

1. INTRODUCTION

The Board of Directors of Handal Resources Berhad (“**Handal**” or the “**Company**”) wishes to announce that the Company had on 10 April 2019, entered into the following agreements:-

- i) Share sale agreement between Shanghai EB Pipeline Engineering Ltd (“**SHEB**”) and Handal (“**SSA**”); and
- ii) Novation agreement entered between SHEB, Kemuncak Lanai Sdn Bhd (“**Kemuncak**”) and Handal (“**Novation Agreement**”).

(collectively referred to as “**Agreements**”)

for the disposal of 765,000 ordinary shares in Handal Simflexi Sdn. Bhd. (formerly known as Simflexi Sdn. Bhd.) (“**HSSB**”), representing 51% of the total issued share capital of HSSB (“**Sale Shares**”), to SHEB for a total consideration of RM3,260,000 only (“**Disposal Consideration**”) (“**Disposal**”).

Upon completion of the Disposal, HSSB will cease to be a subsidiary of Handal.

2. INFORMATION ON HSSB

HSSB is a private limited company incorporated in Malaysia and its existing issued share capital is RM1,500,000 divided into 1,500,000 ordinary shares. HSSB provides engineering services and engineering related consultancy.

3. INFORMATION ON SHEB

SHEB is a company incorporated in Republic of China which is principally engaged in flexible pipeline engineering & installation and flexible high-performance composite membrane fabrication. SHEB currently holds the remaining 49% equity interest in HSSB.

4. SALIENT TERMS OF THE AGREEMENTS

4.1 SSA

4.1.1 Sale & Purchase of the Sale Shares

- a) SHEB shall purchase from Handal, the Sale Shares at the Disposal Consideration free from all encumbrances and with all rights, benefits, entitlements and advantages attached thereto as and from the completion of the SSA.

4.1.2 Payment of Disposal Consideration

- a) The parties agree that the Disposal Consideration shall be paid by SHEB to Handal in the following manner:
 - i) RM326,000 being a sum equivalent to 10% of the Disposal Consideration shall be paid by SHEB to Handal upon the execution of the SSA (which has been received on 10 April 2019);

- ii) RM978,000 or 30% of the Disposal Consideration shall be paid by SHEB to Handal within three (3) months from execution of the SSA;
 - iii) the remaining RM1,956,000 or 60% of the Disposal Consideration shall be paid by SHEB to Handal within twelve (12) months from execution of the SSA.
- b) SHEB shall be entitled to settle the Disposal Consideration in full, any time before the due date(s) stipulated above.

4.1.3 Completion of the SSA

Completion of the SSA shall be deemed to have taken place on the date SHEB releases full payment of the Disposal Consideration to Handal and upon HSSB's company secretary receiving the transfer documents and the outgoing directors' resignation letters and following that entering the change of shareholdings in the Company's Register of Members ("**Completion Date**").

Handal and SHEB acknowledge and agree that the Share Sale Agreement dated 22 January 2018 entered between Kemuncak as vendor and the Handal as purchaser for the acquisition of 51% equity interest in HSSB by Handal from Kemuncak ("**Initial Share Sale Agreement**") and the shareholders' agreement dated 15 May 2018 entered into between Handal and SHEB to regulate their relationship as shareholders of HSSB shall cease to have effect from the Completion Date and all obligations of any party thereto past or present whether arising thereunder or in connection therewith shall be deemed to be fully discharged from the Completion Date and neither party hereto shall bring any proceedings or make any claim in respect thereof.

4.1.4 Default by Handal

- a) In the event that the SSA is not completed in accordance with the provisions of the SSA or Handal is in default or breach of terms and condition in the SSA and/or any of the representations and warranties and/or undertakings and covenants in the SSA:
- i) Any payment towards the Disposal Consideration received by Handal shall be returned in full to SHEB; and
 - ii) SHEB shall be at liberty to elect either of the following remedies:
 - A. to commence proceedings against Handal for specific performance hereof; or
 - B. to terminate the SSA by giving thirty (30) days' notice in writing to Handal to that effect and thereafter the SSA shall become null and void without prejudice to the rights of SHEB against the Handal for damages in respect of such breach and/or default provided always that SHEB shall not be entitled to terminate the SSA if Handal shall make good and remedy such breach within said notice.

