

PENTAMASTER CORPORATION BERHAD (“PCB” OR “THE COMPANY”)

EXTENSION OF PROFIT GUARANTEE PERIOD IN RELATION TO THE ACQUISITION OF TP CONCEPT SDN. BHD. BY PENTAMASTER EQUIPMENT MANUFACTURING SDN. BHD., A WHOLLY OWNED SUBSIDIARY OF PENTAMASTER INTERNATIONAL LIMITED, WHICH IN TURN IS A SUBSIDIARY OF PCB

References are made to the announcements of the Company dated 26 September 2019 in relation to the acquisition of 100% equity interest in TP Concept Sdn. Bhd. (“**TP**”) comprising 250,000 ordinary shares each fully paid up for a total purchase consideration of Ringgit Malaysia twenty one million (RM21,000,000) only from the shareholders of TP (the “**Vendors**”) by Pentamaster Equipment Manufacturing Sdn. Bhd. (“**PQ**” or “**the Purchaser**”), a wholly owned subsidiary of Pentamaster International Limited (“**PIL**”), which in turn is a subsidiary of PCB (the “**Acquisition**”) and the completion announcement dated 27 September 2019 (collectively, the “**Previous Announcements**”). Unless otherwise defined, capitalised terms herein shall have the same meanings as those defined in the Previous Announcements.

Profit Guarantee

As disclosed in the Previous Announcements, pursuant to the SSA, the Vendors have guaranteed to the Purchaser that:

- a) The aggregate PAT in respect of TP for FYE 2020 and FYE 2021 (“**Aggregate PAT**”) shall not be less than RM12,000,000 (“**Aggregate Profit Guarantee**”). In the event the Aggregate Profit Guarantee is not achieved, the Vendors shall be liable to pay the shortfall to the Purchaser up to RM12,000,000 (“**Profit Guarantee Shortfall**”).

The Profit Guarantee Shortfall shall be calculated as follows:

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

- b) Subject to clause (e) below (Deduction of Claim), the Purchaser shall, within 14 Business Days after receiving the financial statement of TP for FYE 2020, release to the Vendors part of Balance Purchase Price equivalent to the PAT for FYE 2020 (“**1st Balance Release**”) in accordance to the shareholding percentage of the respective Vendors (“**Vendors’ Percentage**”) provided that the maximum Balance Purchase Price to be released shall be RM6,000,000. For the avoidance of doubt, any PAT of TP for FYE 2020 in excess of RM6,000,000 shall be used in the calculation of PAT of TP for FYE 2021.
- c) Subject to clause (e) below (Deduction of Claim), if the Aggregate Profit Guarantee is achieved in FYE 2021, the Purchaser shall within 14 Business Days, after receiving the financial statement for FYE 2021, release to the Vendors the remaining Balance Purchase Price in accordance to the Vendors’ Percentage (“**Final Balance Release**”).
- d) Subject to clause (e) below (Deduction of Claim), if the Aggregate Profit Guarantee is not achieved and there is a Profit Guarantee Shortfall for FYE 2020 and FYE 2021 in aggregate (“**Lower PAT**”), the Vendors shall only receive part of the Balance Purchase Price equivalent to the aggregate PAT for FYE 2020 and FYE 2021 (“**Lower Balance Release**”) and the remaining Balance Purchase Price shall be used to pay back to the Purchaser. For the avoidance of doubt, the Vendors have to refund to the Purchaser on any amount in excess of Lower Balance Release (if any) within 14 Business Days upon receiving written notice from the Purchaser.
- e) The Vendors irrevocably authorise the Purchaser to withhold or deduct from the 1st Balance Release, Final Balance Release and Lower Balance Release on any claims by the Purchaser due to any breach of warranties and undertakings under clauses in respect of warranties, Profit Guarantee Shortfall and post completion obligation by the Vendors pursuant to the SSA.

FINANCIAL RESULTS OF TP

Based on the financial statement of TP for FYE 2020 and FYE 2021, the Vendors do not expect the Aggregate PAT of TP to meet the Aggregate Profit Guarantee. Accordingly, no portion of the Balance Purchase Price, Final Balance Release or Lower Balance Release was released to the Vendors.

REASONS FOR THE EXPECTED SHORTFALL IN AGGREGATE PAT (THE “SHORTFALL”)

Given the unprecedented pandemic event of COVID-19 that has impacted the global economies, TP has faced difficulties in meeting the Aggregate Profit Guarantee due to the following reasons:

- a) The travel restriction caused by the COVID-19 pandemic since the beginning of 2020 resulted in TP facing difficulties to complete on-site installation, commissioning and buy-offs for their projects in overseas countries. As majority of TP’s customers are located in China, TP faced significant difficulties and delay in deploying its engineers to China to install and commission its project with the imposition of strict movement control of foreigners into China since January 2020 to prevent the spread of COVID-19. This has resulted in delay in project delivery and deferment in the recognition of income for projects which have been delayed. While various efforts have been made in undertaking the project delivery, it has failed to achieve the optimum results as projected.
- b) The travel restriction implemented has also caused difficulties in TP’s sales personnel to viably meet and follow up on sales leads with new customers to secure new orders. This has resulted in the drop in revenue from these new orders which were expected to materialise in FYE 2020 and FYE 2021 (the “**Profit Guarantee Period**”).

