FAVELLE FAVCO BERHAD ("FAVCO")

PROPOSED ACQUISITION BY FAVCO OF 70% EQUITY INTERESTS IN EACH OF THE FOLLOWING COMPANIES:

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

(HEREINAFTER REFERRED TO AS THE "PROPOSED ACQUISITION")

1. INTRODUCTION

We refer to our announcements dated 5 October 2017, 4 January 2018 and 2 March 2018 in relation to the heads of agreement for the Proposed Acquisition.

The Board of Directors ("**Board**") of Favco wishes to announce that the Company had on 28 March 2018 entered into a conditional share purchase agreement ("**SPA**") with the following vendors ("**Vendors**") in relation to the Proposed Acquisition of the following companies ("**Target Companies**"):

Target Companies	Vendors	Shareholding %	Principal business activities
(i) Exact Automation	• Ng Keng San*	35.9	• Providing integrated industrial automation solutions on the design, engineering, testing and project management of plant instrumentation as well as its related maintenance services. • Trading of industrial information technology equipment, automation and control component for power quality measurement.
	• Hui Siew May*	10.0	
	• Bong Yong Ching*	39.0	
	• Datuk Syed Abdillah Bin Syed Abas	5.1	
	• Tan Choon Keat	5.0	
	• Gan Boon Hian	5.0	
		100.0	
(ii) Sedia Teguh	• Hui Siew May*	30.0	• Trading of specialised equipment used in the oil and gas industry including calibration, verification, installation, commissioning, repairs and maintenance of control instruments.
	• Syed Ismail Bin Syed Abdillah*	70.0	
		100.0	
(iii) Exact Analytical	• Ng Keng San*	21.4	• Providing related engineering services on the installation, commissioning and maintenance of environmental and process analysers. • Trading of process analysers, continuous emission monitoring systems.
	• Hui Siew May*	20.0	
	• Tey Hwee Yee*	44.0	
	• Kew Kai Li	5.0	
	• Datuk Syed Abdillah Bin Syed Abas	4.6	
	• Choy Ngai Foong	5.0	
		100.0	
(iv) Exact Oil & Gas	• Ng Keng San*	30.0	• 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.
	• Syed Firdaus Alsagoff Bin S Imran*	65.0	
	• Fatimah Binti Mohamad	5.0	
		100.0	

* *Refers to Vendors who are also the current directors of the respective companies.*

Based on the combined audited financial statements of each of the Target Companies for the financial year ended 31 December ("**FYE**") 2016, the total profit after tax ("**PAT**") and net assets attributable to owners of the company are RM15.3 million and RM78.5 million respectively. After taking into account the net adjustments arising from due diligence on the Target Companies of approximately RM0.9 million, the assumed Final Adjusted FYE2016 PAT for the purpose of computing the purchase consideration is RM16.2 million.

Upon completion of the Proposed Acquisition, Favco shall hold 70% equity interest in each of the Target Companies, while the Vendors for each of the Target Companies shall hold the remaining 30% in accordance with their respective current shareholding proportions.

2. DETAILS OF THE PROPOSED ACQUISITION

2.1 PURCHASE CONSIDERATION

In accordance with the terms of the SPA, the Proposed Acquisition entails a cash acquisition by Favco (which is expected to be fully funded by Favco's internally generated funds) of 70% equity interests in each of the Target Companies from the Vendors, free from encumbrances, for the following:

2.1.1 Initial Purchase Consideration ("Initial P.Con")

The Initial P.Con which is payable in cash shall be computed as follows:

(Final Adjusted FYE2016 PAT (Note 1) **x 8 x 70%) - Adjustments** (Note 2)

Note 1 Favco and the Vendors ("**Parties**") shall finalise the final FYE2016 adjusted PAT ("**Final Adjusted FYE2016 PAT**") by 31 January 2019 (or as mutually extended by the Parties) after taking into account, amongst others, any additional costs or income relating to FYE2016, pending which, the Final Adjusted FYE2016 PAT is assumed to be RM16.2 million.

Note 2 In respect of the impact to the purchase consideration arising from any additional costs or income related to pre-FYE2016.

The Initial P.Con shall be paid to the Vendors within 14 days from the SPA completion date. After the finalisation of the Final Adjusted FYE2016 PAT, any difference in the Initial P.Con payable or refundable (as the case may be) shall be made no later than 14 days thereafter.

2.1.2 Incremental Purchase Consideration ("Incremental P.Con")

In addition to the Initial P.Con, there is an incentive referred herein as the Incremental P.Con of an additional 2 or 4 times of 70% of the Final Adjusted FYE2016 PAT payable to the Vendors, provided that the Adjusted PAT(Note 1) of Target Companies in aggregate for FYE2017 to FYE2019 achieving at least an indicative cumulative profit threshold of RM48.6 million(Note 2) or RM62.6 million respectively.

Note 1 The "**Adjusted PAT**" is the audited PAT of the Target Companies during the Profit Threshold Period after taking into account, amongst others, any additional costs or income relating to the Profit Threshold Period.

