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BGMC International Limited

璋利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1693)

**QUARTERLY UPDATE ON PROGRESS OF RESUMPTION
AND
CONTINUED SUSPENSION OF TRADING**

This announcement is made by BGMC International Limited (the “**Company**” together with its subsidiaries, collectively the “**Group**”) pursuant to rule 13.09 and rule 13.24A of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the provisions of inside information under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcement of the Company dated 29 January 2021 (the “**Announcement**”) with respect to, among others, the resumption guidance (the “**Resumption Guidance**”), the quarterly update announcement of the Company dated 1 April 2021 (the “**First Quarterly Update Announcement**”), the quarterly update announcement of the Company dated 30 June 2021 (the “**Second Quarterly Update Announcement**”), the quarterly update announcement dated 30 September 2021 (the “**Third Quarterly Update Announcement**”) and the quarterly update announcement of the Company dated 30 December 2021 (the “**Fourth Quarterly Update Announcement**”). Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement unless the context otherwise requires.

BUSINESS UPDATE

The Company is a holding company and the Group is a full-fledged, integrated solutions provider operating in two business sectors: construction services sector (comprising building and structures segment, energy infrastructure segment, mechanical and electrical segment, and earthworks and infrastructure segment) which undertakes primarily construction service contracts not exceeding five years, and the concession and maintenance sector with a duration of around 20 years.

As disclosed in the interim report for the twelve months ended 30 September 2021, the outbreak of COVID-19 in Malaysia has had a huge impact to the Group’s business, resulting in the substantial reduction of the Group’s revenue as compared to the twelve months ended 30 September 2020 (the “**FY2020**”). The Group’s construction sites need to be closed down due to the imposition of Movement Control Order (the “**MCO**”), Full Movement Control Order (the “**FMCO**”), Conditional Movement Control Order (the “**CMCO**”) and Recovery Movement Control Order (the “**RMCO**”). Nevertheless, the Group has gradually resumed site activities in around mid-August 2021.

On 24 March 2022, the Company has entered into agreements, pursuant to which the Company will, among others, dispose of the interest in a subsidiary. Based on the calculation of the relevant size tests, the transaction would constitute a very substantial disposal (the “VSD”) of the Company. The Company is preparing the VSD announcement with content in compliance with the Listing Rules which would take time. The Company will publish the VSD announcement as soon as practicable. Please refer to the announcement of the Company dated 24 March 2022.

PROPOSED DEBT RESTRUCTURING OF A SUBSIDIARY

As disclosed in the announcements of the Company dated 29 March 2021, 25 May 2021 and 16 June 2021, BGMC Holdings Berhad, a subsidiary of the Company, has applied to the High Court of Malaya (the “Court”) for an order (the “Order”) which, among others, restrains creditors to take legal actions against BGMC Corporation Sdn. Bhd. (“BGMC Corporation”), a wholly-owned subsidiary of BGMC Holdings Berhad, and also the approval to convene creditors meeting through scheme of arrangement proposal under Companies Act 2016, laws of Malaysia. BGMC Holdings Berhad and BGMC Corporation are indirect wholly-owned subsidiaries of the Company. On 29 March 2021, the Court has granted the Order upon terms prayed for by BGMC Holdings Berhad, and the Court formally sealed the Order.

After the publication of the First Quarterly Update Announcement, and as disclosed in the Second Quarterly Update Announcement, the Third Quarterly Update Announcement and the Fourth Quarterly Update Announcement, at the creditors’ meeting held on 16 June 2021, the proposed scheme of arrangement (the “Debt Restructuring”) of BGMC Corporation has been approved by the creditors. On 20 January 2022, the Group announced that the Debt Restructuring has been duly approved by the Court. For further details, please refer to the announcements dated 29 March 2021, 25 May 2021, 16 June 2021 and 20 January 2022.

UPDATE ON RESUMPTION PROGRESS

As disclosed in the Announcement and the 2020 Annual Report, ZHONGHUI ANDA CPA LIMITED (“ZH”, being the then auditors of the Company who resigned with effect from 28 December 2021) do not express an opinion on the consolidated financial statements of the Group (the “Disclaimer of Opinion”), while the basis for the Disclaimer of Opinion are (a) material uncertainty related to going concern, (b) provision for legal and professional fee and disclosure of contingent liabilities, (c) provision for performance bonds and impairment loss on trade receivables and contract assets, and (d) the effect of provision for liquidated ascertained damages, the details of which are set out on pages 88 to 89 of the 2020 Annual Report.

