

## KESM INDUSTRIES BERHAD (“KESMI” OR THE “COMPANY”)

### PROPOSED ACQUISITION OF THE REMAINING 692,308 ORDINARY SHARES OF RM1.00 EACH IN KESM TEST (M) SDN BHD (“KESM TEST”) (“KESM TEST SHARE(S)”), REPRESENTING APPROXIMATELY 34.62% EQUITY INTEREST NOT ALREADY OWNED BY THE COMPANY FROM SUNRIGHT LIMITED (“SUNRIGHT” OR “VENDOR”) FOR A CASH CONSIDERATION OF RM35.0 MILLION (“PROPOSED ACQUISITION”)

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#### 1. INTRODUCTION

On behalf of the Board of Directors of KESMI (“**Board**”), AmInvestment Bank Berhad (“**AmInvestment Bank**”) wishes to announce that KESMI had on 13 February 2015, entered into a conditional share sale agreement (“**SSA**”) with Sunright for the acquisition of the remaining 692,308 KESM Test Shares (“**Sale Shares**”), representing approximately 34.62% of the equity interest not already owned by KESMI, for a cash consideration of RM35.0 million (“**Purchase Consideration**”). KESM Test is currently an approximately 65.38% subsidiary of KESMI and the balance of the approximately 34.62% shareholding is held by Sunright, which is a major shareholder of KESMI. Upon completion of the Proposed Acquisition, KESM Test will become a wholly-owned subsidiary of KESMI.

#### 2. DETAILS OF THE PROPOSED ACQUISITION

##### 2.1 Background information on KESM Test

KESM Test was incorporated in Malaysia on 8 June 1995 under the Companies Act, 1965 (“**Act**”) as a private limited company. KESM Test is principally engaged in the provision of the semiconductor testing services for automotive, telecommunication and networking industry.

As at 12 February 2015, being the latest practicable date prior to this announcement (“**LPD**”), the authorised share capital of KESM Test is RM10,000,000 comprising 10,000,000 KESM Test Shares, of which RM2,000,000 comprising 2,000,000 KESM Test Shares are fully issued and paid-up.

As at the LPD, KESM Test does not have any subsidiaries or associated companies.

The directors of KESM Test as at the LPD are Samuel Lim Syn Soo, Kenneth Tan Teoh Khoon, Tuan Haji Zakariah Bin Yet and Yong Chee Hou.

The historical financial information of KESM Test is set out in **Appendix I** of this announcement.

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## 2.2 Background information on Sunright

Sunright is a limited liability company incorporated and domiciled in Singapore since 9 March 1978 and is listed on the Main Board of the Singapore Exchange Securities Trading Limited.

The principal activities of Sunright are that of investment holding and provision of management services.

As at the LPD, Samuel Lim Syn Soo is a substantial shareholder of Sunright, who holds 54.94% equity interest in Sunright.

The directors of Sunright as at the LPD are Samuel Lim Syn Soo, Kenneth Tan Teoh Khoon, Lim Mee Ing, Francis Lee Choon Hui and Timothy Brooks Smith.

## 2.3 Salient terms of the SSA

The salient terms of the SSA include, among others, the following:

### (a) Status of the Sale Shares

The Sale Shares will be acquired free from all encumbrances and with all rights, benefits and entitlements, together with all dividends and distributions attaching thereto accruing as at the date of the SSA in accordance with the provisions contained in the SSA.

### (b) Purchase Consideration

The Purchase Consideration for the Sale Shares under the SSA shall be the aggregate sum of RM35.0 million only, to be paid in cash by KESMI to Sunright on the completion date of the Proposed Acquisition.

