .

Section in the IAL	Area of evaluation	AER's Commentary
6.2	Rationale for the Proposals	We concur with the Board's view on the rationale for Proposals. Based on our evaluation, we conclude that the rationale for the Proposals are <u>reasonable</u> and <u>not detrimental</u> to the non-interested shareholders.

Section in the IAL	Area of evaluation	AER's Commentary
5.2.2	Fairness and reasonableness of the Disposal Consideration	We noted that in the Proposed Disposal, as OSB is required to pay RM 1 and would require BHIC to waive ("deemed waiver") the trade receivables owing by LUNAS to BHIC and its Relevant Subsidiaries, an amount of approximately RM 334.73 million, subject to the terms and conditions of the SSA. The NL of LUNAS as at FYE 31 December 2022 of RM848.45 million means that the entire value of BHIC's total liabilities exceeded the total assets by RM 848.45 million, which translates to an approximately negative RM 6.53 per Share. As the Disposal Consideration far exceeded the NA per Share, the Disposal Consideration is <u>fair</u> , <u>reasonable</u> and <u>not detrimental</u> to the non-interested shareholders.

Section in the IAL	Area of evaluation	AER's Commentary
6.3A	Salient terms of the ITRSA	We are of the view that this section provides a robust framework for managing potential breaches, protecting BHIC's interests, and ensuring that LUNAS is held accountable for its obligations. We conclude this is <u>reasonable</u> and <u>not detriment</u> to the non-interested shareholders.

Section in the IAL	Area of evaluation	AER's Commentary
6.3B	Salient terms of the SSA	We are of the opinion that the clauses in the SSA in general and specifically on the conditions precedent, rights to rescind / terminate the SSA and the consequences of rescinding / terminating the SSA are <u>reasonable</u> and <u>not detriment</u> to the non-interested shareholders.

EXECUTIVE SUMMARY

Section in the IAL	Area of evaluation	AER's Commentary
6.4	Effects of the Proposals on the substantial shareholders' shareholdings	The Proposals <u>do not</u> have any effect on the issued share capital and substantial shareholding structure of BHIC as the Proposals do not involve any issuance of new ordinary shares of BHIC.

Section in the IAL	Area of evaluation	AER's Commentary
6.4	NA per Share, Gearing and LPS	<p><u>NA</u> As at 31 December 2022, the NA per Share of BHIC was RM 0.24 per Share.</p> <p>The proforma NA after the Debt Settlement was <u>increased</u> to RM 0.73 per Share.</p> <p>The proforma NA after the Debt Settlement and immediately upon completion of the Proposals, shall <u>decrease</u> to RM 0.19 per Share. The NA of BHIC reduce as a result of the redemption of the RPS C from the proceeds from the Proposals and the <u>one-time loss</u> to recognise from the incremental increase in the recognition of impairment credit losses of RM 261.36 million in the consolidated financial statements of BHIC.</p> <p><u>Gearing</u> The total borrowings of BHIC as at LPD was RM 32.01 million. There shall be <u>no effects</u> on the level of borrowings of BHIC after the Proposals.</p> <p>The gearing of BHIC shall be 0.10 times after the Debt Settlement and Proposals, based on the proforma audited financial statements as at 31 December 2022.</p> <p>We conclude that this is <u>reasonable</u> and <u>not detrimental</u> to non-interested shareholders.</p> <p><u>LPS</u> The proforma LPS of BHIC after the Proposals based on the enlarged number of shares of 564.28 million, shall be <u>50.02 sen</u> (for illustration purpose only), assuming that the Proposals were completed in FYE 31 December 2022 based on the enlarged number of BHIC's Shares of 564.28 million.</p> <p>In comparison, the LPS of BHIC for FYE December 2022 was 8.02 sen per Share.</p> <p>We conclude that this is <u>reasonable</u> and <u>not detrimental</u> to the non-interested shareholders, as the increased in LPS was the result caused by the write-off of the difference between the carrying value of the Total Outstanding Sum recorded in the consolidated financial statements of BHIC and the Repayment Sum, which is a one-time non-recurring event.</p>

EXECUTIVE SUMMARY

Section in the IAL	Area of evaluation	AER's Commentary
6.5	Risk factors associated with the Proposals	We conclude that the risk factors and the Company's commitment to ensure full compliance are <u>reasonable</u> and <u>not detrimental</u> to the non-interested shareholders.

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3. CONCLUSION AND RECOMMENDATION

We have assessed and evaluated the Proposals, and our evaluation is set out in Section 6 of the IAL. The non-interested shareholders should consider all the merits and demerits of the Proposals and based on all relevant pertinent factors including those which are set out in Part A of this Circular, the relevant appendices thereof, this IAL and other publicly available information.

After having considered all the various factors included in our evaluation for the Proposals and based on the information made available to us, we are of the opinion that the Proposals are **fair** and **reasonable** insofar as the non-interested shareholders are concerned and it is **not detrimental** to the non-interested shareholders.

Accordingly, we recommend the non-interested shareholders to **vote in favour** of the ordinary resolutions pertaining to the Proposals that are to be tabled at the Company's forthcoming EGM.

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ASIA EQUITY RESEARCH SDN BHD

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15 April 2024

To: The non-interested shareholders

Dear Sir/Madam,

BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD (“BHIC” or “THE COMPANY”)

INDEPENDENT ADVICE LETTER TO THE NON-INTERESTED SHAREHOLDERS IN RELATION TO THE PROPOSALS THAT INVOLVE THE INTERESTS OF THE INTERESTED SHAREHOLDERS

1. Background of the Proposals

Proposed Disposal

On 29 May 2023, BHIC announced that the Board had acknowledged the receipt of a letter from the MOF Inc of its intention to acquire via OSB (its indirectly owned company), 20.8% of BHIC's entire equity interest in LUNAS, held via PISB, where the terms of the proposed acquisition are subject to negotiations between the parties.

On 21 August 2023, the Board announced that PISB had on 18 August 2023, entered into the conditional SSA in relation to the Proposed Disposal. On 15 April 2024, the Board announced that PISB had issued the LOV dated 9 April 2024 to OSB, duly accepted on 15 April 2024 by OSB. PISB and OSB have agreed to vary the SSA with effect from 9 April 2024.

The Proposed Disposal entails the disposal of 27,000,001 Sale Shares to OSB for the Disposal Consideration of RM1.00 and the waiver of trade receivables owing by LUNAS to BHIC and its Relevant Subsidiaries of the amount of approximately RM334.73 million pursuant to the Proposed ITRSA, subject to the terms and conditions of the SSA, the salient terms of which are as set out in Appendix I, Part A of this Circular.

The Proposed Disposal is conditional on the Proposed ITRSA as one of the conditions precedents is the execution of ITRSA to be entered into between BHIC (as authorised by its relevant subsidiaries) and LUNAS for the repayment of a sum of approximately RM383.94 million and/or such other sum due and owing by LUNAS to BHIC and its Relevant Subsidiaries which shall be mutually agreed by the parties in the ITRSA, being the total repayment sum owing by LUNAS to BHIC and its Relevant Subsidiaries. As at the LPD, the conditional period for the SSA has been extended up to 30 April 2024.

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Proposed ITRSA

On 3 April 2024, Malacca Securities had announced, on behalf of the Board, that BHIC had on even date issued a LOA to LUNAS and LUNAS has accepted the LOA to enter into an ITRSA after BHIC has obtained its shareholders' approval for the Proposed ITRSA, which is one of the conditions precedent to be fulfilled in the SSA.

As at the Cut-off Date, LUNAS owes to BHIC and its Relevant Subsidiaries a total net outstanding sum of RM 384,433,009. Under the Proposed ITRSA, LUNAS shall pay Repayment Sum of RM49,700,000 to BHIC as the full and final settlement of the Total Outstanding Sum owing by LUNAS to BHIC and its Relevant Subsidiaries.

Tabulated below is a summary table that depicts the proforma of total net outstanding debts as at 31 December 2022, the Repayment Sum and the remaining debts.

Company	A	B	A - B
	Total Outstanding Sum, RM	Repayment Sum, RM	Net outstanding debts, RM
LUNAS	384,433,009	49,700,000	334,733,009

¹ The net outstanding debts after the ITRSA shall be RM 334,733,009. It is noted that BHIC had provided an aggregate sum of AECL amounting to RM 334.74 million. The summary details of the AECL were provided in as below:-

Financial year ending of BHIC	Amount of AECL provided in RM million	Source
FYE 31 December 2021 and FYE 31 December 2022	73.38	Page 164, Independent Auditors' Report for FYE 31 December 2022 of BHIC
FYE 31 December 2023	261.36	Section 2.2.4, Part A of this Circular
Total	334.74	

The Proposals are deemed related party transactions pursuant to Paragraph 10.08 of the Listing Requirements in view of the interest of Interested Major Shareholders and Interested Directors as set out in Section 10, Part A of this Circular.

The Board (save for the Interested Directors) had appointed AER on 12 March 2024 as the Independent Adviser to advise the non-interested shareholders of the Company in relation to the Proposals, to provide the non-interested shareholders with:

- (a) comment as to –
 - (i) whether the Proposals are fair and reasonable so far as the non-interested shareholders are concerned; and
 - (ii) whether the Proposals are to the detriment of the non-interested shareholders, and such opinion must set out the reasons for, the key assumptions made and the factors taken into consideration in forming that opinion;
- (b) advise the non-interested shareholders on whether they should vote in favour of the Proposals; and
- (c) 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.

The purpose of this IAL is to provide the non-interested shareholders with an independent evaluation of the Proposals and our opinion and recommendation thereon subject to the scope and limitations specified herein. You should nonetheless rely on your own evaluation of the merits and demerits of the Proposals before deciding on the course of action to be taken.

THIS IAL IS PREPARED SOLELY FOR THE USE OF THE NON-INTERESTED SHAREHOLDERS FOR THE PURPOSE OF VOTING ON THE ORDINARY RESOLUTIONS PERTAINING TO THE PROPOSALS AT THE FORTHCOMING EGM OF THE COMPANY AND SHOULD NOT BE USED OR RELIED UPON BY ANY OTHER PARTY FOR ANY OTHER PURPOSES WHATSOEVER.

YOU ARE ADVISED TO READ AND FULLY UNDERSTAND BOTH THIS IAL AND PART A OF THE CIRCULAR TOGETHER WITH THE ACCOMPANYING APPENDICES THEREIN AND TO CONSIDER CAREFULLY OUR EVALUATION AND RECOMMENDATION BEFORE VOTING ON THE ORDINARY RESOLUTIONS PERTAINING TO THE PROPOSALS, TO BE TABLED AT THE FORTHCOMING EGM.

IF YOU ARE IN ANY DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

2. CREDENTIALS, EXPERIENCE AND EXPERTISE OF AER

AER is licensed to provide two regulated activities by the Securities Commission Malaysia, namely advisory services in corporate finance and investment advice.

The past credentials, professional experiences, and expertise of AER where AER had been appointed as an Independent Adviser in the past two (2) years prior to the date of this IAL include the following transactions:

- a. proposed acquisition and novation of lease by MTrustee Berhad, being the trustee for and on behalf of Hektar Real Estate Investment Trust, of KYS College in Melaka for a purchase consideration of RM 150,000,000 in which the independent advice letter was issued on 21 December 2023.
- b. proposed debt settlement by Toyo Ventures Holdings Berhad with the creditors involving the interest of the interested shareholders, in which the independent advice letter was issued on 28 November 2023.
- c. proposed acquisition by Pacific Trustees Berhad, acting as the trustee for and on behalf of KIP Real Estate Investment Trust, of KIP Mall for a purchase consideration of RM 80,000,000 to be satisfied by cash in which the independent advice letter was issued on 5 September 2023.
- d. proposed business venture between Brilliant Forward Sdn Bhd, a wholly owned subsidiary of Land & General Berhad ("L&G") and a director of L&G, to develop a parcel of leasehold land in which the independent advice letter was issued on 10 August 2023.
- e. proposed acquisition by Matang Berhad of two semi-detached factory and warehouse, with a one and half storey office building for a purchase consideration of RM 33,000,000 to be satisfied by cash and newly issued shares of Matang, to seek the approval from the non-interested shareholders of Matang, in which the independent advice letter was issued on 15 May 2023.
- f. proposed debt settlement by Euro Holdings Berhad with creditors that involves the interest of interested directors in the proposed debt settlement, to seek the approval from the non-interested shareholders of Euro Holdings Bhd. The independent advice letter was issued and dated 13 April 2023.
- g. proposed debt settlement by Nexgram Holdings Berhad with creditors which involves the interest of interested directors. In seeking the approval from the non-interested shareholders of Nexgram Holdings Berhad, an independent advice letter was issued on 7 March 2023.

- h. proposed debt settlement by Asdion Berhad with creditors involving the interest of interested directors in the proposed debt settlement. In seeking the approval from the non-interested shareholders of Asdion Berhad, an independent advice letter was issued and dated 20 December 2022.
- i. proposed variation by Pertama Digital Berhad to remove a condition in the supplemental share sale agreements in which the independent advice letter was issued on 26 July 2022.
- j. proposed acquisition by Gets Global Berhad of 38% equity interest in One Glove Venture Sdn Bhd from BT Capital Sdn Bhd for a purchase consideration of RM 89,356,233 in which the independent advice letter was issued on 22 June 2022.
- k. proposed disposal by Sinmah Capital Berhad of the entire equity interest in SM Broilers Sdn Bhd to F.C.H Holdings Sdn Bhd for a disposal consideration of RM 2,900,000 in which the independent advice letter was issued on 13 June 2022.
- l. proposed disposal by LYC Medicare Sdn Bhd, a wholly owned subsidiary of LYC Healthcare Berhad of a 25% entire equity interest in LYC Medicare (Singapore) Pte Ltd to Kenanga Investors Berhad for a disposal consideration of SGD 12,918,466 to be satisfied entirely via cash in a single transaction and the independent advice letter was issued on 1 June 2022.

Premised on the above, AER is capable and competent and has the relevant experience in carrying out its role and responsibilities as an independent adviser to advise the non-interested directors of the Company and non-interested shareholders in relation to the Proposals.

3. DECLARATION OF CONFLICT OF INTEREST

We confirm that there is no existing or potential conflict of interest situation for us to carry out our role as the Independent Adviser in connection with the Proposals.

4. SCOPE AND LIMITATIONS TO OUR EVALUATION OF THE PROPOSALS

AER was not involved in the formulation and structuring of the Proposals and/or any deliberations and negotiations pertaining to the terms and conditions of the Proposals. In the past two (2) years prior from the date of this IAL, there is no professional relationships between BHIC and AER. AER's scope as the Independent Adviser is limited to expressing an opinion on the fairness and reasonableness of the Proposals that involve the interest of the interested shareholders of BHIC and whether the transaction is to the detriment of the non-interested shareholders, based on the following sources of information and documents:

- (a) information contained in Part A of the Circular, and the appendices enclosed therein;
- (b) other relevant information, documents, confirmations, and representations provided to us by the Board and management of BHIC;
- (c) discussions and clarifications with the management of BHIC;
- (d) a draft copy of the ITRSA;
- (e) a copy of the SSA and LOA;
- (f) other publicly available information that we consider relevant for our evaluation.

We have made all reasonable enquiries, performed reasonableness checks, and corroborated relevant information with independent sources, where possible. We are also guided by the Best Practice Guide in relation to Independent Advice Letters issued by Bursa Securities. In addition, the Board and the management of BHIC had undertaken to exercise due care to ensure that all information, data, documents, and representations provided to us to facilitate our evaluation are accurate, valid, complete, reasonable, and free from any material omission in all material respects. Accordingly, AER shall not assume any responsibility or liability whatsoever to any party for any inaccuracies, misstatements or omission of facts and information provided or represented by the Board and the management of BHIC.

The directors of BHIC have collectively and individually accepted full responsibility for the accuracy, validity and completeness of the information, documents, data and statements provided to us and as contained herein in relation to the Proposals (save and except for opinions expressed by AER which do not contain factual information provided by the Company and information procured or developed by AER independently of the Company) and confirmed that, after having made all reasonable enquiries and to the best of their knowledge and belief, all relevant facts and information in relation to the Proposals, that are necessary for our evaluation have been completely and accurately disclosed to us and there is no omission of any material fact, the omission of which would render any such information provided to us false, incomplete, misleading and/or inaccurate.

We are satisfied with the information provided by the Board and the management of BHIC and are not aware of any facts or matters not disclosed which may render any such information untrue, inaccurate, or misleading or the disclosure of which might reasonably affect our evaluation and opinion as set out in this IAL. After making all reasonable enquiries and to the best of our knowledge and belief, the information we used is reasonable, accurate, complete, and free from material omission.

The non-interested shareholders should note that the views expressed by AER herein are, amongst others, based on the current economic, market, industry, regulatory, monetary, social-political, and other conditions prevailing up to the LPD. Accordingly, our evaluation and opinion in this IAL do not consider information, events and conditions arising or may occur after the LPD. Our advice should be considered in the context of the entirety of this IAL.

In rendering our advice, we had taken note of pertinent issues which we believe are necessary and of importance to an assessment of the implications of the Proposals that are of general concern to the non-interested shareholders.

As such:

- (a) our evaluation and recommendation contained herein are based on the assessment of the fairness and reasonableness of the Proposals. Comments or points of consideration which may be commercially oriented such as the rationale, financial effects, potential benefits, and prospects of the Proposals are included for our overall evaluation as we deem necessary for disclosure purposes to enable the non-interested shareholders to consider and form their views in a more holistic manner thereon. We do not express an opinion on legal, accounting and taxation issues relating to the Proposals.
- (b) our views and advice as contained in this IAL only cater to the non-interested shareholders at large and not to any non-interested shareholder individually or any specific group of non-interested shareholders. Hence, in carrying out our evaluation, we have not given due consideration to the specific investment objectives, risk profiles, financials and tax situations and particular needs of any individual non-interested shareholder or any specific group of non-interested shareholders.
- (c) we advise that any individual non-interested shareholder or any group of non-interested shareholders who are in doubt as to the action to be taken or require advice in relation to the Proposals in the context of their individual investment objectives, risk profiles, financials and tax situations or needs, to consult their respective stockbrokers, bankers, solicitors, accountants, or other professional advisers immediately.

