

PROPOSED ACQUISITION OF 75% OF THE STAKE IN TENDERFRESH BUSINESS

1. INTRODUCTION

The Board of Directors ("**Board**") of Kimly Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that the Company had on 11 May 2021, entered into an acquisition agreement ("**Acquisition Agreement**") with Soh Chun King ("**SCK**"), Koh Siew Tin ("**KST**") and Chew Kian Ho (collectively, the "**Vendors**") for the acquisition of a 75% stake in the Tenderfresh business which comprises central kitchens, restaurants, kiosks, food stalls, plant and equipment, trademarks and customer relationships ("**Tenderfresh Business**") that operate via various business entities, for a total consideration of S\$54,000,000 (the "**Purchase Consideration**"), to be satisfied partly in cash of S\$38,000,000 and partly by the issuance of 51,216,389 new shares in the capital of the Company (each, a "**Consideration Share**" and collectively, the "**Consideration Shares**") at the issue price of S\$0.3124¹ per share ("**Issue Price**"), upon the terms and subject to the conditions set out in the Acquisition Agreement (the "**Proposed Acquisition**").

2. INFORMATION ON TENDERFRESH BUSINESS AND THE VENDORS

2.1. Information on the Tenderfresh Business

Founded in 1979, the Tenderfresh Business is a homegrown food business built on the commitment of good quality food at great value. Grown from a single popular local food concept specialising in fried or roasted spring chickens and chicken wings, today, the Tenderfresh Business manages 14 concepts and 41 outlets, ranging from western fares and traditional local cuisines to food kiosks, retail outlets and Original Equipment Manufacturing (OEM). Tenderfresh Business currently operates a 25,000 square foot facility that is also International Organisation for Standardization (ISO), Hazard Analysis and Critical Control Points (HACCP) and Halal certified. The central kitchen supplies semi-finished products to its own outlets in an effort to reduce reliance on manpower as well as to OEM customers island wide. The unaudited profit before income tax, non-controlling interests and extraordinary items of Tenderfresh Business (a consolidation of various business entities) for a common 12-month period ended on 31 December 2020 ("**2020 PBT**"), after taking into account the government grants income of S\$3.2 million, was S\$11.8 million.

¹ The issue price per Consideration Share is at a discount of 3.1% to the volume weighted average price of S\$0.3224 for trades done on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") for the full market day on 5 May 2021, being the last full market day prior to the trading halt called by the Company.

2.2. Information on the Vendors

The Vendors are Singaporean and the founders of the Tenderfresh Business. SCK and KST are the shareholders and directors of Tenderfresh Fried & BBQ Chicken Pte Ltd, a joint venture partner of the Group's halal coffeeshop, Kedai Kopi.

Saved as disclosed above, to the best of knowledge of the Board, the Vendors are independent of the Company, its directors, substantial shareholders and their respective associates. The Board is also not aware of any relationships between the Vendors and the shareholders of the existing JV partners of the Group (as defined and referred in the Company's announcements dated 9 September 2020, 29 September 2020, 3 November 2020, 21 January 2021 and 29 April 2021).

3. RATIONALE FOR THE PROPOSED ACQUISITION

The Proposed Acquisition is in line with the Group's strategy to expand its business through acquisitions, joint ventures or strategic alliances as previously disclosed in the Company's offer document dated 8 March 2017, which may include horizontal acquisitions (acquisitions of other coffee shops and food stall chains).

The Board believes that the Tenderfresh Business is complementary and will have synergistic effects as the Group will be able to leverage on Tenderfresh Business' competitive edge and wide networks in Singapore's Halal food and beverage market. Singapore has a population of 14% Muslims and is a globally recognised Halal food hub due to its stringent food safety laws and recognized Halal standards. The Singapore Halal mark and standard are also recognised by Brunei, Indonesia and Malaysia under the MABIMS agreement². In addition, Singapore's strategic location at the very heart of Asia is also a significant factor for the rapid growth of its Halal industry³. As Tenderfresh Business' central kitchen is Halal-certified and "Tenderbest", one of its multiple brands, is well-recognised by the local Muslim community, the Group is able to leverage on Tenderfresh Business' competitive edge and wide network in the Halal food market and make further headway into the Halal food industry. The Group hopes to capitalise on this growing market in Singapore which may serve as a springboard into the greater South-east Asian region and propel the Group towards its maiden revenue from overseas. Looking at the prospects in the region, the Asia-Pacific market for Halal food and beverage is projected to register a compound annual growth rate of 5.5%, during the period 2020 to 2025 as per Mordor Intelligence⁴.

