

COMPANY NAME : **KAREX BERHAD**
STOCK NAME : **KAREX**
STOCK CODE : **5247**
TYPE : **ANNOUNCEMENT**
SUBJECT : **PROPOSED ACQUISITION OF 100% EQUITY INTEREST IN PASANTE HEALTHCARE LIMITED (“PASANTE”) FROM THE VENDORS (HEREINAFTER DEFINED) FOR A CASH CONSIDERATION OF POUND STERLING (“GBP”) 6.0 MILLION**

1. INTRODUCTION

The Board of Directors (“**Board**”) of Karex Berhad (“**Karex**”) wishes to announce that Karex Holdings Sdn Bhd, a wholly-owned subsidiary of Karex had on 27 May 2016 entered into a conditional share purchase agreement (“**SPA**”) with Lawrence James Boon (“**Lawrence Boon**”), Dominic Frederick Boon (“**Dominic Boon**”), Paul Richard Boon (“**Paul Boon**”) (collectively “**the Vendors**” and each a “**Vendor**”) for the purpose of pursuing the proposed acquisition of 100% of the issued and paid-up share capital in Pasante from the Vendors (“**Proposed Acquisition**”).

2. THE PROPOSED ACQUISITION

2.1 Information on Pasante and the Vendors

2.1.1 Information on Pasante

Pasante is a private limited company incorporated in the United Kingdom (“**UK**”) as Pasante Limited on 5 April 2002 with its place of business at 21 Commerce Way, Lancing, West Sussex, BN15 8TA, UK. It assumed its present name on 29 June 2002.

As at 26 May 2016, Pasante has an authorised share capital of 253 shares divided into 250 “A” ordinary shares of GBP1.00 each, 1 “B” non-voting shares of GBP1.00 each, 1 “C” non-voting shares of GBP1.00 and 1 “D” non-voting shares of GBP1.00. All the shares are issued and fully paid-up.

As at 26 May 2016, Pasante does not have any subsidiary or associated company.

Pasante is principally engaged in the sale of sexual wellness and healthcare products. It is one of the largest independent condom manufacturing companies in the UK, exporting to over 60 countries around the world. It owns the condom and lubricant brand “Pasante”. All Pasante latex condoms are certified by ISO 13485 and carry both the British Standard Institution Kitemark™ and Conformité Européene (“**CE**”) mark, whilst its non-latex condoms carry the CE mark. Pasante is also the sole official distributor of Sebamed in the UK. Sebamed is a leading healthcare product brand.

Based on its latest audited financial statements for the financial year ended (“**FYE**”) 31 January 2016, Pasante’s audited net assets (“**NA**”) is GBP1.24 million.

The summary of key financial information of Pasante are as follows:-

	<----- Financial Year Ended 31 January ----->		
	2014	2015	2016
	GBP’ Million	GBP’ Million	GBP’ Million
Revenue	6.87	6.87	6.93
Earnings before Interest, Tax, Depreciation and Amortization	0.80	0.69	0.93
Profit after Tax (“ PAT ”)	0.57	0.50	0.70

2.1.2 Information on the Vendors

The details of the Vendors and several minority shareholders are listed in Appendix 1 (“**Minority Shareholders**”). The shareholders of Pasante as at 26 May 2016 are:-

Vendors	Passport No.	Class of Shares	Percentage (%)	No of Shares
Lawrence Boon	504057803	A Ordinary	28.0	71.0
		C Non-voting	0.4	1.0
Dominic Boon	801824239	A Ordinary	26.1	66.0
		B Non-voting	0.4	1.0
Paul Boon	099269511	A Ordinary	26.1	66.0
		D non-voting	0.4	1.0
Minority Shareholders	-	A Ordinary	18.6	47.0
Total			100.0	253.0

2.2 Details of the Proposed Acquisition

2.2.1 Basis and Justification of Arriving at the Purchase Consideration

The purchase consideration of GBP6.0 million (“**Purchase Price**”) was arrived at on a willing-buyer willing-seller basis after taking into consideration, *inter-alia*, the historical PAT of GBP0.70 million and earnings potential of Pasante.

2.3.2 Source of Funds

The Proposed Acquisition will be satisfied entirely in cash, which will be financed by the proceeds raised from the private placement exercise completed by Karex on 11 March 2015.

2.3.3 Particulars of Liabilities to be Assumed by Karex

There is no liability including contingent liabilities and guarantees, to be assumed by Karex arising from the Proposed Acquisition.

2.3.4 Salient Terms of the SPA

The salient terms of the SPA include, *inter-alia*, the following:

(i) Sale and Purchase

Subject to the terms and conditions therein contained, on the Completion Date (as defined below), the Vendors shall sell, transfer and deliver to Karex, and Karex shall purchase and accept from the Vendors, 100% of the entire issued and paid-up share capital of Pasante free from any encumbrances, at the Purchase Price.

(ii) Purchase Price

The Purchase Price shall be payable by Karex to the Vendors on the Completion Date.

