OTHERS TOP GLOVE CORPORATION BHD ("TOP GLOVE" OR "THE COMPANY") PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN EASTERN PRESS SDN BHD

TOP GLOVE CORPORATION BHD

Type	Announcement
Subject	OTHERS
Description	TOP GLOVE CORPORATION BHD ("TOP GLOVE" OR "THE COMPANY") PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN EASTERN PRESS SDN BHD

The Board wishes to announce that the Company has, on 3 November 2017, entered into a sale and purchase agreement to acquire the entire equity interest in Eastern Press Sdn Bhd.

Kindly refer to the attached document for the details of the Proposed Acquisition.

This announcement is dated 3 November 2017.

Please refer attachment below.

Attachments

TopGlove_Proposed_Acquisition_of_Eastern_Press_Sdn_Bhd.pdf
37.2 kB

Announcement Info

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TOP GLOVE CORPORATION BHD ("TOP GLOVE" OR THE "COMPANY")

PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN EASTERN PRESS SDN BHD

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1. INTRODUCTION

On 13 October 2017, the board of directors of the Company ("**Board**") announced that the Company had entered into a term sheet with Y.S. Hoong Sdn Bhd ("**YSH**") for the proposed acquisition of the entire equity interest in Eastern Press Sdn Bhd ("**Eastern Press**") ("**Proposed Acquisition**").

The Board now wishes to announce that the Company has, on 3 November 2017, entered into a sale and purchase agreement ("**SPA**") with all the existing shareholders of Eastern Press (collectively, the "**Vendors**") to acquire 5,000,000 ordinary shares in Eastern Press ("**Sale Shares**") for a cash purchase consideration of RM46,250,000.

2. DETAILS OF THE PROPOSED ACQUISITION

2.1 Information on Eastern Press

Eastern Press was incorporated in Malaysia on 11 October 1958 as a private limited company. Eastern Press principally carries on business as printers and suppliers of packaging materials.

As at 27 October 2017, being the latest practicable date prior to the date of this announcement ("**LPD**"), the issued share capital of Eastern Press is RM5,000,000 comprising 5,000,000 ordinary shares.

As at the LPD, the shareholders of Eastern Press, who are also the Vendors for the Proposed Acquisition, and their respective shareholdings in Eastern Press are as follows:

Shareholder/Vendor	**Country of incorporation/ Nationality**	**No. of shares**	**%**
YSH[(1)]	Malaysia	4,874,798	97.5
Hoong Yue Sen @ Ang Gek Seng (deceased)[(2)]	Malaysian	3,750	0.1
Hoong Hsuch Ling	Malaysian Permanent Resident	40,290	0.8
Lee Ai Hui @ Lee Oi Fai	Malaysian Permanent Resident	26,250	0.5
Tan Puay Choo	Malaysian	25,837	0.5
Hoong Suet Wai	Malaysian	4,125	0.1
Hoong Suet Feng	Malaysian	4,125	0.1
Ko Kheng Hwa	Singaporean	4,500	0.1
Hoong Suet Kun	Singaporean	6,375	0.1
Hoong Hsuch Lien	Malaysian Permanent Resident	4,950	0.1
Lee Lian	Malaysian	5,000	0.1

Notes:

(1) The late Mr. Hoong Yue Sen @ Ang Gek Seng is the controlling shareholder of YSH, holding 53.5% equity interest in YSH.

(2) Ms. Hoong Hsuch Ling has been appointed as the sole executor and trustee of the late Mr. Hoong Yue Sen @ Ang Gek Seng's estate pursuant to the grant of probate dated 15 September 2017.

Hoong Hsuch Ling, Lee Oi Fai @ Lee Ai Hui, Tan Puay Choo and Hoong Suet Kun are also the directors of Eastern Press as at the LPD.

2.2 Basis of the Purchase Consideration

The purchase consideration for the Proposed Acquisition of RM46,250,000 ("**Purchase Consideration**") was arrived at on a willing-buyer willing-seller basis after taking into consideration the net profit guarantee of RM4.5 million provided to the Company for the financial year ending 31 October 2018 ("**Net Profit Guarantee**").

For the purpose of assessing the reasonableness of the Purchase Consideration, the Board has compared the price-to-earnings multiple ("**PE Multiple**") implied by the Purchase Consideration and the Net Profit Guarantee of 10.3 times to the PE Multiples of companies listed on the Main Market of Bursa Malaysia Securities Berhad ("**Bursa Securities**") which are generally involved in the production of packaging materials ("**Comparable Companies**").

