

SALE OF THE ENTIRE SHAREHOLDING INTEREST IN HAFARY CHINA PTE. LTD.

I. INTRODUCTION

Hafary Holdings Limited ("**HHL**" or the "**Company**"), and together with its subsidiaries, collectively the "**Group**") wishes to announce that its wholly-owned subsidiary, Hafary Pte Ltd (the "**Vendor**"), had on 10 January 2014 entered into a sale and purchase agreement (the "**Agreement**") with Mr. Zhang Haobin (张浩斌) (the "**Purchaser**") for the proposed disposal by the Vendor of its entire shareholding interest in all the issued and paid-up ordinary shares (the "**Sale Shares**") in the share capital of Hafary China Pte. Ltd. ("**HChPL**") to the Purchaser (the "**Proposed Disposal**"). Upon completion of the Proposed Disposal ("**Completion**"), HChPL will cease to be a wholly-owned subsidiary of the Vendor and will not remain within the Group.

2. INFORMATION ON HCHPL AND THE PURCHASER

- 2.1 HChPL was incorporated in Singapore on 2 September 2011 with an issued and paid-up capital of S\$10 consisting 10 ordinary shares, as a special purpose vehicle for the investments and acquisition of assets by the Group in China, and is wholly-owned by Hafary Pte Ltd, which is in turn a wholly-owned subsidiary of HHL. HChPL holds a 45% equity interest in Hunan Cappuccino Construction Materials Co., Limited ("**HCCM**"), a tile manufacturing facility in China.
- 2.2 The Purchaser is a citizen of the People's Republic of China, and is a controlling shareholder and the legal representative of HCCM. The Purchaser is not related to HHL, its directors or its executive management.

3. RATIONALE FOR THE PROPOSED DISPOSAL

- 3.1 Since the commencement of HCCM's business, HCCM has been loss-making and the projected rate of returns of investment in HCCM has not materialised. This has arisen due to factors such as unfavourable market conditions in China as well as difficulty by HCCM in obtaining sufficient financing for its operations. As such, it is believed that it would be in the interest of HHL's shareholders that the Group proceeds with the Proposed Disposal.

- 3.2 The Proposed Disposal will allow HHL to realise some returns from its investment in HCCM at this time, rather than letting HCCM's business gradually wind-down and likely result in zero returns.

4. PRINCIPAL TERMS OF THE PROPOSED DISPOSAL

4.1 Consideration

- 4.1.1 The consideration for the Sale Shares is RMB 5 million, equivalent to approximately S\$1.0 million based on the exchange rate of S\$0.2101: RMB 1.0000 as at the date preceding the date of this announcement (the "**Consideration**"). The Consideration is to be satisfied by the Purchaser in favour of Foshan Hafary Trading Co., Limited ("**FCT**") which will receive the Consideration on behalf of the Vendor. FCT is a company incorporated in China and is a wholly-owned subsidiary of Hafary International Pte. Ltd., which in turn is wholly-owned by the Vendor.
- 4.1.2 The Consideration was negotiated at arms-length and arrived at on a willing seller willing buyer basis, taking into account the prospects of the business of HChPL and based on the valuation of Nexia TS Advisory Pte Ltd set out in the independent valuation report dated 11 December 2013 (the "**Valuation Report**"). The Proposed Disposal is conducted on normal commercial terms considering the reasons set out in 'Rationale for the Proposed Disposal' above.
- 4.1.3 The board of directors of the Company (the "**Board of Directors**") is unanimously of the view that the sale consideration of RMB 5 million is in the best interests of the shareholders of the Company and is not prejudicial to the interests of the Company and its shareholders.

4.2 Conditions Precedent under the Agreement

Pursuant to the terms of the Agreement, the Proposed Disposal is subject to and conditional upon the fulfillment (or waiver) of, *inter alia*, the approval of HChPL's directors for the transfer of the Sale Shares from the Vendor to the Purchaser

4.3 Completion under the Agreement

The Completion date will be on 28 January 2014, or such other time and place as may be agreed between the Vendor and the Purchaser.

5. FINANCIAL EFFECTS

5.1 The financial effects of the Proposed Disposal on the Group as set out below are for illustrative purposes only and are not intended to reflect the actual future financial performance or position of the Group immediately after the completion of the Proposed Disposal. The financial effects of the Proposed Disposal set out below have been prepared based on the Group's audited consolidated financial statements for the financial year ended 30 June 2013 ("FY2013").