SUPPLEMENTAL AGREEMENT TO EXTEND THE PROFIT GUARANTEE PERIOD

Given the reasons for the Shortfall were mainly due to the extraordinary and unexpected circumstances caused by the pandemic which were beyond the control of the Vendors, and considering the business prospect of TP, PQ and the Vendors (the “**Parties**”) have entered into a supplemental share sale agreement on 25 February 2021 (the “**Supplemental Agreement**”) to extend the Profit Guarantee Period for the Vendors to fulfill the Aggregate Profit Guarantee. The Parties have mutually agreed that the Aggregate PAT to be used for determining the Aggregate Profit Guarantee shall be the Aggregate PAT of TP for FPE 2019, NFYE 2020, NFYE 2021 and NFYE 2022 (“**Extended Profit Guarantee Period**”).

In summary, with the extension of Profit Guarantee Period, the Aggregate PAT in respect of TP for FPE 2019, NFYE 2020, NFYE 2021 and NFYE 2022 shall not be less than RM12,000,000. In the event the Aggregate PAT is not achieved during the Extended Profit Guarantee Period, the Vendors shall be liable to pay the shortfall to the Purchaser up to RM12,000,000.

The details of the variation in the Supplemental Agreement are as follows:

New definitions

FPE 2019	Financial period ended 31 December 2019 (the duration from 1 April 2019 till 31 December 2019)
NFYE 2020	Financial year ended 31 December 2020 (the duration from 1 January 2020 till 31 December 2020)
NFYE 2021	Financial year ending 31 December 2021 (the duration from 1 January 2021 till 31 December 2021)
NFYE 2022	Financial year ending 31 December 2022 (the duration from 1 January 2022 till 31 December 2022)

- a) Original Clause 9.1.15 (vendor’s warranties) to be deleted in its entirety and replaced with the following:

The Vendors shall ensure the trade receivable list of RM12,138,035 as attached in Appendix III of the SSA to be collected by NFYE 2022.

- b) Original **Clause 10.1** (*profit guarantee*) to be deleted in its entirety and replaced with the following:

The aggregate PAT in respect of TP for FPE 2019, NFYE 2020, NFYE 2021 and NFYE 2022 shall not be less than RM12,000,000 ("**Aggregate Profit Guarantee**"). In the event the Aggregate Profit Guarantee is not achieved, the Vendor shall be liable to pay the shortfall to the Purchaser up to RM12,000,000 ("**Profit Guarantee Shortfall**").

The Profit Guarantee Shortfall shall be calculated as follows:

Profit Guarantee Shortfall = Aggregate Profit Guarantee - audited PAT for FPE 2019, NFYE 2020, NFYE 2021 and NFYE 2022.

- c) Original **Clause 10.2** (*profit guarantee*) to be deleted in its entirety.
- d) Original **Clause 10.3** (*profit guarantee*) to be deleted in its entirety and replaced with the following:

Subject to clause 10.5 (Deduction of Claim), if the Aggregate Profit Guarantee is achieved by NFYE 2022, the Purchaser shall within 14 Business Days, after receiving the audited financial statement for NFYE 2022, release to the Vendors the remaining Balance Purchase Price in accordance to the Vendors' Percentage.

- e) Original **Clause 10.4** (*profit guarantee*) to be deleted in its entirety and replaced with the following:

Subject to clause 10.5 (Deduction of Claim), if the Aggregate Profit Guarantee is not achieved and there is a Profit Guarantee Shortfall for FPE 2019, NFYE 2020, NFYE 2021 and NFYE 2022 in aggregate ("**Lower PAT**"), the Vendors shall only receive part of the Balance Purchase Price equivalent to the aggregate PAT for FPE 2019, NFYE 2020, NFYE 2021 and NFYE 2022 ("**Lower Balance Release**") and the remaining Balance Purchase Price (if any) shall be used to pay back to the Purchaser.

- f) Original **Clause 10.5** (*profit guarantee*) to be deleted in its entirety and replaced with the following:

The Vendors irrevocably authorise the Purchaser to withhold the Balance Purchase Price and to deduct from the Balance Purchase Price or the Lower Balance Release any claims by the Purchaser due to any breach of warranties and undertakings under clauses 9 (warranties), 10.1 (Profit Guarantee Shortfall) and 17 (Post Completion Obligation) by the Vendors pursuant to this Agreement.

- g) All other terms in the SSA shall remain unchanged save and except for the variation contained in the Supplemental Agreement herein.

Interest of Directors, major shareholders and/or persons connected with them

None of the directors and/or major shareholders of PCB and/or persons connected with them have any interest, whether direct or indirect, in the Extension of Profit Guarantee Period.

Directors' statement

In view of the reasons for the Shortfall were mainly due to the extraordinary and unexpected circumstances caused by the COVID-19 pandemic which were beyond the control of the Vendors, the Board of Directors of PCB considers that the Extended Profit Guarantee Period is fair and reasonable and in the interests of PCB and the shareholders of PCB as a whole.

This announcement is dated 25 February 2021.