5. DETAILS OF THE PROPOSALS WHICH INVOLVE THE INTEREST OF THE INTERESTED SHAREHOLDERS OF BHIC

The summary of the Proposals, extracted from Part A of this Circular, is intended to summarise the key points under the various captions and for further details, readers are advised to refer the corresponding relevant sections in Part A of this Circular.

5.1 Information on LUNAS

The shareholding structure of LUNAS as at LPD is as presented below: -

Shareholders' name	No. of shares	%
MOF Inc ⁽¹⁾	1	- *
OSB	343,000,001	92.70%
PISB ⁽²⁾	27,000,001	7.30%

(1) Special share with the right attached thereto pursuant to the privatisation agreement dated 11 December 1995 executed by, among others, The Government of Malaysia, PISB, LTAT, Boustead Penang Shipyard Sdn. Bhd., Suria Barisan Sdn. Bhd. and Permodalan Perak Berhad.

(2) PISB is an indirect wholly-owned subsidiary of BHIC. PISB had formerly held 20.77% equity interest in LUNAS. PISB's equity interest in LUNAS was diluted from 20.77% to 7.30% when LUNAS completed a share issuance of 240,000,000 shares to OSB at an issue price of RM1.00 per share for a cash consideration of RM240.0 million.

Summary of financial information of LUNAS in past four financial years

	Audited			Unaudited
	FYE 31 December			FYE 31 December
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Revenue	515,142	302,147 ⁽³⁾	64,728	28,975
LBT	20,954	52,714 ⁽⁴⁾	148,664	1,054,725
LAT attributable to:				
- Owners to the parent ⁽¹⁾	20,954	52,712 ⁽⁵⁾	148,664	1,054,725
- Non-controlling interest	-	-	-	-
Share capital ⁽²⁾	130,000	130,000	130,000	130,000
Accumulated losses	775,623	828,335	978,451	2,033,176
NL	645,623	698,335	848,451	1,903,176
Cash and bank balances	61,478	52,669	97,795	191,564
Total borrowings	769,447	763,267	671,109	522,013
No. of ordinary share in issues ('000)	130,000	130,000	130,000	130,000
NL per share (RM)	4.97	5.37	6.53	14.64
Current ratio (times)	0.63	0.59	0.47	0.11

(1) LAT from continuing operations

(2) On 26 January 2024, BHIC had announced the proposed allotment of 240,000,000 shares to OSB at an issue price of RM1.00 per share for a cash consideration of RM240.0 million. PISB's equity interest in LUNAS was diluted from 20.77% to 7.30% when LUNAS completed the share issuance of 240,000,000 shares to OSB.

(3) The reported consolidated revenue for FYE 2021 was RM 302.147 million. In FYE 2022, the reported consolidated revenue for FYE 2021 was reported as RM 299.117 million.

(4) The reported consolidated LBT for FYE 2021 was RM 52.714 million. In FYE 2022, the reported consolidated LBT from continuing operations for FYE 2021 was reported as RM 50.688 million.

(5) The reported consolidated LAT attributable to owners of the parent for FYE 2021 was RM 52.712 million. In FYE 2022, the reported consolidated LAT attributable to owners of the parent was RM 50.688 million and loss from discontinued operation for FYE 2021 was RM 2.024 million.

Source: Audited Financial Statements of LUNAS and unaudited results furnished by BHIC

1. We had procured the audited financial statements of LUNAS for the Period under Review which are available, as at LPD.
2. For the past three financial years, i.e. FYE 31 December 2020, FYE 31 December 2021 and FYE 31 December 2022, LUNAS reported a LAT from continuing operations of RM 20.95 million, RM 50.69 million and RM 148.67 million respectively.
3. For the past three financial years, i.e. FYE 31 December 2020, FYE 31 December 2021 and FYE 31 December 2022, LUNAS reported an increasing NL of RM 645.62 million, RM 698.33 million and RM 848.45 million respectively.
4. For the past three financial years, i.e. FYE 31 December 2020, FYE 31 December 2021 and FYE 31 December 2022, LUNAS reported current ratio of below 1 which was 0.63 times, 0.59 times and 0.47 times respectively.
5. All the above indicators indicated that LUNAS was exhibiting characteristics of a financial distress state, which challenges the assumption of operating as a going concern.

5.2 Proposals

5.2.1 Summary of the Proposed ITRSA

As at the Cut-off Date, LUNAS owes to BHIC and its Relevant Subsidiaries a total net outstanding sum of RM 384,433,009. Under the Proposed ITRSA, LUNAS shall pay Repayment Sum of RM49,700,000 to BHIC as the full and final settlement of the Total Outstanding Sum owing by LUNAS to BHIC and its Relevant Subsidiaries.

Tabulated below is a summary table that depicts the proforma of total net outstanding debts as at 31 December 2022, the Repayment Sum and the remaining debts.

Company	A	B	A - B
	Total Outstanding Sum, RM	Repayment Sum, RM	Net outstanding debts, RM
LUNAS	384,433,009	49,700,000	334,733,009

¹ The net outstanding debts after the ITRSA shall be RM 334,733,009. It is noted that BHIC had provided an aggregate sum of AECL amounting to RM 334.74 million.

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5.2.2 Summary of the Proposed Disposal

The Proposed Disposal is conditional on the Proposed ITRSA as the execution of the ITRSA is a condition precedent for the SSA. As at the LPD, the conditional period for the SSA has been extended up to 30 April 2024.

Upon the completion of the Proposed Disposal, BHIC Group is expected to realise a net gain of RM1.00 arising from the Proposed Disposal as illustrated below:-

	(RM'000)
Unquoted shares, at cost	53,580 ⁽¹⁾
Cumulative share of post-acquisition losses	(20,752) ⁽²⁾
Less: Accumulated impairment losses	(32,828) ⁽²⁾
Unquoted shares after post-acquisition losses and accumulated impairment losses	-

⁽¹⁾ The carrying value of the for the cost of investment of 27,000,001 shares in LUNAS in BHIC was RM 53,580,000.

⁽²⁾ The cumulative share of post-acquisition losses and accumulated impairment losses recognised by BHIC as at LPD were RM 20,752,000 and RM 32,828,000.

	(RM)
Disposal consideration	1
Gain on disposal	1

AER's Commentary

1. Based on the latest available audited financial statements of LUNAS for the FYE 31 December 2022, LUNAS recorded NL of RM 848,451,000 while the LAT of LUNAS from continuing operations was RM 148,664,000 and LAT from discontinued operation was RM 1,452,000, with revenue of RM 64,728,000.
2. As at LPD, BHIC had written down the carrying value of its unquoted investment in LUNAS to zero.
3. The Proposed Disposal shall therefore translate to a gain of disposal of RM1 being the minimum value that is commonly stated in an agreement to provide enforceability of a contract which requires that every contract entered between parties must have a consideration with value for an agreement to be enforceable.
4. We noted that in the Proposed Disposal, as OSB is required to pay RM 1 and would require BHIC to waive ("deemed waiver") the trade receivables owing by LUNAS to BHIC and its Relevant Subsidiaries, an amount of approximately RM 334.73 million, subject to the terms and conditions of the SSA. In comparison, the NL of LUNAS of RM 848.45 million as at FYE 31 December 2022 is substantially larger as compared with the "deemed waiver".
5. The NL of LUNAS as at FYE 31 December 2022 of RM 848.45 million means that the entire value of LUNAS' total liabilities exceeded the total assets by RM 848.45 million, which translates to an approximately negative RM 6.53 per Share.
6. As the Disposal Consideration far exceeded the NA per Share, the Disposal Consideration is **fair**, **reasonable** and **not detrimental** to the non-interested shareholders.

Rationale of the Proposals

The following factors were also taken into consideration by the Board when deliberating the Proposals:

- (i) the Repayment Sum is a final offer made by the MOF Inc via LUNAS and OSB as the full and final settlement amount for the Total Outstanding Sum. Considering the NL position of LUNAS, non-acceptance of the Repayment Sum will result in zero payment from LUNAS;
- (ii) the Proposed ITRSA will facilitate the Government of Malaysia's aspirations to complete the LCS project by taking over LUNAS so as to have complete control and oversight of the LCS project;
- (iii) to protect and preserve BHIC's existing contracts with the Government of Malaysia and/or Ministry of Defence Malaysia which are due to be renewed in the coming years; and
- (iv) to preserve BHIC's reputation and ability to secure future contracts from the Government of Malaysia, Ministry of Defence Malaysia and/or Ministry of Home Affairs of Malaysia.

5.3 Summary of the Total Outstanding Sum

As at 31 December 2022 LUNAS owes to BHIC and its Relevant Subsidiaries the Total Outstanding Sum as at the Cut-off Date, details on the breakdown of which are set out as follows:

BHIC and its Relevant Subsidiaries	Total Outstanding Sum (RM)
BHIC	976,391
Boustead Penang Shipyard Sdn. Bhd.	351,033,198
BHIC Electronics and Technologies Sdn. Bhd.	20,479,165
BHIC Allied Defence Technology Sdn. Bhd.	1,094,244
BHIC Defence Techservices Sdn. Bhd.	7,364,975
BHIC Navaltch Sdn. Bhd.	3,216,582
BHIC Marine Technology Academy Sdn. Bhd.	385,461
BHIC Submarine Engineering Services Sdn. Bhd.	(117,007)
Total Outstanding Sum	384,433,009

5.4 Ordinary Resolutions to be tabled for approval

The Ordinary Resolution 2 as tabled in the notice of the Company's EGM to seek your approval with regard to the Proposed ITRSA.

If the Ordinary Resolution 2 is approved by you, both BHIC and LUNAS shall execute the ITRSA within three days from date of the approval of shareholders of BHIC at an EGM, pursuant to the salient terms of the LOA. As the Proposed Disposal (Ordinary Resolution 1) is conditional upon the Proposed ITRSA (Ordinary Resolution 2), this means that Ordinary Resolution 1's approval is conditional upon Ordinary Resolution 2.

Example 1: If Ordinary Resolution 2 is approved and Ordinary Resolution 1 is approved, the condition precedent for the SSA is satisfied and both Proposals are approved.

Example 2: If Ordinary Resolution 2 is approved and Ordinary Resolution 1 is rejected, although the condition precedent for the SSA is met, the Proposed Disposal is rejected.

If Ordinary Resolution 2 is rejected by you, both BHIC and LUNAS shall initiate and continue in good faith to further negotiate towards the execution of a final ITRSA.

6. EVALUATION OF THE PROPOSALS

In evaluating the Proposals, in addition to areas covered in Section 5, we have also taken into consideration the following factors in forming our opinion:

Factors	Section reference in IAL
The basis and justification of the Repayment Sum	6.1
Rationale for the Proposals	6.2
Salient terms of the ITRSA	6.3A
Salient terms of the SSA	6.3B
Effects of the Proposals on substantial shareholdings' interest	6.4
Effects of the Proposals - on NA per Share - on gearing - on earnings and LPS	
Risk Factors	
Overall	
	6.5
	6.6

6.1 The basis and justification of the Repayment Sum

The Repayment Sum was arrived at after taking the following into consideration:

- (i) *the Repayment Sum amounting to RM49.7 million is a final offer made by the MOF Inc via LUNAS and OSB as the full and final settlement amount for the Total Outstanding Sum. Considering the NL position of LUNAS, non-acceptance of the Repayment Sum will result in zero payment from LUNAS; and*
- (ii) *the rationale and justification for the Proposed ITRSA as set out in Section 4, Part A of this Circular.*

It should be noted that the Repayment Sum amounting to RM 49.7 million is non-negotiable final offer made by the MOF Inc. via LUNAS and OSB to the BHIC Group. Considering the net liabilities position of LUNAS, non-acceptance of the Repayment Sum may result in zero payment from LUNAS.

For information purposes, BHIC had decided not to exercise its legal rights to demand for payment of the Total Outstanding Sum from LUNAS and OSB after taking the following into consideration:

- (i) *to protect and preserve BHIC's existing contracts with the Government of Malaysia and/or Ministry of Defence Malaysia which are due to be renewed in the coming years; and*
- (ii) *to preserve BHIC's reputation and ability to secure future contracts from the Government of Malaysia, Ministry of Defence Malaysia and/or Ministry of Home Affairs of Malaysia.*

AER's Commentary

1. The Repayment Sum of RM 49.7 million in cash as a full and final settlement of the amount due from LUNAS to BHIC of RM 384.43 million, shall translate to a recovery percentage of **12.9%** which is **below** 41%⁽ⁱ⁾ being the computed recovery rate to an unsecured creditor based on an assumed asset recovery rate of 100% of the asset carrying value of LUNAS as at 31 December 2022. If viewed from the perspective that LUNAS as a financially stable company, without any going concern issues assumptions being challenged⁽ⁱⁱ⁾, this is **not fair** and **not reasonable**.

Note:

- (i) the recovery rate for an unsecured creditor based on the assumption that all assets could be recovered at 100% its carrying value without any discount (Scenario 1). Kindly refer to point 5 below and also Appendix 1 for the workings.
- (ii) the stability and continuity of a business are not under scrutiny or doubt. In other words, the company is operating smoothly without any significant financial or operational risks that could threaten its existence or ability to meet

its obligations. It indicates that the business is likely to continue its operations in the foreseeable future without any major disruptions.

2. We noted that for the Period under Review, the basis for the preparation of the financial statements as a going concern is based on the following assumptions: -

Item number	FYE	Extracted from the financial statements of the relevant financial year ending
1	FYE 31 December 2018	<p><i>As of 31 December 2018, the Group's and the Company's shareholder deficit and net current liabilities were RM346,874,000 and RM26,367,000 (2017: RM91,320,000 and RM423,624,000) and RM331,896,000 and RM30,411,000 (2017: RM79,513,000 and RM428,302,000). The Group and the Company are dependent on the financial support of the immediate holding company to meet their obligations as and when they fall due.</i></p> <p>Source: Section 2.1 Basis of Preparation, page 19 of the audited accounts for FYE 2018.</p>
2	FYE 31 December 2019	<p><i>As of 31 December 2019, the Group's shareholder deficit and net current liabilities were RM624,669,000 and RM552,465,000 (2018: RM346,874,000 and RM26,367,000) respectively. Similarly, the Company's shareholder deficit and net current liabilities stood at RM608,129,000 and RM556,061,000 (2018: RM331,896,000 and RM30,411,000) respectively. The immediate holding company, Boustead Holdings Berhad, has provided a written undertaking to offer financial support, ensuring that the Group and the Company can meet their liabilities as they fall due.</i></p> <p>Source: Section 2.1 Basis of Preparation, page 17 of the audited accounts FYE 2019</p>
3	FYE 31 December 2020	<p><i>As of 31 December 2020, the Group's shareholder deficit and net current liabilities were RM645,623,000 and RM695,346,000 (2019: RM624,669,000 and RM552,465,000) respectively. Similarly, the Company's shareholder deficit and net current liabilities stood at RM627,409,000 and RM699,192,000 (2019: RM608,129,000 and RM556,061,000) respectively. The immediate holding company, Boustead Holdings Berhad, has provided a written undertaking to offer financial support, ensuring that the Group and the Company can meet their liabilities as they fall due.</i></p> <p>Source: Section 2.1 Basis of Preparation, page 18 of the audited accounts FYE 2020.</p>
4	FYE 31 December 2021	<p><i>As of 31 December 2021, the Group's shareholder deficit and net current liabilities were RM698,335,000 and RM829,523,000 (2020: RM645,623,000 and RM695,346,000) respectively; whereas the Company's shareholder deficit and net current liabilities were RM676,727,000 and RM831,286,000 (2020: RM627,409,000 and RM699,192,000) respectively. The immediate holding company, Boustead Holdings Berhad, has given a written undertaking to provide financial support to enable the Group and the Company to meet their liabilities as and when they fall due.</i></p> <p>Source: Section 2.1 Basis of Preparation, page 17 of the audited accounts FYE 2021.</p>
5	FYE 31 December 2022	<p><i>As of 31 December 2022, the Group's shareholder deficit and net current liabilities were RM848,451,000 and RM1,043,932,000 (2021: RM698,335,000 and RM829,523,000) respectively; whereas the Company's shareholder deficit and net current liabilities were RM824,286,000 and RM1,071,108,000 (2021: RM676,727,000 and RM831,286,000) respectively. The Directors continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as the resumption of the</i></p>

Item number	FYE	Extracted from the financial statements of the relevant financial year ending
		<p><i>construction of the Littoral Combat Ships ("LCS") is expected to commence in the second half of the financial year 2023 following the signing of the 6th Supplementary Agreement on 26 May 2023.</i></p> <p>Source: Section 2.1 Basis of Preparation, page 18 of the audited accounts FYE 2022.</p>

3. However, upon the evaluation of LUNAS' past financial statements from FYE 31 December 2018 to FYE December 2022, we noted that the assumption of LUNAS' financial statements being prepared as operating under a going concern basis may not be suitable) for purpose of evaluating the Repayment Sum, for reasons as stipulated below:-

We performed a financial analysis of LUNAS for the Period under Review, and noted as follows:-

- (i) increasing negative shareholders' fund which stood at negative RM 848.45 million as at 31 December 2022.
- (ii) Net current liabilities (annual current liabilities exceeded the annual current assets) for the Period under Review.
- (iii) LAT for the Period under Review.
- (iv) Gross loss for the Period under Review except for FYE 2020.
- (v) The basis of the preparation of the financial statements for Period under Review as a going concern were based on "written undertaking to provide financial support" by BHB, to the external auditors as a form of representation for the year end audit to support the basis adopted in the selection of the preparation approach of the financial statements using a historical cost instead of a break-up basis.

BHB's relationship with LUNAS is by virtue of its shareholding interest and not the ultimate party awarding the contract. BHB's "written undertaking to provide financial support" could be viewed as providing the necessary financial support to LUNAS, as and when needed to support the use of the preparation of historical cost approach. We noted that as at 31 December 2022, BHB owns 89,500,001 ordinary shares in LUNAS. Subsequent to FYE 31 December 2022, BHB had disposed its entire shareholding to OSB. This means that the "written undertaking to provide financial support" that was provided by BHB to the external auditors for audit confirmation purpose in prior years as a basis for preparation of LUNAS financial statements, as a going concern company, is not applicable as at LPD.

