WORLD PRECISION MACHINERY LIMITED
(Incorporated in Singapore)
(Co. Regn. No: 200409453N)

THE PROPOSED ACQUISITION OF WANNING YINHU HOT SPRING HOLIDAY HOTEL CO., LTD.

The Company has received queries from the SGX Regco on 12 January 2023 (and further supplemented on 17 January 2023) in relation to the Company's announcement on 9 January 2023 released on the SGXnet, titled "The Proposed Acquisition of Wanning Yinhu Hot Spring Holiday Hotel Co., Ltd ("**Target Company**") (the "**Announcement**"). All capitalised terms used in this reply which are not otherwise defined herein shall have the same meanings ascribed to them in the Announcement.

The SGX Regco queries are in italics.

1. *Please disclose further information on the above-ground buildings and fixtures located on the Plot.*

   Company's response

   There are a total of 21 buildings on the Plot, as follows:

Description	**Use**	**Number of blocks**
Main building, main lobby, 3 floors	Main office, guest rooms, and lobby	1
Annex building: Main Dining Room, 1 floor	Main dining room	1
Villa rooms, 3 floors	Guest rooms	8
Accompanying Room: 1 floor	Used as accommodation for tour guides and drivers	3
Guest rooms, 4 floors	Guest rooms	4
Restaurant, 2 floors	Restaurant	1
Administrative building, 2 floors	For management personnel and other supplies for guests	1
Power Distribution Room, 1 floor	For electrical equipment	1
Leisure Centre, 1 floor	For guest use	1

2. *It is disclosed that, "The Target Company is a limited liability company incorporated in the People's Republic of China, with a registered capital of RMB 150 million, of which, RMB 1.8 million has been paid up." Please disclose the identity of the parties who will pay the remaining amount and when the remaining amount will be paid.*

   Company's response

   The party paying for the balance of the registered capital, when paid, will be Jiangsu World Tourism Investment Management Co., Ltd ("**JWTIM**"), a wholly-owned subsidiary of the Company. JWTIM is the sole shareholder of the Target Company upon completion of the Proposed Acquisition.

   The timing and amount to pay will be determined according to the capital requirements of the Target Company. For example, the Target Company will require a capital injection from JWTIM should the management of World Precision Machinery Limited decide to proceed with renovation works for the Existing Infrastructure on the Plot. In the event the management of the Company determines that the Target Company requires less capital than the balance of the registered capital unpaid, the Target Company can make an application to the Industrial and Commercial

Registration Department (工商登记部门) to reduce the registered capital of the Target Company accordingly.

3. *Please disclose the Target Company's claims and liabilities amount and whether such claims and liabilities will be assumed by the Sellers and the Obligor after the proposed acquisition.*

Company's response

The Sellers and JWTIM have identified the total debt amount of the Target Company as RMB 19,527,400, which will be assumed by the Sellers and the Obligor after the Proposed Acquisition. As mentioned in paragraph 3.1(g) the Announcement, under the terms of the Agreement:

"The Sellers have undertaken to assume all debts (contingent or otherwise) and third party claims of the Target Company incurred or arising prior to completion of the Proposed Acquisition, and JWTIM has the right to set off any such liabilities arising from remaining instalments of the Purchase Price payable. The Sellers have undertaken and warranted that all assets of the Target Company will, at completion of the Proposed Acquisition, be free from all encumbrances or defect of rights.

The Obligor has undertaken to be jointly and severally liable with the Sellers for any breach of undertakings, warranties and other contractual obligations of the Sellers. In this connection, the Obligor will also be executing the Commitment Letter where, amongst other undertakings and warranties, the Obligor shall undertake the Sellers' obligations and liabilities under the Agreement."

It is further noted that in connection with the assumption of all claims and liabilities by the Sellers, this has been published in the "Hainan Daily" in fulfilment of one of the conditions precedent to payment of the First Instalment.

4. *Please how the Sellers and Obligor were introduced to the Company.*

Company's response

The Sellers and Obligor were introduced to the Company by a government officer of Wanning Municipal Government, Hainan, The People's Republic of China.

5. *Please disclose whether there is any connection (including business relationship) amongst the Company, its directors and substantial shareholders with the Sellers, the Obligor, its directors, substantial shareholders, and beneficial owners.*

Company's response

Other than entering into the Agreement in relation to the Proposed Acquisition, there is no connection or business relationship between the Company, its directors and substantial shareholders with the Sellers, the Obligor, the Obligor's directors, substantial shareholders, and beneficial owners.

6. *It is noted that the main assets of the Target Company comprise the right to use the state-owned land held by the Target Company. In this regard, please disclose whether there is any agreement with the Government which includes the potential reclaiming of Land by the Government. If yes, please clarify whether the Board has taken this into consideration in respect of the Proposed Acquisition.*

Company's response

With respect to the Plot, the Target Company has already obtained the land certificate "Wanguoyou (2010) No. 5000020" "万国有（2010）第 500020 号" issued by the Hainan Government. There is no risk that the Plot can be reclaimed by the Hainan Government when there is no cause for the Hainan Government to do so.

