

## FAVELLE FAVCO BERHAD (THE “COMPANY” OR “FAVCO”)

### HEADS OF AGREEMENT IN RELATION TO THE PROPOSED ACQUISITION OF 70% EQUITY INTEREST IN EACH OF THE FOLLOWING COMPANIES:

- (I) EXACT AUTOMATION SDN BHD;
- (II) SEDIA TEGUH SDN BHD;
- (III) EXACT ANALYTICAL SDN BHD; AND
- (IV) EXACT OIL & GAS SDN BHD

**(ITEMS (I) TO (IV) ABOVE ARE COLLECTIVELY REFERRED TO AS “TARGET COMPANIES”)**

#### 1. INTRODUCTION

The Board of Directors of the Company (“**Board**”) wishes to announce that the Company had on 5 October 2017 entered into a Heads of Agreement (“**HOA**”) with a group of individual vendors to acquire seventy percent (70%) equity interests in each of the Target Companies (“**Proposed Acquisition**”).

The Target Companies are private limited companies incorporated in Malaysia which are involved in the following principal business activities:

Target Companies	Vendors	Principal business activities
(i) Exact Automation Sdn Bhd (incorporated on 17 November 1993)	<ul style="list-style-type: none"><li>• Ng Keng San</li><li>• Hui Siew May</li><li>• Bong Yong Ching</li><li>• Tan Choon Keat</li><li>• Datuk Syed Abdillah Bin Syed Abas</li><li>• Gan Boon Hian</li></ul>	<ul style="list-style-type: none"><li>• Providing integrated industrial automation solutions on the design, engineering, testing and project management of plant instrumentation as well as its related maintenance services.</li><li>• Trading of industrial information technology equipment, automation and control component for power quality measurement.</li></ul>
(ii) Sedia Teguh Sdn Bhd (incorporated on 28 March 1990)	<ul style="list-style-type: none"><li>• Hui Siew May</li><li>• Syed Ismail Bin Syed Abdillah</li></ul>	<ul style="list-style-type: none"><li>• Trading of specialised equipment used in the oil and gas industry including calibration, verification, installation, commissioning, repairs and maintenance of control instruments.</li></ul>
(iii) Exact Analytical Sdn Bhd (incorporated on 8 June 1994)	<ul style="list-style-type: none"><li>• Ng Keng San</li><li>• Hui Siew May</li><li>• Tey Hwee Yee</li><li>• Kew Kai Li</li><li>• Datuk Syed Abdillah Bin Syed Abas</li><li>• Choy Ngai Foong</li></ul>	<ul style="list-style-type: none"><li>• Providing related engineering services on the installation, commissioning and maintenance of environmental and process analysers.</li><li>• Trading of process analysers, continuous emission monitoring systems.</li></ul>
(iv) Exact Oil & Gas Sdn Bhd (incorporated on 27 February 2012)	<ul style="list-style-type: none"><li>• Ng Keng San</li><li>• Syed Firdaus Alsagoff Bin S Imran</li><li>• Fatimah Binti Mohamad</li></ul>	<ul style="list-style-type: none"><li>• Trading and engineering of specialised equipment used in the oil and gas industry including calibration, verification, installation, commissioning, repairs and maintenance of the equipment and systems.</li></ul>

The combined audited profit after tax (“**PAT**”) of the Target Companies for the financial year ended 31 December (“**FYE**”) 2016 is approximately RM15.3 million.

## 2. SALIENT TERMS OF THE HOA

Pursuant to the HOA, the Company and the Vendors (collectively, the “**Parties**”) have agreed to negotiate exclusively for a period of three (3) months from the date of the HOA or as extended by the Parties in writing, the detailed terms and conditions in relation to the Proposed Acquisition with the intention of entering into a definitive conditional share sale and purchase agreement (“**SPA**”), shareholders' agreements and other related documentation.

Unless indicated otherwise, the HOA is intended to be legally binding. The other salient terms of the HOA are set out below:

### 2.1 Purchase consideration

The total purchase consideration for the Proposed Acquisition (“**Purchase Consideration**”) comprises:

- (i) the **Initial Purchase Consideration**, which is payable in cash by the Company upon completion of the SPA.

The basis of computation of the Initial Purchase Consideration is 8 times of the adjusted PAT for FYE 2016 (“**Adjusted PAT**”) which will be determined by the Parties after completion of a satisfactory due diligence review on each of the Target Companies (“**Due Diligence**”) prior to the execution of the SPA.

For illustrative purposes, assuming an indicative Adjusted PAT of RM15.61 million, the indicative Initial Purchase Consideration shall be RM87.4 million; and

- (ii) the **Incremental Purchase Consideration** (if any), which is payable in cash by the Company over FYE 2017 to FYE 2019, if the Target Companies achieve certain cumulative profit thresholds for the said three (3) financial years.

The final Incremental Purchase Consideration shall be determined after completion of a satisfactory Due Diligence review prior to the execution of the SPA.

### 2.2 Cash dividend

The vendors of Exact Automation Sdn Bhd will receive cash dividend totalling up to RM10.0 million from Exact Automation Sdn Bhd over the next three (3) financial years (i.e. FYEs 2017 to 2019) if the Target Companies in aggregate achieve a minimum profit threshold (to be determined later) over these three (3) financial years.

### 2.3 Conditions precedent

The signing of the SPA is conditional upon the fulfilment (if not, waiver by both Parties) of certain conditions precedent, including the completion of a satisfactory due diligence review on the Target Companies by the Company, within three (3) months from the date of the HOA or as extended by both Parties in writing.

## **2.4 Key management**

The existing key management and key shareholders of the Target Companies have undertaken that upon completion of the SPA, they will not enter into any business which is in competition with the business of the Target Companies as at the completion date of the SPA. The respective key management of the Target Companies shall continue to commit to executing and carrying out the day-to-day business and operations of the Target Companies in accordance with the direction of the Board of Directors of the respective Target Company (when applicable) in accordance with such business plan to be mutually agreed upon between the Company and the key shareholders.

## **3. APPROVALS REQUIRED**

The execution of the HOA does not require the approval of the shareholders of the Company nor any relevant government authorities.

## **4. INTERESTS OF THE DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM**

None of the directors or major shareholders of the Company and/or persons connected to them have any interest, whether direct or indirect, in the Proposed Acquisition.

## **5. RATIONALE OF THE PROPOSED ACQUISITION**

The Board is of the opinion that the Proposed Acquisition is in the best interest of the Company.

The Board believes that this Proposed Acquisition of the Target Companies will enhance and widen the earnings base of the Favco group. The Favco group's international network will also provide synergies to the future business growth of the Target Companies.

## **6. DOCUMENT FOR INSPECTION**

The HOA is available for inspection at the registered office of the Company at Lot 586, 2<sup>nd</sup> Mile, Jalan Batu Tiga Lama, 41300 Klang, Selangor Darul Ehsan during normal office hours from Mondays to Fridays (excluding public holidays) for a period of three (3) months from the date of this announcement.

A detailed announcement on the Proposed Acquisition will be made upon finalisation of the terms and conditions and execution of the SPA.

**This announcement is dated 5 October 2017.**