Note 2 The indicative cumulative profit threshold of RM48.6 million is computed based on an average annual Adjusted PAT for the Target Companies of RM16.2 million (i.e. the assumed Final Adjusted FYE2016 PAT) for each financial year within the Profit Threshold Period. The actual cumulative profit threshold to be achieved shall be determined upon finalisation of the Final Adjusted FYE2016 PAT (see Section 2.1.1 above).

The Incremental P.Con shall be paid within 30 days after the auditors' sign off of the Target Companies' FYE2020 accounts so as to ensure completeness of costs and income related to the Profit Threshold Period.

2.1.3 Cash Dividend

If the Adjusted PAT of the Target Companies in aggregate achieve at least the Final Adjusted FYE2016 PAT annually or the indicative cumulative profit threshold of RM48.6 million (see N**ote 2 of Section 2.1.2** above) over the Profit Threshold Period, Favco shall renounce up to RM7.0 million of cash dividend receivable from Exact Automation ("**Cash Dividend**") (being 70% of the total RM10.0 million cash dividend to be declared by Exact Automation) to the vendors of Exact Automation. Subject to the above, payment of the cash dividend shall be made in 3 equal instalments over FYE2017 to FYE2019.

(The sum of Sections 2.1.1 to 2.1.3 above shall collectively be referred to as the "**Purchase Consideration**")

2.1.4 Illustration for Indicative Purchase Consideration

For illustration purposes only, based on an assumed Final Adjusted FYE2016 PAT of RM16.2 million with no further adjustment required, the minimum and maximum indicative Purchase Consideration are as follows:

		Minimum scenario RM'mil	**Maximum scenario** RM'mil
Initial P.Con	(under Section 2.1.1)	90.7	90.7
Incremental P.Con	(under Section 2.1.2)	-	45.4
Cash dividend	(under Section 2.1.3)	-	7.0
Total Indicative Purchase Consideration		**90.7**	**143.1**
The implied price-to-earnings ratio ("PER"), computed based on:			
(i) assumed Final Adjusted FYE2016 of RM16.2mil		8.0 times	
(ii) average annual Adjusted PAT of RM20.9mil (based on cumulative profit threshold of RM62.6 million over the Profit Threshold Period)			9.8 times

2.2 BASIS AND JUSTIFICATION IN ARRIVING AT THE PURCHASE CONSIDERATION

The Purchase Consideration was negotiated between Favco and the Vendors on a "willing-buyer willing-seller" basis, after taking into consideration, amongst others, the Target Companies' financial performance and earnings potential, the profit threshold to be achieved by the Target Companies and the outlook of the industrial automation industry.

The Board is of the view that the Purchase Consideration is fair and reasonable after having regard to the range of implied PER of 8.0 times to 9.8 times (see **Section 2.1.4** above for further details).

2.3 OTHER SALIENT TERMS OF THE SPA

2.3.1 Conditions Precedent

The Proposed Acquisition is conditional upon the fulfilment or waiver of the following conditions precedent ("**Conditions Precedent**") within a period of four (4) months from the date of the SPA (or such other mutually agreed date), failing which the SPA shall be immediately terminated:

(i) Favco receiving documentary evidence of the fulfilment of the matters set out in the SPA, including consents from financial institutions and suppliers for the change of shareholders and/or directors of the Target Companies following the completion of the Proposed Acquisition; and

(ii) the Vendors confirming in writing that there are no material adverse events having occurred after 31 December 2016.

2.3.2 Completion

Subject to the SPA becoming unconditional, the completion of the SPA shall take place on the expiry of 30 days (or such other mutually agreed date) after the SPA unconditional date ("**Completion Date**"). The acquisition of each of the Target Companies shall be completed simultaneously.

2.3.3 Non-Compete

Subject to the provision of the SPA, the existing key shareholders of the Target Companies have undertaken that, they will not enter into any business which is in competition with the business of the Target Companies as at the Completion Date, for a period of 5 years from the Completion Date.

2.3.4 Key Management

The respective key management of the Target Companies shall continue to commit carrying out the business and operations of the Target Companies in accordance with such business plan to be mutually agreed upon between Favco and the key shareholders.

2.3.5 Termination

If any matter or event comes to the notice of a party at any time before the Completion Date, which constitutes a material breach of any of the provisions of the SPA and/or a neglect or wilful default to complete the Proposed Acquisition, which is either incapable of remedy or not remedied within the required timeframe, the non-defaulting party shall be entitled to:

(i) **complete** the SPA, without any prejudice to the non-defaulting party's rights to claim for any damages or losses; or

(ii) **terminate** the SPA and thereafter the Parties shall have no further claims against each other save for any antecedent breaches

2.4 LIABILITIES TO BE ASSUMED

Save for the liabilities arising from the ordinary course of business, there is no additional liability (including contingent liabilities and guarantees) to be assumed by Favco arising from the Proposed Acquisition.