As at LPD, OSB owns 343,000,001 ordinary shares in LUNAS, representing 92.70% equity interest in LUNAS, while BHIC via PISB owns 7.30% equity interest in LUNAS.

LUNAS, statements of income and loss for the year ended 31 December

	Group				
	2018 RM'000 Audited	2019 RM'000 Audited	2020 RM'000 Audited	2021 RM'000 Audited	2022 RM'000 Audited
Revenue	1,073,175	998,422	515,142	302,147	64,728
Operating costs	(1,326,822)	(1,219,246)	(488,506)	(316,279)	(170,043)
Results from operations	(253,647)	(220,824)	26,636	(14,132)	(105,315)
Interest income	2,466	3,800	1,939	831	911
Finance costs	(4,341)	(60,769)	(49,529)	(39,413)	(44,260)
Loss before tax	(255,522)	(277,793)	(20,954)	(52,714)	(148,664)
Income tax expense	(32)	(2)	-	2	-
Loss net of tax, representing total comprehensive loss for the year	(255,554)	(277,795)	(20,954)	(52,712)	(148,664)

Source: Audited Financial Statements

LUNAS statements of financial positions for the year ended 31 December

	2018 RM'000 Audited	2019 RM'000 Audited	2020 RM'000 Audited	2021 RM'000 Audited	2022 RM'000 Audited
Assets					
Non-current assets					
Property, Plant and equipment	371,392	344,680	318,837	290,635	240,856
Right-of-use assets	-	14,728	10,663	7,862	41,517
Investments in subsidiaries	-	-	-	-	-
Other receivables	-	-	-	-	-
	371,392	359,408	329,500	298,497	282,373
Current assets					
Inventories	21,518	26,217	30,420	28,865	28,237
Trade and other receivables	120,557	50,488	125,035	114,925	87,123
Contract assets	911,652	857,317	965,446	1,019,176	673,100
Tax recoverable	142	10	11	3	3
Cash and bank balances	186,807	201,570	61,428	52,669	97,795
Non-current asset held for sale					29,316
A	1,240,676	1,135,602	1,182,340	1,215,638	915,574
Total assets	1,612,068	1,495,010	1,511,840	1,514,135	1,197,947
Equity and liabilities					
Share capital	130,000	130,000	130,000	130,000	130,000
Accumulated losses	(476,874)	(754,669)	(775,623)	(828,335)	(978,451)
Total equity	(346,874)	(624,669)	(645,623)	(698,335)	(848,451)
Non-current liabilities					
Borrowings	691,899	423,789	274,325	163,567	46,508
Lease liabilities		7,823	5,452	3,742	40,384
	691,899	431,612	279,777	167,309	86,892
Current liabilities					
Contract liabilities	86,080	52,644	37,481	32,287	86,602
Provisions			20,725	21,528	22,383
Borrowings	314,538	361,986	495,122	599,700	624,601
Trade and other payables	866,425	1,267,189	1,319,121	1,384,363	1,213,166
Lease liabilities	-	6,248	5,237	7,283	10,895
Non-current liabilities held for sale					1,859
B	1,267,043	1,688,067	1,877,686	2,045,161	1,959,506
Total liabilities	1,958,942	2,119,679	2,157,463	2,212,470	2,046,398
Total equity and liabilities	1,612,068	1,495,010	1,511,840	1,514,135	1,197,947
Source: Audited Financial Statements					
Financial information					
Total borrowings	1,006,437	785,775	769,447	763,267	671,109
Net current liabilities (B-A)	26,367	552,465	695,346	829,523	1,043,932

- We noted that BHIC has no control over LUNAS and given the financial distress stage, we view that a more appropriate approach to evaluate the fairness of the Repayment Sum is by presenting the financial statements of LUNAS under a "break-up basis" by treating BHIC as an unsecured creditor and to assess the amount that BHIC could recover from LUNAS as an unsecured creditor to determine the percentage of the recovery given a RM outstanding. In such a scenario, break-up basis is used for preparing the financial statements to determine the possible recovery rates of an unsecured creditor. On this basis, assets and liabilities are included at the net value that would be realisable in the event of a forced sale or liquidation.
- For illustration purpose**, to evaluate the fairness and reasonableness of the Repayment Sum, we have prepared under three scenarios as explained below. A copy of the workings for these three scenarios are attached as **Appendix 1** of this IAL.

Scenarios	Key basis and assumptions	Recovery rate for an unsecured creditor based on FYE 31 December 2022 of LUNAS
Scenario 1	All assets could be recovered at 100% its carrying value without any discount. The asset value is then allocated to secured lenders and as at 31 December 2022, it was RM 604.60 million.	41%

Scenarios	Key basis and assumptions	Recovery rate for an unsecured creditor based on FYE 31 December 2022 of LUNAS
	The remaining assets are then divided amongst the total liabilities (which we assumed that are all unsecured creditors, RM 1,442 million as at 31 December 2022).	
Scenario 2	<p>All assets could be recovered at 63% of its carrying value except cash and bank balance. Cash and bank balance could be recovered 100%.</p> <p>The asset value is then allocated to secured lenders and as at 31 December 2022, it was RM 604.60 million.</p> <p>The remaining assets are then divided amongst the total liabilities (which we assumed that are all unsecured creditors, RM 1,442 million as at 31 December 2022).</p>	12.9%
Scenario 3	<p>From the public announcement by BHIC, it was noted that there was a cash injection of RM 240 million into LUNAS following the subscription of 240,000,000 shares to OSB at an issue price of RM 1.00 per share for a cash consideration of RM 240.0 million in 2024. In this Scenario we assumed that the subscription was completed on 31 December 2022 for purpose of proforma illustration only.</p> <p>All assets could be recovered at 41% of its carrying value except cash and bank balance.</p> <p>Cash and bank balance could be recovered 100%.</p> <p>The asset value is then used to be allocated to secured lenders and as at 31 December 2022, it was RM 604.60 million.</p> <p>The remaining assets are then divided amongst the total liabilities (which we assumed that are all unsecured creditors, RM 1,442 million as at 31 December 2022).</p>	12.9%

6. The Repayment Sum of RM 49.7 million in cash as a full and final settlement of the amount due from LUNAS to BHIC of RM 384.43 million, shall translate to a recovery percentage of **12.9%**. This is equivalent to the recovery rate under Scenario 2 and Scenario 3.
7. We analysed the tangible fixed assets of LUNAS as at 31 December 2022 and noted that most of the assets are customised assets, cranes, vehicles, transport equipment, yard improvement, equipment, building and roads which may pose difficulty to liquidate in a "Force Liquidation Scenario".

	FYE 31 December 2022		
	RM'000	%	
Plant and machineries	43,155	17.9%	18%
Cranes, vehicles and transport equipment	21,180	8.8%	9%
Yard improvement, equipment and others	125,455	52.1%	52%
Building and roads	51,065	21.2%	21%
Capital work in progress	1	0.0%	
Total	240,856	100%	

8. Based on published indexes by Rouse¹ as extracted from Bloomberg, we noted that the recovery rates vary depending on the types of assets, period of the economic cycle and specificity of the type of assets.

¹ A proprietary database third party provider of data that collects reporting of recovery amount expressed in money terms that various type of equipment that will typically realize at a properly conducted public auction when the seller is compelled to sell as on a specific date within a 60-to-90-day period. All equipment are to be sold piecemeal. Such data could be retrieved by a Bloomberg subscriber.

9. For the different types of equipment, the average recovery rates under a Force Liquidation Scenario, ranges from a low of **27%** to **56%** (attached as **Appendix 2** of this IAL).

Scenario 2 and Scenario 3 shall translate to a recovery rate to an unsecured creditor of approximately 12.9% for each RM outstanding. The difference being the asset recovery rate as a percentage over its carrying value as at 31 December 2022. As an example: -

Scenario 2

An asset recovery rate of 63% shall mean that the realizable value of the particular asset is 63% of its carrying value as at 31 December 2022.

Scenario 3

An asset recovery rate of 41% shall mean that the realizable value of the particular asset is 41% of its carrying value as at 31 December 2022.

Based on the above two scenarios, the recovery rate to an unsecured creditor of approximately 12.9% to each RM outstanding is the same, the differences being the asset recovery rate of Scenario 2 is higher than Scenario 3.

The difference between Scenario 2 and Scenario 3 is that Scenario 3 is similar in all aspect with Scenario 2 except that in Scenario 3, a cash capital injection of RM 240 million into LUNAS following the subscription of 240,000,000 shares to OSB at an issue price of RM 1.00 per share for a cash consideration of RM 240.0 million in 2024, is assumed to occur in the assessment as at 31 December 2022.

To facilitate comparison between Scenario 2 and Scenario 3, we have to determine the asset recovery rate under both Scenario 2 and Scenario 3 that will translate to a recovery rate to an unsecured creditor of approximately 12.9% for each RM outstanding, since the Repayment Sum translated to a recovery rate to an unsecured creditor of approximately 12.9% for each RM outstanding.

Conclusion: -

The Repayment Sum of RM 49.7 million in cash as a full and final settlement of the amount due from LUNAS to BHIC of RM 384.43 million, is equivalent to a recovery percentage of approximately 12.9% to an unsecured creditor.

In **Scenario 2**, this translates to the asset recovery rate of 63% of the asset carrying value of LUNAS as at 31 December 2022, which is higher than the average actual recovery rate of 27% to 56% for the different types of equipment under a Force Liquidation Scenario. Hence, we conclude that the Repayment Sum is fair and reasonable under Scenario 2 as opposed to an implied asset recovery rate that is lower than the average actual recovery rate of 27% to 56% for the different types of equipment under a Force Liquidation Scenario.

In **Scenario 3**, this translates to the asset recovery rate of 41%, which is within the average actual recovery rate of 27% to 56% for the different types of equipment under a Force Liquidation Scenario.

Hence, we conclude that the Repayment Sum is fair and reasonable as under both Scenario 2 and Scenario 3, the recovery percentage of approximately 12.9% to an unsecured creditor (which equal to the recovery percentage of the Repayment Sum) translated to an asset recovery rate of 63% and 41% which is higher and within the average actual recovery rate of 27% to 56% for the different types of equipment under a Force Liquidation Scenario respectively, as opposed to an implied asset recovery rate that is lower than the average actual recovery rate.

10. Based on the foregoing analysis, we conclude that the Repayment Sum in the Proposed ITRSA is fair and reasonable. It has immediate detrimental negative effects on the financial statements but upon consideration that BHIC's existing contracts with the Government of Malaysia and/or Ministry of Defence

Malaysia which are due to be renewed in the coming years; and to preserve BHIC's reputation and ability to secure future contracts from the Government of Malaysia, Ministry of Defence Malaysia and/or Ministry of Home Affairs of Malaysia we concluded that as an overall it is not detrimental to non-interested shareholders of BHIC.

11. We also considered the rationale by the board of BHIC that had decided not to exercise its legal rights to demand for payment of the Total Outstanding Sum from LUNAS and OSB after taking the following into consideration to protect and preserve BHIC's existing contracts with the Government of Malaysia and/or Ministry of Defence Malaysia which are due to be renewed in the coming years; and to preserve BHIC's reputation and ability to secure future contracts from the Government of Malaysia, Ministry of Defence Malaysia and/or Ministry of Home Affairs of Malaysia.

We conclude that this is **reasonable** considering that the Repayment Sum is **fair** and **reasonable**, evaluated based on a breakup basis and that any potential legal action shall give rise to both uncertainty in time and amount of recovery aside from legal and recovery cost which shall translate to a reduction in the net recovery proceeds. Further, any legal action shall also disrupt any ability by BHIC to secure future contracts from the Government of Malaysia, Ministry of Defence Malaysia and/or Ministry of Home Affairs of Malaysia.

6.2 Rationale for the Proposals

As extracted from Part A, Section 4 of this Circular	AER's commentary
<p><i>The Proposed Disposal serves to facilitate the decision of the Government of Malaysia to ensure the completion of the LCS project. Through the MOF Inc's letter to the Company dated 25 May 2023, the Company was informed by MOF Inc that MOF Inc intends to acquire 100% of the shares in LUNAS. It is also part of the Company's operational and organisational restructuring to streamline and re-align entities within the Company and its relevant subsidiaries, while ensuring that LUNAS is able to complete the construction and delivery of the LCS to the Royal Malaysian Navy within the stipulated timeframe pursuant to the LCS contract.</i></p>	<p>The Proposed Disposal was aimed at facilitating the Government of Malaysia's decision to acquire 100% of the shares in LUNAS to ensure the completion of the LCS project. This move was also part of BHIC's operational and organisational restructuring to streamline and re-align entities within BHIC and its Relevant Subsidiaries. One of the conditions of the SSA was the execution of a conditional ITRSA between BHIC and LUNAS for the repayment of approximately RM 383.94 million, or any other mutually agreed sum. This sum represented the total repayment sum owing by LUNAS to BHIC and its Relevant Subsidiaries.</p>
<p><i>The Proposed Disposal is conditional on the Proposed ITRSA as one of the conditions precedents is the execution of the ITRSA to be entered into between BHIC (as authorised by its relevant subsidiaries) and LUNAS for the repayment of a sum of approximately RM383.94 million and/or such other sum due and owing by LUNAS to BHIC and its relevant subsidiaries which shall be mutually agreed by the parties in the ITRSA, being the total repayment sum owing by LUNAS to BHIC and its relevant subsidiaries.</i></p>	<p>The Board has considered that the Government of Malaysia's decision to acquire 100% of the shares in LUNAS is to ensure the completion of the LCS project, which demonstrates a strong commitment to the project's success as it could provide a stable environment for the project to progress and potentially lead to a successful outcome.</p>
<p><i>On 15 December 2023, MOF Inc via LUNAS' letter to BHIC, had made a final offer amounting to the Repayment Sum as the full and final settlement amount for the Total Outstanding Sum due and owing by LUNAS to the Group ("Offer"). On 16 February 2024, the solicitors of OSB reiterated the Offer, indicating that the Offer shall lapse unless the ITRSA is executed by 31 March 2024. On 1 March 2024, BHIC issued a letter to OSB informing that BHIC is committed to sign the ITRSA by 31 March 2024, subject to the terms contained therein. As such, BHIC has issued and LUNAS has accepted the LOA to facilitate the Proposed ITRSA.</i></p>	<p>The Repayment Sum offered by the MOF Inc via LUNAS' letter dated 15 December 2023 to BHIC as full and final settlement, provides a clear path forward for BHIC. Accepting the Repayment Sum allows BHIC to recover a portion of the Total Outstanding Sum, which might not have been possible otherwise.</p> <p>The Board is also of the view that the Proposed ITRSA is crucial to safeguard BHIC's existing contracts with the Government of Malaysia and/or Ministry of Defence Malaysia. This tells us that BHIC has built some valuable relationships and a strong reputation in its field, which could lead to more opportunities in the future for BHIC.</p> <p>BHIC's focus on preserving its reputation and securing future contracts shows that the Company</p>

As extracted from Part A, Section 4 of this Circular	AER's commentary
<p><i>The following factors were also taken into consideration by the Board when deliberating the Proposed ITRSA:</i></p> <ul style="list-style-type: none"> <i>(i) the Repayment Sum is a final offer made by the MOF Inc via LUNAS and OSB as the full and final settlement amount for the Total Outstanding Sum. Considering the NL position of LUNAS, non-acceptance of the Repayment Sum will result in zero payment from LUNAS;</i> <i>(ii) the Proposed ITRSA will facilitate the Government of Malaysia's aspirations to complete the LCS project by taking over LUNAS so as to have complete control and oversight of the LCS project;</i> <i>(iii) to protect and preserve BHIC's existing contracts with the Government of Malaysia and/or Ministry of Defence Malaysia which are due to be renewed in the coming years; and</i> <i>(iv) to preserve BHIC's reputation and ability to secure future contracts from the Government of Malaysia, Ministry of Defence Malaysia and/or Ministry of Home Affairs of Malaysia.</i> <p><i>Moving forward, the Group aims to maximise its shareholders value following the completion of the Proposals. BHIC will be able to utilise the proceeds from the Proposals in the manner as set out in Section 3, Part A of this Circular, and improve the Group's immediate cash flow. BHIC intends to redeem the RPS C as the RM45 million that was advanced by BHB to BHIC in exchange for RPS C was utilised to meet a request for cash settlement from BHIC's financiers and therefore was given priority in redemption. Furthermore, part of the proceeds from the Proposals have been allocated to fund the working capital requirements of the Group's remaining businesses, specifically for staff cost such as staff salaries, statutory contributions and staff benefits, as stated in Section 3, Part A of this Circular.</i></p>	<p>is thinking ahead. They are not just dealing with the present situation, but also setting the stage for future growth. This focus on long-term growth and sustainability is a positive sign for the BHIC's future prospects.</p> <p>The use of the Repayment Sum to improve the Group's immediate cash flow and redeem the RPS C is a strategic move that could strengthen BHIC's financial position in the short term. This could provide the company with more flexibility to navigate any future challenges.</p> <p>Based on the above evaluation, we conclude that the rationale for the Proposals are <u>reasonable</u> and <u>not detrimental</u> to the non-interested shareholders.</p>

6.3A Salient terms of the ITRSA

The salient terms of the ITRSA are as presented under **Section 2.2.2, Part A** of this Circular. Our comments on the salient terms are as follows:

As extracted from Section 2.2.2, Part A of this Circular	AER's commentary
<p>Consideration</p> <p>LUNAS shall pay a Repayment Sum of Ringgit Malaysia Forty-Nine Million Seven Hundred Thousand (RM49,700,000.00) to BHIC as the full and final settlement of the Total Outstanding Sum owing by LUNAS to BHIC and its Relevant Subsidiaries.</p> <p>LUNAS is not relieved from any liabilities with respect to the Total Outstanding Sum until and unless the entire Repayment Sum is fully and finally paid to BHIC in accordance with the ITRSA.</p>	<p>We are of the opinion that this clause is <u>not detrimental</u> to the interest of the non-interested shareholders as it provides certainty in the amount of settlement sum.</p>
As extracted from Section 2.2.2, Part A of this Circular	AER's commentary
<p>Payment of the Repayment Sum</p> <p>LUNAS shall pay the Repayment Sum in one (1) lumpsum to BHIC within thirty (30) days from the date of the ITRSA ("Payment Due Date").</p> <p>In the event that LUNAS fails to pay any parts of the Repayment Sum on or before the Payment Due Date, then BHIC shall be entitled to the following:</p> <p>(a) to charge a late payment interest at the rate of six per centum (6%) per annum on the outstanding amount of the Total Outstanding Sum (after deducting the actual sum paid), calculated on daily basis from the Payment Due Date up to the date of actual payment of Repayment Sum ("Late Payment Interest"). Charge and/or receipt of Late Payment Interest by BHIC shall not operate as or shall be deemed to be waiver of any of BHIC's right to exercise its rights to terminate this ITRSA and/or to require strict performance by LUNAS of the terms and conditions herein; and/or</p> <p>(b) to terminate this ITRSA.</p>	<p>The terms outlined in the ITRSA seem to provide a balanced approach to ensuring the repayment of the Total Outstanding Sum by LUNAS to BHIC. A few points to consider in the terms include:</p> <ol style="list-style-type: none"> 1. Payment Structure: The requirement for LUNAS to pay the Repayment Sum in one lump sum within 30 days provides a clear and straightforward repayment plan. This could potentially expedite the repayment process and provide BHIC with the funds in a timely manner. 2. Late Payment Consequences: The stipulation that LUNAS will be charged a late payment interest of 6% per annum on the outstanding amount if they fail to pay by the Payment Due Date is a standard practice in many financial agreements. This serves as an incentive for LUNAS to make the payment on time. 3. Rights of BHIC: The charging and/or receiving Late Payment Interest does not waive any of BHIC's rights to terminate the ITRSA or require strict performance by LUNAS. This clause protects BHIC's interests and gives the Company the flexibility to take further action if necessary. 4. Termination Clause: The option for BHIC to terminate the ITRSA if LUNAS fails to pay any parts of the Repayment Sum on or before the Payment Due Date provides an exit strategy for BHIC. However, termination might also mean that BHIC may not be able to recover the full amount owed.