While the Comparable Companies were selected based on their core business activities, they may not be identical to Eastern Press as a result of differences in geographical coverage of business activities, scale of operations, reputation, historical profitability, financial strength, risk profile, asset base and future prospects. In addition, the Comparable Companies may also have profitability objectives that are fundamentally different from those of Eastern Press.

The PE Multiples of the Comparable Companies are set out below:

Comparable Company	Principal activities of the Comparable Company and its subsidiaries (excluding dormant subsidiaries)	(1)Market capitalisation	(2)Profit after tax and non-controlling interests	(3)PE Multiple
		(RM '000)	(RM '000)	(times)
Daibochi Plastic and Packaging Industry Bhd	Investment holding and manufacturing, importing and marketing of flexible packaging materials.	599,723	24,518	(4)25.4
Thong Guan Industries Berhad	Investment holding, manufacturing, marketing, sale and trading of plastic products, plastic packaging products, film blown plastic products, flexible plastic packaging products, polyvinyl chloride cling food wrap, noodle products, food and beverages products, consumable products and petroleum products and research and development centre for plastic packaging industry.	604,352	55,854	10.8
Tomypak Holdings Berhad	Investment holding, manufacturing and sale of packaging materials, polyethylene, polypropylene film and sheets and trading of packaging products.	432,006	18,424	(4)23.4

Comparable Company	Principal activities of the Comparable Company and its subsidiaries (excluding dormant subsidiaries)	[1]Market capitalisation	[2]Profit after tax and non-controlling interests	[3]PE Multiple
		(RM ’000)	(RM ’000)	(times)
Ornapaper Berhad	Investment holding, manufacturing, sale and trading of corrugated boards and carton boxes and manufacturing of paper based stationery products.	118,643	7,770	15.3
Public Packages Holdings Berhad	Investment holding, provision of financial, administrative, advisory and management services, manufacturing and retailing of corrugated cartons, display boxes and packing materials, manufacturing of offset printed display boxes, gift boxes, paper products and packaging materials, design, sale and trading of paper products and providing poster printing services, total packaging solution provider and letting of property for rental income.	85,170	16,508	[4]5.2
Master-Pack Group Berhad	Investment holding, manufacture of corrugated cartons and distribution of packaging materials, manufacture and sale of corrugated fibreboard cartons and trading of industrial diesels and additives.	39,600	3,067	12.9
			High	**15.3**
			Low	**10.8**
			Average	**13.0**
Eastern Press				**10.3**

(Source: Bloomberg L.P. and annual reports of the respective Comparable Companies)

Notes:

(1) Based on the last traded price as at 2 November 2017, being the last market day immediately before the date of the SPA.

(2) Based on the earnings per share as extracted from the respective latest available annual reports of the Comparable Companies.

(3) Calculated as the last traded price divided by the earnings per share.

(4) Deemed outliers and hence excluded from the calculation of the average PE Multiple and the range of PE Multiples.

As the implied PE Multiple of 10.3 times is below the range of PE Multiples of the Comparable Companies of between 10.8 times and 15.3 times (excluding outliers), and is lower than the average PE Multiple of 13.0 times (excluding outliers), the Board is of the view that the Purchase Consideration is justified.

2.3 Mode of satisfaction of the Purchase Consideration and source of funding

The Purchase Consideration will be satisfied entirely in cash, which will be funded via bank borrowings and internally generated funds of the Company and its subsidiaries (collectively, the "**Group**").

2.4 Liabilities to be assumed

Save for the liabilities incurred in the ordinary course of business of Eastern Press, Top Glove will not assume any additional liabilities, including contingent liabilities and guarantees, in connection with the Proposed Acquisition.

2.5 Other salient terms of the SPA

2.5.1 Subject to the terms of the SPA, Top Glove will acquire from the Vendors and the Vendors shall sell to Top Glove, the Sale Shares, free from all encumbrances, with all rights attaching to them from the date of completion of the SPA ("**Completion**"), including the right to receive all dividends, distributions or any return of capital declared, paid or made by Eastern Press.

2.5.2 Completion of the SPA is conditional upon satisfaction or waiver of the conditions precedent stated in SPA within three (3) months from the date of the SPA, or such other period as the parties may agree ("**Unconditional Date**").

2.5.3 The completion date of the SPA shall be 30 days from the Unconditional Date, or such other date agreed between the parties ("**Completion Date**").

2.5.4 A net profit of RM4,500,000.00 is guaranteed for Eastern Press's financial year ending 31 October 2018 ("**FYE 18**") which is retained from the amount owing by Eastern Press to YSH ("**Retention Sum**").