### (c) Conditions Precedent

The sale, purchase and transfer of the Sale Shares from Sunright to KESMI and the completion of the SSA is conditional upon and subject to the following conditions ("**Conditions Precedent**") being obtained and/or fulfilled on or before a date falling six (6) months from the date of the SSA unless otherwise extended by KESMI and Sunright in writing ("**Cut-Off Date**"):

- (i) the grant of the approval from the shareholders of Sunright in a general meeting for the sale, purchase and transfer of the Sale Shares;
- (ii) the grant of the approval from the shareholders of KESMI in a general meeting for the sale, purchase and transfer of the Sale Shares;
- (iii) the grant of the approval of the Ministry of International Trade and Industry ("**MITI**") / the Malaysian Investment Development Authority ("**MIDA**") for the sale, purchase and transfer of the Sale Shares; and
- (iv) the grant of the approval by any other relevant authority and/or third party for the sale, purchase and transfer of the Sale Shares (if applicable).

To the extent permitted by law, the Vendor or KESMI (“**Party**” or “**Parties**”) may mutually agree to waive in writing the requirement to fulfil or satisfy any one or more of the Conditions Precedent in which event the Parties may proceed to completion in accordance with the terms and conditions of the SSA.

In the event that any of the Conditions Precedent is not fulfilled (and has not been duly waived) on or before the Cut-Off Date in accordance with the terms and conditions of the SSA, then either Party shall be at liberty to forthwith terminate the SSA by giving notice in writing to the other Party.

**(d) Completion**

Subject to the SSA becoming unconditional in accordance with the terms and conditions of the SSA and provided always that there is no material breach or non-observance of any of the terms and conditions of the SSA by the Parties, the completion of the sale, purchase and transfer of the Sale Shares shall not be later than three (3) business days from the day the SSA becomes unconditional, unless otherwise extended by mutual agreement of the Parties in writing.

**(e) Termination**

If prior to completion of the SSA, a party to the SSA shall have committed an event of default (hereinafter referred to as the “**Defaulting Party**”) which is not capable of remedy or which is capable of remedy but not remedied by the Defaulting Party within fourteen (14) days from the date of receipt of the notice from the other party (hereinafter referred to as the “**Non Defaulting Party**”) detailing such event of default, the Non Defaulting Party shall be entitled to:

- (i) terminate the SSA forthwith by notice in writing to the Defaulting Party without prejudice to all other rights and remedies available at any time to the Non Defaulting Party; or
- (ii) claim for specific performance.

**2.4 Basis of arriving at and justification for the Purchase Consideration**

The Purchase Consideration was arrived at on a willing buyer-willing seller basis after taking into consideration the following:

- (a) the price-to-earnings multiple (“**PE Ratio**”) of approximately 6.4 times of the profit after tax (“**PAT**”) of KESM Test of approximately RM15.76 million based on its audited financial statements for the financial year ended (“**FYE**”) 31 July 2014.

The implied PE Ratio of 6.4 times is lower than the PE Ratio of KESMI of 9.6 times based on five (5)-day volume weighted average price (“**VWAP**”) of KESMI up to the LPD of RM2.43 (*Source: Bloomberg*);

- (b) the historical financial performances of KESM Test as set out in Appendix I of this announcement; and
- (c) the future prospects of KESM Test as set out in Section 6 of this announcement.

## **2.5 Source of funding**

The Proposed Acquisition is to be fully financed by internally generated funds.

## **2.6 Liabilities to be assumed**

There are no liabilities, including contingent liabilities and guarantees, to be assumed by KESMI and its subsidiaries (“**Group**”) pursuant to the Proposed Acquisition.

## **2.7 Financial commitment**

KESMI does not expect to incur any material financial commitment to put the business of KESM Test on-stream as the business of KESM Test is currently operational.

## **2.8 Original cost of investment**

Sunright’s original cost of equity investment in KESM Test, which were incurred on 3 August 1995 and 29 April 1999, is RM540,001.

## **2.9 Highest percentage ratio**

The highest percentage ratio applicable to the Proposed Acquisition pursuant to Paragraph 10.02(g) of Bursa Securities Main Market Listing Requirements (“**Listing Requirements**”) is 50.14%, which has been computed by dividing the net profits attributable to the assets which are the subject matter of the Proposed Acquisition with the net profits of the Company based on its latest audited consolidated financial statements for FYE 31 July 2014.