In addition, the Proposed Acquisition will allow Tenderfresh Business to extend their food concepts into the food outlets managed by the Group, reducing the costs of duplicating manufacturing processes performed at each other's central kitchens. The wide variety of food will increase and differentiate items offered on the menu at each other's food outlets. This offers great potential for new revenue streams to grow, expanding from direct sales to consumers through restaurants and coffeeshop food stalls to sales in supermarket chains and other restaurant groups.

² As per Singapore Halal Directory, <https://www.singaporehalaldirectory.com/articles/industry-articles/singapore-halal-food-sector-at-the-forefront-of-innovation>

³ An Overview of Halal Industry in Singapore, https://www.researchgate.net/publication/281272919_An_Overview_of_Halal_Industry_in_Singapore

⁴ ASIA-PACIFIC HALAL FOOD AND BEVERAGE MARKET - GROWTH, TRENDS, COVID-19 IMPACT, AND FORECASTS (2021 - 2026); <https://www.mordorintelligence.com/industry-reports/asia-pacific-halal-food-and-beverages-market>

4. PRINCIPAL TERMS THE PROPOSED ACQUISITION

4.1 Restructuring Exercise

The Tenderfresh Business shall be restructured and consolidated to achieve the group structure as agreed by the Company and the Vendors ("**Restructuring Exercise**"). As part of the Restructuring Exercise, a new entity will be incorporated by the Vendors for the purpose of holding the Tenderfresh Business ("**SPV**"), and pursuant to the Acquisition Agreement, the Company will on completion of the Proposed Acquisition, own 75% equity interest in the SPV for an aggregate Purchase Consideration of S\$54,000,000.

4.2 Purchase Consideration

The Purchase Consideration of S\$54,000,000 was arrived at after negotiations on an arm's length basis and on a willing-buyer and willing-seller basis, after taking into account the independent valuation of the Tenderfresh Business as set out in the valuation report dated 10 May 2021, issued by Cushman & Wakefield VHS Pte. Ltd. ("**Independent Valuer**"), as commissioned by the Company to conduct an independent valuation on the market value of 100% stake in the Tenderfresh Business ("**Valuation Report**").

The Independent Valuer has adopted the income approach as its primary approach with reference made to the market approach. Based on the Valuation Report, the market value of 100% stake in the Tenderfresh Business, as at 31 January 2021 is between the range of S\$65.6 million and S\$81.2 million. The Purchase Consideration representing 75% stake in the Tenderfresh Business (being the proportionate interest in the Tenderfresh Business that the Company is acquiring) is within the range of the abovementioned market value.

The Purchase Consideration payable by the Company shall be satisfied in the following manner:

- (a) S\$34,000,000 in cash, through internal cash resources of the Group, on completion;
- (b) S\$16,000,000 through the allotment and issuance of 51,216,389 Consideration Shares at the Issue Price of S\$0.3124 per Consideration Share, on completion; and
- (c) S\$4,000,000 in cash, upon achieving the target profit before tax of at least S\$9,000,000⁵ ("**Target PBT**") based on the audited consolidated Profit Before Tax ("**PBT**") for the financial year ending 30 September 2022 ("**FY2022**") ("**Earn-out Consideration**").

In the event that the FY2022 PBT is less than S\$9,000,000, the amount of Earn-out Consideration payable to the Vendors shall be calculated based on the following formula and shall be satisfied in cash:

$$\frac{\text{FY2022 PBT}}{\text{Target PBT}} \quad \times \quad \text{S\$4,000,000}$$

⁵ The 2020 PBT of S\$8.6 million (after adjustment for the government grants income of S\$3.2 million) was due mainly to higher revenue recorded from delivery sales arising from the COVID-19 pandemic. The Target PBT has taken into consideration the potential impact on delivery sales once the food and beverage environment returns to normalcy.

4.3 Conditions Precedent

Completion of the Proposed Acquisition is conditional upon the fulfilment of certain conditions. The material conditions are, *inter alia*:

- (a) results of the due diligence investigations being satisfactory to the Company;
- (b) the Restructuring Exercise having been duly completed; and
- (c) save for the Restructuring Exercise, there being no material adverse change to the operations, assets and financial condition of the Tenderfresh Business.

4.4 Completion

Completion of the Proposed Acquisition is expected to take place within five (5) months of the date hereof ("**Completion Date**").

4.5 Put and Call Option

The Company agrees to grant to the Vendors an evergreen put option ("**Put Option**"); and the Vendors have also agreed to grant the Company an evergreen call option ("**Call Option**") exercisable at any time after the fifth (5th) anniversary of the Completion Date pursuant to which:

- (a) the Vendors may sell or procure to be sold; or
- (b) the Company may require the Vendors to sell or procure to be sold,

the 25% shareholding interest in the share capital of the SPV post completion held by the Vendors or their nominee, at a price to be mutually agreed upon the exercise of the Put Option or the Call Option, but which in the absence of such agreement shall be S\$18,000,000.

