

QL RESOURCES BERHAD (“QL” OR THE “COMPANY”)

CONDITIONAL VOLUNTARY TAKE-OVER OFFER BY QL (“OFFEROR”) TO ACQUIRE ALL THE REMAINING ORDINARY SHARES OF RM1.00 EACH IN LAY HONG BERHAD (“LHB”) NOT ALREADY HELD BY THE OFFEROR (“OFFER SHARE(S)”) FOR A CASH CONSIDERATION OF RM3.50 PER OFFER SHARE (“OFFER PRICE”) (“OFFER”)

1. INTRODUCTION

On behalf of the Company, RHB Investment Bank Berhad (“**RHB Investment Bank**”) had, on 24 September 2014 served a notice pertaining to the Offer (“**Notice**”) to the Board of Directors of LHB.

2. INFORMATION ON LHB

LHB was incorporated in Malaysia on 27 September 1983 and was listed on the Second Board of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) on 28 October 1994.

The principal activities of LHB are that of integrated livestock farming. The principal activities of LHB’s subsidiaries are of poultry farming, processing and marketing of chicken dung as fertilizer, investment holding and trading, poultry processing and marketing, retail supermarket, manufacturing and sales of liquid eggs, food manufacturing as well as hatcheries and supplies of livestock eggs and chicken.

The directors of LHB are Dato’ Dr. Abdul Aziz Bin Mangkat, Yap Hoong Chai, Yeap Weng Hong, Yap Chor How, Ng Kim Tian, Yeap Fock Hoong, Cheng Chin Hong and Gan Lian Peng.

As at 22 September 2014, the authorised share capital of LHB is RM100 million comprising 100 million LHB shares of RM1.00 each (“**LHB Share(s)**”), of which 50,039,000 LHB Shares have been issued and fully paid-up. LHB has 811,000 outstanding executive share option scheme (“**ESOS**”) options expiring on 10 November 2015.

Based on the audited consolidated financial statements of LHB for the financial year ended (“**FYE**”) 31 March 2014, the net profit and net assets (“**NA**”) of LHB and its group of companies (“**LHB Group**”) was approximately RM7.2 million and RM142.3 million respectively.

3. DETAILS OF THE OFFER

As at 22 September 2014, QL holds 26.81% equity interest in LHB. In relation thereto, RHB Investment Bank had, on behalf of the Offeror, served the Notice on the Board of Directors of LHB to acquire the Offer Shares at the Offer Price. The Offer will be made to each of the holders of the Offer Shares (“**Holders**”) equally and in respect of all or any of their Offer Shares.

The Offer is also extended to the holders of the outstanding ESOS options provided that the outstanding ESOS options are exercised prior to the closing of the Offer.

The Offer will be conditional upon the Offeror having received before the closing of the Offer, valid acceptances (provided that such acceptances are not, where permitted, subsequently withdrawn), in respect of the Offer Shares, which would result in the Offeror, together with such LHB Shares that are already acquired, held or entitled to be acquired or held by the Offeror, if any, more than 50% of the voting shares or voting rights of LHB ("**50% Acceptance Condition**"). The 50% Acceptance Condition shall be fulfilled on or before 5.00 p.m. (Malaysia time) on the closing date of the Offer, failing which the Offer shall lapse and the Offer will cease to be capable of further acceptances and all acceptances shall be returned to Holders who accepted the Offer and the Offeror will thereafter cease to be bound by any such prior acceptance of the Offer.

The Offeror does not intend to maintain the listing status of LHB on the Official List. Pursuant thereto, the Offeror does not have any intention to undertake any steps to address the shortfall in the public shareholding spread requirement of LHB. The Offeror will procure LHB to take the necessary procedures to withdraw its listing status from the Official List in accordance with the Main Market Listing Requirements of Bursa Securities ("**Listing Requirements**"). Following such de-listing, LHB Shares will no longer be traded on the Main Market of Bursa Securities.

Further details of the Offer are set out in the Notice.

3.1 Liabilities to be assumed

Save for the existing liabilities incurred in the ordinary course of business of LHB Group, there are no other liabilities, including contingent liabilities and guarantees to be assumed by QL and its subsidiaries ("**QL Group**") pursuant to the Offer.