	In conclusion, we are of the view that the repayment terms are <u>not detrimental</u> to the non-interested shareholders.
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As extracted from Section 2.2.2, Part A of this Circular	AER's commentary
<p>Events of Default and Termination</p> <p>Either Party shall be entitled to terminate this ITRSA upon occurrence of an event of default as set forth below whereby BHIC or LUNAS, as the case may be, has not agreed in writing to waive such breach:</p> <ul style="list-style-type: none"> (a) if LUNAS fails to pay the Repayment Sum or any part thereof in accordance with the provisions hereof; or (b) if either Party commits any breach of or fails to observe and/or perform any of its covenants and obligations under this ITRSA that is incapable of remedy or if capable of remedy, is not remedied within thirty (30) days of it being given notice to do so; or (c) if either Party is being served with any other petition for winding-up and such petition is not set aside within sixty (60) days from the date of the petition being served or an order is made for the winding-up of BHIC and/or LUNAS, as the case may be; or (d) an administrator or receiver or receiver and manager is appointed over, or distress, attachment or execution is levied or enforced upon, any part of the assets or undertaking of the Party; or (e) the Party becomes insolvent or is unable to pay its debts or admits in writing its ability to pay its debts as and when they fall due or enter into any composition or arrangement with its creditors or makes a general assignment for the benefit of its creditors; or (f) the Party ceases or threatens to cease or carry on the whole or any substantial part of its business (except for the purposes of a bona fide reconstruction or amalgamation which would not result or cause any failure or inability to duly perform or fulfil any obligation under this ITRSA); or (g) any representation, warranty or other statement (financial or otherwise) made or furnished by or on behalf of one Party to the other Party, or as an inducement to that other Party to enter into this ITRSA, shall be false, incorrect, incomplete or misleading in any material respect when made or furnished. 	<p>The "Events of Default and Termination" clause in the ITRSA provides a comprehensive list of conditions under which either party, BHIC or LUNAS, can terminate the agreement. It is a comprehensive set of safeguards that protect the interests of both parties. It is a testament to careful planning and foresight, ensuring that both BHIC and LUNAS have clear guidelines to follow and protections in place in the event of default and termination.</p> <p>We conclude that they are typical in commercial transactions and <u>not detrimental</u> to the non-interested shareholders.</p>

As extracted from Section 2.2.2, Part A of this Circular	AER's commentary
<p>Consequences of Events of Default</p> <p>In the event that this ITRSA is terminated due to a breach or default by LUNAS, then BHIC shall be entitled to exercise its rights, including but not limited to:</p> <ul style="list-style-type: none"> (a) make a demand on LUNAS in respect of all or any part of the Total Outstanding Sum remaining outstanding and such sum shall immediately become due and payable to BHIC and if applicable, the Late Payment Interest payable and any costs or expenses related thereof; (b) exercise any and all of its rights and remedies arising as a result of, or in connection with, any antecedent breaches of this ITRSA, which it may have against LUNAS; (c) institute or commence any claims, action or legal proceedings against LUNAS to recover any part of the Total Outstanding Sum, Late Payment Interest (if any) payable and any costs, expenses, fees or payment payable thereof without any prior notice to or concurrence on the part of LUNAS. <p>Notwithstanding BHIC's right to terminate under this ITRSA, in the event of occurrence of an Event of Default due to a breach or default by LUNAS, BHIC is at liberty to elect to commence proceedings against LUNAS for specific performance hereof, at the cost and expense of LUNAS.</p> <p>In the event that this ITRSA is terminated due to a breach or default by the defaulting Party, the non-defaulting Party shall be entitled to exercise its right, including without limitation to exercise any and all of its rights and remedies which it may have against the defaulting Party and LUNAS shall remain liable to pay the balance Total Outstanding Sum and the Late Payment Interest (if any).</p>	<p>The "Consequences of Events of Default" section in the ITRSA provides a clear framework for what happens if LUNAS breaches the ITRSA.</p> <ul style="list-style-type: none"> a. Clear Consequences: The agreement outlines specific consequences if LUNAS fails to meet its obligations, including immediate payment of the outstanding sum and late payment interest. This spells out the potential outcomes of a breach by LUNAS. b. Rights and Remedies: BHIC has the right to exercise all of its rights and remedies in the event of default by LUNAS. This includes the right to start legal proceedings to recover any part of the Total Outstanding Sum and any related costs. c. Right to Terminate: BHIC has the right to terminate the ITRSA and this gives BHIC a clear exit strategy if things don't go as planned. d. Specific Performance: If LUNAS breaches the ITRSA, BHIC can choose to start proceedings for specific performance at the cost and expense of LUNAS. e. Ongoing Liability: Even if the ITRSA is terminated due to a breach by either party, LUNAS is still required to pay the balance of the Total Outstanding Sum and any late payment interest. This ensures that BHIC can recover what it's owed. <p>We are of the view that this section provides a robust framework for managing potential breaches, protecting BHIC's interests, and ensuring that LUNAS is held accountable for its obligations. We conclude this is <u>reasonable</u> and <u>not detrimental</u> to the non-interested shareholders.</p>

6.3B Salient terms of the SSA

The salient terms of the SSA are as presented under **Appendix 1, Part A** of this Circular. Our comments on the salient terms are as follows:

As extracted from Appendix 1, Part A of this Circular	AER's commentary
<p>Conditions Precedent</p> <p>The obligations of the parties, PISB and OSB, that are set out in the SSA are conditional upon the following being fulfilled or obtained within the Conditional Period (as hereinafter defined) or the Extended Conditional Period (as hereinafter defined): -</p> <ul style="list-style-type: none"> (a) the execution of ITRSA; (b) the completion of the due diligence review and all remedial actions required to be undertaken by BHB pursuant to the share sale agreement dated 18 August 2023 entered thereto have been undertaken and completed by BHB at their own costs and expenses to the satisfaction of OSB or subject to the mutual agreement of both parties thereto, BHB having undertaken to attend such remedial actions following the completion thereof; (c) PISB having delivered to OSB a copy of the approval letter from each of LUNAS's Lenders consenting to the sale and transfer of the Sale Shares to OSB; <p>"LUNAS's Lenders" means following financial institutions, namely Malayan Banking Berhad, Maybank Islamic Berhad, Bank Muamalat Malaysia Berhad, Affin Bank Berhad, Affin Hwang Investment Bank Berhad, Ambank (M) Berhad, Ambank Islamic Berhad, Bank Kerjasama Rakyat Malaysia Berhad, Bank Pembangunan Malaysia Berhad, Kuwait Finance House (Malaysia) Berhad and any other financiers/creditors of LUNAS to which their prior consent are required for the sale and transfer of the Sale Shares to OSB.</p> <ul style="list-style-type: none"> (d) PISB having obtained, if required, the written consent from the financiers/ creditors of BHIC, its holding company for the disposal of the Sale Shares by PISB, and (e) The Company's shareholders' approval on the Proposed Disposal. 	<p>The SSA between PISB and OSB is subject to several conditions that need to be met within the Conditional Period or Extended Conditional Period. These include the execution of ITRSA, completion of due diligence review and remedial actions by BHB, and obtaining consent from LUNAS's Lenders and BHIC's financiers/creditors for the sale and transfer of the Sale Shares to OSB.</p> <p>These conditions serve to protect the interests of all parties involved and ensure that the transaction is carried out in a transparent and legally compliant manner. They highlight the importance of due diligence, stakeholder approval, and regulatory compliance in commercial transactions.</p> <p>We are of the opinion that this clause is <u>not detrimental</u> to the interest of the non-interested shareholders.</p>
As extracted from Appendix 1, Part A of this Circular	AER's commentary
<p>Rescission or Termination</p> <p>The parties agree that notwithstanding anything to the contrary contained in the SSA:</p>	<p>This clause outlines specific scenarios under which the SSA can be terminated. These scenarios include failure by either party to fulfill their obligations under "Deliverables under the SSA",</p>

<p>(a) if PISB shall fail or refuse to fulfil any of its obligations "Deliverables under the SSA;</p> <p>(b) if OSB shall fail or refuse to fulfil any of its obligations under "Deliverables under the SSA";</p> <p>(c) if OSB shall fail or refuse to pay the Purchase Price in accordance with the provisions of the SSA;</p> <p>(d) if any representation or warranty of PISB or OSB contained in the SSA should be found to be incorrect, misleading or untrue in any material manner; or</p> <p>(e) if PISB or OSB breaches, omits or fails to perform any of its obligations under or any of the terms of the SSA.</p> <p>and the defaulting party fails to remedy or rectify such failure, omission or breach to the non-defaulting party's satisfaction within seven (7) business days of the defaulting party's receipt of a notice from the non-defaulting party requiring the defaulting party to remedy such failure, omission or breach, then the non-defaulting party shall be entitled to immediately terminate this agreement without any further notice to the defaulting party.</p>	<p>failure by OSB to pay the Purchase Price, any instances where a representation or warranty provided by either party is found to be materially incorrect, misleading, or untrue and either party breaches or fails to perform its obligations under any terms of the SSA. The defaulting party has seven business days to remedy the failure, omission, or breach upon receiving a notice from the non-defaulting party. If the defaulting party fails to rectify the issue within this period, the non-defaulting party can immediately terminate the agreement without any further notice.</p> <p>We are of the opinion that this clause is <u>not detrimental</u> to the interest of the non-interested shareholders.</p>
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As extracted from Appendix 1, Part A of this Circular	AER's commentary
<p>Consequences of Rescission or Termination</p> <p>The parties agree that notwithstanding anything to the contrary contained in the SSA, in the event of a rescission or termination of the SSA by any party:</p> <p>(a) OSB shall immediately return to PISB all documents, if any, delivered to it by or on behalf of PISB with all rights and interests of PISB fully intact;</p> <p>(b) PISB shall immediately return to OSB all documents, if any, delivered to it by or on behalf of OSB with all rights and interests of OSB fully intact, refund to OSB the Purchase Price; and</p> <p>(c) thereafter, all rights and obligations of the parties shall immediately cease to have effect and no party shall have any further rights or obligations under the SSA against or to the other party, save that clauses which are expressed to survive the rescission, termination or expiry of the SSA or which from their nature or context it is contemplated that they are to survive a rescission, termination or expiry of the SSA shall continue in force following such rescission or termination of the SSA and no party shall have or make any claims whatsoever against the other for breach losses, damages or otherwise save for</p>	<p>This clause outlines the actions that must be taken if the SSA is rescinded or terminated. It provides a clear process for handling the termination of the SSA, protecting the interests of both parties and ensuring a fair and orderly termination process. It highlights the importance of each party fulfilling their obligations and maintaining good faith in their business dealings.</p> <p>We are of the opinion that this clause is <u>not detrimental</u> to the interest of the non-interested shareholders.</p>

antecedent breach occurred prior to the rescission and termination of the SSA.	
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6.4 Effects of the Proposals on Share capital and substantial shareholders' shareholdings

Effects of the Proposals	AER's Commentary
Issued share capital and substantial shareholders' shareholdings	The Proposals <u>do not have any effect</u> on the issued share capital and substantial shareholding structure of BHIC as the Proposals do not involve any issuance of new ordinary shares of BHIC.
NA per Share	<p>Effects on NA As at 31 December 2022, the NA of BHIC was RM 60.67 million and the issued number of shares was 248.46 million.</p> <p>As at 31 December 2022, the NA per Share of BHIC was <u>RM 0.24 per Share</u>.</p> <p>After adjusting for subsequent events taking into consideration of the Debt Settlement The NA of BHIC <u>increased</u> as a result of issuance of RCPS A, RCPS-i A, RCPS B and RPS C from RM 60.67 million to RM 413.45 million.</p> <p>Following the completion of the Debt Settlement, which was approved on 29 December 2023, the number of issued shares of BHIC was <u>increased</u> by 315.82 million from 248.46 million (as at 31 December 2022) to an aggregate of 564.28 million.</p> <p>The proforma NA per Share after the Debt Settlement was increased to <u>RM 0.73 per Share</u>.</p> <p>After adjusting for Debt Settlement and Proposals Following the Debt Settlement and Proposals, the NA of BHIC <u>reduce</u> as a result of the redemption of the RPS C from the proceeds from the Proposals and the one-time loss to recognise from the difference between the carrying value of the Total Outstanding Sum recorded in the consolidated financial statements of BHIC and the Repayment Sum.</p> <p>There is no change in the number of issued shares in this stage as the Proposals do not involve any issuance of BHIC Shares.</p> <p>The proforma NA per Share after the Debt Settlement and Proposals shall <u>decrease</u> to <u>RM 0.19 per Share</u>.</p> <p>We conclude that this is <u>reasonable</u> and <u>not detrimental</u> to non-interested shareholders, as the reduction in the NA arising from the <u>difference</u> between the carrying value of the Total Outstanding Sum recorded in the consolidated financial statements of BHIC and the Repayment Sum, is a one-time non-recurring event.</p>
Gearing	<p>The total borrowings of BHIC as at LPD was RM 32.01 million. There shall be no effects on the level of borrowings of BHIC after the Proposals.</p> <p>The gearing of BHIC shall be 0.30 times after the completion of the Proposals, based on the proforma audited financial statements as at 31 December 2022.</p> <p>We conclude that this is <u>reasonable</u> and <u>not detrimental</u> to non-interested shareholders.</p>
LPS	The proforma LPS of BHIC after the Proposals based on the enlarged number of shares of 564.28 million as at LPD, shall be <u>50.02 sen</u> (for

Effects of the Proposals	AER's Commentary
	<p>illustration purpose only), if the Proposals are completed in FYE 31 December 2022.</p> <p>In comparison, the LPS of BHIC for FYE December 2022 was 8.02 sen per share.</p> <p>We conclude that this is reasonable and not detrimental to non-interested shareholders, as the increased in loss per share was the result caused by the write-off of the difference between the carrying value of the Total Outstanding Sum recorded in the consolidated financial statements of BHIC and the Repayment Sum, which is a one-time non-recurring event.</p>

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6.5 Risk factors

As extracted from Section 6, Part A , of this Circular	AER's commentary
<p>Completion Risk</p> <p><i>The completion of the Proposals is conditional upon the terms and conditions as set out in the SSA, LOA and ITRSA. In the event that any of the parties commit a breach or fails to observe and/or perform any of its covenants and obligations under the SSA, LOA and ITRSA, the Proposals may be delayed or terminated.</i></p> <p><i>There can be no assurance that all of the terms and conditions are able to be observed and/or performed under the SSA, LOA and ITRSA. Nevertheless, the Group anticipates that such risk can be mitigated by proactively engaging with the relevant authorities/parties to obtain all the necessary approvals and documents required for the completion of the SSA, LOA and ITRSA.</i></p>	<p>The completion of the Proposed ITRSA is contingent on the terms and conditions set out in the SSA, LOA and ITRSA. While there's no guarantee that all terms and conditions will be observed or performed, the Group anticipates that proactive engagement with relevant authorities/parties can mitigate such risks.</p> <p>We conclude that the Completion Risk factor and the Company's commitment to mitigate such risk are reasonable and not detrimental to the non-interested shareholders.</p>

As extracted from Section 6, Part A , of this Circular	AER's commentary
<p>Contractual risk</p> <p><i>BHIC is subject to certain contractual risks including, but not limited to, the representation, warranties and covenants which are given or to be given pursuant to the SSA, LOA and ITRSA. BHIC may be subject to contractual risks if the obligations under the SSA, LOA and ITRSA are not fulfilled and/or in the event of any breach of the terms and conditions as set out in the SSA, LOA and ITRSA.</i></p> <p><i>BHIC shall endeavour to ensure full compliance in relation to the fulfilment of its obligations under SSA, LOA and ITRSA.</i></p>	<p>BHIC is subject to certain contractual risks which include potential breaches of terms and conditions, and failure to fulfill pre-completion and post-completion obligations. Any breach or failure to observe these terms could lead to delays or termination of the Proposals. BHIC is committed to ensuring full compliance with its obligations under the SSA, LOA and ITRSA.</p> <p>We conclude that the risk factor and the Company's commitment to ensure full compliance are reasonable and not detrimental to the non-interested shareholders.</p>

6.6 Overall

	Areas of evaluation	AER's Commentary
Section 6.6	Sections 5.1, 5.2, and 6.1 to 6.5	Taken as a whole, we are of the view that the overall financial effect of the Proposals are fair and reasonable and not detrimental to the interests of the non-interested shareholders.

