

ASSET ACQUISITIONS AND DISPOSALS::PROPOSED ACQUISITION OF PROFOTO DIGITAL SERVICES PTE. LTD.

Issuer & Securities

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TECKWAH INDUSTRIAL CORPORATION LTD

Securities

TECKWAH INDUSTRIAL CORP LTD - SG0561000464 - 561

Stapled Security

No

Announcement Details

Announcement Title

Asset Acquisitions and Disposals

Date & Time of Broadcast

01-Apr-2019 07:55:36

Status

New

Announcement Sub Title

Proposed Acquisition of Profoto Digital Services Pte. Ltd.

Announcement Reference

SG190401OTHRJCRV

Submitted By (Co./ Ind. Name)

Lo Swee Oi

Designation

Company Secretary

Description (Please provide a detailed description of the event in the box below)

Please refer to the attachment.

Attachments

[TICL Acquisition of Profoto final.pdf](#)

Total size = 103K MB



PROPOSED ACQUISITION OF PROFOTO DIGITAL SERVICES PTE. LTD.

1. INTRODUCTION

The Board of Directors (the “**Board**” or the “**Directors**”) of Teckwah Industrial Corporation Ltd (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce pursuant to Rule 704(17)(c) of the Listing Manual (“**Listing Manual**”) of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) that the Company has entered into a Share Sale and Purchase Agreement (the “**SPA**”) with Mr Johnny Pranata (“**Mr Pranata**”) and Mr Lock Hui Koon (“**Mr Lock**”) (collectively the “**Vendors**”) to acquire shares in the issued and paid-up share capital (the “**Sale Shares**”) of Profoto Digital Services Pte. Ltd. (“**PDS**”) dated 30 March 2019 (the “**Proposed Acquisition**”).

2. RATIONALE FOR THE PROPOSED ACQUISITION

PDS is in the business of providing digital graphic prints, event set-ups, window display and project management services. PDS’ customers are mainly in the fashion and beauty industry, as well as in shopping malls. The issued and paid-up share capital of PDS is S\$700,000 comprising 700,000 ordinary shares (“**Shares**”).

The Group believes that the Proposed Acquisition presents an opportunity for the Group to extend its supply chain capability and add value to its customers. It will enable the Group and PDS to tap on the synergies and to expand the business overseas by leveraging on the Group’s established network of contacts in the Asia Pacific region.

3. INFORMATION ON THE PROPOSED ACQUISITION

The Proposed Acquisition will be carried out in two (2) tranches:

(1) The initial tranche (“**Initial Tranche**”)

The Company will acquire 490,000 Shares, representing 70% of the issued and paid-up share capital of PDS, consisting of 350,000 Shares from Mr Pranata (representing 50% of the issued and paid-up share capital of PDS) and 140,000 Shares from Mr Lock (representing 20% of the issued and paid-up share capital of PDS).

(2) The final tranche (the “**Final Tranche**”)

Pursuant to the SPA, the remaining 210,000 Shares held by Mr Lock (representing 30% of the issued and paid-up share capital of PDS) (“**Final Tranche Shares**”) may be sold by either of the following ways:

- (a) Mr Lock has granted to the Company a call option (“**Call Option**”) to require Mr Lock to sell to the Company the Final Tranche Shares. The Call Option may be exercised at any time within the three (3) year period from the date of completion of the Initial Tranche, which will take place on 30 April 2019 or such other date as the Company and the Vendors may agree (the “**Completion Date**”); and

- (b) the Company has granted to Mr Lock a put option (“**Put Option**”) to require the Company to purchase from Mr Lock the Final Tranche Shares, provided always that the OPBT (as defined below) exceeds the Profit Guarantee (as defined below) in respect of any two (2) of the three (3) financial years ending 30 September 2019 (“**FY2019**”), 30 September 2020 (“**FY2020**”) and 30 September 2021 (“**FY2021**”). The Put Option may be exercised during the period commencing one (1) month after the date of issue of PDS’ audited accounts for FY2021 or 31 January 2022, whichever is earlier, and ending on the date falling 30 days thereafter.

