

PROPOSED DISPOSAL OF PROPERTY IN MALAYSIA

1. THE DISPOSAL OF PROPERTY OF SHINSEI INDUSTRY

1.1 Introduction

The board of directors of AnnAik Limited (the "**Company**") and together with its subsidiaries, the "**Group**") wishes to announce that Shinsei Industry Sdn. Bhd. ("**Shinsei Industry**"), a wholly-owned subsidiary of Shinsei Holdings Pte. Ltd. ("**Shinsei Holdings**"), has on 28 February 2020 entered into a sale and purchase agreement (the "**SPA**") with Modernria Plastic Industries (M) Sdn. Bhd. (the "**Purchaser**") for the sale of all that piece of land known as Lot No.20143, Mukim 12, Tempat Kpg. Gurun, Daerah Seberang Perai Selatan, Negeri Pulau Pinang and held under No.H.S(M) 316 measuring approximately a total area of 45,387.00 square metres together with two main factory buildings erected thereon and bearing postal address No.1576, Jalan Nafiri 1, Kawasan Perindustrian Valdor, 14200 Sungai Jawi, Penang (the "**Property**") together with six units of overhead crane and one unit of cooling tower and the sub-station facilities (the "**Inventory & Facilities**") (collectively, the "**Assets**"), on the terms and subject to the conditions of the SPA (the "**Proposed Disposal**").

Shinsei Holdings is a subsidiary 92% owned by the Company and 8% owned by TG Oriental Steel Sdn Bhd (unrelated party).

1.2 Information on Shinsei Industry

Shinsei Industry was incorporated in Malaysia on 17 April 2013 and its principal activities include the production of steel flanges and related products. For avoidance of doubt, Shinsei Industry will still continue its operation by occupying part of the Property.

1.3 Information on the Purchaser

The Purchaser was incorporated in Malaysia on 7 January 2000 and its principal activities include manufacturing plastic products.

The Purchaser is an independent and unrelated third party. The Company and its Directors and controlling shareholders are not related to the Purchaser.

1.4 Principal terms of the Proposed Disposal

1.4.1 Consideration

The aggregate consideration for the Proposed Disposal will be an amount in cash equal to the sum of RM32,000,000 or equivalent to S\$10,738,000 (the "**Consideration**").

The Consideration was determined based on an arm's length, willing-seller-willing-buyer basis, after taking into account various factors including the net book value and net tangible asset value of the Assets and an asset valuation report commissioned by Shinsei Industry. Based on the asset valuation report conducted by Raine & Horne International Zaki + Partners Sdn. Bhd., an independent valuer, on 13 February 2020, the open market value of the Property is RM31,000,000. The valuation of the Property has been carried out using the comparison/cost method of valuation, by comparing and adopting as a yardstick recent transactions and sale evidences involving other similar properties in the vicinity, and ascertaining the value of the Property through the summation of the value components of the land cost of building.

Based on the unaudited management accounts of Shinsei Industry as at 31 December 2019, the net book value and net tangible asset value of the Assets are both S\$10,027,000.

1.4.2 Terms of Payment

The Consideration will be paid by the Purchaser for the Proposed Disposal in the following manner:-

- (a) RM500,000 or equivalent to S\$167,785 has been paid to Shinsei Industry's solicitors as stakeholders prior to the execution of the SPA;
- (b) RM1,000,000 or equivalent to S\$335,570 to be paid upon the execution of the SPA or by 28 February 2020, whichever date is later, in the following manner:
 - (i) RM960,000 or equivalent to S\$322,148 to be paid to the Purchaser's solicitors as the retained sum to meet the tax payable to the Inland Revenue Board of Malaysia pursuant to the Real Property Gains Tax Act 1976; and
 - (ii) RM40,000 or equivalent to S\$13,422 to be paid to Shinsei Industry's solicitors as stakeholders;
- (c) RM1,400,000 or equivalent to S\$469,800 to be paid to Shinsei Industry on or before 1 April 2020 (the "**3rd Final Deposit Sum**"),

(collectively, the "**Deposit**"); and
- (d) RM29,100,000.00 or equivalent to S\$9,764,845 (the "**Balance Consideration**") to be paid to Shinsei Industry within 24 months from the date (the "**Unconditional Date**") when the conditions precedent under the SPA are fulfilled and the SPA shall be unconditional (the "**Completion Period**").