4.1.5 Default by SHEB

- a) In the event that SHEB fails to settle the Disposal Consideration within the stipulated time frame and the provisions of the SSA or otherwise is in default or breach of terms and conditions in the SSA:
 - i) a sum equivalent to forty percent (40%) of the Disposal Consideration shall be forfeited to Handal;
 - ii) any losses incurred and/or suffered by the Company in relation to the contracts and/or the Letter of Awards referred to in Clause 3.4.3 of the SSA shall be forthwith reimbursed by SHEB to the Company (if applicable); and
 - iii) Handal shall be at liberty to terminate the SSA by giving thirty (30) days' notice in writing to SHEB to that effect and thereafter the SSA shall become null and void without prejudice to the rights of Handal against SHEB for damages in respect of such breach and/or default in which case provided always that Handal shall not be entitled to terminate the SSA if SHEB shall make good and remedy such breach within the valid notice.

4.2 Novation Agreement

4.2.1 Effective Date of the Novation Agreement

- a) The Novation Agreement shall become effective on the completion date of the SSA ("**Effective Date**").
- b) Handal and Kemuncak acknowledges, confirms, warrants and undertakes with Handal that immediately on the Effective Date:
 - i) no money whatsoever is due, owing or payable by Handal to Kemuncak for any reason whatsoever and likewise no money whatsoever is due, owing or payable by Kemuncak to Handal for any reason whatsoever; and
 - ii) Kemuncak has no claim whatsoever against either Handal for any reason whatsoever, and all rights to any such claims (if any) are hereby released, waived and relinquished by Kemuncak and likewise, Handal has no claim whatsoever against either Kemuncak for any reason whatsoever, and all rights to any such claims (if any) are hereby released, waived and relinquished by Handal.

4.2.2 Novation

- a) With effect from the Effective Date:-
 - i) SHEB will assume and perform all present and future obligations, duties and liabilities of Handal and shall be entitled to all rights, benefits and entitlements arising from and under the Initial Share Sale Agreement and Kemuncak will owe its present and future obligations and liabilities under the Initial Share Sale Agreement to SHEB;
 - ii) Handal and Kemuncak are each released by the other from their respective obligations, duties and liabilities under the Initial Share Sale Agreement and each shall have no rights against or obligations to the other under the Initial Share Sale Agreement;

- iii) the Initial Share Sale Agreement shall be novated and constitute an agreement between SHEB and Kemuncak subject to the terms and conditions stated therein, as if they were the original party to the Initial Share Sale Agreement and subject further to the terms and conditions of the Novation Agreement; and
- iv) SHEB acknowledges and accepts all performances of the Initial Share Sale Agreement by Handal and Kemuncak up to Effective Date of the Novation Agreement and shall be bound by decisions of the Handal made up to Effective Date of the Novation Agreement. After the Effective Date of the Novation Agreement, Kemuncak acknowledges and agrees that SHEB to the exclusion of Handal shall be entitled to exercise all rights of the purchaser under the Initial Share Sale Agreement.

5. BASIS AND JUSTIFICATION FOR THE DISPOSAL CONSIDERATION

The Disposal Consideration was arrived at on a “willing-buyer willing-seller” basis after taking into consideration of the amount of cash paid by Handal to Kemuncak under the Initial Share Sale Agreement and the cash injection made by Handal into HSSB subsequent to the completion of the Initial Share Sale Agreement.

6. LIABILITIES TO BE ASSUMED PURSUANT TO THE DISPOSAL

Save for disclosed above, there are no other liabilities, including contingent liabilities and guarantees to be assumed by HRB arising from the Disposal.