### **3. RATIONALE FOR THE PROPOSED ACQUISITION**

The Proposed Acquisition is undertaken to increase the Company’s effective interest in KESM Test which would result in KESM Test being a wholly-owned subsidiary of the Company. The Proposed Acquisition is in line with the Group’s strategy to grow its testing business and allows the Group to have full control of the business development of KESM Test.

In addition, the PE Ratio of KESM Test of approximately 6.4 times (as implied by the Purchase Consideration over the aggregate audited PAT for FYE 31 July 2014) is lower than the PE Ratio of KESMI of 9.6 times based on five (5)-day VWAP of KESMI up to the LPD of RM2.43. Furthermore, the Proposed Acquisition is deemed earnings accretive after the full consolidation of the financial performance of KESM Test. For illustration purposes, please refer to Section 4.3 in respect of the effects of the Proposed Acquisition on the earnings and earnings per share (“**EPS**”) of KESMI.

#### 4. EFFECTS OF THE PROPOSED ACQUISITION

##### 4.1 Share capital and substantial shareholders' shareholdings

The Proposed Acquisition will not have any effect on the issued and paid-up share capital and substantial shareholders' shareholdings of the Company as the Proposed Acquisition will be settled entirely by cash.

##### 4.2 Net Assets ("NA") and gearings

The proforma effects of the Proposed Acquisition on the NA per share and gearing of the Group based on its audited financial statements for FYE 31 July 2014 on the assumption the Proposed Acquisition had been effected as at that date are as follows:

|                               | <b>Audited FYE 31 July 2014</b> | <b>After Proposed Acquisition</b> |
|-------------------------------|---------------------------------|-----------------------------------|
|                               | <b>(RM'000)</b>                 | <b>(RM'000)</b>                   |
| Share capital                 | 43,015                          | 43,015                            |
| Share premium                 | 663                             | 663                               |
| Retained earnings             | 193,343                         | <sup>(1)</sup> 193,586            |
| Other reserves                | 8,438                           | 8,438                             |
| <b>Shareholders' funds/NA</b> | <b>245,459</b>                  | <b>245,702</b>                    |
| No. of shares ('000)          | 43,015                          | 43,015                            |
| NA per share (RM)             | 5.71                            | 5.71                              |
| Total borrowings (RM'000)     | 73,913                          | 73,913                            |
| Gearing (times)               | 0.30                            | 0.30                              |

**Note:**

(1) After deducting estimated expenses of RM850,000 in relation to the Proposed Acquisition and adjustment based on the difference between the Purchase Consideration and KESMI's non-controlling interest of approximately 34.62% of RM1,093,000.

For clarification purposes, the above proforma effects have not taken into account the impact of the interim dividend for the financial year ending 31 July 2015 declared by KESM Test on 5 February 2015 amounting to RM30.0 million, of which KESMI's proportionate share is RM19.6 million.

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### 4.3 Earnings and EPS

The Proposed Acquisition is expected to be completed by the first (1<sup>st</sup>) half of the calendar year 2015. The Proposed Acquisition is expected to contribute positively towards the earnings and EPS of KESMI for the financial year ending 31 July 2015 as it would allow KESMI to further consolidate the financial results of KESM Test.

For information, based on the audited financial statements of the Group for the FYE 31 July 2014 and assuming the Proposed Acquisition has been completed on 1 August 2013, the profit attributable to the owners of the Company would increase by approximately RM4.55 million representing an increase in EPS of about 10.6 sen to approximately RM15.43 million which represents an EPS of about 35.9 sen. The table below illustrates the proforma profit attributable to the owners of the Company and EPS assuming the Proposed Acquisition is completed on 1 August 2013:

|  | FYE 31 July 2014 | After the Proposed<br>Acquisition, assuming it<br>has been completed on 1<br>August 2013 |
|--|------------------|--|
|  | RM'000           | RM'000   |
| Profit attributable to the owners of the Company for the FYE 31 July 2014  | 10,883           | 10,883   |
| <b>Add:</b><br>Profit arising from the additional approximately 34.62% equity interest of KESM Test pursuant to the Proposed Acquisition | -                | 5,457  |
|  | 10,883           | 16,340   |
| <b>Less:</b><br>Interest forgone from cash deposits utilised as Purchase Consideration   | -                | (910)  |
|  | <b>10,883</b>    | <b>15,430</b>  |
| EPS (Sen)  | 25.3             | 35.9   |

