

## **1. INTRODUCTION**

On behalf of the Board of Directors (“Board”) of Analabs Resources Berhad (“Analabs” or the “Company”), OSK Investment Bank Berhad (“OSK”) wishes to announce that Analabs had on 22 July 2009 entered into a conditional share purchase agreement (“SPA”) to acquire a 100% equity interest in Coveright Surfaces Malaysia Sdn. Bhd. (“Coveright”) from Surfaces Holding B.V. (the “Vendor”) for a cash consideration of RM40.0 million (“Proposed Acquisition”).

## **2. INFORMATION ON COVERIGHT**

Coveright was incorporated in Malaysia on 14 September 1988 under the Companies Act, 1965 as a private company. As at 31 December 2008, the authorised share capital of Coveright is RM25,000,000 comprising 25,000,000 ordinary shares of RM1.00 each and the issued and fully paid-up share capital is RM10,000,004 comprising 10,000,004 ordinary shares of RM1.00 each.

Coveright is principally involved in the manufacture and sale of resin impregnated papers to leading panel makers, laminators and laminate flooring producers for the furniture and flooring industry. The products can be broadly classified into two main types:-

- (i) Decorative melamine film: White, colored or printed paper impregnated with melamine-based resin. These are suitable for wood-based panels such as particle boards and fibre boards.
- (ii) Laminate flooring film: Wear-resistant overlay impregnated with a melamine resin, a decorative film with a balance film underside. The films are laminated on high density fibre boards.

The products are principally marketed in the Asia Pacific region into countries such as Australia, South Korea, New Zealand, Thailand and Malaysia.

The historical financial performance of Coveright is set out in **Appendix 1** herein.

## **3. INFORMATION ON THE VENDOR COMPANY – SURFACES HOLDING B.V.**

The Vendor was incorporated in the Netherlands on 25 June 2003 as a private limited liability company and it is an investment holding company. As at the date of this announcement, the authorised share capital of the Vendor is EUR90,000 comprising 900 shares of EUR100 each and the issued and fully paid-up share capital is EUR18,000 comprising 180 shares of EUR100 each.

## **4. DETAILS OF THE PROPOSED ACQUISITION**

The Proposed Acquisition involves the purchase by Analabs of 10,000,004 ordinary shares of RM1.00 each (“Coveright Shares”), representing 100% of the issued and paid-up share capital of Coveright from the Vendor for a cash consideration of RM40.0 million.

Upon the completion of the Proposed Acquisition, Coveright will become a 100% owned subsidiary company of Analabs.

## **4.1 Salient features of the SPA**

The salient features of the Proposed Acquisition as set out in the SPA are as follows:

### **4.1.1 Conditions precedent**

The sale and purchase of the Coveright Shares shall be conditional upon the following being fulfilled or waived:

- (i) the representations and warranties of the Vendor and Analabs are true and correct;
- (ii) the Vendor and Analabs have duly performed and complied all agreements and conditions required by the SPA;
- (iii) the Vendor shall have terminated the group allocation agreement and the group cost allocation agreement and the research & development facility agreement, all of which were entered into by the Vendor and its related companies;
- (iv) the Vendor and/or one or more of its related companies, as the case may be, shall have entered into each of the following ancillary agreements with Analabs:
  - a. an intellectual property agreement, pursuant to which the Vendor or one of its related companies ("Vendor Group") will grant to Analabs, the right to use the intellectual property specified therein for a period of 5 years;
  - b. a technical services agreement, pursuant to which the Vendor Group will provide its technical service to Analabs, for a period of 5 years;
  - c. the escrow agreement;
  - d. a deed of non-competition, pursuant to which the Vendor Group shall not compete with Analabs within the territory specified therein; and
  - e. a vendor agency agreement, pursuant to which Analabs will appoint the Vendor Group as its exclusive agent outside of the territory specified therein;
  - f. a supply agreement, in a form to be agreed by Analabs and the Vendor or its related companies, pursuant to which the Vendor or one of its related companies shall supply consumables to Coveright;
- (v) the Vendor and/or Coveright shall confirm to Analabs that Coveright has maintained its existing fixed deposit of RM1.7 million; and
- (vi) the Vendor and Analabs have obtained the relevant approval from their respective shareholders (as necessary) in general meeting.

