



MEGROUP LTD.
(Company Registration No. 201804996H)
(Incorporated in the Republic of Singapore)

PROPOSED INVESTMENT AND ACQUISITION OF SHARES IN HANAMARU AUTO TRADING (MALAYSIA) SDN. BHD.

1. INTRODUCTION

- 1.1 The Board of Directors (the "**Board**") of MeGroup Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that the Company had, on 19 August 2022, entered into an investment agreement ("**Investment Agreement**") with Hanamaru Co., Ltd. (the "**Vendor**") and the Vendor's wholly-owned subsidiary, Hanamaru Auto Trading (Malaysia) Sdn. Bhd. ("**Hanamaru**"), for:-
- (a) the Company's subscription for 111,111 ordinary shares ("**HAT Shares**") in the share capital of Hanamaru (the "**Subscription Shares**"); and
 - (b) the Company's acquisition from the Vendor of 111,111 HAT Shares ("**Vendor Shares**"),
- (the "**Proposed Transaction**").
- 1.2 On completion of the Proposed Transaction, the Company will be the legal and beneficial owner of 20.0% of the enlarged issued and paid up share capital of Hanamaru.
- 1.3 The Company has also entered into a shareholders' agreement ("**SHA**") with the Vendor and Hanamaru to regulate their rights and obligations in relation to, and the affairs of Hanamaru. The SHA is conditional upon the completion of the Proposed Transaction.
- 1.4 In addition, Hanamaru and the Vendor have agreed to grant the Company two call options over HAT Shares to give the Company a right to subscribe for and/or acquire additional HAT Shares to increase its stake in Hanamaru to 34.5% and 49.0% respectively (the "**Call Options**"). Please refer to Paragraph 4 for more information on the Call Options.

2. INFORMATION ON THE PROPOSED TRANSACTION

2.1 Information on Hanamaru

Hanamaru is a company incorporated in Malaysia, and operates an online auction platform for the sale of used or salvaged automobiles and other automotive spare parts in Malaysia (the "**Auction Business**").

2.2 Value of the HAT Shares and the Vendor Shares

Based on the unaudited management accounts of Hanamaru as at 31 March 2022, being the latest available unaudited accounts, the net tangible assets ("**NTA**") of Hanamaru is

RM1,857,751. As such, the NTA attributable to the Group's 20.0% stake in Hanamaru is RM371,550.

2.3 Net profit attributable to the HAT Shares and the Vendor Shares

Based on the unaudited management accounts of Hanamaru for financial year ended 31 March 2022 ("FY2022"), Hanamaru recorded a net profit (after taxation) of approximately RM213,103. As such, the net profits attributable to the Group's 20.0% stake in Hanamaru is RM42,621.

2.4 Information on the Vendor

The Vendor is a private company limited by shares incorporated in Japan with its registered office at 1-14-16 Nankokita Suminoe-ku, Osaka-shi, Osaka-fu, Japan 559-0034. The Vendor's principal business is in the wholesale and distribution of used passenger automobiles, trucks, trailers and other motor vehicles to markets outside of Japan. The Vendor also operates an online auction platform for the sale of used or salvaged automobiles in Japan. The Vendor is the sole legal and beneficial owner of the entire issued and paid up share capital in Hanamaru, comprising 1,000,000 HAT Shares of RM 1.00 each. The beneficial owners of the Vendor are: Mr. Kazuya Okazaki, Mr. Yoshiaki Tanaka, Mr. Fumihiko Hozumi, Mr. Daisuke Yamaguchi and Mr. Tadanobu Kurose.

3. PRINCIPAL TERMS OF THE PROPOSED TRANSACTION

3.1 Aggregate value of consideration

The aggregate consideration payable by the Company for the Proposed Transaction is RM919,248 of which RM459,624 is payable by the Company to Hanamaru for its subscription for the Subscription Shares and RM459,624 is payable by the Company to the Vendor for its acquisition of the Vendor Shares. The Proposed Transaction imputes a value of RM4,596,240 on Hanamaru using the exchange rate of JYP100 = RM 3.32 (the "**Valuation**").

