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")

*We refer to our announcement dated 28 March 2018 in relation to the Proposed Acquisition ("**Earlier Announcement**"). Unless otherwise stated, defined terms used herein shall have the same meanings as defined in our Earlier Announcement.*

We wish to inform that we have received a notification from Bursa Malaysia Securities Berhad dated 30 March 2018 in relation to the additional clarification sought in relation to the Proposed Acquisition, and our replies are as set out below.

1) Financial performance of the respective Target Companies for the past 3 years together with the adjusted net assets of the Target Companies for the FYE 2016.

Reply: As per Section 1 of our Earlier Announcement, the financial information of the Target Companies was provided on a combined basis in view that the Proposed Acquisition of the Target Companies shall be carried out and completed simultaneously, Nevertheless, the individual audited financial information of the Target Companies for the past 3 years are as follows:

	Exact Automation RM'mil	**Sedia Teguh** RM'mil	**Exact Analytical** RM'mil	**Exact Oil & Gas** RM'mil	**TOTAL (combined)** RM'mil
PAT attributable to owners of the company					
Audited FYE 2014	**16.0**	**4.5**	**2.1**	**0.1**	**22.7**
Audited FYE 2015	**10.7**	**1.9**	**2.2**	**0.1**	**14.9**
Audited FYE 2016	**12.3**	**0.3**	**2.5**	**0.2**	**15.3**
(-) Due Diligence adjustment *(please refer to **Item 2** for details)*	-	0.9	-	-	0.9
FYE2016 - assumed Final Adjusted FYE2016 PAT	**12.3**	**1.2**	**2.5**	**0.2**	**16.2**

	Exact Automation RM'mil	**Sedia Teguh** RM'mil	**Exact Analytical** RM'mil	**Exact Oil & Gas** RM'mil	**TOTAL (combined)** RM'mil
Net assets attributable to owners of the company					
Audited FYE 2014	40.2	11.0	6.8	0.4	58.4
Audited FYE 2015	47.5	12.8	9.0	0.5	69.8
Audited FYE 2016	53.8	13.1	10.9	0.7	(Note 1) 78.5

(Source: Audited financial statements for the respective Target Companies)

Note 1 The indicative adjusted net assets for FYE2016 is approximately the audited net assets of RM78.5 million. Please refer to **Item 2** below for further information.

2) The nature and breakdown of net adjustments arising from due diligence on the Target Companies of approximately RM0.9 million.

Reply: The adjustments of RM0.9 million relates to adjustments for purpose of earnings normalisation for FYE2016 which comprise mainly of the net over-provision of costs of sales relating to financial years prior to FYE2016 which was recognised in FYE2016 audited accounts.

3) **Rationale for the Purchase Consideration to be segregated into 3 different portions.**

Reply: The rationale for the Purchase Consideration to be segregated into 3 different portions were explained in Section 2.1 of our Earlier Announcement. The Initial P.Con represents the minimum purchase consideration for the Proposed Acquisition which is payable based on the results of FYE2016 while the Incremental P.Con together with the Cash Dividend serves as an incentive for the Vendors in ensuring that the Target Companies in aggregate achieve the relevant cumulative profit threshold for FYE2017 to FYE2019.

4) **Basis of using the 8 times PER to derive at the Initial Purchase Consideration.**

Reply: The basis of using 8 times PER to derive at the Initial P.Con is set out in Section 2.2 of our Earlier Announcement.

The Initial P.Con which implies 8 times PER based on the Final Adjusted FYE2016 PAT is considered fair and reasonable in view that it is 32% below the average PER for listed comparable companies of 11.7 times (see table below), after taking into consideration amongst others, the non-listed status of the Target Companies and the control premium.

Name	**Financial year ended** (Note 1)	**Basic EPS** (sen)	**Closing market price as at 27 Mar 2018** (Note 2)	**PER** (times)
Dancomech Holdings Bhd	31 Dec 2017	3.6	RM 0.37	10.3
Unimech Group Bhd	31 Dec 2017	9.5	RM 0.975	10.3
Willowglen MSC Bhd	31 Dec 2017	7.7	RM 1.11	14.4
			Average	**11.7**

(Source: Bursa Securities)

Note 1 *Represent the latest announced 12-month unaudited financial results*
Note 2 *Being one (1) market day prior to the SPA date*

5) **Further clarification as to why further adjustments are required for the Initial Purchase Consideration when the net adjustment of approximately RM0.9 million has been made pursuant to the due diligence on the Target Companies.**

Reply: The main reason for further adjustments to the Initial P.Con was to ensure, to the extent possible, that all costs and income relating to FYE2016 and the period before FYE2016 are accurately and completely taken into account in arriving at the Initial P.Con. Such possible subsequent adjustments may include, for example, recognition of any additional doubtful debts on trade receivables as at FYE2016 which remain uncollected before 31 January 2019.

6) **Basis of using the 2 or 4 times PER to derive at the Incremental Purchase Consideration which is different from how the Initial Purchase Consideration is arrived at.**

Reply: Please refer to **Item 3** above for explanation on the difference of basis used for Initial P.Con and Incremental P.Con. As explained in Section 2.1.2 of our Earlier Announcement, the Incremental P.Con payable is in the following manner:

(i) 2 times of 70% of Final Adjusted FYE2016 PAT, if the Target Companies achieved at least an indicative cumulative profit threshold of RM48.6 million over the profit threshold period; or

(ii) 4 times of 70% Final Adjusted FYE2016 PAT, if the Target Companies achieved at least the agreed cumulative profit threshold of RM62.6 million over the profit threshold period.