7. RATIONALE FOR THE DISPOSAL

HSSB was originally acquired with the objective of Handal diversifying into technology-based research and development activities (“**R&D**”) and as announced on 11 July 2018, HSSB received a letter of award for the joint development of a subsea technology solution (“**Joint Development**”). However, after taking into consideration the significant investments required for the Joint Development, Handal’s management is of the view that the project risk-reward profile is unsuitable for Handal.

SHEB has indicated its commitment to proceed with the R&D project and this has provided an opportunity for Handal to divest its stake in HSSB and recover its investment.

Further, the signing of the Agreements will also bring an end to the ongoing litigation between Kemuncak and the Company. Kemuncak has agreed to withdraw Kuala Lumpur High Court Suit No.: WA-22NCC-35-01/2019 with no order as to costs and upon the completion of the SSA, Kemuncak shall have no further claim against the Company in relation to the Initial Share Sale Agreement.

8. RISK FACTORS

The Disposal is not expected to expose Handal and its subsidiaries (“**Handal Group**”) to any additional risk except for execution risk. In the event that any of the terms and conditions of the Agreements are not fulfilled or waived (as the case may be), the Disposal may be delayed or terminated. The management will take all necessary steps to satisfy these terms and conditions in order for the Disposal to be completed successfully.

9. UTILISATION OF PROCEEDS

The proceeds arising from the Disposal have been earmarked for general working capital which may be utilised for payment to suppliers and to defray project and administrative overheads.

10. EFFECTS OF THE DISPOSAL

10.1 Share capital and substantial shareholders' shareholding

The Disposal will not have any effects on the share capital and substantial shareholders' shareholdings of Handal.

10.2 Earnings, Net Assets and Gearing

The Disposal will not have any material impact on the earnings, net assets and gearing of Handal Group for the financial period ending 30 June 2019.

10.3 Expected Loss from the Disposal

The Disposal will result in a loss of RM4,000 to Handal Group after taking into consideration of the unaudited net book value of the investment in HSSB of RM3,264,000 as at 31 December 2018.

10.4 Date and Original Cost of Investment

The cost of investment made by Handal in HSSB are as follows:

Date	Description	No. of shares allotted / acquired	Cost of Investment (RM)
12.02.2018	Acquisition under the Initial Share Sale Agreement	51,000	2,550,000 *
06.06.2018	Injection of funds by shareholders	714,000	714,000
Total		765,000	3,264,000

Note:

* The total purchase consideration under the Initial Share Sale Agreement was RM5.10 million of which RM2.55 million has been paid to Kemuncak to-date. The remaining balance of RM2.55 million was due to be paid upon fulfilment of the profit guarantee as provided under the Initial Share Sale Agreement

Based on the unaudited financial results for the financial period ended 31 December 2018, the net book value of the investment in HSSB stood at RM3,264,000.

11. APPROVALS SOUGHT

The Disposal is not subject to any approval of the shareholders of Handal or any relevant governmental authorities.

12. PERCENTAGE RATIO

The highest percentage ratio applicable to the Disposal pursuant to paragraph 10.02(g) of the Main Market Listing Requirements is 3.38%, based on the latest audited consolidated financial statements of Handal for the financial year ended 31 December 2017 and the latest management accounts of HSSB as at 31 December 2018.

13. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Disposal is expected to be completed within the next 12-months as detailed out in Section 4.1.3 above.

14. DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST IN THE TRANSACTIONS

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

15. DIRECTORS STATEMENT

The Board of Directors, after due consideration of all aspects of the Disposal, is of the opinion that the Disposal is in the best interest of Handal Group.

16. DOCUMENTS FOR INSPECTION

The Agreements are available for inspection at Handal's registered office at 22-09, Menara 1MK, No. 1 Jalan Kiara, Mont Kiara, 50480 Kuala Lumpur during normal business hours from Mondays to Fridays (except public holidays) for a period of 3 months from the date of this announcement.

This announcement is dated 11 April 2019.