The Balance Consideration shall first be applied towards payment of the redemption moneys due or owing by Shinsei Industry in respect of any charge or encumbrance over the Property. Shinsei Industry currently has outstanding term loan facilities of S\$6.95 million as at 31 December 2019 from a bank, where the Property has been pledged to the said bank as security. Before payment over to Shinsei Industry, such redemption moneys may at the discretion of the Purchaser be paid directly to a bank, being the chargee of which the charge or encumbrance of the Property is subject to. In the event that the Balance Consideration is insufficient to secure a full discharge of such charge or encumbrance, Shinsei Industry shall furnish within 14 days upon receipt of request from the Purchaser's solicitors forthwith such additional sum as is necessary to secure the full discharge of such charge or encumbrance failing which the Completion Period shall be extended for such number of days delayed in excess of the stipulated 14 days until full payment thereof free of interest. As mentioned below in relation to the use of proceeds, approximately 70% of the proceeds will be used to repay the term loan facilities granted by the said bank.

Shinsei Industry's solicitors shall release the Deposit or any part thereof paid by the Purchaser to Shinsei Industry upon when the conditions precedent under the SPA are fulfilled on the Unconditional Date.

In the event that the Purchaser shall fail to pay the 3rd Final Deposit Sum pursuant to the SPA and/or the Balance Consideration pursuant to the SPA for reasons not due to Shinsei Industry's fault, the Purchaser shall be deemed to have repudiated the SPA and Shinsei Industry shall be entitled to summarily forfeit the Deposit or any part thereof paid by the Purchaser to Shinsei Industry under the SPA as agreed liquidated damages.

1.4.3 Conditions Precedent

The Proposed Disposal is conditional upon the approval of the shareholders of Shinsei Industry and the approval of the Singapore Exchange Securities Trading Limited of the Company, the ultimate holding company of Shinsei Industry, being obtained within 3 months from the date of the SPA or any other extended period of time as may be mutually agreed upon by the parties in writing, if applicable. As the relative figures computed under Rules 1006 (a) and (c) exceeds 5% but not 50%, the Proposed Disposal constitutes a discloseable transaction under Rule 1010 of the Catalist Rules, and approval from the Company's shareholders is not required.

1.4.4 Gain on Proposed Disposal

Based on the unaudited management accounts of Shinsei Industry as at 31 December 2019, the Consideration as compared to the Net Book Value will result in a gain on disposal of S\$358,000 to be recorded in Shinsei Industry's accounts, after deducting estimated related expenses.

1.4.5 Tenancy Agreement

At the request of the Purchaser, Shinsei Industry agrees to allow the Purchaser to occupy part of the Property and enter into a tenancy agreement with Shinsei Industry, simultaneously upon the execution of the SPA on the terms and conditions which has been mutually agreed upon by the parties (the "**Tenancy Agreement**"). Pursuant to the terms of the Tenancy Agreement, the total lettable area of the Property measures approximately 50,000 square feet together with the vacant space measuring approximately 30,000 square feet and it is at a monthly rental of RM86,000.

The Tenancy Agreement shall automatically be terminated upon the completion of the SPA. Notwithstanding anything stated in the SPA and the full payment of the Consideration by the Purchaser to Shinsei Industry, Shinsei Industry shall be entitled to continue to occupy part of the Property measuring approximately 20,000 to 40,000 square feet for a period of 2 years from the date of full payment of the Consideration by the Purchaser to Shinsei Industry subject to Shinsei Industry paying a monthly rental of RM1.10 per square feet and upon the mutual terms and conditions of the Tenancy Agreement.

1.4.6 Property and Inventory & Facilities

The Property and the Inventory & Facilities are sold on "as is where is" basis and as such the Purchaser confirms and declares that it has inspected or is deemed to have inspected the Property and the Inventory & Facilities and shall take the Property and the Inventory & Facilities as it is.

The Purchaser shall have no claim of any kind whatsoever in respect of any deficiencies or defects on the Property and the Inventory & Facilities which may exist prior to the execution of the SPA or may become apparent thereafter or at the completion of the SPA and the Purchaser shall not be entitled to make or raise any enquiry, requisition or objection whatsoever in respect thereof.

2. **RELATIVE FIGURES UNDER CHAPTER 10 OF THE CATALIST RULES**

For the purposes of Chapter 10 of the Catalist Rules, the relative figures computed on the bases set out in Rule 1006 of the Catalist Rules based on the latest announced unaudited consolidated financial statements of the Group as at 31 December 2019 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.	14.1% ⁽¹⁾
(b)	The net profits attributable to the Assets disposed of, compared with the Group's net profits ⁽²⁾ .	-4.7% ⁽³⁾
(c)	The aggregate value of the consideration given or received, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares.	47.5% ⁽⁴⁾
(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not applicable ⁽⁵⁾
(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. This 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 assets.	Not applicable ⁽⁵⁾

Notes:

- (1) Pursuant to Rule 1002(3)(a) of the Catalist Rules, "net assets" means total assets less total liabilities. The net asset value of the Assets is S\$10,027,000 as at 31 December 2019, compared with the Group's net asset value of S\$70,882,000 as at 31 December 2019.
- (2) Pursuant to Rule 1002(3)(b) of the Catalist Rules, "net profits" means profit or loss including discontinued operations that have not been disposed and before income tax and non-controlling interests.
- (3) The net losses attributable to the Assets to be disposed of is computed based on net expenses directly attributable to the Property on 31 December 2019, including property tax, quit rent assessment, depreciation, term loan interest offset with rental income amounting to (S\$187,000), and the Group's net profits is S\$3,932,000 on 31 December 2019.
- (4) The relative figure is calculated based on the Consideration of RM29,440,000 or S\$9,879,000 (based on the Company's 92% shareholding of Shinsei Industry) from the Proposed Disposal, against the market capitalisation, which is calculated based on the volume weighted average price of S\$0.072 on 27 February 2020, being the last market day on which the shares of the Company were traded, preceding the date of this Announcement.
- (5) This basis is not applicable to the Proposed Disposal.

As the relative figures for Rule 1006(b) are negative, the Company will, pursuant to Rule 1007(1) of the Catalist Rules, consult the SGX-ST, through its Sponsor, on the applicability of Chapter 10 of the Catalist Rules on the Proposed Disposal. The Company will update shareholders of the Company in due course.

3. RATIONALE FOR THE PROPOSED DISPOSAL

The Proposed Disposal is part of the Group's strategy to adopt asset lights business model in its manufacturing business. The previous restructuring of the Group's manufacturing business, particularly in the cost cutting exercise will be further enhanced and the operating profit of Shinsei Industry is expected to be further improved. The Group is committed to maintain its

manufacturing business in Malaysia and promote its house brand "SHINSEI" of forged steel flanges in the South East Asia region.

4. USE OF PROCEEDS

Approximately 70% of the proceeds from the Proposed Disposal will be used to fully repay the term loan facilities granted by a bank and the remaining 30% of the proceeds from the Proposed Disposal will be used for the settlement of the inter-company loan owing to the Company and working capital requirement of Shinsei Industry.

5. FURTHER INFORMATION RELATING TO THE PROPOSED DISPOSAL

5.1 Financial Effects

The financial effects of the Proposed Disposal on the Company as set out below are for illustrative purposes only and do not reflect the actual financial performance or position of the Company after the Proposed Disposal. The financial effects of the Proposed Disposal set out below have been prepared based on the Company's latest audited consolidated financial statements for the financial year ended 31 December 2018 ("FY2018") are as follows:-

5.1.1 Earnings per Share ("EPS")

The effects of the Proposed Disposal on the EPS of the Company for FY2018, assuming that the Proposed Disposal had been completed at the beginning of FY2018, are summarised below:

EPS	Before the Proposed Disposal	After the Proposed Disposal
Earnings ⁽¹⁾ (S\$'000)	1,222	1,552
Weighted average number of issued shares ('000)	246,406	246,406
EPS - Basic and Diluted (cents)	0.50	0.63

Notes:

(1) Represents net profit attributable to the shareholders of the Company.

5.1.2 Net Tangible Assets ("NTA")

The effects of the Proposed Disposal on the NTA per share of the Company for FY2018, assuming that the Proposed Disposal had been completed as at 31 December 2018, are summarised below:

NTA	Before the Proposed Disposal	After the Proposed Disposal
Consolidated NTA ⁽¹⁾ (S\$'000)	51,428	51,758
Number of issued shares ('000)	246,406	246,406
Consolidated NTA per share (cents)	20.87	21.01

Notes:

(1) Represents consolidated NTA attributable to the shareholders of the Company.

5.2 Interests of Directors and Controlling Shareholders

None of the directors of the Company or their respective associates and to the best of the directors' knowledge, none of the controlling shareholders of the Company or their respective associates has any interest, direct or indirect, in the Proposed Disposal other than through their respective interests (if any) in the Company.

5.3 Directors' Service Contracts

No person has been 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.

6. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the SPA and Valuation of the Property are available for inspection during normal business hours at the Company's registered office at 52 Tuas Avenue 9, Singapore 639193 for a period of 3 months commencing from the date of this Announcement.

7. CAUTIONARY STATEMENT

Shareholders and potential investors should exercise caution when trading in shares of the Company, and where in doubt as to the action they should take, they should consult their financial, tax or other advisors.

8. RESPONSIBILITY STATEMENT BY THE DIRECTORS

The Directors of the Company collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm, after making all reasonable enquiries that, as at the date hereof, to the best of their knowledge and belief, this Announcement constitutes full and true disclosure of all material facts about the Proposed Disposal and the Group. The Directors are not aware of any facts the omission of which would make any statement in this Announcement misleading. Where information in this Announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Announcement in its proper form and context.

By Order of the Board

Ng Kim Keang
Director
28 February 2020

This announcement has been reviewed by the Company's Sponsor, Hong Leong Finance Limited. It has not been examined or approved by 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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