### **4.1.2 Escrow arrangement**

On completion date of the SPA, the Vendor and Analabs shall enter into an escrow agreement whereby the sum of RM3.83 million shall be held in escrow in a bank account for the following purposes:

**(i) Tax escrow**

RM2.20 million shall be for payment by the Vendor to Analabs of any potential tax liabilities of Coveright;

**(ii) Retrenchment escrow**

RM0.63 million shall be for payment by the Vendor to Coveright in respect of any retrenchment payments made by Coveright; and

**(iii) Net tangible assets (“NTA”) escrow**

RM1.00 million shall be for payment by the Vendor to Analabs in the event that the NTA of Coveright as at the earlier of the completion date or 31 August 2009 is less than RM30.5 million.

**4.2 Basis of arriving at the purchase consideration**

The purchase consideration for the Proposed Acquisition was arrived at on a willing buyer-willing seller basis after taking into consideration the following:-

- (i) the guaranteed NTA of Coveright as at the earlier of the completion date or 31 August 2009 is not less than RM30.5 million (“Guaranteed NTA”);
- (ii) the earnings potential of Coveright; and

The price-to-book ratio based on the purchase consideration and the Guaranteed NTA is approximately 1.3 times.

**4.3 Mode of settlement of the purchase consideration and source of funding**

The total purchase consideration will be fully satisfied via cash in the manner set out below:-

- (i) a deposit of RM4.00 million and RM2,000 of escrow fee to be paid to the deposit escrow agent upon execution of the SPA; and
- (ii) the balance of RM36.00 million is to be paid/ satisfied on the completion date as follows:-
  - (a) a sum of RM32.17 million by wire transfer to the Vendor;
  - (b) a sum of RM3.83 million to the appointed escrow agent mutually satisfactory to Analabs and the Vendor to be dealt with in accordance with the terms of the SPA and an escrow agreement to be entered into between Analabs, the Vendor and the escrow agent.

The purchase consideration is expected to be funded via internally generated funds and bank borrowings based on the following manner:

|                                     | Amount | Source of funds |                      |
|-------------------------------------|--------|-----------------|----------------------|
|                                     | RM'000 | Cash<br>RM'000  | Borrowings<br>RM'000 |
| Purchase consideration (proportion) | 40,000 | 30,000<br>75%   | 10,000<br>25%        |

#### 4.4 Liabilities to be assumed by Analabs

Analabs will not assume any liabilities pursuant to the Proposed Acquisition.

#### 4.5 Date and original cost of investment

Details on the original cost of investment of the Vendor in Coveright are as follows:-

| Date            | Description        | Cost of investment<br>RM |
|-----------------|--------------------|--------------------------|
| 5 December 1995 | Purchase of shares | 40,000,000               |

#### 4.6 Estimated additional financial commitment

Save for the estimated expenses of RM2.0 million for the upgrading works on the existing structure and equipments of Coveright, Analabs is not required to provide any additional financial commitment in the foreseeable future in order to operate the business of Coveright as the business is already ongoing.

### 5. RATIONALE FOR THE PROPOSED ACQUISITION

The Proposed Acquisition will broaden Analabs' earnings base and enable the Company to leverage on Coveright's sales coverage in the Asia Pacific region, to further diversify its revenue streams into other countries such as Australia, South Korea, New Zealand, and Thailand. The future earnings from Coveright is expected to contribute positively to the Analabs' earnings in the coming years.

### 6. PROSPECTS AND RISK FACTORS OF THE PROPOSED ACQUISITION

#### 6.1 Prospects of the furniture industry and Coveright

Malaysia furniture exports have been contributing significantly to its total export earnings. Currently, Malaysian furniture is exported to more than 160 countries worldwide. Today, Malaysia is ranked as the 10<sup>th</sup> largest furniture exporter in the world, 3<sup>rd</sup> in Asia and 2<sup>nd</sup> in the ASEAN region.