As required under the Resumption Guidance, the Company shall (i) address the issues giving rise to the Disclaimer of Opinion, provide comfort that the Disclaimer of Opinion in respect of such issues would no longer be required and disclose sufficient information to enable investors to make an informed assessment of its financial positions as required under Rule 13.50A; and (ii) announce all material information for the Company’s shareholders and investors to appraise its position.

With respect to condition (i) of the Resumption Guidance (i.e. the Disclaimer of Opinion), the Company wishes to provide updates as follows:

- (a) As disclosed in the announcement of the Company dated 11 June 2021 and the Second Quarterly Update Announcement, the sale of KAS Engineering for approximately RM93.8 million has been completed and the sale proceeds had been duly received by the Group. Further, the Debt Restructuring has been approved by creditors and has been formally approved by Court in January 2022, the implementation of which would effectively lead to a debt reduction of the Company.
- (b) Upon publication of the 2020 Annual Report, ZH were unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the accuracy and completeness of provision for legal and professional fee and also interest of RM967,000 for certain legal proceedings as at 30 September 2020. After the publication of the First Quarterly Update Announcement and as disclosed in the Second

Quarterly Update Announcement, the Third Quarterly Update Announcement and the Fourth Quarterly Update Announcement, the Group has continued to closely monitor the said proceedings and engage legal professionals to defend the cases. As the Debt Restructuring has been duly approved by the Court, all the legal proceedings against the Group for alleged debts and interest would be terminated/withdrawn and/ or discontinued. In order to provide sufficient appropriate audit evidence as to the accuracy and completeness of provision for the legal and professional fees, as disclosed in the Third Quarterly Update Announcement and the Fourth Quarterly Update Announcement, the Group has managed to negotiate and finalize them with the professional parties involved for the legal proceedings. The Group will be working with Moore Stephens CPA Limited (“**Moore Stephens**”, the auditors appointed with effect from 5 January 2022) to address the qualification in upcoming audit.

(c) Upon publication of the 2020 Annual Report, ZH were unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the accuracy and completeness of the provision for two performance bonds of approximately RM25,797,000 and provision for impairment loss on trade receivables and contract assets of approximately RM31,568,000 as at 30 September 2020. The background for the aforesaid and the update of which are as follows:

(i) As disclosed in the Company’s announcement dated 30 June 2020, a subsidiary of the Company, in the ordinary course of business, had a dispute with a former customer (“**Customer A**”) who served a notice to terminate construction contracts with the Group, alleging that the Group delayed in completing two construction projects. Customer A had sought to forfeit the performance bonds of approximately RM25,797,000 and the Group made an impairment loss on trade receivables and contract assets of approximately RM9,278,000 for the two construction projects. The Group has obtained an injunction on 16 April 2021 which prevent Customer A from cashing the performance bonds, pending the arbitrations initiated by the Group against Customer A. The Group has also initiated an arbitration on 30 June 2020 (which was withdrawn and reinitiated as two arbitrations on 26 October 2020) to dispute the validity of the terminations by Customer A and claim against Customer A for (i) losses of profit of approximately RM35.0 million (ii) return of retention sum of approximately RM4.4 million and (iii) return of the sums under the two performance bonds amounting to approximately RM25.8 million. On 17 August 2020, Customer A issued a counterclaim of approximately RM126.4 million (which then became counterclaims of RM101.1 million in the two arbitrations) in the arbitration proceeding against the Group. The arbitration proceedings are still ongoing. The current stage of the arbitration is that the arbitrator has been appointed and the arbitrator has given the instructions to respective parties to file their cases and documentations within the schedule provided. The next case management date for the matter is fixed on 6 September 2022.

