

TRANSACTIONS (CHAPTER 10 OF LISTING REQUIREMENTS) : NON RELATED PARTY TRANSACTIONS ACQUISITION OF SHARES BY TASCO YUSEN GOLD COLD SDN. BHD. IN HYPERCOLD LOGISTICS SDN. BHD.

TASCO BERHAD

Type	Announcement
Subject	TRANSACTIONS (CHAPTER 10 OF LISTING REQUIREMENTS) NON RELATED PARTY TRANSACTIONS
Description	ACQUISITION OF SHARES BY TASCO YUSEN GOLD COLD SDN. BHD. IN HYPERCOLD LOGISTICS SDN. BHD.

Please refer to the attachment for details of the announcement.

Please refer attachment below.

Attachments

Announcement - Proposed Hypercold Acquisition.pdf
228.7 kB

Announcement Info

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TASCO BERHAD ("TASCO" OR THE "COMPANY")

- PROPOSED HYPERCOLD ACQUISITION

1. INTRODUCTION

The Board of Directors of TASCO ("**Board**") wishes to announce that TASCO Yusen Gold Cold Sdn Bhd, a 70%-owned subsidiary of TASCO ("**TYGC**"), had on 21 April 2021 entered into a conditional share sale agreement for the acquisition of 1,285,000 ordinary shares in Hypercold Logistics Sdn Bhd ("**Hypercold**"), representing 50% equity interest in Hypercold, for a cash consideration of RM10,550,000 ("**Proposed Hypercold Acquisition**").

Details of the Proposed Hypercold Acquisition are set out in the ensuing sections.

2. DETAILS OF THE PROPOSED HYPERCOLD ACQUISITION

TYGC, together with Swift Integrated Logistics Sdn Bhd ("**SILSB**"), had on 21 April 2021 entered into a conditional share sale agreement ("**SSA**") to acquire 100% equity interest in Hypercold from Chan Sun Cheong, Chang Kok Fai and Ong Toh Beng Leong (details of vendors are set out in Section 2.1 of this Announcement) for a total cash consideration of RM21,100,000 as follows:

	Purchasers	No of shares	Percentage	Purchase price (RM)
a.	TYGC	1,285,000	50.00%	10,550,000
b.	SILSB	1,285,000	50.00%	10,550,000
	Total	2,570,000	100.00%	21,100,000

(TYGC and SILSB shall collectively be referred to as the "**Purchasers**")

Other than borrowings incurred in the ordinary course of business of Hypercold, there are no other liabilities including contingent liability and guarantee to be assumed by TYGC arising from the Proposed Hypercold Acquisition.

The purchase considerations will be fully funded via a combination of advances from TASCO and internally-generated funds of TYGC, the breakdown shall be determined later.

In addition to the SSA, TYGC had on even date entered into a shareholders' agreement with SILSB to regulate the affairs of Hypercold and the respective rights of TYGC and SILSB as shareholders of Hypercold. The salient terms of the SSA and the shareholders' agreement between TYGC and SILSB pursuant to the Proposed Hypercold Acquisition, are set out in the **APPENDIX**.

2.1 Information on Hypercold

Hypercold is a private company limited by shares incorporated in Malaysia on 29 September 2006 under the Companies Act 1965 and having its registered address at Room 202, 2nd Floor, 368 Jalan Pudu, 55100 Kuala Lumpur, Wilayah Persekutuan.

Hypercold is involved in the provision of cold chain related logistics, warehouse storage, and transportation of goods. Its cold chain warehouse is located at Lot 3, Export Oriented Industrial Zone, Phase 2, Kota Kinabalu Industrial Park, Jalan Sepanggar Menggatal, 88450 Kota Kinabalu, Sabah, details as follows:

Title no: CL 015586231

Tenure: Leasehold of 99 years (From 1 January 1998 to 31 December 2096)

Land area: 2.926 Acres

Description of land use: Industrial and Commercial

Built-up area: 28,666 sq ft (warehouse) and 4,315 sq ft (office)

Age of building: Approximately 10 years
Date of Occupation Certificate: 28 June 2011
Percentage of occupancy: 90% cold room utilized (approximate for FY2020)
Encumbrance: Charged to CIMB Bank Berhad for RM9,000,000

The existing shareholders and directors of Hypercold, who are also the vendors pursuant to the Proposed Hypercold Acquisition, are as follows:

	Shareholders and directors	No of shares	Percentage
a.	Chan Sun Cheong	1,235,000	48.05%
b.	Chang Kok Fai	1,235,000	48.05%
c.	Ong Toh Beng Leong	100,000	3.90%
	Total	2,570,000	100.00%