5.1.1 Net tangible assets ("NTA")

The effects of the Proposed Disposal on the audited consolidated NTA per share of the Group as at FY2013, assuming that the Proposed Disposal had been effected on 30 June 2013 (i.e. the end of FY2013), are summarized below:-

	Before the Proposed Disposal	After the Proposed Disposal
Consolidated NTA (S\$'000)	44,676	45,726
Number of shares ('000)	429,000	429,000
Consolidated NTA per share (cents)	10.4	10.7

5.1.2 Earnings per Share ("EPS")

The effects of the Proposed Disposal on the audited consolidated EPS of the Group for FY2013, assuming that the Proposed Disposal had been effected at the beginning of FY2013 are summarized below:-

	Before the Proposed Disposal	After the Proposed Disposal
Earnings attributable to equity holders of the Company (S\$'000)	22,328	23,378
Weighted average number of shares ('000)	402,479	402,479
Consolidated EPS (cents)	5.55	5.81

5.2 Other financial information

As at 31 December 2013, the book value (as well as net tangible asset value) of HChPL reflects a net deficit of approximately S\$4,000. There is no open market value. The excess of proceeds of the Proposed Disposal over the book value of HChPL (i.e. gain on disposal) is approximately S\$1.0 million. There is no net profit attributable to the Proposed Disposal as HChPL is loss-making.

The proceeds of the Proposed Disposal will be used as working capital to fund the operations of the Group's core businesses.

6. RULE 1006

6.1 The relative figures in relation to the Proposed Disposal computed on the applicable bases set out in Rule 1006 of the Listing Manual of the SGX-ST (the "**Listing Manual**"), based on the Group's audited consolidated financial statements for the FY2013, being the latest announced audited consolidated financial statements of the Group as at the date of the Agreement, are as follows:-

Rule 1006(a)	Net asset value of the Sale Shares, compared with the Group's net asset value	-13.6%
Rule 1006(b)	Net profits attributable to the Sale Shares, compared with the Group's net profits	-21.6%
Rule 1006(c)	Consideration received for the Proposed Disposal compared with the Company's market capitalization	1.2%
Rule 1006(d)	Number of equity securities issued by the Company as consideration for the acquisition, compared with the number of equity securities previously in issue.	Not applicable
Rule 1006(e)	Aggregate volume or amount of proven and probable reserves to be disposed of, compared with the aggregate of the Group's proven and probable reserves	Not applicable

6.2 As the relative figures under Rule 1006(a) and Rule 1006(b) are negative, the Board of Directors sought confirmation from the SGX-ST in its letter dated 29 October 2013 as well as the subsequent letters sent by TSMP Law Corporation on behalf of the Company dated 29 November 2013 and 12 December 2013 that, while Chapter 10 of the Listing Manual is still applicable, shareholders' approval is not required for the Proposed Disposal. By its letter dated 9 January 2014, the SGX-ST (the "**SGX Waiver**") confirmed with the Company that shareholders' approval is not required for the Proposed Disposal, subject to the following:-

6.2.1 the Company announcing the waiver granted, the reasons for granting the waiver and the conditions as required under Rule 107 of the Listing Manual;

6.2.2 submission of a written confirmation from the Company that the waiver does not contravene any laws and regulations governing the Company and the articles of association of the Company; and

6.2.3 the Company announcing its representations and basis as stated in paragraph 2 of the SGX Waiver.

7. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors and the controlling shareholders of the Company have any interest or are deemed to be interested in the Proposed Disposal.

8. DIRECTORS' SERVICE CONTRACTS

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

9. MISCELLANEOUS

The following documents are available for inspection at the registered office of the Company at 105 Eunos Avenue 3, Hafary Centre, Singapore 409836, during normal business hours for three (3) months from the date of this announcement:-

- (i) the Agreement; and
- (ii) the Valuation Report.

Shareholders and potential investors should note that the Proposed Disposal is subject to the fulfillment (or waiver) of, *inter alia*, the conditions precedent set out above and accordingly should exercise caution when trading in the shares of the Company. Persons who are in doubt as to the action they should take should consult their legal, financial, tax or other professional advisers.

BY ORDER OF THE BOARD

Tay Eng Kiat Jackson
Financial Controller
10 January 2014