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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**”) and the quarterly update announcement of the Company dated 1 April 2021 (the “**First 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 which undertakes public private partnership contracts with a duration of around 20 years.

As disclosed in the annual report for the year ended 30 September 2020 (the “**2020 Annual Report**”), the outbreak of COVID-19 in Malaysia has had a huge impact to the Group’s business. The Group’s construction sites need to be closed down due to the imposition of Movement Control Order (“**MCO**”) by the Malaysian Government. The situation has then worsened with the second wave of COVID-19 outbreak occurred in the month of January and February 2021. The MCO was reimposed on 11 January 2021 in the state of Selangor, Penang and the Federal Territory of Kuala Lumpur, where the Group’s office and construction sites are mainly located. This MCO ended on the 4 March 2021, followed by Conditional Movement Control Order (“**CMCO**”) which started from 5 March 2021 and has been effective until 6 May 2021. Subsequent to CMCO, MCO was reimposed from 7 May 2021 until 31 May 2021. Full Movement Control Order (“**FMCO**”) was then implemented with effect from 1 June 2021 until further notice by the Malaysian Government. The imposition of MCO, CMCO and FMCO have affected the Group’s field works on construction sites. The Group was required to adhere to all restrictions and comply fully to the standard of procedures imposed by the relevant authorities while operating both in the office and at the construction sites.

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, 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. As at the date of this announcement, the Debt Restructuring is pending and conditional upon the successful sanction of the proposed scheme by the Court, which will be proceeded to be sought by BGMC Corporation. For further details, please refer to the announcements dated 29 March 2021, 25 May 2021 and 16 June 2021.

COMPLETION OF DISPOSAL OF KAS ENGINEERING

After the publication of the First Quarterly Update Announcement, the Company has completed the disposal of KAS Engineering Sdn. Bhd. (“**KAS Engineering**”) as at 11 June 2021. For details, please refer to the announcement dated 11 June 2021.

UPDATE ON RESUMPTION PROGRESS

As disclosed in the Announcement and the 2020 Annual Report, the auditors of the Company 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, 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 is likely to be formally approved by Court, the implementation of which would effectively lead to a debt reduction of the Company. The Board is of the view that the Group should now have sufficient liquidity to continue its businesses and operation as a going concern.

To the understanding of the Directors, the primary reason for the auditors to give rise to the Disclaimer of Opinion is whether the Group has sufficient liquidity to continue its businesses and operation as a going concern. Following the completion of the disposal of KAS Engineering and upon the successful implementation of the Debt Restructuring, the Board considers that the primary concern on the reason for the giving rise to the Disclaimer of Opinion on the 2020 Annual Results has already been addressed and resolved, and hence is optimistic to obtain the comfort from the auditors that the Disclaimer of Opinion would no longer be required.

- (b) Upon publication of the 2020 Annual Report, the auditors 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, the Group has continued to closely monitor the said proceedings and engage legal professionals to defend the cases. In particular, the Debt Restructuring was approved by creditors on 16 June 2021 and is currently pending Court's approval. Upon Court's approval and implementation of the Debt Restructuring, it is expected that a number of legal proceedings against the Group for alleged debts would be terminated and settled upon debt reduction terms pursuant to the Debt Restructuring, hence the Company would be able to negotiate with professional advisors on the legal and professional fees incurred, and the Group will then be in a better position to provide more audit evidence to the auditors with respect to the provision for the legal and professional fees for the aforesaid legal proceedings.
- (c) Upon publication of the 2020 Annual Report, the auditors 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 applied to the Court for an injunction to stop Customer A from cashing the performance bonds and the said injunction order has been granted in favour of the Group. 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 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 the auditors for the outcome of the said arbitration proceedings.

- (ii) As disclosed in the First 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 RM3,000,000 from Customer B as of 31 March 2021. Customer B has also proposed a settlement scheme to settle the amount due, pending finalization with the Company. After publication of the First Quarterly Update Announcement, the Company has continued the negotiation over a settlement scheme. The Company is optimistic that the Customer B is able to repay the debt and the impairment loss on trade receivables will be written back.

With respect to Customer C, the Company has commenced legal proceedings against Customer C after the publication of the First Quarterly Update Announcement and is also working with its legal advisor to provide a more definite legal opinion for the chance of success in its action against Customer C to serve as sufficient audit evidence to the auditors with respect to the provision made in this regard.

- (d) Upon publication of the 2020 Annual Report, the auditors were unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the effect of liquidated and ascertained damages (“**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.

However, the Group did not exercise this right of termination because the contracting party has subsequently become responsive.

As disclosed in the Company’s First 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 top 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.

As such, after publication of the First Quarterly Update Announcement and up to the date of this announcement, the Group is still in the process of drawing up a reviving plan and target to submit to them in due course for their consideration. The plan will include the details of scope of works, cost variations, construction schedule and other relevant conditions for the Group to continue with the project.

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, auditors, 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 June 2021

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