The Malaysian lawyer appointed by BGMC Corporation advised that whether BGMC Corporation’s termination was lawful is a fact-centric dispute and the arbitrator will consider evidence such as the actual communication between the parties, reasons for the delays, BGMC Corporation’s entitlement to extension of time and the parties’ conduct. The Group was advised that BGMC Corporation has a good arguable case to persuade the arbitrator to rule the facts in favour of BGMC Corporation. As the arbitration proceedings move forward, the Company will make endeavours to work with its legal advisor to provide more definite legal opinion on the outcome of the arbitration proceedings as audit evidence to Moore Stephens for the outcome of the said arbitration proceedings.

(ii) As disclosed in the First Quarterly Update Announcement, the Second Quarterly Update Announcement, the Third Quarterly Update Announcement and the Fourth Quarterly Update Announcement, Customer B and Customer C had been in financial difficulties and failed to settle the amount due to the Group, and the Group for prudence sake, had provided for an impairment loss on trade receivables and contract assets of approximately RM22,290,000 as at 30 September 2020.

With respect to Customer B, the Company has managed to collect approximately a sum of RM3,200,000 from Customer B up to the date of this announcement. The Company and Customer B has reached a consensus to settle the matter out of court, pending finalization of the settlement terms and conditions.

With respect to Customer C, as disclosed in the Second Quarterly Update Announcement and the Third Quarterly Update Announcement, the Company has already commenced legal proceedings against Customer C. As at the date of this announcement, the Company has received approximately a sum of RM250,000 from Customer C as repayment. Further, the Group and Customer C have entered into a deed of mutual settlement and compromise on 25 January 2022 to settle the remaining outstanding sum.

- (d) Upon publication of the 2020 Annual Report, ZH were unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the effect of liquidated and ascertained damages (the “LAD”) of a project to the project contract sum, and project revenue for the year ended 30 September 2020 and contract assets as at 30 September 2020. The background for the aforesaid is that, a construction project was halted because the contracting party is not responsive to the Group’s enquiry about construction implementation and progress payment, which is believed to be due to the reason that the said customer’s holding company is in serious financial difficulties. Accordingly, the Group has stopped construction work and therefore is potentially liable to an estimated LAD as it falls behind schedule.

Subsequent to the publication of the 2020 Annual Report, the Group obtained the legal advice that, due to the contracting party’s failure to give/confirm the design drawing and, most importantly, its default in payment of an interim certificate which certifies the work progress, the Group has the right to forthwith terminate the contract by giving a written notice to that effect.

As disclosed in the Company’s First Quarterly Update Announcement, the Second Quarterly Update Announcement the Third Quarterly Update Announcement and the Fourth Quarterly Update Announcement, the Group has also written officially to the contracting party and other relevant parties involved in the project and has managed to attend a meeting with their senior management in March 2021. In the meeting, the contracting party has requested the Group to submit a proposal and also the construction plan to continue with the project.

On 23 August 2021, the contracting party granted the Group an extension of time (the “EOT”), granting the Group 797 days of EOT. After assessment, the project team took the position that it is not viable to continue with the project, considering the current market condition. The Group has been in discussion with the contracting party to find an amicable solution to mutually terminate the contract. On 7 March 2022, the Group has written to the contracting party to terminate the project on mutual basis. As at the date of this announcement, the contracting party has not responded to the Group’s letter.

With respect to condition (ii) of the Resumption Guidance, the Company will continue to announce all material information for the Company’s shareholders and investors to appraise its position.

The Board will make best endeavours to resolve all the issues pertaining to the Disclaimer of Opinion as soon as possible. However, since resolving all the issues pertaining to the Disclaimer of Opinion would require collective effort from the Company, Moore Stephens, and external professional parties, the Board is yet to determine the timeline for fulfillment of the requirements contained in the Resumption Guidance.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended from 9:00 a.m. on 4 January 2021 and will remain suspended until further notice.

Shareholders and potential investors of the Company should exercise caution when dealing in the shares of the Company.

For and on behalf of
BGMC International Limited
Datuk Kamalul Arifin Bin Othman
Chairman and Independent Non-Executive Director

Malaysia, 30 March 2022

As at the date of this announcement, the Board comprises Dato' Teh Kok Lee (Chief Executive Officer) as executive Director; and Tan Sri Dato' Seri Kong Cho Ha, Kua Choh Leang and Datuk Kamalul Arifin Bin Othman (Chairman) as independent non-executive Directors.