The summary of financial performance of Hypercold is set out as follows:-

	←----- Audited ----->		
	Financial year ended ("FYE") 31 December		
	2017 (RM'000)	2018 (RM'000)	2019 (RM'000)
Revenue	5,629	6,201	6,071
Profit before taxation ("PBT")	975	1,191	1,233
Profit after taxation ("PAT")	752	864	971
Net assets	4,344	5,207	6,178
Total interest-bearing borrowings	7,291	6,645	5,987

2.2 Information on SILSB

SILSB is a private company limited by shares incorporated in Malaysia on 24 December 1983 under the Companies Act 1965 and having its registered address at Unit 206, 2nd Floor, Wisma Methodist Lorong Hang Jebat, 50150, Kuala Lumpur, Wilayah Persekutuan.

SILSB is a wholly-owned subsidiary of Swift Haulage Sdn Bhd and is an investment holding company principally involved in integrated logistics services and other management consultancy activities.

The existing directors of SILSB, are as follows:

	Directors	Date of Appointment
a.	Md Yusoff @ Mohd Yusoff Bin Jaafar, Dato' Haji	24 October 2016
b.	Loo Yong Hui	24 October 2016
c.	Muhammad Roy Nunis Bin Abdullah	18 May 2017
d.	Syed Yazid Bin Syed Omar	18 May 2017
e.	Loo Hooi Keat	1 June 2019

2.3 Basis of arriving at the purchase consideration

The purchase consideration was arrived at on a willing-buyer willing-seller basis after taking into consideration the audited earnings before interest, taxation, depreciation and amortisation ("EBITDA") of Hypercold for the FYE 31 December 2019 of approximately RM2.1 million.

Based on the enterprise value (“EV”) of approximately RM26.3 mil, this translates into an EV/ EBITDA multiple of 12.5x. As a comparison, the acquisition by TASCOC of Gold Cold Transport Sdn Bhd and its subsidiary back in 2017, as disclosed in its circular to shareholders dated 7 June 2017, was based on an EV/ EBITDA multiple of 10.9x. However, the directors of TASCOC are of the opinion that the EV/ EBITDA multiple premium of the Proposed Hypercold Acquisition is justified due to the anticipated future growth potential of cold chain logistics in East Malaysia.

2.4 Mode of settlement of purchase consideration

The purchase consideration will be satisfied by TYGC in the following manner:-

Payment	Timing	RM' 000	% of Purchase Consideration
Balance Deposit	Paid on 21 April 2021	738.5	7%
Retention sum	Retained by TYGC and to be remitted to IRB not later than 45 days from 21 April 2021, in accordance with Real Properties Gains Tax (RPGT) Act	316.5	3%
Balance Purchase Consideration	Upon completion of the Proposed Hypercold Acquisition	9,495.0	90%
		10,550.0	100%

There are no additional financial commitments required by TYGC to put the business of Hypercold on-stream. As set out in Section 2.1 of this announcement, Hypercold is an on-going and profit-making business entities. However, as set out in the shareholders' agreement between TYGC and SILSB, TYGC shall commit to a future shareholders' injection into Hypercold amounting to RM900,000 for purposes of a future expansion of Hypercold's warehouse.

3. RATIONALE FOR THE PROPOSED HYPERCOLD ACQUISITION

TASCOC, through TYGC, has established itself as a prominent cold chain logistics provider in Peninsular Malaysia. However, TASCOC has no cold chain logistics presence in Sabah or Sarawak.

By undertaking the Proposed Hypercold Acquisition, Hypercold which currently has the largest cold chain warehouse capacity of 3,000 pallet space as well as 8 temperature-controlled trucks in Sabah, will complement TYGC's existing infrastructure to expand its cold chain logistics services offering to East Malaysia. Hypercold is a strategic fit to TYGC due to its operational track record of approximately 10 years of servicing the major players of food & beverage industry in Sabah.

By undertaking the Proposed Hypercold Acquisition jointly with SILSB will ensure higher take-up rate of Hypercold's cold chain warehouse and logistics infrastructure, as TYGC will be able to leverage on the wide customer base of SILSB in East Malaysia.

4. RISK FACTORS

4.1 Non-completion of the Proposed Hypercold Acquisition

There is a possibility that the Proposed Hypercold Acquisition may not be completed due to failure in fulfilling the Conditions Precedent as set out in the SSA within the timeframe prescribed therein.

The Proposed Hypercold Acquisition is conditional upon the approvals from relevant banks and financial institutions being obtained. There is no assurance that the Proposed Hypercold Acquisition will not be exposed to risks such as inability to obtain the approval from the relevant banks and financial institutions and can be completed within the time period prescribed under the SSA.

Nevertheless, the parties shall use their best endeavours to obtain all the necessary approvals for the Proposed Hypercold Acquisition to be completed in a timely manner.