The aggregate value of the consideration was arrived at on a willing buyer and willing seller basis after arm's length negotiations between the Company and the Vendor, taking into account, *inter alia*, the following factors:

- 3.1.1 the prevailing market conditions (including the impact of and potential recovery from the COVID-19 pandemic);
- 3.1.2 the business prospects of Hanamaru and the industry in which it operates in light of the Vendor having granted Hanamaru a right of first refusal for any business expansion by the Vendor of the Auction Business in the territories comprising the ASEAN region (being Indonesia, Philippines, Vietnam, Thailand, Myanmar, Malaysia, Cambodia, Laos, Singapore and Brunei, and includes East Timor and Papua New Guinea) and the Commonwealth of Australia;
- 3.1.3 the potential business synergies of Hanamaru's business with the business of the Group; and
- 3.1.4 the fact that the Proposed Transaction constitutes a minority stake in Hanamaru.

3.2 **Material conditions**

Completion of the Proposed Transaction is conditional upon the fulfilment of certain conditions, including the approval of the Company's board of directors, there being no material adverse change and each of the representations and warranties provided by Hanamaru and/or the Vendor in the Investment Agreement remaining true on the date of completion (the "**Completion Date**").

3.3 **Terms of payment**

The Company will pay the aggregate consideration in cash on the Completion Date.

3.4 **Source of funds**

The Proposed Transaction will be fully funded by the Company's internal resources.

4. **THE CALL OPTIONS**

4.1 Hanamaru and the Vendor have also granted the Company two call options (the "**Call Options**"), being the First Call Option and the Second Call Option, in a call option agreement dated 19 August 2022 ("**Call Option Agreement**"). The Call Options would allow the Company to subscribe for and/or purchase HAT Shares from the Vendor upon the Hanamaru fulfilling certain milestones. The Call Options do not have an expiration date.

4.2 The First Call Option is exercisable at the Company's discretion in the event Hanamaru achieves a profit before tax of RM900,000 or more for any financial year after the date of the Call Option Agreement. Under the First Call Option, the Company would be entitled to either:-

- (a) (1) subscribe for such number of new HAT Shares from Hanamaru in cash; and (2) acquire existing HAT Shares held by the Vendor in an amount equal to the amount of new HAT Shares subscribed for, to be satisfied by an issue and allotment of new ordinary shares of the Company to the Vendor (the "**Consideration Shares**") at the Consideration Shares Issue Price; or
- (b) subscribe for such number of new HAT Shares from Hanamaru in cash,

at the First Call Option Exercise Price so as to give the Company an interest in an aggregate of 34.5% of the enlarged issued and paid up share capital of Hanamaru respectively.

The "**First Call Option Exercise Price**" means the exercise price per HAT Share which values Hanamaru at 1.3 times the Valuation and "**Consideration Shares Issue Price**" means S\$0.17 per Consideration Share provided that in the event such issue price is more than a 10% discount to the weighted average price for trades for the full trading day on the exercise of the First Call Option or the Second Call Option or if no trades were recorded on the exercise date, the full trading day on which shares were traded immediately prior to the exercise date, then the Consideration Shares Issue Price shall be capped at a 10% discount.

4.3 The Second Call Option is exercisable at the Company's discretion in the event Hanamaru achieves a profit before tax of RM1,800,000 or more for any financial year after the date of the Call Option Agreement. Under the Second Call Option, the Company would be entitled to either:-

(a) (1) subscribe for such number of new HAT Shares from Hanamaru in cash; and (2) acquire existing HAT Shares held by the Vendor in an amount equal to the amount of new HAT Shares subscribed for, to be satisfied by an issue and allotment of Consideration Shares to the Vendor at the Consideration Shares Issue Price; or

(b) subscribe for such number of new HAT Shares from Hanamaru in cash,

at the Second Call Option Exercise Price so as to give the Company an interest in an aggregate of 49.0% of the enlarged issued and paid up share capital of Hanamaru respectively.

The "**Second Call Option Exercise Price**" means the exercise price per HAT Share which values Hanamaru at 1.5 times the Valuation.

4.4 The Vendor has agreed to provide moratorium undertaking(s) to the Company in respect of any Consideration Shares issued to it pursuant to the Call Options, under which the Vendor shall not directly or indirectly sell, contract to sell, offer, transfer, realise, assign, grant any option or right to acquire or otherwise dispose of its Consideration Shares held by it for a period of three (3) years.

5. RATIONALE FOR THE PROPOSED TRANSACTION AND THE CALL OPTIONS

5.1 Hanamaru is in the business of purchasing salvaged, broken-down, used, and damaged automobiles, and other automotive spare parts which is re-sold on an online auction platform which it operates. The Group, on the other hand, is in the business of manufacturing noise, vibration and harshness ("**NVH**") and non-NVH components for the automotive industry and the operation of automobile dealerships in Malaysia. As such, the Board is of the view that the Proposed Transaction and the Call Options are, together, a valuable opportunity to invest in a related business and realise the synergies between Hanamaru and the Group through better operational productivity and cost efficiencies.