In the event Eastern Press fails to achieve the Net Profit Guarantee (which is subject to adjustments in accordance with the terms of the SPA), the Company shall claim from the Retention Sum and in the event Eastern Press has a net loss for FYE 18, YSH shall pay to the Company the sum equivalent to the net loss for FYE 18.

If the Net Profit Guarantee is achieved by Eastern Press, Top Glove shall cause Eastern Press to release the Retention Sum to YSH.

2.5.5 If any party shall neglect or by wilful default fail or refuse or be unable to complete this transaction in accordance with the provisions of the SPA; or materially breach any of the provisions of the SPA; the party not in breach of the SPA shall be entitled to elect either to give termination notice to the defaulting party or alternatively complete the SPA, in accordance with the SPA.

3. RATIONALE FOR THE PROPOSED ACQUISITION

Eastern Press is a major supplier of packaging material to the operations of the Company's subsidiaries in Malaysia. The proposed transaction is expected to provide the Group with synergistic benefits, enabling it to improve its supply chain coordination, thereby allowing for flexible planning and better lead time in relation to the supply of packaging material for its glove products, as well as better costs and quality control.

4. PROSPECTS OF EASTERN PRESS

4.1 Overview and outlook of the Malaysian economy

The Malaysian economy recorded a sterling growth of 5.7% during the first six months of 2017 underpinned by strong domestic demand and reinforced by improved external sector. Given the robust economic growth during the first half, real gross domestic product for the year is expected to strengthen further between 5.2% and 5.7% (2016: 4.2%), surpassing the earlier estimates. Accordingly, gross national income ("**GNI**") at current prices is estimated to expand 9.1% to RM1.3 trillion (2016: 6.2%; RM1.2 trillion), with income per capita increasing 7.7% to RM40,713 (2016: 4.7%; RM37,791).

The Malaysian economy is projected to continue its strong growth momentum with real gross domestic product expanding between 5.0% and 5.5% in 2018 (2017: 5.2% and 5.7%). Growth will be mainly driven by resilient domestic demand amid favourable external sector. Given the robust economic development, GNI per capita is estimated to increase 5.1% to RM42,777 (2017: 7.7%; RM40,713). Despite the strong growth momentum, Malaysia as an open economy is not immune to external headwinds. These include rising protectionism; policy uncertainties in the advanced countries; and volatility in the financial markets. Nevertheless, structural reforms undertaken over the years to diversify the economy and strengthen the financial system have provided sufficient buffer to weather these external challenges.

(Source: Economic Report 2017/2018, Ministry of Finance, Malaysia)

4.2 Overview and outlook of the manufacturing sector in Malaysia

Value added of the manufacturing sector expanded further by 5.8% during the first half of 2017 (January to June 2016: 4.4%) with expansion across a wide range of outputs in both the export- and domestic-oriented industries. During the first eight months, production increased 6.4%, while sales rebounded significantly by 15.6% to RM500.2 billion (January to August 2016: 4%; -0.7%; RM432.8 billion). Output of export-oriented industries rose 6.5% (January to August 2016: 4.3%) led by an upturn in global electronics cycle and further enhanced by strong demand for resource-based products. Meanwhile, domestic-oriented industries expanded 6.2% (January to August 2016: 3.4%) benefiting from vibrant consumption and construction activities.

Against this backdrop, the capacity utilisation rate remained stable at 86.6% and 82.8% during the first and second quarter of 2017 (Q1 2016: 76.7%; Q2 2016: 77.5%) amid continuous expansion of the manufacturing sector. Likewise, purchasing managers' index improved to 49.9 points in September 2017 (September 2016: 48.6 points) reflecting a more optimistic outlook. In consonant with higher production during the first eight months, number of employees turned around 2.3% with average wage per worker increasing 5.5% to RM3,252 (January to August 2016: -0.3%; 6.4%; RM3,082).

For the year, the manufacturing sector is projected to expand further by 5.5% (2016: 4.4%) mainly attributed to an upturn in global semiconductor sales as well as higher demand for consumer products and construction materials.

(Source: Economic Report 2017/2018, Ministry of Finance, Malaysia)

4.3 Prospects of Eastern Press

The packaging materials industry has been challenging for the past few years, owing to uncertainties surrounding the global economy and its spillover effects on the Malaysian economy. These uncertainties, together with the higher cost of living due to the reduction of subsidies of essential items, the introduction of goods and services tax in April 2015 and the weakening of the RM, have affected consumer sentiment in Malaysia. While these factors had affected Eastern Press in 2015, subsequent gradual improvements in the general Malaysian economy in 2016, especially the growth seen in the manufacturing sector, had a positive impact on the operations and financial performance of Eastern Press in 2016.