7. *Please elaborate on the findings of the due diligence performed by the Company, KPMG China and Jiangsu Jiang Cheng Law Firm in respect of the proposed acquisition.*

Company's response

Certain material issues were identified in the course of the due diligence exercise, the salient ones being:

(i) The registered shareholders are holding their shares as nominees of the Obligor.
(ii) Only RMB 1.8 million of the registered capital of RMB150 million has been paid up. JWTIM could be held liable to pay up the balance of the registered capital not yet paid, whether by creditors of the Target Company, or by the Target Company.
(iii) As the Target Company is currently dormant and is not carrying out any business operations, investments will have to be made to the infrastructure assets of the Target Company before the infrastructure assets are suitable for use.
(iv) The Target Company lacks proper documentation of accounting records, and there may be unrecorded liabilities.
(v) The Target Company has unpaid property taxes and land use tax issues.
(vi) The Sellers not having paid their equity transfer price in full.
(vii) The Lease (water surface) has not gone through the approval procedures and the lease period exceeds the statutory maximum period.
(viii) There is potentially an underpayment of social insurance for 3 employees.

Steps taken by the Company to address the abovementioned concerns:

For (i), this is one of the reasons the Obligor is made a party to the SPA, where the Obligor has warranted to JWTIM that the Sellers have the necessary powers to sell the Target Shares.

For (ii), (iv), (v), (vii) and (viii), the Sellers having undertaken to assume all debts (contingent or otherwise) and third party claims of the Target Company incurred or arising prior to completion of the Proposed Acquisition and the Obligor undertaking the Sellers' obligations and liabilities under the Agreement, JWTIM will effectively be buying over only the assets of the Target Company, with all liabilities of the Target Company existing immediately prior to Completion assumed by the Sellers and the Obligor.

For (iii), depending on what the Board of the Company eventually decides to deal with the Target Company and its assets, the Board is aware that further investments in the Existing Infrastructure will be necessary in order for the Target Company to operate a resort hotel, or use the Existing Infrastructure for such other commercial use. Of note is that the value of the Plot itself (not including the Existing Infrastructure and Lease (water surface)), when referenced to the reserve price of 2 recent plots of land of a similar nature as the Plot released by the Hainan Government recently for sale by public auction, would by the management team's estimate, exceed the Consideration.

For (vi), it is a condition precedent to the payment of the First Instalment that all debts between the Obligor, Sellers and the Target Company are fully resolved.

For (vii), post Completion, the Sellers have undertaken that the Sellers and the currently existing employees of the Target Company (and whose services will be terminated by the Target Company at Completion) are to render all assistance necessary to resolve all asset handover issues.

8. *Please disclose*
   1. *The details of the net profits attributable to the assets being acquired under Listing Rule 1010(7) and the computations for the relative figure of 14% under Listing Rule 1006(b)*
   2. *The value of assets acquired as required under Listing Rule 1010(5). Please also clarify if the Company has performed any valuation on the assets to be acquired. If yes, please disclose the findings of the valuation report.*

Company's response

Note: For the purposes of the Announcement, all the financial figures the Company has adopted when disclosing the consolidated financial position and profit and loss for the Group are based on the pro forma financial position and profit and loss for the Target Company as at Completion. The pro forma financials of the Target Company are prepared on the basis of the management accounts of the Target Company as at 31 August 2022 (the "**Management Accounts**") as adjusted by KPMG China based on the financial due diligence report (the "**FDD Adjustment**"), and are further adjusted by the management of the Company for the effects of Completion on the financials of the Target Company (the "**Completion Adjustment**").

1. The net profit of RMB15,869,500 consist of (i) adjusted losses of the Target Company after FDD Adjustment of RMB760,000, (ii) cost incurred by the Company for undertaking the Proposed Acquisition of RMB547,500 and (iii) income to the Target Company from writing off net liabilities of RMB17,177,000 which has been assumed by the Sellers and the Obligor. The net profit of RMB15,869,500 is then divided by the Group's net profits RMB113,347,000 x 100% = 14%.

2. The Company did not appoint a valuer to value the assets of the Target Company. See response to query 9 below for further details on the value of the assets acquired.