## 5. RISK FACTORS

In view that KESMI currently owns approximately 65.38% equity interest in KESM Test, the Proposed Acquisition is not expected to materially change the risk profile of the Group's business.

Similar to the Group, KESM Test is exposed to uncertainties caused by the global volatility which could adversely affect the semiconductor sector in which KESM Test operates. Also, KESM Test is exposed to, amongst others, business and operational risks inherent in the semiconductor sector, similar to the Group.

The risks, amongst others, in relation to the Proposed Acquisition include the non-fulfilment of Conditions Precedent and the termination of the SSA due to an occurrence of an event of default as set-out in Sections 2.3(c) and 2.3(e) respectively. The management of KESMI will monitor the status and progress of the Proposed Acquisition and endeavour, to the extent possible, to meet and fulfill the Conditions Precedent and the terms and conditions of the SSA. However, there is no assurance that the Proposed Acquisition will be completed within the stipulated timeframe.

## **6. PROSPECTS OF KESM TEST**

Among other business developments, the Company's marketing plan is to increase its focus on testing services for microchips used in automotives and capitalising on the encouraging growth prospects of the global car market. The electronic content in a car is expected to grow in the next decade. The management of KESMI anticipates a pick-up in demand for automotive microchips with the introduction of self-driven cars, in the next decade. By 2035, 9% of global car sales are forecasted to be self-driven models.

KESM Test's prospects are also linked to the dynamics of the semiconductor industry in Malaysia. With the encouraging prospects of the growing local market, the Board is confident of expanding its strategic initiatives and increasing its ability to serve its customers.

Premised on the above, the Board believes that the prospects of KESM Test going forward are positive and would be able to contribute positively to the performance, growth and expansion of the Group.

*(Source: Management of KESMI)*

## **7. APPROVALS REQUIRED**

The Proposed Acquisition is subject to the following approvals:

- (a) the approval from the shareholders of Sunright in a general meeting for the sale, purchase and transfer of the Sale Shares;
- (b) the approval from the shareholders of KESMI in a general meeting for the sale, purchase and transfer of the Sale Shares;
- (c) the approval of the MITI/MIDA for the sale, purchase and transfer of the Sale Shares; and
- (d) the approval by any other relevant authority and/or third party for the sale, purchase and transfer of the Sale Shares (if applicable).

The Proposed Acquisition is not conditional upon any other corporate exercise being undertaken or to be undertaken by the Company.

Barring any unforeseen circumstances, the application to the regulatory authority(ies) in relation to the Proposed Acquisition is expected to be made within one (1) month from the date of this announcement.

## **8. ESTIMATED TIME FRAME FOR COMPLETION**

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Board expects the Proposed Acquisition to be completed by first (1<sup>st</sup>) half of the calendar year 2015.

**9. INTEREST OF DIRECTORS, MAJOR SHAREHOLDER(S) AND/OR PERSONS CONNECTED TO THEM**

Save as disclosed below, there are no other Directors, major shareholders of the Company and/or persons connected to them who are interested, directly or indirectly, in the Proposed Acquisition:

- (a) Sunright is a major shareholder of KESMI by virtue of its direct shareholding in KESMI;
- (b) Samuel Lim Syn Soo is deemed a major shareholder of KESMI by virtue of his controlling and substantial shareholding in Sunright. He holds 54.94% equity interest in Sunright. He is also the Executive Chairman and Chief Executive Officer of both KESMI and Sunright;
- (c) Kenneth Tan Teoh Khoon is the Executive Director of both KESMI and Sunright. He also holds 1.73% equity interest in Sunright; and
- (d) Lim Mee Ing is the Non-Independent Non-Executive Director of both KESMI and Sunright. She is also the spouse of Samuel Lim Syn Soo.