4.2 Business risk

TYGC has no existing cold chain business operations in East Malaysia. As such, the Proposed Hypercold Acquisition will be a venture into a new geographical segment for TYGC and there is no certainty that TYGC will be able to maintain or grow the business of Hypercold, which is subject to risk inherent in the temperature-sensitive logistics business such as electricity outage, cold chain equipment failure and mishandling by employees, which could result in contamination or total write-off of cargo/ inventory due to the perishable nature of the cargo/ inventory.

However, leveraging on the expertise of TYGC, TASC0 will put in place fail-safe backup plans and stringent quality control and monitoring procedures, as well as ensure proper maintenance of the cold room equipment, proper reporting and employee training, to reduce potential risk to Hypercold's operations. Furthermore, by jointly undertaking the Proposed Hypercold Acquisition with SILSB, TYGC would be able to leverage on the business network of SILSB in East Malaysia, thereby providing better growth prospects to TYGC's cold chain logistics business in East Malaysia.

4.3 Regulations and government policy risks

The Proposed Hypercold Acquisition is subject to a number of risks, including, without limitation, changes in regulations or government policies such as licenses from Road Transport Department of Malaysia, food safety regulations, and occupational safety and health requirements. Changes in these regulations and/ or government policies may further increase Hypercold's operating cost and expenses, such as increase in electricity cost, repair expenses to modify the cold rooms and/ or reefer trucks, increase in labour cost/ benefits and increase in insurance premium.

Nevertheless, TASC0 will continuously keep abreast with the changes in regulations and government policies and put in place necessary strategies in order to control and safeguard against such risk.

5. PROSPECTS OF THE PROPOSED HYPERCOLD ACQUISITION

Demand for cold chain logistics increases in tandem with the increase in disposable income of the population in East Malaysia, whereby consumers have greater demand for fresh and hygienic food, which in turn will drive the demand for end-to-end cold chain logistics services.

Furthermore, East Malaysia's economy stands to gain from the increase business activity from the construction of Pan Borneo Expressway and also Indonesia's proposed shift of its capital from Jakarta to Kalimantan. These factors will contribute to an influx of population to East Malaysia, thereby driving up the demand for cold chain logistics services.

6. EFFECTS OF THE PROPOSED HYPERCOLD ACQUISITION

The Proposed Hypercold Acquisition is not expected to have any material effects on the share capital, substantial shareholders' shareholding, the net assets ("NA") as well as gearing of TASCOS. The effects of the Proposed Hypercold Acquisition to earnings and EPS are illustrated as follows:-

6.1 Earnings and EPS

The Proposed Hypercold Acquisition is expected to be completed in the second quarter of calendar year 2021. Assuming the Proposed Hypercold Acquisition was completed at the beginning of the financial year 31 March 2020, the proforma effects on the PAT and EPS of TASCOS Group is illustrated as follows:-

	Audited as at 31 March 2020 RM'000	After the Proposed Hypercold Acquisition RM'000
PAT attributable to shareholders of TASCOS	8,891	8,891
PAT of Hypercold	-	(1) 923
Proforma PAT attributable to shareholders of TASCOS	8,891	9,814
Number of TASCOS shares ('000)	800,000	800,000
EPS (Sen)	1.11	1.23

Note:-

- (1) Based on the audited consolidated financial statements of Hypercold for the FYE 31 December 2019, calculated as follows:-

	(RM'000)	FY2019 PAT	Effective interest recognised
a.	Hypercold	2,637	(1) 923

(i) Proposed Hypercold Acquisition: RM2,637,164 (net profits) * 70% (TASCOS's interest in TYGC) * 50% interest acquired = RM923,007

7. HIGHEST PERCENTAGE RATIOS APPLICABLE

The highest percentage ratio applicable to the Proposed Hypercold Acquisition as per Paragraph 10.02(g) Chapter 10 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR") is 10.38%, calculated based on TASCOS's effective interest in the net profits of Hypercold as compared to the consolidated net profits of TASCOS Group based on its latest audited consolidated financial statements for the FYE 31 March 2020 of RM8.89 million.

8. APPROVALS REQUIRED

The Proposed Hypercold Acquisition is subject to *inter-alia* the following approvals being obtained from:-

- (i) the banks and financial institutions which have granted banking or other credit facilities to Hypercold, if required; and
- (ii) any other approvals of relevant authorities and/or parties, if required.

9. DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

None of the directors and/or major shareholders of the Company and/or persons connected to them, as defined in the MMLR, have any interest, whether direct or indirect, in the Proposed Hypercold Acquisition.