7. CONCLUSION AND RECOMMENDATION

The non-interested shareholders, should consider all the merits and demerits of the Proposals, based on all relevant pertinent factors including those which are set out in Part A of this Circular, the relevant appendices thereof, this IAL and other publicly available information.

In our evaluation of the Proposals and in arriving at our opinion, we have taken into consideration various factors as follows:

- (a) the rationale for the Proposals by the Board and the Company, are **reasonable** and **not detrimental** to the non-interested shareholders.
- (b) the Disposal Consideration is **fair, reasonable** and **not detrimental** to the non-interested shareholders.
- (c) the Repayment Sum of the Proposed ITRSA is **fair, reasonable** and **not detrimental** to the non-interested shareholders.
- (d) the salient terms of the ITRSA and the SSA are **reasonable**, and **not detrimental** to the non-interested shareholders.
- (e) the financial effects and risk factors of the Proposals as a whole, are **not detrimental** to the interests of the non-interested shareholders.

After having considered all the various factors included in our evaluation for the Proposals, which are based on the information made available to us, we are of the opinion that the Proposals are **fair and reasonable** insofar as to the non-interested shareholders are concerned and they are **not to the detriment** of the non-interested shareholders, taking into consideration the following:-

- (i) that the Proposals are undertaken to facilitate the decision of the Government of Malaysia to ensure the completion of the construction and delivery of the LCS to the Royal Malaysian Navy within the stipulated timeframe pursuant to the LCS contract;
- (ii) that the Proposals enables BHIC to preserve BHIC's reputation and ability to secure future contracts from the Government of Malaysia, Ministry of Defence Malaysia and/or Ministry of Home Affairs of Malaysia;
- (iii) the certainty of the Repayment Sum which has been established to be fair and reasonable by us under Section 6.1 of this IAL and shall therefore improve the Company's financial position; and
- (iv) BHIC had provided for the un-realised losses in the financial statements as the shortfall between the Total Outstanding Sum and the Repayment Sum has been provided in the books in the form of AECL.

Accordingly, we recommend the non-interested shareholders to **vote in favour** of the ordinary resolutions pertaining to the Proposals which are to be tabled at the Company's forthcoming EGM.

Yours faithfully,
For and on behalf of
ASIA EQUITY RESEARCH SDN. BHD.

ONG TEE CHIN, CFA, FRM, CAIA
Director

FARIS AZMI BIN ABDUL RAHMAN, CPA (Aust)
Director

APPENDIX 1 – Break-up basis under three scenarios for illustrative purpose only

		Scenario 1		Scenario 2		Scenario 3	
		Scenario 1 - 100% recovery of the assets carrying value as at 31 December 2022		Scenario 2 - 63% recovery of the assets carrying value except cash which is 100% recovery of its carrying value as at 31 December 2022		Scenario 3 - 44% recovery of the assets carrying value except cash as at 31 December 2022 and the cash injection of RM 240 million which recovery is 100%	
		Audited NBV as at 31 December 2022, RM '000	Assumed recovery percentage on assets carrying value as at 31 December 2022	Estimated Residual Value (Unaudited) as at 31 December 2022, RM '000	Assumed recovery percentage on assets carrying value as at 31 December 2022	Estimated Residual Value (Unaudited) as at 31 December 2022, RM '000	
1	Assets Not Specifically Charged						
	Assets						
	Non-current assets						
	Property, plant and equipment	240,856	63%	151,674	41%	99,131	
	Investment in subsidiaries	41,517	63%	26,144	41%	17,087	
	Current assets						
	Inventories	28,237	63%	17,782	41%	11,622	
	Trade receivables	75,139	63%	47,317	41%	30,925	
	Other receivables	11,984	63%	7,547	41%	4,932	
	Contract assets	673,100	63%	423,870	41%	277,032	
	Tax recoverable	3	100%	3	100%	3	
	Cash and bank balances	97,795	100%	97,795	100%	97,795	
	Cash injection					240,000	
	Assumed all assets are charged assets	(1,197,947)	63%	(790,593)	41%	(790,593)	
	Assets classified as held for sale	29,316	63%	18,461	41%	12,066	
	Total value of uncharged assets	A	-	-		-	
2	Assets Subject to Specific Charges, Liens, Mortgages, Bills of Sale or Hire Purchase Agreements						
	Total charged assets	1,197,947		790,593		790,593	
	Less total secured lenders	(604,601)		(604,601)		(604,601)	
	Surplus / (deficit)	B	593,346	185,992		185,992	
	Estimated amount available for preferred creditors and unsecured creditors	A+B	593,346	185,992		185,992	
3	Preferred creditors						
4	Less: Unsecured Creditors						
	Non-current liabilities						
	Borrowings	46,508		46,508		46,508	
	Lease liabilities	40,384		40,384		40,384	
	Current liabilities						
	Contract liabilities	86,602		86,602		86,602	
	Provisions	22,383		22,383		22,383	
	Borrowings	624,601		624,601		624,601	
	Trader payables	1,123,883		1,123,883		1,123,883	
	Other payables	89,283		89,283		89,283	
	Lease liabilities	10,896		10,896		10,896	
	Liabilities directly associated with the assets held for sale	1,858		1,858		1,858	
	Less secured borrowings	(604,601)		(604,601)		(604,601)	
	Total Unsecured Creditors	C	1,441,797	1,441,797		1,441,797	
	Estimated Surplus / (Deficit)	(A+B) - C	(848,451)	(1,255,805)		(1,255,805)	
	Recovery by class of creditors (Ringgit to Ringgit)						
		RM		RM		RM	
	Unsecured creditors	A+B C	41%	12.9%		12.9%	
	Discount on recovery		59%	87.1%		87.1%	
	Note: Recovery from Secured Creditors		100%	100%		100%	
	Appraised by AER for illustration purpose only						

APPENDIX 2 - The different types of equipment, the average recovery rates under a Force Liquidation Scenario, ranges from a low of **27% to **56%****

Types of equipment	Average recovery rate	Method of data being compiled	Source
Cranes	45.0%	The estimated gross amount expressed in terms of money that the Equipment will typically realize at a properly conducted public auction when the seller is compelled to sell as of a specific date within a 60 to 90 days period.	RVMYFLCR Index
Compaction equipment	27.0%	The estimated gross amount expressed in terms of money that the Equipment will typically realize at a properly conducted public auction when the seller is compelled to sell as of a specific date within a 60 to 90 days period. All Equipment to be sold piecemeal	RVMYFLCE Index
Dozers	45.0%	The estimated gross amount expressed in terms of money that the Equipment will typically realize at a properly conducted public auction when the seller is compelled to sell as of a specific date within a 60 to 90 day period. All Equipment to be sold piecemeal	RVMYFLDZ Index
Excavators	43.0%	The estimated gross amount expressed in terms of money that the Equipment will typically realize at a properly conducted public auction when the seller is compelled to sell as of a specific date within a 60 to 90 day period. All Equipment to be sold piecemeal	RVMYFLEX Index
Forklifts	39.0%	The estimated gross amount expressed in terms of money that the Equipment will typically realize at a properly conducted public auction when the seller is compelled to sell as of a specific date within a 60 to 90 day period. All Equipment to be sold piecemeal	RVMYFLFH Index
Aerial Work Platforms	40.5%	The estimated gross amount of recovery of equipment that will be realised at a property conducted public auction when the seller is compelled to seller as of a specific date within a 60 to 90 day period. All equipment to be sold piecemeal	RVMYFLAB Index
Loaders Backhoes	56.0%	The estimated gross amount of recovery of equipment that will be realised at a property conducted public auction when the seller is compelled to seller as of a specific date within a 60 to 90 day period. All equipment to be sold piecemeal	RVMYFLLB Index
Trucks	36.0%	The estimated gross amount of recovery of equipment that will be realised at a property conducted public auction when the seller is compelled to seller as of a specific date within a 60 to 90 day period. All equipment to be sold piecemeal	RVMYFLTK Index
Wheel loaders	51.0%	The estimated gross amount of recovery of equipment that will be realised at a property conducted public auction when the seller is compelled to seller as of a specific date within a 60 to 90 day period. All equipment to be sold piecemeal	RVMYFLWL Index
Aerial Work Platforms ScissorsLifts	34.0%	The estimated gross amount of recovery of equipment that will be realised at a property conducted public auction when the seller is compelled to seller as of a specific date within a 60 to 90 day period. All equipment to be sold piecemeal	RVMYFLSL Index

Min **27.0%**
Max **56.0%**

Source: Bloomberg

SALIENT TERMS OF THE SSA

The salient terms of the SSA (as supplemented by the LOV) are as follows:

Effective Date	:	18 August 2023
Sale Shares	:	All of PISB's 27,000,000 ¹ ordinary shares in LUNAS.
Sale of Shares	:	Subject to the fulfilment of conditions precedent to the SSA (" Conditions Precedent "), PISB shall sell, as legal, registered and beneficial owner and OSB shall purchase the Sale Shares free from any and all encumbrances and together with all rights, benefits and entitlement now or hereafter attaching thereto including but not limited to all dividends and distributions declared, made or paid after the Completion Date (as hereinafter defined).
Conditions Precedent	:	<p>The obligations of the parties, PISB and OSB, that are set out in the SSA are conditional upon the following being fulfilled or obtained within the Conditional Period (as hereinafter defined) or the Extended Conditional Period (as hereinafter defined): -</p> <ul style="list-style-type: none"> (a) the execution of ITRSA; (b) the completion of the due diligence review and all remedial actions required to be undertaken by BHB pursuant to the share sale agreement dated 18 August 2023 entered thereto have been undertaken and completed by BHB at their own costs and expenses to the satisfaction of OSB or subject to the mutual agreement of both parties thereto, BHB having undertaken to attend such remedial actions following the completion thereof; (c) PISB having delivered to OSB a copy of the approval letter from each of LUNAS's Lenders consenting to the sale and transfer of the Sale Shares to OSB; <p><i>"LUNAS's Lenders" means following financial institutions, namely Malayan Banking Berhad, Maybank Islamic Berhad, Bank Muamalat Malaysia Berhad, Affin Bank Berhad, Affin Hwang Investment Bank Berhad, Ambank (M) Berhad, Ambank Islamic Berhad, Bank Kerjasama Rakyat Malaysia Berhad, Bank Pembangunan Malaysia Berhad, Kuwait Finance House (Malaysia) Berhad and any other financiers/creditors of LUNAS to which their prior consent are required for the sale and transfer of the Sale Shares to OSB.</i></p> <ul style="list-style-type: none"> (d) PISB having obtained, if required, the written consent from the financiers/creditors of BHIC, its holding company for the disposal of the Sale Shares by PISB; and (e) The Company's shareholders' approval on the Proposed Disposal.
Unconditional Date	:	<p>The SSA shall become unconditional on the date the last Condition Precedent is satisfied in accordance with the provisions of the SSA within the Conditional Period and issuance of the CP Confirmation Letter by OSB and acknowledgement by PISB.</p> <p><i>"CP Confirmation Letter" means the letter to be issued by OSB and acknowledged by PISB as set out in Schedule 5 of the SSA.</i></p>

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SALIENT TERMS OF THE SSA (CONT'D)

<p>Deliverables under the SSA</p>	<p>:</p> <p>PISB shall within five (5) business days from the Unconditional Date deliver or cause to be delivered to OSB the following in accordance with the provisions of the SSA:</p> <ul style="list-style-type: none"> (a) an original undated Form of Transfer of Securities (Section 105 of the Companies Act) for the transfer of all the Sale Shares duly executed by PISB in favour of OSB together with the original share certificate(s) in respect of the Sale Shares; (b) two (2) signed originals each of the board of directors' resolutions of LUNAS, approving, respectively: <ul style="list-style-type: none"> (i) the sale and transfer of the Sale Shares by PISB in favour of OSB, the registration of OSB as the registered shareholder of the Sale Shares, the cancellation of all existing share certificates in respect of the Sale Shares, the issuance of a new share certificate in respect of the Sale Shares in favour of OSB, as well as any and all other forms, instruments and documents whatsoever required to be executed and/or delivered by PISB to OSB to facilitate the transfer and registration of the Sale Shares in favour of OSB and the completion of the SSA, and the affixation of the common seal of PISB on such share transfer form and such other forms, instruments and documents required to facilitate the transfer and registration of the Sale Shares in favour of OSB and directing the company secretary to register the transfer of the Sale Shares in favour of OSB; and (ii) the resignations of PISB's appointee in the board of directors of LUNAS namely, Tan Sri Dato' Wira Aziah Binti Ali (NRIC No. 520523-02-5266), as director of LUNAS. (c) a signed original undated written letter of resignation by Tan Sri Dato' Wira Aziah Binti Ali (NRIC No. 520523-02-5266) as director of LUNAS and confirming that she has no claim of any nature whatsoever against the LUNAS, whether for remuneration, compensation for loss of office, redundancy, wrongful dismissal or for any other reason other than for remuneration and expenses accrued subsequent to the regular remuneration period which expired prior to the date of the letter in the format as shown in Schedule 2 therein. (d) a certified true copy each of PISB's board of directors and members' resolutions, if required, approving and authorizing, inter alia, the sale of the Sale Shares to OSB, the PISB's entry into, execution, delivery and completion of the SSA on the terms and subject to the conditions contained in the SSA, the PISB's execution and delivery of the Form of Transfer of Securities (Section 105 of the Companies Act) for the Sale Shares as well as any and all other forms, instruments and documents whatsoever required to be executed and/or delivered by PISB to OSB to facilitate the transfer and registration of the Sale Shares in favour of OSB and the completion of the SSA, and the affixation of the common seal of PISB on such share transfer form and such other forms, instruments and documents required to facilitate the transfer and registration of the Sale Shares in favour of OSB; (e) a certified true copy each of PISB's latest Constitution and Forms 24, 44 and 49 pursuant to the Companies Act 1965 or the equivalent forms pursuant to the Companies Act; and (f) the original PISB's Letter of Undertaking and Indemnity. <p><i>"PISB's Letter of Undertaking and Indemnity" means a letter in the format provided in Schedule 3 of the SSA to be issued by PISB. The salient terms of the letter are as follows:</i></p> <p><i>PISB irrevocably agrees and undertakes to indemnify OSB and the respective members of the board of directors of OSB either individually or collectively and shall at all times keep OSB and its members of board of directors either</i></p>
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SALIENT TERMS OF THE SSA (CONT'D)

		<p><i>individually or collectively fully and completely indemnified from and against all claims and/or demands, actions, prosecutions and/or proceedings, loss and expenses, penalties, all form of taxes including legal costs as between solicitors and own client basis and all other liabilities of whatsoever nature or description which may be made or taken or incurred or suffered by OSB or its members of the board of directors either individually or collectively in connection with or in any manner arising from PISB's title and ownership the Sale Shares, free and clear of any encumbrances, including PISB's full, exclusive and unencumbered right, power and legal authority to sell and transfer the Sale Shares in accordance with the SSA, as well as with all rights or any nature attaching or accruing to the Sale Shares, including the right to receive dividends or other distributions of any nature declared, made or paid and PISB further irrevocably agrees that PISB's liability aforesaid shall be a continuing liability and shall remain in full force and effect notwithstanding completion of the SSA.</i></p> <p>OSB shall within Five (5) business days from the Unconditional Date deliver or cause to be delivered to PISB the OSB's board of directors' resolution approving and authorizing, inter alia, the purchase of the Sale Shares from PISB, OSB's entry into, execution, delivery and completion of the SSA on the terms and subject to the conditions contained in the SSA, OSB's execution of the Form of Transfer of Securities (Section 105 of the Companies Act) for the Sale Shares as well as any and all other forms, instruments and documents whatsoever required to be executed and/or delivered by OSB to PISB to facilitate the transfer and registration of the Sale Shares in favour of OSB and the completion of the SSA, and the affixation of the common seal of OSB on such share transfer form and such other forms, instruments and documents required to facilitate the transfer and registration of the Sale Shares in favour of OSB.</p> <p>OSB is authorized by PISB upon receipt thereof and subject to the payment of the Purchase Price, to date and submit the relevant Form of Transfer of Securities (Section 105 of the Companies Act) for the Sale Shares for adjudication and payment of the stamp duty payable thereon in accordance with the provisions of the SSA.</p>
Completion Date	:	Means the date falling seven (7) business days from the Unconditional Date.
Conditional Period	:	<p>Thirty (30) business days from the Effective Date for the fulfilment of all the Conditions Precedent.</p> <p>In the event the parties require additional time to fulfil the Conditions Precedent, the parties shall agree to extend the Conditional Period by another Twenty-One (21) business days (or such longer period as the parties may agree) from the expiry of the Conditional Period hereinafter referred to as the "Extended Conditional Period".</p>
Consideration	:	<p>Subject always to fulfilment of all the Conditions Precedent and PISB first fully complying with all its obligations in relation to "Deliverables under the SSA":</p> <ul style="list-style-type: none"> (a) the consideration payable by OSB to PISB for the purchase of the Sale Shares shall be a sum of Ringgit Malaysia One (RM1.00) only ("Purchase Price"); and (b) OSB shall on the Completion Date of the SSA pay PISB the Purchase Price.
Rescission or Termination	:	<p>The parties agree that notwithstanding anything to the contrary contained in the SSA:</p> <ul style="list-style-type: none"> (a) if PISB shall fail or refuse to fulfil any of its obligations "Deliverables under the SSA"; (b) if OSB shall fail or refuse to fulfil any of its obligations under "Deliverables under the SSA"; (c) if OSB shall fail or refuse to pay the Purchase Price in accordance with the provisions of the SSA;

SALIENT TERMS OF THE SSA (CONT'D)

		<p>(d) if any representation or warranty of PISB or OSB contained in the SSA should be found to be incorrect, misleading or untrue in any material manner; or</p> <p>(e) if PISB or OSB breaches, omits or fails to perform any of its obligations under or any of the terms of the SSA.</p>
Consequences of Rescission or Termination	:	<p>The parties agree that notwithstanding anything to the contrary contained in the SSA, in the event of a rescission or termination of the SSA by any party:</p> <p>(a) OSB shall immediately return to PISB all documents, if any, delivered to it by or on behalf of PISB with all rights and interests of PISB fully intact;</p> <p>(b) PISB shall immediately return to OSB all documents, if any, delivered to it by or on behalf of OSB with all rights and interests of OSB fully intact, refund to OSB the Purchase Price; and</p> <p>(c) thereafter, all rights and obligations of the parties shall immediately cease to have effect and no party shall have any further rights or obligations under the SSA against or to the other party, save that clauses which are expressed to survive the rescission, termination or expiry of the SSA or which from their nature or context it is contemplated that they are to survive a rescission, termination or expiry of the SSA shall continue in force following such rescission or termination of the SSA and no party shall have or make any claims whatsoever against the other for breach losses, damages or otherwise save for antecedent breach occurred prior to the rescission and termination of the SSA.</p>
Amendment	:	No variations hereof shall be effective unless mutually agreed among the parties and made in writing.
Costs	:	Each party shall pay and bear its own costs and disbursements (including their respective solicitors' and professional advisers' fees and disbursements) of and incidental to the SSA and the sale and purchase in the SSA, save that OSB shall fully bear and pay all stamp duties and penalties (if any) payable in respect of the SSA and any and all instruments of transfer required for the transfer of the Sale Shares in favour of OSB pursuant to the provisions of the SSA.
Governing Laws and Jurisdiction	:	The SSA shall be governed by and construed in all respects in accordance with the laws of Malaysia and the parties to the SSA irrevocably agree to submit to the exclusive jurisdiction of the courts of Malaysia in all matters connected with the obligations and liabilities of the Parties under or arising out of the SSA.
Rights and Remedies	:	Any right of rescission or termination or remedies conferred upon any of the parties under the SSA shall be in addition to and without prejudice to all other rights and/or remedies available to it at law.