3. RATIONALE FOR THE PROPOSED ACQUISITION

Presently, the revenue of Favco and its group of companies ("**Favco Group**" or "**Group**") is principally derived from the designing, manufacturing, supplying, servicing, trading and renting of cranes in the global market. In line with the Group's strategy and expansion plans, the Proposed Acquisition will pave the way for the Group to tap into the growing market of industrial automation both locally and internationally. Leveraging on Favco's international network of business associates, financial strength and expertise in the oil and gas market coupled with the Vendors' technical expertise and experience in the industrial automation sector, the Proposed Acquisition is expected to enhance and widen the earnings base of Favco Group.

4. INDUSTRY OVERVIEW AND PROSPECTS

The Malaysian economy is projected to continue its strong growth momentum with real GDP expanding between 5% and 5.5% in 2018 (2017: 5.2% and 5.7%). Growth will be mainly driven by resilient domestic demand amid favourable external sector *(Source: Economic Report 2017/2018, Ministry of Finance Malaysia).*

As the global oil and gas industry is going through an era of cost optimisation to strive for production efficiency and sustainable profitability, demand for automated process control, repairs and maintenance is expected to increase during such costs awareness environment.

In addition, the Malaysian Government has introduced various tax incentives and financial aids such as accelerated capital allowance, matching grants and financial assistance to facilitate the upgrading of production facilities and equipment purchase for companies within the manufacturing sector and its related services. Such Government led-initiatives to embrace Industry 4.0 is likely to boost demand for products and services within the industrial automation sector.

5. RISK FACTORS

The non-exhaustive risk factors in relation to the Proposed Acquisition are as follows:

(a) risk of non-completion as the Proposed Acquisition is conditional upon the fulfilment of the conditions precedent under the SPA and the SPA may be terminated if the conditions are not fulfilled (or waived) within the stipulated timeframe;

(b) the ability to attract and retain skilled personnel with the requisite expertise which are vital to the Target Companies' success;

(c) changes in general economic, business, competitive, policies and regulations which may adversely affect the business and operations of the Target Companies; and

(d) rapid technology changes resulting in obsolescence of existing adopted technology.

6. EFFECTS OF THE PROPOSED ACQUISITION

6.1 Share capital and substantial shareholders' shareholdings

The Proposed Acquisition does not have any impact on the share capital and/or substantial shareholders' shareholdings of Favco as the Purchase Consideration will be fully settled in cash and does not involve any issuance of new ordinary shares of Favco.

6.2 Earnings and earnings per share ("EPS")

For illustration purposes only, based on Favco's current outstanding shares (excluding treasury shares) of approximately 221.4 million, the positive impact on the EPS of Favco Group are as follows:

(a) assuming the Target Companies achieved an average annual PAT of RM16.2 million (i.e. the assumed Final Adjusted FYE2016 PAT), the annual earnings of the Favco Group will increase by RM11.3 million, which translates to an EPS increase of **5.1 sen** (represents a-15% increase over Favco Group's FYE2016 EPS of 33.8 sen);

(b) assuming the Target Companies achieved an average annual PAT of RM20.9 million (based on the cumulative profit threshold of RM62.6 million set out in **Section 2.1.2** above), the annual earnings of the Favco Group will increase by RM14.6 million, which translate to an EPS increase of **6.6 sen** (represents a-20% increase over Favco Group's FYE2016 EPS of 33.8 sen).

6.3 Net assets ("NA") per share and gearing

The Proposed Acquisition is not expected to give rise to any material impact to the NA per share of the Favco Group as at 31 December 2016. In view that the Favco Group is in a net cash position with RM340.8 million net cash as at 31 December 2016, the maximum indicative Purchase Consideration of RM143.1 million is expected to be sufficiently funded by internally generated funds. As such, there is no impact to the net gearing of the Group.

7. HIGHEST PERCENTAGE RATIO AND APPROVALS REQUIRED

Based on the latest published audited consolidated financial statements of Favco for FYE2016, the highest percentage ratio applicable for the Proposed Acquisition pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is approximately 24.09%. Accordingly, the Proposed Acquisition does not require the approval of Favco's shareholders nor any relevant government authorities.

The Proposed Acquisition is not conditional upon any corporate proposal undertaken or to be undertaken by Favco.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

None of the Directors and/or major shareholders of Favco and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Acquisition.

9. DIRECTORS' STATEMENT

The Board, after taking into consideration all aspects of the Proposed Acquisition, including the rationale for the Proposed Acquisition, the basis and justification in arriving at the Purchase Consideration as well as the prospects of the Target Companies, is of the opinion that the Proposed Acquisition is in the best interest of the Company.

10. EXPECTED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the SPA for the Proposed Acquisition is expected to be completed by the third (3rd) quarter of 2018.

11. DOCUMENT AVAILABLE FOR INSPECTION

A copy of the SPA is available for inspection at the registered office of Favco at Lot 586, 2nd Mile, Jalan Batu Tiga Lama, 41300 Klang, Selangor Darul Ehsan, Malaysia during normal business hours from Mondays to Fridays (except public holidays) for a period of three (3) months from the date of this Announcement.

This Announcement is dated 28 March 2018.