10. DIRECTORS' STATEMENT

The Board, after having considered all aspects of the Proposed Hypercold Acquisition and after careful deliberation, is of the opinion that the Proposed Hypercold Acquisition is in the best interests of the Company.

11. APPLICATION TO THE RELEVANT AUTHORITIES

Barring any unforeseen circumstances, the application(s) to the relevant authorities in relation to the Proposed Hypercold Acquisition is expected to be submitted within two (2) months from the date of this announcement.

12. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Proposed Hypercold Acquisition is expected to be completed by the second quarter of calendar year 2021.

13. DOCUMENTS FOR INSPECTION

The SSA and shareholders' agreement are available for inspection during normal business hours at TASCOS's registered office at 802, 8th Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, from Mondays to Fridays (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 21 April 2021.

APPENDIX

Salient terms of the SSA

The salient terms of the SSA are set out as follows:

1.0 Conditions Precedent

- (i) the written letters of consent issued by CIMB Bank Berhad for Hypercold's banking facility ("**Bank's Consent**");
- (iii) the vendors receiving all required details and information from TYGC and SILSB for the purposes of obtaining the Bank's Consent no later than seven (7) days from the date of the SSA or such later date as may be mutually agreed between the Parties;

Parties shall use their best endeavours to procure the fulfillment of the above conditions precedent on or before the sixty (60) days after the date of the SSA.

2.0 Termination

2.1 The Purchasers are entitled to terminate the SSA in the event:

- (i) the vendors are in breach of the provisions of the SSA which are not capable of being remedied within the stipulated time frame;
- (ii) the vendors are insolvent;
- (iii) the vendors fail to fulfil and deliver the documents required at completion of the SSA;
- (iv) the vendors (or any one of them) do not complete the transfer of all of the shares in Hypercold;
- (v) any matter which have not been disclosed/ improperly disclosed by the vendors to the Purchasers, which would result in an adverse financial impact exceeding RM1,200,000 to the business, operation, assets or financial condition of Hypercold.

the vendors shall return the Balance Deposit and/or the Balance Purchase Consideration (if already paid) and pay a sum equivalent to the Deposit (being Balance Deposit and Retention Sum) as agreed liquidated damages within fourteen (14) business days from the date of the notice of termination failing which, the Purchaser shall have the right to impose late payment interest at the rate of ten per centum (10%) per annum on the outstanding payment sum by vendors. Thereafter, all obligations and liabilities of the parties hereunder shall cease and terminate.

2.2 The vendors are entitled to terminate the SSA in the event:

- (i) either TYGC or SILSB are insolvent;
- (ii) either TYGC or SILSB fail to pay the Balance Purchase Consideration or refuse to proceed with the Proposed Hypercold Acquisition;
- (iii) either TYGC or SILSB is in breach of any of the provisions of the SSA or any of the purchasers' warranties (which is not capable of being remedied within the stipulated time frame);
- (iv) either TYGC or SILSB do not complete the transfer of the shares in Hypercold, not due to the default by the vendors,

the Purchasers shall pay the Retention Sum (if not already paid to the Director General of IRB) to the vendors within 14 business days from the date of the notice of termination failing which, the vendors shall have the right to impose late payment interest at the rate of ten per centum (10%) per annum on the outstanding Retention Sum from Purchasers. The vendors shall be entitled absolutely to retain the Balance Deposit as agreed liquidated damages and all obligations and liabilities of the parties hereunder shall cease and terminate.

Notwithstanding the above, the vendors shall be at liberty to take such action in law as may be necessary to compel where relevant either or both the Purchasers (in the event of termination and to the extent permitted by law), by way of specific performance to complete the Proposed Hypercold Acquisition.

Salient terms of the shareholders' agreement between TYGC and SILSB in relation to Hypercold

(For this section, TYGC and SILSB shall be referred to as the "Shareholders")

- 1) Both TYGC and SILSB shall each own 50% shareholding in Hypercold.
- 2) The Shareholders' shall commit to an extension of the present cold chain warehouse with a total investment amounting to RM6,000,000, of which:
 - (i) 30% shall be from shareholders' capital injection; and
 - (ii) 70% shall be from bank borrowing and internal equity.
- 3) The Shareholders agree that the board of directors of Hypercold shall consist of 4 directors:
 - (i) 2 directors to be appointed by TYGC; and
 - (ii) 2 directors to be appointed by SILSB.
- 4) In the event Hypercold issues new shares (whether existing or new class of shares) at any time, the Shareholders must be offered such number of new shares which would enable that shareholder to maintain its existing proportion of that class of shares.
- 5) Hypercold shall have the first rights of refusal to undertake cold chain logistics services within state of Sabah. In the event Hypercold declines to take up that business, then both Shareholders shall cooperate and collaborate to undertake that business together.