5. RELATIVE FIGURES ON THE BASES SET OUT IN RULE 1006 OF THE CATALIST RULES

The relative figures for the Acquisition computed on the bases set out in Rule 1006 of the Section B of the Listing Manual of the SGX-ST: Rules of Catalist ("**Catalist Rules**") are as follows:

Rule 1006	Bases	Relative Figures (%)
(a)	The net asset value of the assets to be disposed of, compared with the group's net asset value. This basis is not applicable to an acquisition of assets.	Not applicable as the Proposed Acquisition is not a disposal.
(b)	The net profits attributable to the assets acquired or disposed of, compared with the group's net profits.	15.7 ⁽¹⁾
(c)	The aggregate value of the consideration given or received, compared with the issuer's market capitalisation based on the total number of issued shares excluding treasury shares.	14.1 ⁽²⁾
(d)	The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue.	4.3 ⁽³⁾
(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the group's proved and probable reserves. The basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such asset.	Not applicable as Tenderfresh Business is not a mineral, oil and gas company.

Notes:

- (1) "Net profits" means profit or loss before income tax and extraordinary items. The net profits attributable to the assets acquired, compared to the group's net profits is calculated based on the unaudited net profits for the 6-month period ended on 31 March 2021, after taking into consideration staff incentives and bonus adjustments, attributable to the 75% stake in the Tenderfresh Business (being the proportionate interest in the Tenderfresh Business that the Company is acquiring) of S\$4,033,000 and the Group's net profits for 1H FY2021 of S\$25,728,000.
- (2) The Company's market capitalisation of approximately S\$383,673,750 is based on its total number of issued ordinary shares ("**Shares**") of 1,190,055,056 and the weighted average price of S\$0.3224 per Share on 5 May 2021, being the last traded market day prior to the trading halt called by the Company. The aggregate Purchase Consideration is S\$54,000,000.
- (3) The number of new ordinary shares to be issued by the Company as consideration for the Proposed Acquisition is an aggregate of 51,216,389 new ordinary shares. The number of ordinary shares in issue as at the date of this announcement is 1,190,055,056 shares (excluding treasury shares and subsidiary holdings).

Having regard to the above, as the relative figures computed based on Rules 1006(b), 1006(c) and 1006(d) of the Catalist Rules do not exceed 75%, the Proposed Acquisition constitutes a "disclosable transaction" under Rule 1010 of the Catalist Rules. In any event, this announcement is made pursuant to the requirements of Rule 1009 of the Catalist Rules since the Purchase Consideration will be partly satisfied by the allotment and issuance of the Consideration Shares for which listing is being sought. For the avoidance of doubt, the relative figures computed based on Rules 1006(b), 1006(c) and 1006(d) of the Catalist Rules do not exceed 75% even after taking into consideration the exercise of the Put Option or the Call Option in such computation.

6. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

The unaudited pro forma financial effects are presented for illustration purposes only and are not intended to reflect the actual future financial position of the Group after completion of the Acquisition. The unaudited pro forma financial effects below were prepared based on the audited financial statements for the Group for FY2020.

6.1. Net Asset Value ("NAV")

Assuming the Acquisition had been completed or had taken place as at 30 September 2020, the unaudited pro forma NAV of the Group would have been as follows.

	Before the Proposed Acquisition	After the Proposed Acquisition
NAV (S\$'000)	110,205	110,205
Number of Shares	1,190,055,056 ⁽¹⁾	1,241,271,445
NAV per Share (cents)	9.26	8.88

Note:

- (1) Calculated based on 1,190,055,056 shares as at the date of this announcement (excluding treasury shares and subsidiary holdings).

6.2. Net Tangible Assets ("NTA")

Assuming the Acquisition had been completed or had taken place as at 30 September 2020, the unaudited pro forma NTA of the Group would have been as follows.

	Before the Proposed Acquisition	After the Proposed Acquisition
NTA (S\$'000)	105,796	55,730 ⁽¹⁾
Number of Shares	1,190,055,056 ⁽²⁾	1,241,271,445
NTA per Share (cents)	8.89	4.49

Notes:

- (1) The NTA of the Group after the Proposed Acquisition takes the Purchase Consideration of S\$54,000,000, which includes estimated intangible assets and goodwill of S\$50,066,000 following a purchase price allocation exercise conducted, into account.
- (2) Calculated based on 1,190,055,056 shares as at the date of this announcement (excluding treasury shares and subsidiary holdings).