Efforts by the Chinese Central Government to reduce pollution in the People's Republic of China ("**PRC**") has resulted in closures of inefficient manufacturing facilities, including paper mills, which has resulted in a shortage of paper (a raw material used by the paper packaging materials industry) in China for both domestic consumption and for export purposes. This is further compounded by the tightening of mixed waste paper imports into the PRC, resulting in a further reduction in recycled paper production and a consequent increase in paper material prices. As a result, Chinese manufacturers sought to source paper materials from other countries, causing a shortage of global paper supply, and also affected paper material supply in Malaysia. Subject to Eastern Press being able to secure its paper material supply and to manage the increase in paper material prices vis-à-vis the selling price of its paper packaging products, the current paper material shortage and the demand of its customers for its paper packaging products will have a positive effect on Eastern Press moving forward as Eastern Press should be able to increase its production and selling prices to meet the said demand.

In addition, continuous efforts by Eastern Press to improve product quality and consistency through increased automation and improvements in production processes should also allow Eastern Press to increase its competitiveness to meet the needs of its customers as well as grow its clientele.

Taking into consideration the above factors and barring unforeseen circumstances, the Board expects Eastern Press to contribute positively to the financial performance of the enlarged Group.

5. RISK FACTORS

The Board does not anticipate that the Proposed Acquisition will result in a material change to the risk profile of the enlarged Group. However, there are certain other risks that may arise from or are associated with the Proposed Acquisition. These risks include:

5.1 Business risk

Eastern Press, which principally carries on business as printers and suppliers of packing materials, is exposed to business risks which are inherent in the industry. These risks include, among others, competition from other players, increases in the costs of printing materials, equipment or labour as well as shortage of skilled workers. As Eastern Press sources the majority of its revenue domestically, its business is also highly dependent on the Malaysia's general economic condition.

Any changes in the abovementioned factors may have a material effect on the business and financial condition of Eastern Press. Nonetheless, following the completion of the Proposed Acquisition, the Group will seek to limit exposure to these risks through prudent management and operational policies, maintaining good business relationships with suppliers and customers, continual review of operations and processes as well as implementing efficient cost control measures.

5.2 Non-completion risk

The completion of the Proposed Acquisition is conditional upon all the conditions precedent of the SPA being obtained, fulfilled or waived (as the case may be). There is no assurance that the Proposed Acquisition can be completed within the timeframe stipulated under the SPA. Any delays in fulfilling the conditions precedent or failure to obtain the necessary approvals on terms that are acceptable to both parties may lead to delays in the completion or termination of the Proposed Acquisition, which may result in the Group not being able to fully realise the anticipated benefits arising from the Proposed Acquisition.

Notwithstanding the above, the Company will endeavour to take all reasonable steps to ensure that the conditions precedent that are within its control are met on a timely basis in order for the Proposed Acquisition to be completed within a reasonable timeframe.

6. EFFECTS OF THE PROPOSED ACQUISITION

6.1 Share capital and substantial shareholders' shareholdings

The Proposed Acquisition will not have any effect on the issued share capital of the Company and the shareholdings of the substantial shareholders of the Company as the Proposed Acquisition does not involve the issuance of any new ordinary shares in the Company.

6.2 Net assets, gearing, earnings and earnings per Share

Save for the estimated expenses to be incurred in relation to the Proposed Acquisition, which primarily relates to professional fees, stamp duty and other ancillary expenses, the Proposed Acquisition is not expected to have any material effect on the net assets and gearing of the Group as the Purchase Consideration will be entirely satisfied in cash from internally generated funds of the Group.

The Proposed Acquisition is expected to contribute positively to the earnings and earnings per Share of the Group for the financial year ending 31 August 2018 once the synergistic benefits to be generated from the Proposed Acquisition as set out in Section 3 of this announcement are realised.

7. HIGHEST PERCENTAGE RATIO

The highest percentage ratio applicable to the Proposed Acquisition under Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Securities is 2.5%.

8. APPROVALS REQUIRED

The Proposed Acquisition does not require the approval the shareholders of the Company or any relevant authorities.

The Proposed Acquisition is not conditional upon any other proposals undertaken by the Company.

9. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSONS CONNECTED WITH THEM

None of the directors and major shareholders of Top Glove and persons connected with them have any interest in the Proposed Acquisition.

10. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposed Acquisition (including the rationale for and effects of the Proposed Acquisition as well as the bases of and justifications for the Purchase Consideration), is of the opinion that the Proposed Acquisition is in the best interest of the Company.

11. EXPECTED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposed Acquisition is expected to be completed in the first quarter of 2018.

This announcement is dated 3 November 2017.