(iii) Condition Precedent

The SPA shall be unconditional upon the fulfilment of the conditions precedent within 45 days from the date of the SPA or such other period to be mutually agreed in writing between both Karex and the Vendors (“**Long Stop Date**”).

(iv) Completion Date

Completion shall take place five (5) business days after (but excluding) the day on which the conditions precedent has been satisfied or waived in accordance with the SPA, or such date as the parties agree in writing, but no later than the Long Stop Date. Karex shall pay to the Vendors the Purchase Price by way of telegraphic transfer to the account specified by the Vendors.

Upon completion of the Proposed Acquisition, Pasante shall become a wholly-owned subsidiary of Karex.

(vi) Consultancy Agreement (“CA”)

Lawrence Boon, Managing Director of Pasante has agreed to remain with Pasante post completion as a Consultant for a period of not less than six (6) months.

3. RATIONALE FOR THE PROPOSED ACQUISITION

3.1 Expansion into the UK Market

Pasante is a leading sexual wellness and healthcare products player in the UK market. Having operated for more than 14 years, Pasante offers a wide range of sexual wellness products including condoms, lubricants, HIV test kits, pregnancy test kits and others. Pasante is strategic fit with Karex’s growing platform, complementing Karex Group’s existing global market covering more than 120 countries across Africa, Asia, Europe and America and established clientele of commercial global brand owners as well as government and non-government agencies.

3.2 Acquisition of Own Brand Manufacturing (“OBM”)

The Proposed Acquisition allows Karex Group to acquire the Pasante brand which was established in 2002 and is today one of the leading brand in the retail and tender markets. The Pasante brand carries both male and female condoms, including non-latex condom made from synthetic materials. Karex believes that Pasante will complement Karex’s existing OBM brands in Karex’s future offerings into the UK market. In addition, the Proposed Acquisition also reflects the continued strategic expansion of Karex in its OBM products family which includes “Carex”, “INNO”, ONE®, “ESP” brands and the recently acquired TheyFit® brand.

4. PROSPECTS

4.1 Prospects of the UK Economy

UK economic growth slowed a little in 2015, but remains close to its long-term trend of just over 2% per annum and we expect this to continue in 2016-17. This would still leave the UK, along with the United States, as one of the strongest growing economies in the Canada, France, Germany, Italy, Japan, the UK, and the United States.

Consumer spending continues to provide the primary driver of UK growth, supported by a recent pick-up in real earnings growth as inflation has fallen to close to zero, as well as a continued strong pace of jobs growth.

Real consumer spending growth may moderate somewhat in 2017 and beyond, however, as inflation returns to more normal levels and households become reluctant to reduce their savings rates further.

Business investment should also make a positive contribution to growth in 2016-17, though this is more vulnerable to adverse global shocks to confidence, which remain the main downside risks to the UK economic outlook together with uncertainties surrounding the EU referendum vote in June.

The public sector is likely to be a drag on growth for the next 3-4 years as the Chancellor pursues his objective of eliminating the budget deficit by 2019/20. This is likely to require another tough Budget on 16th March. However, the strength of the private services sector should keep the UK domestic recovery on track in the short term unless we suffer very severe external shocks.

We expect earnings growth to pick up gradually as the labor market tightens, so we would expect the Monetary Policy Committee to start raising interest rates at some point, but this may be delayed until 2017 based on recent monetary policy committee's statements.

This should offer further support for consumer borrowing and spending in the short term, but could add to the risk of asset price bubbles and other financial market distortions in the longer term if rates remain lower for longer.

(Source: UK Economic Outlook, 2016 Q1, PWC UK)

4.2 Prospects of the Malaysian Economy

In the first quarter of 2016, the global economy expanded moderately against a backdrop of high financial market volatility. The advanced economies continued to register modest improvements, as the pace of growth remained constrained by crisis-related legacies, including high indebtedness and labour market slack. In Asia, economic activity expanded at a more moderate pace due in part to the weakness in exports. Amid these developments, several economies adopted more stimulus to support growth

The Malaysian economy expanded by 4.2% in the first quarter of 2016 (4Q 2015: 4.5%). The slight moderation in growth mainly reflected external shocks to the economy and cautious spending by the private sector. On the supply side, growth continued to be driven by the major economic sectors. On a quarter-on quarter seasonally-adjusted basis, the economy recorded a growth of 1.0% (4Q 2015: 1.2%).

Private sector activity remained the key driver of growth, although the pace of expansion moderated amid on-going adjustments in the economy. Private consumption expanded by 5.3% (4Q 2015: 4.9%), supported by continued wage and employment growth. Private investment grew at a slower rate of 2.2% (4Q 2015: 4.9%). This was mainly attributable to the cautious business sentiments and lower investments in the upstream mining sector. Growth of public consumption improved to 3.8% in the first quarter (4Q 2015: 3.3%) due to higher spending on emoluments. On the other hand, public investment declined by 4.5% (4Q 2015: 0.4%), due to lower spending on fixed assets by the public corporations.