In 2008, the exports surged to RM8.7 billion from RM371 million in 1990. Malaysian furniture exports have been trending upwards since 2000, with remarkable expansion into overseas markets. The demand for Malaysia exports has not only expanded in the traditional markets but also successfully penetrated many emerging markets such as those in the Middle-East, Africa and Eastern Europe. Growth has been positive over the years, growing from strength to strength. 2008 saw Malaysia's furniture exports grew 2% compared to 2007. Consumption of furniture in Malaysia was also strong, with imports expanding by 9.8% to reach RM1.5 billion.

*(Source: Malaysia Furniture Trade Performance 2008 report)*

For the period January to April in 2009, there was a year-on-year decrease of 13.2% in total exports compared to the same period last year, falling from RM2,699.8 million to RM2,344.4 million. According to chairman of Malaysian Furniture Promotional Council (MFPC), industry players should take advantage of the current economic slowdown to re-strategise and reposition their company, and furniture manufacturers must source for new markets as they improve productivity and lower costs, so that they can be in an enhanced competitive position to meet the expansion in market demand when the global economy recovers.

*(Extracted from "Don't moan, enhance competitiveness instead, furniture makers told", Business Times, 14 May 2009)*

The Board of Analabs is of the view that Coveright is well positioned as a market leader in the laminators and laminate flooring products in Malaysia and is confident in the future prospect of Coveright.

## **6.2 Risk factors**

### **(i) Inherent business risks**

The Proposed Acquisition will expand the business activities of Analabs to include those of the furniture and fixtures industry. The business risk factors include but are not limited to intensity of competition, dependence on labour, fluctuation in the prices of raw materials, shifts in furniture fashion trends as well as changes in general economy and business conditions.

### **(ii) Risk relating to the Proposed Acquisition**

There can be no assurance that the anticipated benefits of the Proposed Acquisition will be realized, or that the Analabs will be able to generate sufficient revenues from the Proposed Acquisition to offset associated acquisition cost. However, the Board will seek to mitigate such risk by adopting prudent investment strategies and conducting feasibility assessment and review prior to making its investment decisions.

### **(iii) Competition**

The market in which Coveright operates is characterized by intense competition. The future success of Coveright will depend to a large extent, on its ability to market its products and increase market share in existing markets and the territories in which it plans to sell. Coveright's ability to compete with the current and potential competitor depends on many factors within and outside its control, such as (but not limited to) market acceptance of new products, enhancements developed by Coveright and its competitors, pricing strategies, customer service and support and on-going relationships with its customers. However, the Board believes that Coveright has a competitive advantage in the quality of its products and services and its long term relationship with its customers.

### **(iv) Reliance on key management personnel**

The success of Coveright will depend, to a certain extent, upon the ability and continued participation and efforts of its existing key management personnel. The loss of any key management personnel could materially affect the business, operating results and financial conditions of Coveright and ultimately Analabs. To mitigate this risk, Analabs will enter into a technical services agreement with the Vendor Group where the Vendor Group will provide its technical service to Analabs for a period of five (5) years.

- (v) Foreign exchange risk

Coveright's products are principally marketed in the Asia Pacific region. The revenue transacted in these markets is mostly transacted in United States Dollar and Euro Dollar. Currently, Coveright does not use any financial instruments to hedge against transactions denominated in foreign currencies. However, moving forward, Analabs will assess the need to utilize hedging techniques to mitigate this risk.

## 7. EFFECTS OF THE PROPOSED ACQUISITION

### 7.1 Share capital and substantial shareholders' shareholding

The Proposed Acquisition will not have any effect on the issued and paid-up share capital and the substantial shareholders' shareholdings in Analabs as the purchase consideration will be satisfied entirely by cash.

### 7.2 Earnings per share

The Proposed Acquisition is not expected to have any effect on the earnings per share of the Analabs group of companies ("Analabs Group") for the financial year ending 30 April 2009 as it is expected to be completed in the third quarter of 2009. It is however, expected to contribute positively to the Analabs Group's earnings in future financial years.