3.2 Source of funding

The Offer will be funded via internally generated funds and/or borrowings.

3.3 Basis and justification of arriving at the purchase consideration

The Offer Price of RM3.50 per LHB Share represents a premium to the following volume weighted average price ("**VWAP**") of LHB Shares up to and including 23 September 2014, being the last full trading day prior to the date of the Notice:-

	Share price (RM)	Premium	
		(RM)	(%)
5-day VWAP of LHB Shares up to and including 23 September 2014	2.52	0.98	38.89%
1-month VWAP of LHB Shares up to and including 23 September 2014	2.44	1.06	43.44%
3-month VWAP of LHB Shares up to and including 23 September 2014	2.44	1.06	43.44%
6-month VWAP of LHB Shares up to and including 23 September 2014	2.12	1.38	65.09%
12-month VWAP of LHB Shares up to and including 23 September 2014	1.83	1.67	91.26%

(Source: Bloomberg)

4. RATIONALE AND PROSPECTS OF THE OFFER

QL is currently the second largest shareholder in LHB with 26.81% equity interest.

LHB's controlling shareholders voted at LHB's Annual General Meeting, without QL's prior knowledge, not to re-elect QL's sole representative on the board of LHB as its board member. This decision has direct adverse consequences on QL's investment in LHB as QL will no longer be able to influence its corporate direction. Furthermore, without board representation, QL is concerned about its ability to safeguard the interests of its shareholders, and realise business synergies between LHB and QL.

After much careful consideration and deliberation, the Board and Management of QL decided to take the necessary steps to ensure that its interests in LHB are protected by launching a takeover offer on LHB. If the takeover is successful, the Management of QL is confident that it will create greater value through integration synergy and efficiency improvement.

5. EFFECTS OF THE OFFER

5.1 Share capital and substantial shareholders' shareholdings

The Offer will not have any effect on the issued and paid-up share capital as well as the substantial shareholders' shareholdings in QL as the Offer does not involve any issuance of shares.

5.2 Earnings

Moving forward, the Offer is expected to contribute positively to the earnings and earnings per share of the QL Group for the FYE 31 March 2015.

5.3 Net Assets ("NA") and gearing

Based on the latest audited consolidated financial statements of QL Group as at 31 March 2014, the proforma effects of the Offer (provided for illustrative purposes only assuming that the Offer was effected on that date) on the QL Group's NA and gearing are as follows:-

	Audited as at 31 March 2014 RM '000	Proforma I After the Offer ⁽³⁾ RM 'million
Share capital	312,007	312,007
Share premium	308,018	308,018
Reserves	665,743	665,743
Shareholders' funds / NA	1,285,768	1,285,768
No. of QL shares ('000)	1,248,029	1,248,029
NA per share (RM)	1.03	1.03
Cash and cash equivalents (RM'000)	253,157	253,157
Net borrowings (RM '000) ⁽¹⁾	401,119	532,132
Net gearing (times) ⁽²⁾	0.31	0.41

Notes:-

- ⁽¹⁾ Assuming that the consideration of the Offer will be financed entirely via borrowings.
⁽²⁾ The gearing was computed based on the net borrowings divided by shareholders' funds.
⁽³⁾ Does not take into account the consolidation of LHB Group's business.

6. INDUSTRY OVERVIEW AND PROSPECTS OF THE LHB GROUP

6.1 Overview and outlook of the Malaysian economy

The Malaysian economy registered a strong growth of 6.4% in the second quarter of 2014 (1Q 2014: 6.2%), underpinned by higher exports and continued strength in private domestic demand. On the supply side, growth in the major economic sectors remained firm, supported by trade and domestic activity. On a quarter-on-quarter seasonally adjusted basis, the economy grew by 1.8% (1Q 2014: 0.8%).

For the Malaysian economy, growth of exports is expected to moderate slightly in the second half of the year, partly reflecting the significant base effect in the corresponding period in 2013. Nevertheless, leading indicators suggest that private sector activity will remain as the key driver of growth. Exports will continue to benefit from the recovery in the advanced economies and from regional demand. Going forward, the Malaysian economy is expected to remain on a steady growth path.