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INFORMATION ON LUNAS

1. HISTORY AND PRINCIPAL ACTIVITIES

LUNAS was incorporated in Malaysia on 13 June 1990 under the Companies Act, 1965 and is deemed registered under the Act as a private limited company under the name of Naval Dockyard Sdn. Bhd. It changed its name to PSC-Naval Dockyard Sdn. Bhd. on 21 November 1997 and subsequently to Boustead Naval Shipyard Sdn. Bhd. on 4 August 2006. It assumed its current name, Lumut Naval Shipyard Sdn. Bhd., on 17 January 2024.

LUNAS is principally involved in construction, repair and maintenance of naval ships, weapons and electronics, design and engineering, fabrication of steel structures and commercial shipbuilding. As such, LUNAS' assets mainly comprise yard improvement equipment, cranes, vehicles, and transport equipment, plant and machinery as well as buildings and roads.

As at the LPD, details of LUNAS' major subsisting contracts are as follows:

Description of contract	Contract period	Contract value (RM'million)
LCS contract (5 units of LCS vessels)	Until April 2029	11,200.00
Refit works on KD LEDANG (military vessel)	Until August 2024	59.90
Repair works on KD KASTURI (military vessel)	Until February 2024	59.90

2. SHARE CAPITAL

As at the LPD, the issued share capital of LUNAS is RM370,000,003 comprising 370,000,002 ordinary shares and 1 special share.

3. DIRECTORS AND SHAREHOLDERS

As at the LPD, the directors of LUNAS are as follows:

Name	Designation	Nationality
Datuk Dr. Shahrazat Haji Ahmad	Chairman/Director	Malaysian
Dato' Dr. Amiruddin Muhamed	Director	Malaysian
Datuk Rosli Yaakub	Director	Malaysian
Admiral Tan Sri Abdul Rahman Ayob	Director	Malaysian
Admiral Tan Sri Mohd Reza Mohd Sany (Retired)	Director	Malaysian
Dr. Mohd Bakhari Ismail	Director	Malaysian
Encik Mohammad Abiddin Abd Rahman	Alternate Director to Dr. Mohd Bakhari Ismail	Malaysian
Dato' Andri Aidham Dato' Ahmad Badri	Director	Malaysian

The shareholders of LUNAS are as follows:

Name	Shareholding	
	No. of shares	%
MOF Inc	1 ⁽¹⁾	-*
OSB	343,000,001	92.70
PISB ⁽²⁾	27,000,001	7.30

Notes:

* Negligible.

(1) Special share with the right attached thereto pursuant to the privatisation agreement dated 11 December 1995 executed by, among others, The Government of Malaysia, PISB, LTAT, and Boustead Penang Shipyard Sdn. Bhd., Suria Barisan Sdn. Bhd. and Permodalan Perak Berhad.

INFORMATION ON LUNAS (CONT'D)

- (ii) PISB is an indirect wholly-owned subsidiary of BHIC. PISB had formerly held 20.77% equity interest in LUNAS. PISB's equity interest in LUNAS was diluted from 20.77% to 7.30% when LUNAS completed a share issuance of 240,000,000 shares to OSB at an issue price of RM1.00 per share for a cash consideration of RM240.0 million.

4. SUBSIDIARY AND ASSOCIATE COMPANIES

As at the LPD, the subsidiaries of LUNAS are as follows:

Name	Date / place of incorporation	Share capital (RM)	Effective equity interest (%)	Principal activities
LUNAS Langkawi Shipyard Sdn. Bhd. (formerly known as Boustead Langkawi Shipyard Sdn. Bhd.)	17 August 2000/ Malaysia	100,000,000	100.0	Construction, repair and maintenance of boats and yachts
LUNAS Shiprepair Sdn. Bhd. (formerly known as BN Shiprepair Sdn. Bhd.)	8 March 2003/ Malaysia	1,000,000	100.0	Ceased operations
LUNAS Yachts Sdn. Bhd. (formerly known as Boustead Yachts Sdn. Bhd.)	19 June 2003/ Malaysia	1,000,000	100.0	Ceased operations

5. FINANCIAL INFORMATION

A summary of the results based on the audited financial statements of LUNAS for the past 3 years up to FYE 31 December 2022 and the unaudited 12-month FYE 31 December 2023 are set out below:

	Audited FYE 31 December			Unaudited 12-month FYE 31 December 2023
	2020 (RM'000)	2021 (RM'000)	2022 (RM'000)	
Revenue	515,142	299,117	64,728	28,975
Loss before tax	(20,954)	(52,712)	(148,664)	(1,054,725)
LAT	(20,954)	(52,712)	(148,664)	(1,054,725)
Share capital	130,000	130,000	130,000	130,000
Number of LUNAS shares in issue	130,000	130,000	130,000	130,000
Loss per share (RM)	(0.16)	(0.41)	(1.14)	(8.11)
Net liabilities	(645,623)	(698,335)	(848,451)	(1,903,175)
Total borrowings	769,447	763,267	671,109	522,013
Net liabilities per LUNAS share (RM)	(4.97)	(5.37)	(6.53)	(14.64)
Current ratio (times)	0.63	0.59	0.47	0.11
Gearing ratio (times)	(1.19)	(1.09)	(0.79)	(0.27)

(Source: Audited financial statement of LUNAS for the past 3 years up to FYE 31 December 2023 and the unaudited financial statements for the 12-month FYE 31 December 2023)

INFORMATION ON LUNAS (CONT'D)

FYE 31 December 2020

For FYE 31 December 2020, LUNAS recorded a revenue of approximately RM515.14 million, representing a decrease of approximately RM483.28 million or 48.40% from the preceding financial year, which was mainly due to the significant decline in revenue from LUNAS's ship repair and shipbuilding business segments. LUNAS recorded a LAT of approximately RM20.95 million, representing a decrease in LAT of approximately RM256.84 million or 92.46% from the preceding financial year which was mainly due to the suspension of LUNAS' business operations caused by the movement and social restrictions order imposed by the Government of Malaysia during the COVID-19 pandemic which significantly impacted LUNAS' financial performance.

The net liabilities of LUNAS as at 31 December 2020, which amounted to approximately RM645.62 million representing an increase of approximately RM19.95 million or 3.19% from the preceding financial year, which was mainly due to the provisions of the onerous LCS contract which relates to the extent of the contract cost incurred and the recoverability of the contract costs as well as significant contract modification with approved changes in the scope of work, but with contract price that has yet to be fixed.

FYE 31 December 2021

For FYE 31 December 2021, LUNAS recorded a revenue of approximately RM299.12 million, representing a decrease of approximately RM216.03 million or 41.94% from the preceding financial year, which was mainly due to the lack of significant progress and suspension of work by original equipment manufacturers for the LCS project (in 2019, the then Minister of Defence made a statement in the Parliament on the delay in delivering the LCS and it was announced that the company has requested a variation order to complete the project. Subsequently, series of discussions and negotiations were held between the Government of Malaysia and the company to discuss a way forward for the LCS Project), and the consideration of discontinued operations of LUNAS Langkawi Shipyard Sdn Bhd (formerly known as Boustead Langkawi Shipyard Sdn. Bhd.) in year 2022. LUNAS recorded a LAT of approximately RM52.71 million, representing an increase in LAT of approximately RM31.76 million or 151.56% from the preceding financial year which was mainly due to the delay in the progress of LUNAS's ship repair project which was a result of the COVID-19 pandemic and the movement restrictions on businesses which continued to pose challenges to the financial performance and operations of the company.

The net liabilities of LUNAS as at 31 December 2021, which amounted to approximately RM698.34 million representing an increase of approximately RM52.71 million or 8.16% from the preceding financial year, which was mainly due to the increase in trade and other payables.

FYE 31 December 2022

For FYE 31 December 2022, LUNAS recorded a revenue of approximately RM64.73 million, representing a decrease of approximately RM234.39 million or 78.36% from the preceding financial year, which was mainly due to the decrease in revenue from LUNAS' ship repair and shipbuilding segments arising from the delay in the LCS project (due to pending finalisation of variation order), completion of the LMS, no new ship-repair refit project and provision of the liquidated ascertained damages of RM15 million for KD TERENGGANU (offshore patrol vessel of the Royal Malaysian Navy). LUNAS recorded a LAT of approximately RM148.66 million, representing an increase in LAT of approximately RM95.95 million or 182.03% from the preceding financial year which was in tandem with the decrease in revenue.

The net liabilities of LUNAS as at 31 December 2022, which amounted to approximately RM848.45 million representing an increase of approximately RM150.12 million or 21.50% from the preceding financial year, which was mainly due to the decrease in current assets, specifically a decrease in trade and other receivables which was impacted by the allowance for expected credit losses for patrol vessel maintenance project claims at RM 28.6 million, and a decrease in contract assets due to the impact on the latest 5th supplemental agreement billing for LCS project at RM 360 million. Contract asset is the excess of cumulative revenue earned over the billings to date.

INFORMATION ON LUNAS (CONT'D)

Unaudited 12-month FYE 31 December 2023

For the unaudited 12-month FYE 31 December 2023, LUNAS recorded a revenue of approximately RM28.98 million, representing a decrease of approximately RM35.75 million or 55.24% from the preceding financial year, which was mainly due to the revision of revenue recognised from the LCS project. There was an expected significant increase in cost to complete the LCS project and increased the negative margin from -0.91% to -9.39%. As a result, there will be a reversal impact of the accumulated revenue recognised. LUNAS recorded a LAT of approximately RM1,054.73 million, representing an increase in LAT of approximately RM906.06 million or 609.47% from the preceding financial year which was mainly due to the significant increase in cost to complete the LCS project which comprises the extent of the contract cost incurred, the recoverability of the contract costs as well as assessing potential deductions to revenue due to the delays in delivery or others contractual penalties. Further, significant judgement is also required in determining contract modification with approved changes in the scope of work for the project.

The net liabilities of LUNAS as at 31 December 2023, which amounted to approximately RM1,903.18 million representing an increase of approximately RM1,054.72 million or 124.31% from the corresponding period of the preceding financial year, which was mainly due to additional provisions for the onerous LCS contract, whereby LUNAS was impacted by the latest revision to the budget of the LCS project which comprises the extent of the contract cost incurred, the recoverability of the contract costs as well as assessing potential deductions to revenue due to the delays in delivery or others contractual penalties. Further, significant judgement is also required in determining contract modification with approved changes in the scope of work.

6. ACCOUNTING POLICIES AND AUDIT QUALIFICATION

For the FYE 31 December 2020, FYE 31 December 2021, FYE 31 December 2022 and the unaudited 12-month FYE 31 December 2023 under review:

- (a) there were no exceptional or extraordinary items reported in LUNAS audited financial statements;
- (b) there were no accounting policies adopted by LUNAS which were peculiar to LUNAS due to the nature of its business or the industry in which it is involved in; and
- (c) LUNAS's external auditors had not issued any audit qualification on its financial statements.

7. MATERIAL COMMITMENTS

As at the LPD, there are no material commitments incurred or known to be incurred by LUNAS, which upon becoming due or enforceable, may have a material impact on the financial position or business of LUNAS.

8. CONTINGENT LIABILITIES

As at the LPD, there are no contingent liabilities incurred or known to be incurred by LUNAS, which upon becoming due or enforceable, may have a material impact on the financial position or business of LUNAS.

INFORMATION ON LUNAS (CONT'D)

9. MATERIAL CONTRACTS

There were no material contracts (not being entered into in the ordinary course of business) which have been entered into by LUNAS during the past two (2) years immediately preceding the date of this Circular.

10. MATERIAL LITIGATIONS

Save as disclosed below, as at the LPD, LUNAS is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant and the board of directors of LUNAS has no knowledge of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which may materially and adversely affect the financial position or business of LUNAS:

Writ of Summons and Statement of Claim by Sime Darby Industrial Sdn Bhd

Sime Darby Industrial Sdn Bhd had commenced an action against LUNAS and one Zairi Bin Zainal Hasnan in the Ipoh High Court, claiming for sums of RM5,401,590.17 and interests, being the price and interests of goods and services purportedly supplied to LUNAS.

The next case management was fixed on 22 April 2024.

REPORTING ACCOUNTANT'S REPORT ON COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF BHIC AS AT 31 DECEMBER 2022



Crowe Malaysia PLT
 201906000005 (LLP0018817-LCA) & AF 1018
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 Malaysia
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15 April 2024

The Board of Directors
 Boustead Heavy Industries Corporation Berhad
 17th Floor, Menara Boustead
 69, Jalan Raja Chulan
 50200 Kuala Lumpur
 Malaysia

Dear Sirs

**BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD (“BHIC” or the “Company”)
 REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF
 FINANCIAL POSITION INCLUDED IN A CIRCULAR**

We have completed our assurance engagement to report on the compilation of pro forma Consolidated Statement of Financial Position of BHIC and its subsidiaries (collectively known as the “Group”) as at 31 December 2022 together with the accompanying notes thereon (for which we have stamped for the purpose of identification), prepared by the Board of Directors of the Company.

The application criteria on the basis of which the Board of Directors of the Company have compiled the pro forma Consolidated Statement of Financial Position are described in the notes thereon to the pro forma Consolidated Statement of Financial Position.

The pro forma Consolidated Statement of Financial Position has been compiled by the Board of Directors to illustrate the impact of the events or transactions as set out in the notes thereon to the pro forma Consolidated Statement of Financial Position as at 31 December 2022 as if the events have occurred or the transactions have been in existence throughout the financial year. As part of this process, information about the Group’s financial position as at 31 December 2022 has been extracted by the Board of Directors from the audited financial statements of the Group for the financial year ended 31 December 2022.

REPORTING ACCOUNTANT'S REPORT ON COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF BHIC AS AT 31 DECEMBER 2022 (CONT'D)



THE BOARD OF DIRECTORS' RESPONSIBILITIES

The Board of Directors of the Company is responsible for compiling the pro forma Consolidated Statement of Financial Position on the basis as described in notes thereon to the pro forma Consolidated Statement of Financial Position.

REPORTING ACCOUNTANTS' INDEPENDENCE AND QUALITY CONTROL

We are independent of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Our firm applies International Standard on Quality Management 1 (ISQM 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants and accordingly maintains a comprehensive system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal regulatory requirements.

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion about whether the pro forma Consolidated Statement of Financial Position has been compiled, in all material respects, by the Board of Directors of the Company on the basis as described in the notes thereon to the pro forma Consolidated Statement of Financial Position.

We conducted our engagement in accordance with the International Standard on Assurance Engagement (ISAE) 3420, *Assurance Engagement to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards as adopted by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the Board of Directors has compiled, in all material respects, the pro forma Consolidated Statement of Financial Position on the basis as described in the notes thereon to the pro forma Consolidated Statement of Financial Position.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinion on any historical financial information used in compiling the pro forma Consolidated Statement of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma Consolidated Statement of Financial Position.

The purpose of pro forma Consolidated Statement of Financial Position included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction would have been as presented.

REPORTING ACCOUNTANT'S REPORT ON COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF BHIC AS AT 31 DECEMBER 2022 (CONT'D)



A reasonable assurance engagement to report on whether the pro forma Consolidated Statement of Financial Position has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Board of Directors in the compilation of the pro forma Consolidated Statement of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma Consolidated Statement of Financial Position reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the pro forma Consolidated Statement of Financial Position has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma Consolidated Statement of Financial Position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, pro forma Consolidated Statement of Financial Position of the Group has been compiled, in all material respects, on the basis as described in the notes thereon to the pro forma Consolidated Statement of Financial Position.

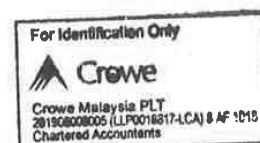
OTHER MATTER

This letter has been prepared solely for the purpose stated above, in connection with the issuance of circular. As such, this letter should not be used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully

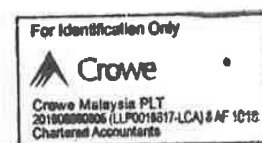
Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants
Kuala Lumpur

Tan Keng Chiew
03709/01/2025 J
Chartered Accountant

REPORTING ACCOUNTANT'S REPORT ON COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF BHIC AS AT 31 DECEMBER 2022 (CONT'D)

Pro Forma Consolidated Statement of Financial Position of Boustead Heavy Industries Corporation Berhad as at 31 December 2022

The Pro Forma Consolidated Statement of Financial Position of Boustead Heavy Industries Corporation Berhad as set out below have been prepared for illustrative purposes only and illustrates the effects referred to in the notes to the Pro Forma Consolidated Statement of Financial Position had they been effected on 31 December 2022.