### 7.3 Net assets and gearing

The Proposed Acquisition is not expected to have any impact on the net assets ("NA") of Analabs. The pro forma effects of the Proposed Acquisition on the latest audited net assets per share and gearing of the Analabs Group are as follows:

|                                 | Audited as at<br>30 April 2008<br>RM'000 | After the Proposed<br>Acquisition<br>RM'000 |
|---------------------------------|--|---|
| Share capital                   | 60,024                                   | 60,024                                      |
| Reserves                        | 43,357                                   | 43,357                                      |
| Treasury shares                 | (300)                                    | (300)                                       |
| Shareholders' funds/ Net assets | 103,081                                  | 103,081                                     |
| Borrowings                      | 4,970                                    | 14,970*                                     |
| Gearing (times)                 | 0.05                                     | 0.15  |
| No. of shares in issue ('000)   | 60,024                                   | 60,024                                      |
| NA per share (RM)               | 1.71                                     | 1.71  |

Note \*: Assumed RM10.0 million of the purchase consideration is funded by bank borrowings.

## 8. APPROVALS REQUIRED

The Proposed Acquisition is subject to the following approvals:-

- (i) The shareholders of Analabs at an Extraordinary General Meeting to be convened;
- (ii) Any other relevant authorities/ parties, if necessary.

**9. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND/ OR PERSONS CONNECTED**

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

**10. STATEMENT BY DIRECTORS**

The Board after having considered all aspects of the Proposed Acquisition is of the opinion that the Proposed Acquisition is in the best interest of Analabs.

**11. ADVISER**

OSK has been appointed as the Adviser to Analabs in respect of the Proposed Acquisition.

**12. COMPLIANCE WITH THE GUIDELINES ON THE OFFERING OF EQUITY AND EQUITY-LINKED SECURITIES (“SC GUIDELINES”)**

The Proposed Acquisition is not a transaction falling within the ambit of the SC Guidelines.

**13. ESTIMATED TIMEFRAME FOR COMPLETION**

Barring any unforeseen circumstances and subject to all required approvals, the Board expects the Proposed Acquisition to be completed by the third (3<sup>rd</sup>) quarter of 2009.

**14. DOCUMENTS FOR INSPECTION**

The SPA will be made available for inspection at the Registered Office of Analabs at Unit 725, 7<sup>th</sup> Floor, Block A, Kelana Centre Point, No.3 Jalan SS7/19, Kelana Jaya, 47301 Petaling Jaya, Selangor, during normal business hours from Mondays to Fridays (except Public Holidays) for a period of 3 months from the date of this announcement.

**This announcement is dated 22 July 2009.**

**APPENDIX 1**

The following table summarises the key audited historical financial information of Coveright for the past five (5) financial years ended ("FYE") 31 December 2008:-

|                                      | <----- FYE 31 December -----> |                  |                  |                  |                  |
|--------------------------------------|-------------------------------|------------------|------------------|------------------|------------------|
|                                      | 2004<br>(RM'000)              | 2005<br>(RM'000) | 2006<br>(RM'000) | 2007<br>(RM'000) | 2008<br>(RM'000) |
| <b>Revenue</b>                       | 76,530                        | 81,706           | 89,400           | 82,808           | 88,645           |
| <b>Profit before taxation</b>        | 8,675                         | 9,155            | 11,858           | 9,562            | 5,586            |
| <b>Taxation</b>                      | 553                           | 1,994            | 2,771            | 2,779            | 1,466            |
| <b>Profit after taxation</b>         | 8,122                         | 7,161            | 9,087            | 6,783            | 4,120            |
| <b>Net Assets</b>                    | 40,615                        | 40,576           | 35,288           | 39,221           | 28,594           |
| <b>No. of shares in issue ('000)</b> | 10,000                        | 10,000           | 10,000           | 10,000           | 10,000           |
| <b>Net Assets per share (RM)</b>     | 4.06                          | 4.06             | 3.53             | 3.92             | 2.86             |