5.2 Upon completion of the Proposed Transaction, the Company will have a 20.0% interest in Hanamaru. This will allow the Group to generate a new stream of income from the profits of Hanamaru's business, especially taking into account any potential expansion of the Auction Business into Southeast Asia and Australia. The Call Options will enable the Group to increase such profits in future should the Hanamaru business become increasingly profitable.

5.3 The Board recognizes the performance and continuing potential of Hanamaru and is of the view that in light of the improving COVID-19 crisis and potential expansion of the Auction Business into Southeast Asia and Australia, Hanamaru's profitability will improve and enhance shareholders' value in the long term.

Based on the above considerations, the Board believes that the Proposed Transaction and the Call Options will be beneficial to and is in the best interests of the Company and the Group.

6. RELATIVE FIGURES COMPUTED ON THE BASES SET OUT IN RULE 1006 OF THE LISTING MANUAL

6.1 The relative figures of the Proposed Transaction and the Call Options under Listing Rule 1006 of the SGX-ST Listing Manual Section B: Rules of the Catalist ("**Catalist Rules**") based on the Group's audited consolidated financial statements for FY2022 (being the latest announced consolidated accounts) and Hanamaru's unaudited management accounts for the financial year ended 31 March 2022, are set out below.

Rule 1006	Bases	Relative Figures (%)
(a)	Net asset value (" NAV ") of the assets to be disposed of, compared with the Group's NAV	Not applicable ⁽¹⁾
(b)	Net profits attributable to the assets acquired, compared with the Group's net profits	-5.8% ⁽²⁾
(c)	Aggregate value of the consideration given, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares	7.8% ⁽³⁾
(d)	Number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	1.5% ⁽⁴⁾
(e)	The aggregate volume or amount of proven and probable reserves to be acquired, compared with the aggregate of the Group's proven and probable reserves	Not applicable ⁽⁵⁾

Notes:

- (1) This basis is not applicable to the Proposed Transaction and the Call Options.
- (2) Assuming (a) the completion of the Proposed Transaction; and (b) the Company exercises both the First Call Option and the Second Call Options, the Company would have a 49.0% interest in Hanamaru (the "**Resultant HAT Shares**"). The net profit attributable to the Resultant HAT Shares is approximately RM104,420 and the Group recorded a net loss of RM1,792,303 (before taxation).
- (3) Pursuant to Rule 1003(3) of the Catalyst Rules, where the consideration is in the form of shares, the value of the consideration shall be determined by reference either to the market value of such shares or the NAV represented by such shares, whichever is higher. In the event the First Call Option and the Second Call Option respectively are exercised in accordance with paragraphs 4.2(a) and 4.3(a) of this announcement, the Company would be issuing equity securities as consideration for the acquisition of 97,348 HAT Shares and 116,044 HAT Shares respectively. In such an event, the Company will issue and allot 1,766,821 Consideration Shares to the Vendor, based on the agreed upon issue price of S\$0.17 per Consideration Share and an exchange rate of S\$1 : RM3.1064. As the NAV represented by such shares (being S\$0.10 per Consideration Share) is higher than the market value of the shares (based on the volume weighted average price of S\$0.08 on 12 August 2022, being the last market day on which the Shares were traded before the date of the Investment Agreement (the "**Consideration Shares Market Value**"), the aggregate value of the consideration payable by the Company for the Proposed Transaction, the First Call Option and the Second Call Option for purposes of Rule 1006 is RM2,401,130, being the aggregate of (a) the cash amount payable by the Company on completion of the Proposed Transaction (being RM919,248); (b) the value of the Consideration Shares (being RM548,845); and (c) the amounts to be paid in cash by the Group upon the exercise of the First Call Option and the Second Call Option (being RM933,037). The market capitalization of the Group as at 12 August 2022 is S\$9,920,435 (equivalent to approximately RM30,816,840).
- (4) In the event the First Call Option and the Second Call Option respectively are exercised in accordance with paragraphs 4.2(a) and 4.3(a) of this announcement, the Company would be issuing equity securities as consideration for the acquisition of 97,348 HAT Shares and 116,044 HAT Shares respectively. In such an event, the Company will issue and allot 1,766,821 Consideration Shares to the Vendor, based on the agreed upon issue price of S\$0.17 per Consideration Share and an exchange rate of S\$1 : RM3.1064. As at the date of this announcement, the Company has 119,523,315 issued ordinary shares and there are no outstanding convertibles, treasury shares or subsidiary holdings.
- (5) The Company is not a mineral, oil and gas company.