9. *It is disclosed that, "The NTA of the Target Company, immediately post completion, is based on adjustments of its balance sheet to take into account (a) the assumption of all of its liabilities (contingent or otherwise) by the Sellers and the Obligor as at completion, (b) the value of the Land Use Right to reflect the current market value of similar parcels of land in the vicinity of the Plot. In determining what the current market value is, the management of the Group had referenced the average price per square metre for the reserve price of 2 plots of land, which are similar in nature to the Plot, released by the Hainan Government for public auction in October 2022." Please disclose the market value of Land Use Right as computed by the management.*

Company's response

The Hainan government has tendered 2 pieces of land around the Target company in October 2022, the area and reserve price are as follows:

Area (sq m)	Total consideration (RMB)	Price per sq m	
4,790.00	12,720,000.00	2,655.53	万宁市兴隆华侨旅游经济区温泉大道南侧地段
26,000.00	76,970,000.00	2,960.38	万宁市兴隆旅游度假区兴梅大道东侧地段
30,790.00	89,690,000.00	2,912.96	Average price per square meter

The land area attributable to the Land Use Right is 54,430.00 square metres and at RMB2,912.96 per square metre, this amounted to RMB158.55 million.

10. *Please disclose the key financial information of the Target Company for the latest financial period which has been taken into consideration in arriving at the consideration amount.*

Company's response

Pro forma balance sheet of the Target Company after adjustments as at Completion:

	Management Account RMB '000	FDD Adjustment RMB '000	After FDD Adjustment RMB '000	Completion Adjustment RMB '000	Pro Forma as at Completion RMB '000
Assets					
Cash and bank balances	25	-	25	-	25

Stocks	45	(45)	-	-	-
Property, plant and equipment	3,322	382	3,704	-	3,704
Land use rights	20,774	(6,362)	14,412	136,859[1]	151,271
Trade receivables	15	114	129	(129)[2]	-
Other receivables	2,206	-	2,206	(2,206)[2]	-
	26,387	(5,911)	20,476	134,524	155,000
Liabilities					
Trade payables	(8,118)	-	(8,118)	8,118[2]	-
Other payables	(103,893)	102,552	(1,341)	1,341[2]	-
Interest payables	(60)	-	(60)	60[2]	-
Salary payables	(135)	-	(135)	135[2]	-
Loans	(9,858)	-	(9,858)	9,858[2]	-
	(122,064)	- 102,552	(19,512)	- 19,512	-
Net (liabilities) /assets	(95,677)	96,641	964	154,036	155,000

Notes:

1. On the assumption that the total value of the Target company is equal to the Purchase Price of RMB155 million, the RMB155 million is allocated to the assets (cash and bank balances, property, plant and equipment and land use rights) as follows:-

Purchase Price	155,000,000.00
Cash and bank balances	(25,000)
Property, plant and equipment	(3,704,000)
Land use rights	(14,412,000)
Balance allocated to assets as land use rights	136,859,000.00

2. All net liabilities of the Target Company existing up to Completion will be assumed by the Sellers and the Obligor at Completion.

Another key financial information that the management of the Company had taken into account is the value of real property similar in nature to the Plot, as described in more detail in response to query 9 above.

11. Please clarify if the consideration amount of RMB 155 million has taken into account the writing off of all liabilities of the Target Company which are assumed by the Sellers and the Obligor.

Company's response

The consideration amount of RMB 155 million has taken into account that all debts (contingent or otherwise) and third party claims of the Target Company incurred or arising prior to completion of the Proposed Acquisition will be assumed by the Sellers and the Obligor. Post completion of the Proposed Acquisition, the Target Company will not be liable for any such debts and claims assumed by the Sellers and the Obligor.

12. *Paragraph 3.2(b)(iii) of Practice Note 10.1 states that for the purposes of computing the relative figures of Rule 1006, an issuer shall consider in computing the aggregate value of consideration given or received under Rule 1006(c) any additional liabilities (whether actual or contingent) to be assumed by the purchaser or waived by the seller under the terms of the transaction shall be included in computing the aggregate value of consideration.*
- Please clarify whether the Board has taken into consideration paragraph 3.2(b)(iii) of Practice Note 10.1 in computing its relative figure under Listing Rule 1006, and provide its bases of assessment.

Company's response

As mentioned above, all debts (contingent or otherwise) and third party claims of the Target Company incurred or arising prior to In the case of the Proposed Acquisition will be assumed by the Sellers and the Obligor. By way of an illustration, if the known debts of the Target Company (as agreed among the Sellers, the Obligor and JWTIM) amounting to RMB 19,527,400 (not including contingent and unknown liabilities) were not assumed by the Sellers and Obligor, JWTIM would certainly have insisted on a lower purchase price, by at least RMB 19,527,400 (and still carrying the uncertainty of contingent liabilities crystallising and unknown liabilities appearing). It would therefore not be accurate to add another RMB 19,527,400 to the Purchase Price of RMB 155 million when computing the aggregate value of consideration, and in fact, would amount to double counting of value of the debts assumed.

By Order of the Board
World Precision Machinery Limited

Shao Jianjun
Executive Chairman
18 January 2023