	Audited as at 31 December 2022	Pro Forma I After adjusting for subsequent events	Pro Forma II After Pro Forma I and the Proposed ITRSA	Pro Forma III After Pro Forma II and the Proposed Disposal
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Non-current assets				
Property, plant and equipment	5,117	5,117	5,117	5,117
Investment property	10,153	10,153	10,153	10,153
Intangible assets	-	-	-	-
Right-of-use assets	22,119	22,119	22,119	22,119
Investments in associates	-	-	-	-
Investments in joint ventures	83,360	83,360	83,360	83,360
Trade and other receivables	255,537	255,537	-	-
Deferred tax assets	185	185	185	185
	376,471	376,471	120,934	120,934
Current assets				
Inventories	2,942	2,942	2,942	2,942
Trade and other receivables	72,243	72,243	14,247	14,247
Contract assets	6,461	6,461	6,461	6,461
Tax recoverable	422	422	422	422
Cash and bank balances	26,352	76,615	80,315	80,315
	108,420	158,683	104,387	104,387
Total assets	484,891	535,154	225,321	225,321
Equity attributable to owners of the Company				
Share capital	248,458	427,211	427,211	427,211
RCPS-A	-	13,372	13,372	13,372
RCPS-i A	-	74,804	74,804	74,804
RCPS B	-	47,916	47,916	47,916
RPS C	-	44,684	-	-
Accumulated losses	(187,790)	(194,539)	(457,211)	(457,211)
Total equity	60,668	413,448	106,092	106,092
Non-current liabilities				
Loans and borrowings	63,285	10,386	10,386	10,386
Deferred tax liabilities	22	22	22	22
Lease liabilities	6,829	6,829	6,829	6,829
	70,136	17,237	17,237	17,237
Current liabilities				
Provisions	14,122	14,122	14,122	14,122
Loans and borrowings	182,740	21,620	21,620	21,620
Trade and other payables	145,512	57,014	54,537	54,537
Tax payable	10,855	10,855	10,855	10,855
Lease liabilities	858	858	858	858
	354,087	104,469	101,992	101,992
Total liabilities	424,223	121,706	119,229	119,229
Total equity and liabilities	484,891	535,154	225,321	225,321

REPORTING ACCOUNTANT'S REPORT ON COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF BHIC AS AT 31 DECEMBER 2022 (CONT'D)

Notes to the Pro Forma Consolidated Statement of Financial Position as at 31 December 2022
1. Abbreviations

Except where the context otherwise requires, the following definitions shall apply throughout this report:

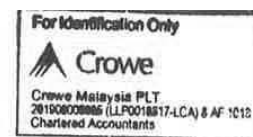
"BHB"	:	Boustead Holdings Berhad (Registration No. 196001000193 (3871-H))
"BHIC and its Relevant Subsidiaries"	:	BHIC, Boustead Penang Shipyard Sdn. Bhd., BHIC Electronics and Technologies Sdn. Bhd., BHIC Allied Defence Technology Sdn. Bhd., BHIC Defence Techservices Sdn. Bhd., BHIC Navaltech Sdn. Bhd., BHIC Marine Technology Academy Sdn. Bhd. and BHIC Submarine Engineering Services Sdn. Bhd.
"BHIC" or "Company"	:	Boustead Heavy Industries Corporation Berhad (Registration No. 197101000758 (11106-V))
"BHIC Group" or "Group"	:	BHIC and its subsidiaries, collectively
"BHIC Share(s)" or "Share(s)"	:	Ordinary share(s) in BHIC
"Circular"	:	This circular to shareholders of the Company dated 15 April 2024 in relation to the Proposals
"Debt Settlement"	:	Collectively, (i) the settlement of the amounts owing by BHIC to BHB of up to RM234,000,000 via the issuance of up to 84,658,462 RCPS B, 78,947,368 RPS C and 246,920,486 BHIC Shares all at an issue price of RM0.57 each; and (ii) partial settlement of outstanding financing facilities by BHIC to Affin Bank Berhad, MBSB Bank Berhad and AmBank Islamic Berhad of up to RM183,255,323 via cash payment of up to RM45 million, the issuance of up to 23,625,548 RCPS A, 132,165,050 RCPS-i A and 68,901,458 BHIC Shares all at an issue price of RM0.57 each, which was approved by the shareholders of BHIC in an EGM convened on 29 December 2023.
"Disposal Consideration"	:	A total cash consideration of RM1.00 ⁽¹⁾ in respect of the Proposed Disposal <i>Note:</i> (i) <i>Subsequent to the SSA, on 15 December 2023, MOF Inc via LUNAS' letter to BHIC offered RM49.7 million as full and final satisfaction of the net trade receivables amount due and owing by LUNAS to the BHIC and its Relevant Subsidiaries of approximately RM384.43 million. Pursuant thereto, the waiver of trade receivables of approximately RM334.73 million will be considered as part of the total value of the consideration for the Proposed Disposal</i>
"EGM"	:	The extraordinary general meeting of the Company
"Financiers"	:	Collectively, Affin Bank Berhad, MBSB Bank Berhad and AmBank Islamic Berhad

REPORTING ACCOUNTANT'S REPORT ON COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF BHIC AS AT 31 DECEMBER 2022 (CONT'D)

Notes to the Pro Forma Consolidated Statement of Financial Position as at 31 December 2022
1. Abbreviations (cont'd)

Except where the context otherwise requires, the following definitions shall apply throughout this report (continued):

"ITRSA"	:	The intercompany trade receivables settlement agreement to be entered into between BHIC and LUNAS after BHIC has obtained its shareholders' approval for the Proposed ITRSA
"LPD"	:	4 April 2024, being the latest practicable date prior to the printing of this Circular
"LUNAS"	:	Lumut Naval Shipyard Sdn. Bhd. (formerly known as Boustead Naval Shipyard Sdn. Bhd.) ("Registration No.: 199001007732 (199302-K))
"NA"	:	Net assets
"OSB" or "Purchaser"	:	Ocean Sunshine Berhad (Registration No.: 202201021686 (1467383-T))
"PISB" or "Vendor"	:	Perstim Industries Sdn. Bhd (Registration No.: 199501002704 (331898-A)), an indirect wholly-owned subsidiary of BHIC
"Proposals"	:	Proposed Disposal and Proposed ITRSA, collectively
"Proposed Disposal"	:	Proposed disposal of 27,000,001 ordinary shares in LUNAS held by PISB, an indirect wholly-owned subsidiary of BHIC, to OSB for a cash consideration of RM1.00 and the waiver of trade receivables owing by LUNAS to BHIC and its Relevant Subsidiaries of the amount of approximately RM334.73 million pursuant to the Proposed ITRSA
"Proposed ITRSA"	:	The proposed ITRSA which involves the settlement of the Total Outstanding Sum via a cash payment of RM49,700,000 by LUNAS to BHIC in accordance with the terms of the ITRSA
"Repayment Sum"	:	A cash sum of RM49,700,000.00 payable by LUNAS to BHIC as the full and final satisfaction of the Total Outstanding Sum owing by LUNAS to BHIC and its Relevant Subsidiaries
"RM" and "sen"	:	Ringgit Malaysia and sen, respectively
"RCPS"	:	Redeemable convertible preference shares
"RCPS-i A"	:	Islamic RCPS A
"RPS C"	:	Redeemable preference shares C
"Sale Shares"	:	<p>A total of 27,000,001 LUNAS Shares, representing approximately 20.77%⁽¹⁾ of the equity interest in LUNAS to be sold by PISB to OSB in accordance with the terms and conditions of the SSA</p> <p><i>Note:</i></p> <p>(1) As at the LPD, PISB's equity interest in LUNAS is 7.30%. PISB's equity interest in LUNAS was diluted from 20.77% to 7.30% when LUNAS completed a share issuance of 240,000,000 shares to OSB at an issue price of RM1.00 per share for a cash consideration of RM240.0 million.</p>

REPORTING ACCOUNTANT'S REPORT ON COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF BHIC AS AT 31 DECEMBER 2022 (CONT'D)

Notes to the Pro Forma Consolidated Statement of Financial Position as at 31 December 2022
1. Abbreviations (cont'd)

Except where the context otherwise requires, the following definitions shall apply throughout this report (continued):

"SSA"	:	The conditional share sale agreement dated 18 August 2023 entered into between PISB and OSB for the Proposed Disposal
"Total Outstanding Sum"	:	The net trade receivables of RM384,433,009 owing by LUNAS to BHIC and its Relevant Subsidiaries

2. Introduction

The Pro Forma Consolidated Statement of Financial Position of the Group as at 31 December 2022 together with the notes thereon, for which the Board of Directors of the Company are solely responsible, have been prepared for illustrative purposes only for the purpose of inclusion in the Circular issued by the Company in connection with the Proposals and should not be relied upon for any other purposes.

3. Basis of Preparation

The Pro Forma Consolidated Statement of Financial Position are prepared based on the audited consolidated financial statements of the Group as at 31 December 2022, which are prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs").

The Pro Forma Consolidated Statement of Financial Position together with the related notes thereon, are prepared solely to illustrate the impact of the events or transactions set out below had the events occurred or transactions been undertaken as at 31 December 2022:

- (I) Debt Settlement approved by the shareholders at the EGM of the Company held on 29 December 2023;
- (II) Proposed ITRSA and utilisation of proceeds from the Repayment Sum; and
- (III) Proposed Disposal

The Pro Forma Consolidated Statement of Financial Position are not necessary indicative of the financial position that would have been attained had the events actually occurred or transactions actually been undertaken at the respective dates.

The financial statements used in the preparation of the Pro Forma Consolidated Statement of Financial Position as at 31 December 2022 are not subject to any qualification, modification or disclaimer of opinion.

4. Pro Forma Adjustments
4.1 Pro Forma I

Pro Forma I is stated after incorporating the effect of Debt Settlement approved by the shareholders at the EGM of the Company held on 29 December 2023.

Under the Debt Settlement, the outstanding financing facilities owing by the Company to the Financiers as at 31 December 2023 were partially settled through a combination of cash settlement, and issuance of new BHIC shares, RCPS A and RCPS-i A, while the amounts owing to BHB by the Company as at 31 December 2023 were settled through a combination of issuance of new BHIC shares, RCPS B and RPS C.

REPORTING ACCOUNTANT'S REPORT ON COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF BHIC AS AT 31 DECEMBER 2022 (CONT'D)

Notes to the Pro Forma Consolidated Statement of Financial Position as at 31 December 2022
4. Pro Forma Adjustments (cont'd)
4.1 Pro Forma I (cont'd)

The summary of the Debt Settlement via cash and issuance of shares are as follows:

	Cash RM('000)	New BHIC Shares RM('000)	RCPS A RM('000)	RCPS-i A RM('000)	RCPS B RM('000)	RPS C RM('000)
Financiers	45,000	39,274	13,467	75,334	-	-
BHB	-	140,745	-	-	48,255	45,000
Total	45,000	180,019	13,467	75,334	48,255	45,000

4.2 Pro Forma II

Pro Forma II is stated after incorporating the effect of Pro Forma I and the effects of Proposed ITRSA and utilisation of proceeds from the Repayment Sum.

Proposed ITRSA involves the settlement of RM384,433,009, being the net trade debts owing by LUNAS to BHIC and its Relevant Subsidiaries as at 31 December 2022 via a cash payment of RM49,700,000 by LUNAS to BHIC in accordance with the terms of the ITRSA.

The Company intends to utilise a portion of the proceeds from the Repayment Sum amounting to RM45,000,000 for the redemption of RPS C that were issued to BHB.

4.3 Pro Forma III

Pro Forma III is stated after incorporating the effects of Pro Forma II and the effect of Proposed Disposal.

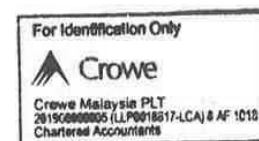
The Proposed Disposal involves the proposed disposal of 27,000,001 ordinary shares in LUNAS held by PISB, an indirect wholly-owned subsidiary of the Company, for a cash consideration of RM1.

5. Effects on the Pro Forma Consolidated Statement of Financial Position
5.1 Investment in associates

	RM('000)
As per 31 December 2022/As per Pro Forma I and II	-
Disposal of investment in LUNAS (i)	-
As per Pro Forma III	-

(i) The detail of the carrying amount of investment in LUNAS is as follows:

	RM('000)
Cost of investment	53,580
Cumulative share of post-acquisition losses	(20,752)
Less: accumulated impairment losses	(32,828)
	-

REPORTING ACCOUNTANT'S REPORT ON COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF BHIC AS AT 31 DECEMBER 2022 (CONT'D)

Notes to the Pro Forma Consolidated Statement of Financial Position as at 31 December 2022
5. Effects on the Pro Forma Consolidated Statement of Financial Position (cont'd)
5.2 Trade and other receivables

	RM('000)
As at 31 December 2022/As per Pro Forma I	327,780
Repayment Sum from LUNAS (i)	(49,700)
Write off of amount owing by LUNAS (i)	(263,833)
As per Pro Forma II and III	<u>14,247</u>
Represented by:	
Current	<u>14,247</u>

(i) The movement of net amount owing by LUNAS is as follows:

	RM('000)
As at 31 December 2022/As per Pro Forma I	
- gross receivables	386,910
- payables (Note 5.7)	(2,477)
	<u>384,433</u>
less: accumulated impairment losses	(73,377)
Net amount owing by LUNAS	311,056
Repayment Sum from LUNAS	(49,700)
Write off of amount owing by LUNAS	(263,833)
Waiver of amount owing to LUNAS (Note 5.7)	2,477
As per Pro Forma II and III	<u>-</u>

5.3 Cash and bank balances

	RM('000)
As at 31 December 2022	26,352
Additional advances from BHB up to date of Debt Settlement	138,753
Repayment of loans and borrowings	(85,944)
Payment of share issuance costs	(2,546)
As per Pro Forma I	<u>76,615</u>
Repayment sum from LUNAS	49,700
Redemption of RPS C	(45,000)
Payment of estimated expenses (i)	(1,000)
As per Pro Forma II	<u>80,315</u>
Proceed from disposal of investment in LUNAS	*
As per Pro Forma III	<u>80,315</u>

*less than RM1,000

(i) The estimated expenses in relation to the Proposals is RM1,000,000.

REPORTING ACCOUNTANT'S REPORT ON COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF BHIC AS AT 31 DECEMBER 2022 (CONT'D)

Notes to the Pro Forma Consolidated Statement of Financial Position as at 31 December 2022
5. Effects on the Pro Forma Consolidated Statement of Financial Position (cont'd)
5.4 Share capital

	Ordinary shares RM('000)	RCPS A RM('000)	RCPS-i A RM('000)	RCPS B RM('000)	RPS C RM('000)
As at 31 December 2022	248,458	-	-	-	-
Issuance of shares	180,019	13,467	75,334	48,255	45,000
Share issuance costs (i)	(1,266)	(95)	(530)	(339)	(316)
As per Pro Forma I	427,211	13,372	74,804	47,916	44,684
Redemption of RPS C	-	-	-	-	(45,000)
Transfer of share issuance cost to accumulated losses	-	-	-	-	316
As per Pro Forma II and III	427,211	13,372	74,804	47,916	-

(i) Share issuance costs of RM2,546,000 are accounted for as reduction in equity.

5.5 Accumulated losses

	RM('000)
As at 31 December 2022	(187,790)
Interest charged by BHB up to date of Debt Settlement	(6,749)
As per Pro Forma I	(194,539)
Write off of amount owing by LUNAS	(263,833)
Waiver of amount owing to LUNAS	2,477
Estimated expenses	(1,000)
Transfer of share issuance cost to accumulated losses	(316)
As per Pro Forma II	(457,211)
Net gain on disposal of investment in LUNAS (i)	*
As per Pro Forma III	(457,211)

*less than RM1,000

(i) The computation of net gain on disposal is as follows:

	RM
Net carrying amount of investment in LUNAS	-
Proceeds from Proposed Disposal	1
Net gain on disposal	1

5.6 Loans and borrowings

	RM('000)
As at 31 December 2022	246,025
Repayment via cash (i)	(85,944)
Repayment via issuance of shares	(128,075)
As per Pro Forma I, II and III	32,006
Represented by:	
Non-current	10,386
Current	21,620
	32,006

REPORTING ACCOUNTANT'S REPORT ON COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF BHIC AS AT 31 DECEMBER 2022 (CONT'D)


Notes to the Pro Forma Consolidated Statement of Financial Position as at 31 December 2022
5. Effects on the Pro Forma Consolidated Statement of Financial Position (cont'd)
5.6 Loans and borrowings (cont'd)

- (i) The Company had made repayment via cash amounting to RM85,944,000 (including the RM45,000,000 cash repayment under the Debt Settlement) up to date of Debt Settlement.

5.7 Trade and other payables

	RM('000)
As at 31 December 2022	145,512
Additional advances from BHB up to date of Debt Settlement	138,753
Interest charged by BHB up to date of Debt Settlement	6,749
Repayment to BHB via issuance of shares	(234,000)
As per Pro Forma I	<u>57,014</u>
Waiver of amount owing to LUNAS (Note 5.2(i))	(2,477)
As per Pro Forma II and III	<u><u>54,537</u></u>

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REPORTING ACCOUNTANT'S REPORT ON COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF BHIC AS AT 31 DECEMBER 2022 (CONT'D)

**Notes to the Pro Forma Consolidated Statement of Financial Position as at 31 December 2022****6. Approvals**

For and on behalf of
BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD

Authorised Signatory
Name: Feroz Razi Ramli
Designation: Chief Executive Officer
Date: 15 April 2024

FURTHER INFORMATION

1. DIRECTORS' RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Board and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there is no false or misleading statement or other facts, the omission of which would make any information in this Circular false or misleading.