6.3. Earnings per Share ("EPS")

Assuming that the Acquisition had been effected on 1 October 2019 (being the beginning of the most recently completed financial year ended 30 September 2020), the pro forma EPS of the Group for FY2020 are as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Profit after tax attributable to Shareholders (S\$'000)	25,225	30,900 ⁽¹⁾
Number of Shares	1,190,055,056 ⁽²⁾	1,241,271,445
EPS per Share (cents)	2.12	2.49

Notes:

- (1) The EPS per Share of the Group after the Proposed Acquisition is calculated based on the unaudited net profit after tax attributable to the 75% stake in the Tenderfresh Business (being the proportionate interest in the Tenderfresh Business that the Company is acquiring) for the 12-month period ended 31 December 2020 of S\$5,675,000 (after taking into account the amortisation of the intangible assets arising from the Proposed Acquisition) and the net profit after tax attributable to shareholders of the Group for FY2020 of S\$25,225,000.
- (2) Calculated based on 1,190,055,056 shares as at the date of this announcement (excluding treasury shares and subsidiary holdings).

7. CONSIDERATION SHARES

The Consideration Shares will be issued pursuant to the authority under the general share issue mandate granted by the Shareholders at the annual general meeting of the Company held on 26 January 2021 ("**AGM**") pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore and Rule 806 of the Catalist Rules ("**General Mandate**"). The General Mandate authorises the Directors to allot and issue not more than 1,188,667,212 shares, being 100% of the total number of issued shares in the capital of the Company ("**Shares**") (excluding treasury shares and subsidiary holdings) as at the date of the AGM, of which the aggregate number of Shares that may be issued other than on a pro-rata basis to existing Shareholders must not be more than 594,333,606 Shares, being 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings) as at the date of the AGM.

As at the date of this announcement, the Company has issued 1,000,000 Shares, in relation to the acquisition of 60% of the shares in Klovex Holdings Pte. Ltd.⁶, pursuant to the General Mandate. The Consideration Shares represent approximately 4.3% of the Company's total number of issued Shares of 1,188,667,212 at the time of approval for the General Mandate was granted. Accordingly, the allotment and issuance of the Consideration Shares, representing 51,216,389 new Shares, falls within the limit authorised under the General Mandate. Following the issuance of the Consideration Shares, the Company's issued and paid-up share capital will increase from 1,190,055,056 Shares as at the date of this announcement to 1,241,271,445 Shares (excluding treasury shares and subsidiary holdings). The Consideration Shares represent 4.3% of the total number of issued Shares as at the date of this Announcement and approximately 4.1% of the enlarged total number of issued Shares.

⁶ Please refer to the Company's announcements dated 1 April 2021, 14 April 2021 and 20 April 2021.

The Consideration Shares to be allotted and issued by the Company will be free from all charges, liens and other encumbrances and shall, upon allotment and issue, rank *pari passu* with, and carry all rights similar to, the existing issued Shares, except that they will not rank for any dividend, right, allotment or other distributions, the record date for which falls on or before the issue of such new Shares, as the case may be.

The sponsor of the Company, PrimePartners Corporate Finance Pte. Ltd. will be making an application on behalf of the Company to the SGX-ST for the listing and quotation of the Consideration Shares on the Catalist Board of the SGX-ST.

8. MORATORIUM ON THE CONSIDERATION SHARES

Each of the Vendors has undertaken, in respect of the Consideration Shares, not to directly or indirectly, sell, contract to sell, offer, transfer, assign, pledge, grant any option or right to purchase, grant any security over, encumber or otherwise dispose of any or all of the Consideration Shares issued to the Vendors for the 12-month period commencing from the Completion Date.

9. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as disclosed herein, none of the directors and controlling shareholders of the Company have any interest, direct or indirect, in the Proposed Acquisition (other than through their respective directorships and shareholdings in the Company, if any).

10. DIRECTORS' SERVICE CONTRACTS

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

11. DOCUMENTS FOR INSPECTION

Copies of the Acquisition Agreement and the Valuation Report are available for inspection during normal business hours at the Company's registered office at 13 Woodlands Link Singapore 738725 for a period of three (3) months from the date of this announcement.

12. CAUTIONARY STATEMENT

Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. There is no certainty or assurance that the Proposed Acquisition will be completed. The Company will make the necessary announcements, in compliance with the requirements of the Catalist Rules, as and when there are material developments in respect of the Proposed Acquisition, the Agreement and other matters contemplated in this announcement. Shareholders are advised to read this announcement and any further announcements by the Company carefully. Shareholders should consult their stockbrokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions they should take.

BY ORDER OF THE BOARD

Hoon Chi Tern
Company Secretary
11 May 2021

This announcement has been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "Exchange") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.

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