- 6.2 As the absolute relative figure under Rule 1006(c) and Rule 1006(d) of the Catalist Rules does not exceed 75% and net profit attributable to the asset to be acquired exceeds 5% of the consolidated net loss of the Group (taking into account only the absolute values), Paragraph 4.4(b) of Practice Note 10A of the Catalist Rules applies. Accordingly, the Proposed Transaction and Call Options together constitute a "discloseable transaction" as defined in Chapter 10 of the Catalist Rules.

7. FINANCIAL EFFECTS OF THE PROPOSED TRANSACTION AND CALL OPTIONS

7.1 General

The proforma financial effects of the Proposed Transaction and the Call Options on the NTA per share and the loss per share ("**LPS**") of the Group are set out below. The proforma financial effects have been prepared based on:

- (a) the audited consolidated financial results of the Group for FY2022; and
- (b) the unaudited management accounts of Hanamaru for FY2022.

The proforma financial effects are purely for illustration purposes only and are therefore not necessarily indicative of the actual financial position of the Group after the Proposed Transaction and the Call Options have been fully completed.

7.1.1 NTA

For illustrative purposes only, the proforma financial effects of the Proposed Transaction and the Call Options on the Group's NTA per share, assuming that the Proposed Transaction and the Call Options had been completed on 31 March 2022, being the end of the most recently completed financial year, are set out below:

NTA	Before the Proposed Transaction	After the Proposed Transaction	After the Proposed Transaction and the exercise of the First Call Option ⁽¹⁾	After the Proposed Transaction and the exercise of the First Call Option and the Second Call Option ⁽²⁾
NTA (RM)	38,302,468	38,345,089	38,375,989	38,406,888
Number of issued shares	119,523,315	119,523,315	119,523,315	119,523,315
NTA per share (RM)	0.32	0.32	0.32	0.32

Notes:

- (1) This assumes the Company exercises the First Call Option in full such that the Company subscribes for new HAT Shares in cash without issuing any Consideration Shares.

- (2) This assumes the Company exercises the First Call Option and the Second Call Option in full such that the Company subscribes for new HAT Shares in cash without issuing any Consideration Shares.

7.1.2 Loss per Share

For illustrative purposes only, the proforma financial effects of the Proposed Transaction and the Call Options on the consolidated earnings of the Group, assuming that the Proposed Transaction and the Call Options had been completed on 1 April 2021, being the beginning of the most recently completed financial year, are set out below:

LPS	Before the Proposed Transaction	After the Proposed Transaction	After the Proposed Transaction and the exercise of the First Call Option ⁽¹⁾	After the Proposed Transaction and the exercise of the First Call Option and the Second Call Option ⁽²⁾
Loss attributable to the owners of the Group (RM)	3,125,455	3,082,834	3,051,934	3,021,035
Weighted average number of issued shares	119,523,315	119,523,315	119,523,315	119,523,315
LPS - Basic (RM)	0.03	0.03	0.03	0.03

Notes:

- (1) This assumes the Company exercises the First Call Option in full such that the Company subscribes for new HAT Shares in cash without issuing any Consideration Shares.
- (2) This assumes the Company exercises the First Call Option and the Second Call Option in full such that the Company subscribes for new HAT Shares in cash without issuing any Consideration Shares.

8. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as disclosed in this announcement, none of the directors or controlling shareholders of the Company has any interest, direct or indirect (other than through their shareholdings in Company), in the Proposed Transaction and the Call Options.

9. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company in connection with the Proposed Transaction and the Call Options. Accordingly, no service contract is proposed to be entered into between the Company and any such person.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Investment Agreement, Call Option Agreement and the SHA are available for inspection during normal business hours at the Company's registered office at 133 Cecil Street #14-01, Keck Seng Tower, Singapore 069535, for a period of three (3) months commencing from the date of this announcement.

BY ORDER OF THE BOARD

Wong Cheong Chee
Executive Chairman and Chief Executive Officer
19 August 2022

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, UOB Kay Hian Private Limited (the "**Sponsor**") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalyst.*

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement.

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