On the supply side, the major economic sectors registered a moderate growth performance. The services sector recorded a sustained growth on account of the continued expansion in domestic demand. In the manufacturing sector, growth was supported by the continued expansion in both export- and domestic-oriented industries, although at a slower pace. The agriculture sector registered a contraction, as adverse weather conditions led to lower production of palm oil. The mining sector turned around to record a marginally positive growth following an improvement in the production of natural gas.

(Source: Quarterly bulletin, First (1st) Quarter, Bank Negara Malaysia)

4.3 Prospects and Future Plans of Pasante

Karex expects Pasante to continue to supply high quality sexual wellness and healthcare products whilst further strengthening its position with the estimated growth in new products and customer base.

5. RISK FACTORS

The Board does not foresee any material risk pursuant to the Proposed Acquisition except for the inherent risk factors associated with the condom industry in which Karex Group is already involved in, such as risks arising from changes in government policies/legislation and regulations affecting the condom industry, risks relating to changes in political, social and economic conditions, and competition and/or business risks. Nevertheless, with the Proposed Acquisition, Karex Group will have further exposure to the condom business in the UK and European markets. As such Karex Group's respective business operations, prospects, financial conditions and level of profitability will be affected by developments in the political, economic and regulatory conditions in the UK and European markets upon completion of the Proposed Acquisition.

No assurance can be given that any adverse developments in such risk areas would not affect the business and/or financial performance of the Karex Group in the future. However, Karex will undertake the necessary efforts to mitigate the various risks identified.

6. EFFECTS OF THE PROPOSED ACQUISITION

6.1 Share Capital and Shareholdings of Substantial Shareholders

The Proposed Acquisition will not have any effect on the issued and paid-up share capital, and shareholdings of the substantial shareholders of Karex.

6.2 NA, NA per share and Gearing

The Proposed Acquisition is not expected to have any immediate material effect on the NA, NA per share and gearing of Karex for the financial year ending 30 June 2016.

6.3 Earnings and Earnings Per Share ("EPS")

The Proposed Acquisition is expected to have a positive effect on the consolidated earnings and EPS of Karex for the financial year ending 30 June 2017. The effects of the Proposed Acquisition on the future consolidated earnings and EPS of Karex would depend on, amongst others, the future performance of Pasante, as well as the Karex Group.

7. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the directors, major shareholders and persons connected with a director or major shareholder of Karex has any interest, direct or indirect, in the Proposed Acquisition.

8. APPROVALS REQUIRED

The Proposed Acquisition is not subject to the approvals of the shareholders of Karex and any relevant authorities.

9. STATEMENT BY DIRECTORS

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

10. PERCENTAGE RATIO UNDER PARAGRAPH 10.02(G) OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (“MMLR”)

The highest percentage ratio for the Proposed Acquisition pursuant to paragraph 10.02(g) of the MMLR is 8.34%

11. ESTIMATED TIME FRAME FOR COMPLETION

Barring unforeseen circumstances, the Proposed Acquisition is expected to be completed within 45 days.

12. DOCUMENTS AVAILABLE FOR INSPECTION

The SPA will be available for inspection at the registered office of Karex during the office hours from Mondays to Fridays (except for public holidays) at 10th Floor, Menara Hap Seng, 1 & 3 Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia for the period of three (3) months from the date of this announcement.

This announcement is dated 27 May 2016

APPENDIX 1 : INFORMATION ON MINORITY SHAREHOLDERS

The Minority Shareholders as at 26 May 2016 are as follows:-

Minority Shareholders	Class of Shares	Percentage (%)	No of Shares
Anil Atal	A Ordinary Shares	2.0	5.0
Theresa Atal	A Ordinary Shares	2.3	6.0
Brian Thompson	A Ordinary Shares	1.2	3.0
Julia Thompson	A Ordinary Shares	1.2	3.0
Abigail Thompson	A Ordinary Shares	0.8	2.0
Hayley Thompson	A Ordinary Shares	0.8	2.0
Rupert Moore	A Ordinary Shares	2.0	5.0
Nicholas Yates	A Ordinary Shares	1.2	3.0
Pauline Fitzpatrick	A Ordinary Shares	0.4	1.0
Simon Hart	A Ordinary Shares	0.8	2.0
Clive Bowler	A Ordinary Shares	0.4	1.0
Grant Connor	A Ordinary Shares	0.4	1.0
Simon Matthew & Andrew Cockerill	A Ordinary Shares	0.4	1.0
Leslie Mariner	A Ordinary Shares	3.5	9.0
John O'Connor & Claire O'Connor	A Ordinary Shares	0.4	1.0
David Strutt	A Ordinary Shares	0.4	1.0
Stuart Dimaline & Barrie Hanson & Paul Tudor	A Ordinary Shares	0.4	1.0
Total		18.6%	47.0