Acquisition of Profoto Malaysia Sdn. Bhd. (“**PMSB**”) by PDS

The Vendors collectively own 80% of the equity interest in PMSB, which is a company incorporated in Malaysia providing similar services to PDS. The remaining 20% of the equity interest of PMSB is held by an unrelated third party. PMSB’s issued and paid-up share capital is RM1,500,000 comprising 1,500,000 ordinary shares. As a condition subsequent in the SPA, the Vendors will transfer their 80% ownership in PMSB to PDS for nominal consideration, thereby making PMSB a subsidiary of PDS (collectively, the “**Profoto Group**”).

Subject to fulfilment of conditions under the SPA and the successful completion of the Proposed Acquisition, PDS and PMSB will become subsidiaries of the Company.

Profit Guarantee

Under the SPA, Mr Lock has guaranteed that the operating profit before tax of PDS (“**OPBT**”) shall not be less than S\$1,251,000, S\$1,282,000 and S\$1,579,000 for each of FY2019, FY 2020 and FY2021 respectively (“**Profit Guarantee**”).

If the OPBT exceeds the Profit Guarantee in respect of any of FY2019, FY2020 or FY2021 (“**Excess OPBT**”), Mr Lock shall be entitled to receive 50% of the Excess OPBT from PDS within one (1) month from the date of issue of the audited accounts of PDS for the relevant financial year.

If the OPBT is less than the Profit Guarantee for any of FY2019, FY2020 or FY2021 (“**Shortfall**”), Mr Lock shall pay to PDS an amount equivalent to the Shortfall within one (1) month from the date of issue of the audited accounts of PDS for the relevant financial year. The Company shall have the right to set off the Shortfall (if any) against the Fixed Deposit Amount (as defined below). Please refer to Section 5 below for further details on the Profit Guarantee.

4. CONSIDERATION FOR THE SALE SHARES

The aggregate consideration payable by the Company to the Vendors for the purchase of the Sale Shares is S\$13,000,000 (the “**Consideration**”) and will be funded by the Company’s internal resources and/or bank borrowings. The Consideration shall be payable as follows:

- (1) in respect of the Initial Tranche, S\$8,100,000 shall be paid to the Vendors on the Completion Date and S\$1,000,000 (the “**Fixed Deposit Amount**”) shall be paid into a fixed deposit bank account designated by the Company as security for payment of any Shortfall; and
- (2) in respect of the Final Tranche, S\$3,900,000 shall be paid to Mr Lock if the Company exercises the Call Option, or Mr Lock exercises the Put Option.

The Consideration was arrived at pursuant to arm’s length negotiations between the Company and the Vendors on a “willing-buyer-willing-seller” basis and is calculated based on the following:

- (i) a valuation report dated 8 January 2019 (the “**Valuation Report**”) commissioned by the Company and issued by an independent valuer, RSM Corporate Advisory Pte Ltd. The Valuation Report provides that the indicative fair market value of the Profoto Group (which

includes 100% of the issued and paid-up share capital of PDS and 80% of the issued and paid-up share capital of PMSB) is approximately S\$13,000,000;

- (ii) the unaudited net asset value of the Profoto Group of approximately S\$5,000,000 as at 30 September 2018;
- (iii) the Company's assessment of the earnings and growth potential of the Profoto Group;
- (iv) Mr Lock's provision of the Profit Guarantee to the Company; and
- (v) the transfer of Mr Lock and Mr Pranata's collective 80% shareholding in PMSB to PDS.

5. PROFIT GUARANTEE

In relation to the Profit Guarantee, the Company provides the following information in accordance with Rule 1013(1) of the Listing Manual.

Factors in Accepting the Profit Guarantee

The Board is of the view that the Profit Guarantee helps to safeguard the interests of the Group, and the Company will have legal recourse against the Vendors in the event that Mr Lock fails to pay the Shortfall (if any). In accepting the Profit Guarantee, the Board took into account the following factors:

- (i) the track record and past financial performance of the Profoto Group;
- (ii) the Profoto Group's audited financial statements for the financial years ended 30 September 2017 ("FY2017") and 30 September 2018 ("FY2018"); and
- (iii) the intrinsic potential of the Profoto Group's business to grow.

Commercial Bases and Principal Assumptions in respect of the Quantum of the Profit Guarantee

The quantum of the Profit Guarantee was derived after reviewing the track record and financial performance of the Profoto Group, and the Profoto Group's audited financial statements for FY2017 and FY2018.