(Source: Economic and Financial Developments in Malaysia in the second quarter of 2014, Bank Negara Malaysia)

6.2 Overview and prospects of Malaysia's poultry livestocks industry

Increasing production of food commodities such as vegetables, fruits and livestock as well as the sustained production of CPO and rubber are expected to support growth of the agriculture sector. The food commodities, mainly livestock, fruits and vegetables as well as fishing will continue to record favourable growth, following various government initiatives through the National Key Economic Areas Entry Point Projects (EPPs) to ensure sufficient domestic food production. In addition, investment in oil palm and rubber downstream industries will steadily increase growth in the agriculture sector.

Exports of manufactured goods, which accounted for 74.1% of total exports, are expected to decrease 0.2% to RM518.2 billion (2012: 73.9%; 2.8%; RM519.1 billion) affected by lower shipments of electrical & electronics products. Export of agriculture products are expected to fall 138% to RM66.8 billion (2012: -15. 3%; RM77.4 billion) affected by lower prices of palm oil and rubber.

Production of food commodities comprising livestock, other agriculture and fishing remain as the main driver of the agriculture sector. Value-added of the livestock subsector increased 7.4% (January-June 2012: 8.9%), mainly on account of higher poultry output (9.2%), goats (45.7%) and eggs (4.6%), as demand by domestic food processing industries and the external market increased.

(Source: Chapter 3, Economic Report 2013/2014, Ministry of Finance Malaysia)

7. RISK FACTORS

Shareholders should consider the following risk factors (which may not be exhaustive) pertaining to the Offer as follows:-

(a) Acquisition risks

The Board of Directors of QL ("**Board**") does not foresee QL taking on any additional material risks as a result of the Offer as they already operate in the integrated livestock farming industry and own 26.81% in LHB. The inherent risks commonly associated with the integrated livestock farming industry includes, but are not limited to, external risks such as outbreak of poultry diseases, rising cost of labour and feeds, fluctuations in demand for chicken eggs and decrease in selling price of chicken eggs and other related products, changes in consumer tastes and preferences, new entrants offering similar products as well as any changes in the legal and environment framework within the industry in which QL operate.

(b) Offer

Pursuant to Section 17(2), Part VI of the of the Malaysian Code on Take-Overs and Mergers, 2010 ("**Code**"), the Offer will be conditional upon QL having received acceptances which would result in QL holding in aggregate more than 50% of the voting shares in LHB.

In the event QL is unable to fulfill the Acceptance Condition on or before the closing date of the Offer, the Offer shall lapse and all acceptances received pursuant to the Offer shall be returned immediately by QL.

8. APPROVALS REQUIRED FOR THE OFFER

The Offer is subject to the following approvals:-

- (a) 50% Acceptance Condition pursuant to Section 17(2), Part VI of the Code;
- (b) Securities Commission Malaysia for the issuance of the offer documents in relation to the Offer; and
- (c) Any other relevant parties, if required.

The Offer is not conditional upon any other corporate exercise(s) to be undertaken by the Company.

9. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

None of the Directors, major shareholders and/or persons connected to them has any interest, whether direct or indirect, in the Offer.

10. ESTIMATED TIMEFRAME FOR COMPLETION

The Offer is expected to be completed before end of calendar year 2014.

11. PERCENTAGE RATIOS

The highest percentage ratio applicable to the Offer pursuant to paragraph 10.02(g) of the Listing Requirements of Bursa Securities is 18.7% on the assumption that the acceptances reach 100%. Hence the Offer does not require the approval of the shareholders of QL.

12. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Offer, is of the opinion that the terms of the Offer are in the best interest of the QL Group.

The view of the Board was arrived at after having considered the terms and conditions and rationale for the Offer, as well as the effects of the Offer on the QL Group.

13. DOCUMENTS FOR INSPECTION

The Notice will be made available for inspection at the registered office of the Company at No. 16A, Jalan Astaka U8/83, Bukit Jelutong 40150 Shah Alam, Selangor Darul Ehsan, during normal business hours (*except public holidays*) for a period of three (3) months from the date of this Announcement.

This announcement is dated 24 September 2014.