The shareholdings of the interested major shareholders and Directors in KESMI (“**Interested Parties**”) as at the LPD are set out below.

| Name                   | Direct                  |       | Indirect                |       |
|------------------------|-------------------------|-------|-------------------------|-------|
|                        | No. of shares<br>('000) | %     | No. of shares<br>('000) | %     |
| Sunright               | 20,825                  | 48.41 | -                       | -     |
| Samuel Lim Syn Soo     | -                       | -     | <sup>(1)</sup> 20,825   | 48.41 |
| Lim Mee Ing            | -                       | -     | -                       | -     |
| Kenneth Tan Teoh Khoon | -                       | -     | -                       | -     |

**Note:**

- (1) *Deemed interested by virtue of his substantial shareholding in Sunright pursuant to Section 6A of the Act.*

Accordingly, Samuel Lim Syn Soo, Kenneth Tan Teoh Khoon and Lim Mee Ing (collectively referred to as the “**Interested Directors**”) have abstained and will continue to abstain from all deliberations and voting at the relevant board meetings of KESMI in respect of the Proposed Acquisition.

The Interested Parties will also abstain from voting in respect of their direct and/or indirect shareholdings in KESMI, if any, on the resolution pertaining to the Proposed Acquisition to be tabled at an Extraordinary General Meeting (“**EGM**”) to be convened. The Interested Parties have also undertaken to ensure that persons connected with them (if any) will abstain from voting on the resolution pertaining to the Proposed Acquisition to be tabled at an EGM to be convened.

## 10. ADVISERS

AmInvestment Bank has been appointed as the Main Adviser to the Company for the Proposed Acquisition.

The Proposed Acquisition is a related party transaction pursuant to Paragraph 10.08 of the Listing Requirements. Accordingly, KAF Investment Bank Berhad (“**KAF**” or “**Independent Adviser**”) has been appointed as the Independent Adviser to undertake the following in relation to the Proposed Acquisition:

- (a) comment as to:
  - (i) whether the Proposed Acquisition is fair and reasonable so far as the shareholders of KESMI are concerned; and
  - (ii) whether the Proposed Acquisition is to the detriment of the non-interested shareholders of KESMI; and
- (b) advise the non-interested shareholders of KESMI whether they should vote in favour of the Proposed Acquisition.

## 11. AUDIT COMMITTEE’S STATEMENT

The Audit Committee of KESMI (save for Lim Mee Ing), after having considered all aspects of the Proposed Acquisition, including but not limited to the rationale of the Proposed Acquisition, the basis and justification for the Purchase Consideration, the salient terms of the SSA and the effects of the Proposed Acquisition, is of the view that the Proposed Acquisition is:

- (a) in the best interests of KESMI;
- (b) fair and reasonable and on normal commercial terms; and
- (c) not detrimental to the interests of the non-interested shareholders of KESMI.

The Audit Committee of KESMI (save for Lim Mee Ing) has also sought the opinion of the Independent Adviser, in forming its views in relation to the Proposed Acquisition and concurred with the views of the Independent Adviser that the Proposed Acquisition, including the evaluation of the Proposed Acquisition, are fair and reasonable insofar as the shareholders of KESMI are concerned and are not detrimental to the interests of the non-interested shareholders.

## 12. DIRECTORS’ STATEMENT

After taking into consideration all aspects of the Proposed Acquisition including but not limited to the rationale of the Proposed Acquisition, the basis and justification for the Purchase Consideration, the salient terms of the SSA as well as the effects of the Proposed Acquisition, the Board (save for the Interested Directors) is of the opinion that the Proposed Acquisition is in the best interest of KESMI and the shareholders of KESMI.