Compensation in the event the Profit Guarantee is not met

In the event of a Shortfall, within one (1) month from the date of issue of the audited accounts of PDS for the relevant financial year, Mr Lock shall pay to PDS an amount equivalent to the Shortfall. The Company shall have the right to set off the Shortfall (if any) against the Fixed Deposit Amount.

In determining the basis for the compensation, the Company notes that the Consideration was determined based on historical and potential forward earnings of the Profoto Group and the Profit Guarantee is intended to ensure continual accretive operational performance.

Safeguards to Ensure the Company's Right of Recourse

The Consideration for the Initial Tranche is to be satisfied by the Company by, *inter alia*, placing the Fixed Deposit Amount in a fixed deposit account designated by the Company on the Completion Date. The Company shall have the right to set off any Shortfall against the Fixed Deposit Amount. The Company shall pay any remaining Fixed Deposit Amount after taking into account all amounts deducted and/or refunded to Mr Lock for FY2019, FY2020 and FY2021 within one (1) month after the date of issue of the audited accounts of PDS for FY2021 to Mr Lock.

6. SERVICE AGREEMENT

In connection with the SPA, Mr Lock shall enter into a Service Agreement with PDS to provide his

services as the Managing Director of PDS, on terms to be agreed.

7. DISCLOSURE REQUIREMENTS UNDER THE LISTING MANUAL

The Proposed Acquisition constitutes a “discloseable transaction” under Chapter 10 of the Listing Manual.

Based on the relative figures computed on the following bases set out in Rule 1006 of the Listing Manual:

Rule 1006	Bases	Relative Figure
(a)	Net asset value of the assets to be disposed of, compared with the Group’s net asset value	Not applicable
(b)	Net profits attributable to the assets to be acquired, compared with the Group’s net profits ⁽¹⁾	12.3%
(c)	Aggregate value of the consideration given, compared with the Company’s market capitalization, based on the total number of issued shares excluding treasury shares ⁽²⁾	14.3%
(d)	Number of equity securities issued by the Company as consideration for the acquisition, compared with the number of equity securities previously in issue	Not applicable
(e)	Aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group’s proved and probable reserves	Not applicable

Notes:

(1) Under Listing Rule 1002, “net profits” means profit or loss before income tax, minority interest and extraordinary items. Based on the audited financial statements of the Group and the Profoto Group for FY2018, the net profits of the Group and the Profoto Group were S\$11.4 million and S\$1.4 million respectively.

(2) Under Listing Rule 1002, “market capitalization” is determined by multiplying the number of shares in issue by the weighted average price of such shares transacted on the market day preceding the date of the sale and purchase agreement. As at 29 March 2019, the last market day preceding the date of the SPA, the Company’s market capitalization was S\$91.1 million.

8. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

The Proposed Acquisition is not expected to have a material effect on the net tangible assets per share or earnings per share of the Group for the financial year ended 31 December 2018, assuming that the Proposed Acquisition has been effected at the end of such financial year.

9. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors or controlling shareholders of the Company has any interest, directly or indirectly, in the Proposed Acquisition, other than through their shareholdings in the Company.

No person is proposed to be appointed as a director of the Company in connection with the Proposed Acquisition.

10. RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts about the Proposed Acquisition and the Group, and the Directors are not aware of any facts the omission of which would make any statement in this announcement misleading, and where this announcement contains a profit forecast or guarantee, the Directors are satisfied that the profit forecast or guarantee has been stated after due and careful enquiry. Where information in this announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this announcement in its proper form and context.

11. CAUTIONARY STATEMENT

Shareholders and potential investors of the Company should exercise caution when trading in the shares of the Company, as there is no certainty that the parties will complete the Proposed Acquisition. In the event of any doubt as to the action they should take, shareholders of the Company should consult their financial, tax, legal or other professional advisers.

12. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the SPA and Valuation Report will be available for inspection at the Company's registered office at 51 Tai Seng Avenue, #05-01 Pixel Red, Singapore 533941, during normal business hours for a period of three (3) months from the date of this announcement.

BY ORDER OF THE BOARD

Lo Swee Oi
Company Secretary
Date: 1 April 2019