2. CONSENT AND DECLARATION OF CONFLICT OF INTEREST**2.1 Malacca Securities**

Malacca Securities, being the Principal Adviser for the Proposals, has given and has not subsequently withdrawn its written consent for the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

Malacca Securities has given its written confirmation that it is not aware of any conflict of interest which exists or is likely to exist in its capacity as the Principal Adviser in respect of the Proposals.

2.2 AER

AER, being the Independent Adviser to our non-interested shareholders in relation to the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion of its name, IAL and all references thereto in the form and context in which they appear in this Circular.

AER has given its written confirmation that it is not aware of any conflict of interest which exists or is likely to exist in its capacity as the Independent Adviser to our non-interested shareholders for the Proposals.

2.3 Crowe

Crowe, being the Reporting Accountants for the Proposals, has given and has not subsequently withdrawn its written consent for the inclusion of its name in the Reporting Accountant's report on compilation of pro forma consolidated statement of financial position of BHIC as at 31 December 2022 and all references thereto in the form and context in which they appear in this Circular.

Crowe has given its written confirmation that it is not aware of any conflict of interest which exists or is likely to exist in its capacity as the Reporting Accountants in respect of the Proposals.

3. MATERIAL LITIGATION

Save as disclosed below, as at the LPD, our Group is not engaged in any other material litigation, claims or arbitration, either as plaintiff or defendant, and our Board is not aware of any proceedings, pending or threatened, against our Group, or of any facts likely to give rise to any such proceedings which might materially or adversely affect our Group's business or financial position:

Writ of Summons and Statement of Claim by Contraves Advanced Devices Sdn Bhd ("CAD") and Contraves Electroynamics Sdn Bhd ("CED")

On 27 September 2022, CAD and CED ("**Plaintiffs 1**") filed a Writ of Summons and Statement of Claim against BHIC, BHIC Defence Technologies Sdn Bhd ("**BHICDT**") and LUNAS and two BHICDT's nominee directors in CAD. Plaintiffs 1 seek several reliefs, including a declaration that the 12 letters of award to CAD from LUNAS are still valid and subsisting, payment of outstanding amounts, damages and injunctions to restrain the defendants from various actions.

FURTHER INFORMATION (CONT'D)

The litigation timeline includes several defences and subsequently BHIC as well as other defendants had filed an application to strike out the claims, with a case management held on 30 November 2022.

The striking out applications were heard on 5 April 2023, and the High Court had fixed the subsequent hearing to be on 3 May 2023, which was later adjourned by the High Court to another date to be decided, where the decision will be delivered on the application, and fixed 3 July 2023 for case management.

Based on the case management dated 3 July 2023, Plaintiffs 1 have requested for an extension to finalise the settlement. Hence, the High Court fixed another date for case management on 16 August 2023, for parties to update the High Court on the settlement. In the case management on 16 August 2023, Plaintiffs 1 and LUNAS have requested for an extension of time to finalise the settlement. The High Court fixed the next case management on 18 September 2023.

During case management on 18 September 2023, LUNAS and Plaintiffs 1 updated the High Court that the settlement has not been finalised. The High Court then decided that it will allow both parties more time to settle and fixed the new case management on 30 October 2023.

On 30 October 2023, Plaintiffs 1 updated the High Court that the settlement has not been finalised and the High Court fixed 30 November 2023 for final case management which was later shifted to 12 December 2023. In the case management of 12 December 2023, the High Court has fixed the decision of the striking out applications on 8 February 2024.

On 4 January 2024, LUNAS had withdrawn LUNAS's striking out application with no order as to costs. On the same day, the Plaintiffs 1 filed a notice of discontinuance to discontinue the suit against LUNAS with no order as to costs and without liberty to file afresh.

On 8 February 2024, the High Court allowed the striking out application filed by BHIC and BHICDT and struck out the Plaintiffs 1's claim against BHIC and BHICDT, with costs of RM15,000.00 to be personally paid by Sylvia Sinniah (i.e. the Chief Executive Officer of Plaintiffs 1) to BHIC and BHICDT ("**Striking Out Decision**").

The deadline for CAD and CED to file an appeal to the Court of Appeal against the Striking Out Decision has lapsed and no appeal has been filed by CAD and CED against the Striking Out Decision.

4. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

4.1 Material Commitments

Save as disclosed below, as at the LPD, there are no material commitments incurred or known to be incurred by the BHIC Group, which upon becoming due or enforceable, may have a material impact on the financial position or business of the BHIC Group:

Material commitments	RM'000
Approved and not contracted for: Property, plant and equipment	6,015
Approved and contracted for: Property, plant and equipment	-
Total	6,015

FURTHER INFORMATION (CONT'D)

4.2 Contingent Liabilities

Save as disclosed below, as at the LPD, there are no contingent liabilities incurred or known to be incurred by the BHIC Group, which upon becoming due or enforceable, may have a material impact on the financial position or business of the BHIC Group:

(i) In-Service Support (“ISS”) contract

Boustead DCNS Naval Corporation Sdn Bhd (“**BDNC**”) received a letter from the Ministry of Defence Malaysia (“**MINDEF**”) dated 22 June 2017 claiming for liquidated ascertained damages (“**LAD**”) amounting to RM53.2 million and EUR19.3 million for the ISS for the Royal Malaysian Navy (“**RMN**”) SCORPENE Submarine Contract.

(ii) Refit contract

BDNC received a letter from MINDEF dated 18 March 2020 claiming for LAD amounting to RM9.5 million and EUR3.8 million for the refit works on RMN Submarine after several mitigation claims were approved by MINDEF.

(iii) Extended In-Service Support (“EISS”) contract

BDNC received a letter from MINDEF dated 28 May 2020 claiming for LAD amounting to RM11.6 million and EUR6.5 million for the EISS Contract.

On 13 April 2021, MINDEF had issued a notice to BDNC to settle the LAD claims in full against the future progress billing issued by BDNC to MINDEF. The Company had made full provision for the LAD claims based on the above. The total provisions for the LAD as at 31 December 2023, after offsetting against billings issued, is RM60.0 million (FYE 2022: RM60.0 million).

5. MATERIAL CONTRACTS

Save as disclosed below, there were no material contracts (not being entered into in the ordinary course of business) which have been entered into by the Group during the past two (2) years immediately preceding the date of this Circular:

- (a) On 23 September 2022, BHIC Shipbuilding & Engineering Sdn Bhd, a wholly owned subsidiary of Boustead Penang Shipyard Sdn Bhd, which in turn is a wholly owned subsidiary of BHIC, entered into a conditional Sale and Purchase Agreement (“SPA”) with Jantoco Realty Sdn Bhd for the proposed disposal of all that piece of land measuring 9.782 acres known as Lot 6, Industrial Zone 7 (IZ 7), Kota Kinabalu Industrial Park, in the locality of Telipok and locality of Jalan Sepanggar Menggatal in the District of Kota Kinabalu, off Jalan Tuaran, State of Sabah for a total cash consideration of RM18,800,000.00 only (“**Disposal of Land**”). Following the announcement on 19 December 2022, the Disposal of Land had been completed on 27 December 2022;
- (b) the SSA and the LOV;
- (c) the LOA; and
- (d) BHIC had entered into several debt settlement agreement(s) with the following parties:
 - (i) Affin Bank Berhad on 13 December 2023 to settle the outstanding amount of RM30,000,000 (as at 31 December 2023) through the combination of cash amounting to RM7,366,771, issuance of 13,157,895 new BHIC Shares at an issue price of RM0.57 each and 23,625,548 RCPS A at an issue price of RM0.57 each with RM1,666,6667 retained as financing facilities;

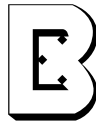
FURTHER INFORMATION (CONT'D)

- (ii) MBSB Bank Berhad on 13 December 2023 to settle the outstanding amount of RM63,255,323 (as at 31 December 2023) through the combination of cash amounting to RM15,532,916, issuance of 27,743,563 BHIC Shares at an issue price of RM0.57 each and 49,814,722 RPCS-i A in BHIC at an issue price of RM0.57 each with RM3,514,184 retained as financing facilities;
- (iii) Ambank Islamic Berhad on 13 December 2023 to settle the outstanding amount of RM90,000,000 (as at 31 December 2023) through the combination of cash amounting to RM22,100,313, issuance of 28,000,000 BHIC Shares at an issue price of RM0.57 each and 82,350,328 RPCS-i A in BHIC at an issue price of RM0.57 each with RM5,000,000 retained as financing facilities; and
- (iv) BHB dated 13 December 2023 to settle the outstanding amount of RM234,000,000 as at 31 December 2023 in full settlement through the combination of 246,920,486 BHIC Shares at an issue price of RM0.57 each, 84,658,462 RCPS B in BHIC at an issue price of RM0.57 each and 78,947,368 RPS C in BHIC at an issue price of RM0.57 each.

6. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at our Company's registered office at 17th Floor, Menara Boustead, 69, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia during normal office hours on Mondays to Fridays (except public holidays) from the date of this Circular up to and including the date of our forthcoming EGM:

- (i) Constitution of the Company and LUNAS;
- (ii) the SSA and the LOV;
- (iii) the LOA;
- (iv) audited consolidated financial statements of BHIC and LUNAS for the past two (2) financial years up to the FYE 31 December 2022 and the latest unaudited quarterly report for the 12-month FYE 31 December 2023;
- (v) the letters of consent and declaration of conflict of interests referred to in Section 2 of Appendix IV;
- (vi) the relevant cause papers in relation to the material litigations referred to in Section 10 of Appendix II and Section 3 of Appendix IV;
- (vii) the material contracts as referred to in Section 5 of Appendix IV;
- (viii) Reporting Accountant's Report on Compilation of Pro Forma Consolidated Statement of Financial Position of BHIC as at FYE 31 December 2022 as referred to in Appendix III; and
- (ix) the draft ITRSA.



Boustead Heavy Industries Corporation Berhad

(Registration No. 197101000758 (11106-V))
(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Extraordinary General Meeting (“**EGM**”) of Boustead Heavy Industries Corporation Berhad (“**BHIC**” or “**Company**”) will be conducted virtually through live streaming from the broadcast venue at Amphitheatre, Level 23, The Bousteador, No. 10, Jalan PJU 7/6, Mutiara Damansara, 47800 Petaling Jaya, Selangor, on 30 April 2024, at 2.30 p.m. or any adjournment thereof, for the purpose of considering and, if thought fit, passing with or without modifications, the following ordinary resolutions:

ORDINARY RESOLUTION 1

PROPOSED DISPOSAL OF 27,000,001 ORDINARY SHARES IN LUMUT NAVAL SHIPYARD SDN. BHD. (FORMERLY KNOWN AS BOUSTEAD NAVAL SHIPYARD SDN. BHD.) (“LUNAS”) HELD BY PERSTIM INDUSTRIES SDN. BHD. (“PISB”), AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF BHIC, TO OCEAN SUNSHINE BERHAD (“OSB”) FOR A CASH CONSIDERATION OF RM1.00 AND THE WAIVER OF TRADE RECEIVABLES OWING BY LUNAS TO BHIC AND ITS RELEVANT SUBSIDIARIES OF THE AMOUNT OF APPROXIMATELY RM334.73 MILLION PURSUANT TO THE PROPOSED ITRSA (“PROPOSED DISPOSAL”)

“**THAT**, subject to approval for Ordinary Resolution 2 (as set out below) being obtained, approval be and is hereby given to the Company to dispose its entire 27,000,001 equity interest in LUNAS for a cash consideration of RM1.00 and waiver of trade receivables owing by LUNAS to BHIC and its relevant subsidiaries (namely Boustead Penang Shipyard Sdn. Bhd., BHIC Electronics and Technologies Sdn. Bhd., BHIC Allied Defence Technology Sdn. Bhd., BHIC Defence Techservices Sdn. Bhd., BHIC Navaltech Sdn. Bhd., BHIC Marine Technology Academy Sdn. Bhd. and BHIC Submarine Engineering Services Sdn. Bhd. (collectively “**BHIC and its Relevant Subsidiaries**”)) of the amount of approximately RM334.73 million pursuant to the Proposed ITRSA (as hereinafter defined) in accordance with the terms and conditions of the Share Sale Agreement dated 18 August 2023 entered into between PISB and OSB in respect of the Proposed Disposal.

AND THAT, the Board of Directors of BHIC (“**Board**”) be and is hereby authorised to do all acts, deeds and things, and execute all documents as the Board considers necessary or expedient in connection with the Proposed Disposal, and to take all such necessary steps to give full effect to the Proposed Disposal with full power to assent, accept and/or make any condition, modification, variation, arrangement and/or amendment in any manner as may be required or imposed or permitted by any relevant authorities and/or parties or as the Board may deem necessary or expedient in the best interests of the Company in respect of the Proposed Disposal.”

ORDINARY RESOLUTION 2

PROPOSED INTERCOMPANY TRADE RECEIVABLES SETTLEMENT AGREEMENT (“ITRSA”) (“PROPOSED ITRSA”)

“**THAT** approval be and is hereby given to BHIC to enter into the ITRSA with LUNAS for the settlement of the net trade debts of RM384,433,009 owing by LUNAS to BHIC and its Relevant Subsidiaries (“**Total Outstanding Sum**”) via a cash sum of RM49,700,000 payable by LUNAS to BHIC as the full and final satisfaction of the Total Outstanding Sum owing by LUNAS to BHIC and its Relevant Subsidiaries in accordance with the terms of the ITRSA.

AND THAT the Board be and is hereby authorised to do all acts, deeds and things, and execute all documents as the Board considers necessary or expedient in connection with the Proposed ITRSA, and to take all such necessary steps to give effect to the Proposed ITRSA with full power to assent, accept and/or make any condition, modification, variation, arrangement and/or amendment in any manner as may be required or imposed or permitted by any relevant authorities and/or parties or as the Board may deem necessary or expedient in the best interests of the Company in respect of the Proposed ITRSA.”

BY ORDER OF THE BOARD

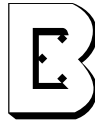
ROZANA ISMAIL (LS 0008847) (SSM PC No: 201908003365)

Company Secretary

15 April 2024

Notes:

- (i) *A member of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy or attorney or proxies (or being a corporate member, a corporate representative) to attend and vote in his stead. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.*
- (ii) *Subject to (iii) below, where a member appoints two (2) or more proxies, the appointments shall be invalid unless he/she specifies the proportion of his shareholding to be represented by each proxy.*
- (iii) *The instrument appointing a proxy in the case of an individual shall be signed by the appointer or his/her attorney or in the case of a corporation executed under its common seal or signed on behalf of the corporation by its attorney duly authorised.*
- (iv) *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (“Omnibus Account”) as defined under the Securities Industry (Central Depositories) Act 1991, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.*
- (v) *Where the Form of Proxy is executed by a corporation, it must be executed under its seal or under the hand of its attorney.*
- (vi) *The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must, to be valid, be deposited at the office of the Company’s Registrars, Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, not less than forty-eight (48) hours before the time set for the meeting or at any adjournment thereof.*
- (vii) *Only a depositor whose name appears on the Record of Depositors as at 22 April 2024 shall be entitled to attend the said meeting and to appoint a proxy or proxies to attend, speak and/or vote on his/her behalf.*
- (viii) *Pursuant to subparagraph 8.29A(1) of the Listing Requirements, the resolutions set out in this Notice will be put to vote by way of poll.*



Boustead Heavy Industries Corporation Berhad

(Registration No. 197101000758 (11106-V))
(Incorporated in Malaysia)

PROXY FORM

*I/We _____ NRIC//Registration no. _____
(Full Name in Block Letters)

of _____
(Full Address)

being a member of **BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD**, hereby appoint:

(1) Name of proxy : _____ NRIC no: _____
(Full Name in Block Letters)

Address : _____ No. of shares
(Full Address) represented:

(2) Name of proxy : _____ NRIC no: _____
(Full Name in Block Letters)

Address : _____ No. of shares
(Full Address) represented:

or failing him/her, *the Chairman of the Meeting as *my/*our proxy to vote for *me/us and on *my/our behalf at the Extraordinary General Meeting of the Company to be conducted virtually through live streaming from the broadcast venue at Amphitheatre, The Bousteador, Level 23, No. 10, Jalan PJU 7/6, Mutiara Damansara, 47800 Petaling Jaya Selangor, Malaysia on Tuesday, 30 April 2024, at 2.30 p.m or any adjournment thereof, to vote as indicated below:

No.	Ordinary Resolution	For	Against
1.	Proposed Disposal		
2.	Proposed ITRSA		

(Please indicate with an "X" in the appropriate space above how you wish your votes to be cast. If you do not do so, the Proxy will vote or abstain from voting at his/her discretion.)

Number of shares held	
CDS Account No.	

Dated this _____ day of _____ 2024

Signature / Seal of Shareholders
[* Delete if not applicable]

Notes:



- (i) *A member of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy or attorney or proxies (or being a corporate member, a corporate representative) to attend and vote in his stead. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.*
- (ii) *Subject to (iii) below, where a member appoints two (2) or more proxies, the appointments shall be invalid unless he/she specifies the proportion of his shareholding to be represented by each proxy.*
- (iii) *The instrument appointing a proxy in the case of an individual shall be signed by the appointer or his/her attorney or in the case of a corporation executed under its common seal or signed on behalf of the corporation by its attorney duly authorised.*
- (iv) *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("**Omnibus Account**") as defined under the Securities Industry (Central Depositories) Act 1991, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.*
- (v) *Where the Form of Proxy is executed by a corporation, it must be executed under its seal or under the hand of its attorney.*
- (vi) *The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must, to be valid, be deposited at the office of the Company's Registrars, Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, not less than forty-eight (48) hours before the time set for the meeting or at any adjournment thereof.*
- (vii) *Only a depositor whose name appears on the Record of Depositors as at **22 April 2024** shall be entitled to attend the said meeting and to appoint a proxy or proxies to attend, speak and/or vote on his/her behalf.*
- (viii) *Pursuant to subparagraph 8.29A(1) of the Listing Requirements, the resolutions set out in this Notice will be put to vote by way of poll.*

Fold this flap for sealing

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AFFIX
STAMP

To:

The Share Registrar
BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD
Registration No.: 197101000758 (11106-V)

Tricor Investor & Issuing House Services Sdn Bhd
Unit 32-01, Level 32
Tower A, Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur
Malaysia

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