**13. TOTAL AMOUNT TRANSACTED WITH RELATED PARTY**

Save as disclosed below, there has been no other related party transactions entered into between the Group and Sunright for the twelve (12) months preceding the date of this announcement:

- (a) the Proposed Acquisition; and
- (b) the payment of management fees from KESMI to Sunright amounting to approximately RM4.5 million for the period from February 2014 to January 2015. The Company has obtained a renewal of the shareholders' mandate at the Annual General Meeting ("AGM") on 15 January 2015 on the payment of management fees from KESMI to Sunright for the period from January 2015 to the date of next AGM of KESMI.

**14. DOCUMENT FOR INSPECTION**

The SSA will be made available for inspection at the Registered Office of the Company at 802, 8<sup>th</sup> Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia from Mondays to Fridays (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 13 February 2015.

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**APPENDIX I- FINANCIAL INFORMATION OF KESM TEST**


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**1. SUMMARY OF KEY FINANCIAL DATA**

The table below sets out the audited financial statements of KESM Test for FYE 31 July 2012 to 31 July 2014 as well as the unaudited financial five (5)-month financial period ended (“FPE”) 31 December 2014:

|                                | Audited FYE 31 July |        |         | Unaudited five<br>(5)-month FPE<br>31 December<br>2014 |
|--------------------------------|---------------------|--------|---------|--|
|                                | 2012                | 2013   | 2014    |  |
|                                | RM'000              | RM'000 | RM'000  |  |
| Revenue                        | 49,839              | 57,958 | 68,489  | 36,700   |
| Profit before tax              | 11,286              | 14,850 | 16,132  | 7,977  |
| PAT                            | 9,306               | 14,072 | 15,763  | 6,781  |
| No. of shares in issue ('000)  | 2,000               | 2,000  | 2,000   | 2,000  |
| Shareholders' fund/ NA         | 74,420              | 88,492 | 104,255 | 111,036  |
| Total borrowings               | 11,727              | 35,969 | 59,125  | 49,977   |
| Gearing (times)                | 0.16                | 0.41   | 0.57    | 0.45   |
| NA per KESM Test Share<br>(RM) | 37.21               | 44.25  | 52.13   | 55.52  |

Commentaries on past financial performances:

**(a) FYE 31 July 2012**

For FYE 31 July 2012, KESM Test recorded revenue of RM49.8 million as compared to RM63.5 million in FYE 31 July 2011, representing a decrease of 21.5%. This decrease was mainly attributable to softer demand for non-automotive products such as networking and telecommunication products. As a result, KESM Test registered a decrease in PAT by RM3.1 million or 25.0% as compared to the preceding FYE 31 July 2011.

**(b) FYE 31 July 2013**

KESM Test registered an increase in revenue by 16.3% for FYE 31 July 2013 as compared to the preceding financial year. This growth was attributable to increase in demand for automotive products.

The PAT for FYE 31 July 2013 of RM14.1 million improved by 51.2% as compared to FYE 31 July 2012 of RM9.3 million mainly due to the higher revenue and lower tax expense that arose from recognition of deferred tax assets on reinvestment allowances.

**(c) FYE 31 July 2014**

KESM Test recorded revenue of RM68.5 million in FYE 31 July 2014 as compared to RM58.0 million in FYE 31 July 2013, representing an increase of 18.2%. This growth was mainly contributed by the growing demand in the automotive sector, coupled with improved manufacturing cycle time and equipment utilisation.

The PAT for FYE 31 July 2014 of RM15.8 million was higher by 12.0% as compared to FYE 31 July 2013 of RM14.1 million largely due to improved revenue and lower tax expense as a result of recognising deferred tax assets on reinvestment allowances for the year.

**(d) Unaudited five (5)-month FPE 31 December 2014**

For FPE 31 December 2014, KESM Test recorded revenue of RM36.7 million and a PAT of RM6.8 million. KESM Test recorded such PAT during the financial period under review mainly due to higher revenue derived from the automotive sector, coupled with improved manufacturing cycle time and equipment utilisation.