Based on the above, the Vendors will enjoy higher Incremental P.Con if the Target Companies deliver higher profit during the profit threshold period.

Under the maximum indicative Purchase Consideration of RM143.1 million (see Section 2.1.4 of our Earlier Announcement), the implied PER is 9.8 times based on an average Adjusted PAT per annum of RM20.9 million multiply by 70% effective interest (based on agreed cumulative profit threshold of RM62.6 million) over FYE2017 to FYE2019. Such PER of 9.8 times is 16% lower than the average PER for listed comparable companies of 11.7 times after taking into consideration amongst others, non-listed status of the Target Companies and the control premium.

7) **Basis to derive at an indicative cumulative profit threshold of RM62.6 million.**

Reply: The cumulative profit threshold of RM62.6 million is agreed between the Parties, which represents an average Adjusted PAT of RM20.9 million per annum for each FYE2017 to FYE2019, implying an increase of approximately 29% over the assumed Final Adjusted FYE2016 PAT of RM16.2 million. The said cumulative profit threshold is determined based on the Vendors' representation after considering, amongst others, the historical financial performance, business plans and prospects of the Target Companies.

8) **The timeframe for Exact Automation to declare the RM10 million dividend and for which financial year.**

Reply: Subject to the conditions to be met as set out in Section 2.1.3 of our Earlier Announcement, Exact Automation shall declare and pay the Cash Dividend for each FYE2017, FYE2018 and FYE2019 to the vendors of Exact Automation if the Adjusted PAT of the Target Companies for the respective financial years achieve at least the Final Adjusted FYE2016 PAT (assumed to be RM16.2 million). Declaration and payment of the cash dividend of approximately RM3.3 million per financial year (up to a total of RM10.0 million to be paid for the Profit Threshold Period) shall be made as follows:

(i) For FYE2017 - within 14 days after determination of the Final Adjusted FYE2016 PAT;

(ii) For FYE2018 - within 30 days after FYE2018 audited accounts of the Target Companies are signed off by the respective Target Companies; and

(iii) For FYE2019 - within 30 days after FYE2020 audited accounts of the Target Companies are signed off by the respective Target Companies, which is consistent with the timing of the payment of the Incremental P.Con (as set out in Section 2.1.2 of our Earlier Announcement). If the indicative cumulative profit threshold of RM48.6 million is met, the Vendors of Exact Automation shall be paid a total of RM10.0 million after deducting therefrom the dividend payments made under sub-items (i) to (ii) above.

9) **Whether the Proposed Acquisition will signify the diversification pursuant to Paragraph 10.13 of the Main Market Listing Requirements.**

Reply: The Proposed Acquisition is synergistic to the existing Favco Group's business in addition to widening the scope of its business activities while providing the Group with recurring income.

Further, pursuant to Paragraph 10.13 of the Main Market Listing Requirements, the Proposed Acquisition is not expected to result in a diversion of 25% or more of the Favco Group's net assets to an operation which differs widely from those operations previously carried on by the Favco Group nor will the contribution from such an operation account for 25% or more of the Favco Group's net profits.

10) **Outlook of the industrial automation industry and oil & gas industry in Malaysia as well as the prospects of the Target Companies.**

Reply: The outlook of the industrial automation industry and oil and gas industry in Malaysia as well as the prospects of the Target Companies are set out in Section 4 of our Earlier Announcement. For additional information, we quote below the outlook of the oil and gas and industrial automation industry obtained from the external sources:

Oil and gas industry

The long-term vision for Malaysian OGSE (Oil & Gas Services and Equipment) industry is to be able to compete with the best in the world across multiple categories in terms of cost and quality. Performance driven local players offering value-adding suite of services would help increase offerings, lower production costs, thus maximising contribution of oil and gas to the economy. To build a truly strong industry, not only must players be competitive; but their level of competitiveness must be sustainable. Game changers like Industrial Revolution 4.0 will further subject players to intense global open market competition. *(Source: Petronas Activity Outlook 2018 – 2020 released in December 2017)*

Industrial Automation

In order to support the Industrial Revolution 4.0 ("**IR 4.0** ") business and investment activities, the Government will provide a matching grant worth RM245 million under the Domestic Investment Strategic Fund (DISF) to upgrade the Smart Manufacturing facilities. The Government will provide tax incentives as follows:

First: Extend the incentive period for Accelerated Capital Allowance of 200% on automation equipment from year of assessment 2018 to year of assessment 2020; **Second**: Extend the incentive period for Accelerated Capital Allowance of 200% for manufacturing and manufacturing related services sectors; and **Third**: Capital Allowance for ICT (information and communications technology) equipment, which includes spending on computer software development, is claimable beginning the year of assessment 2018 to 2020.

(Source: 2018 Budget Speech, Ministry of Finance Malaysia)

In view of the outlook above, Favco expects such market opportunities to be one of the key drivers for the future business growth of the Target Companies.

This announcement is dated 2 April 2018.