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

THE PROPOSED ACQUISITION OF 100% EQUITY OF A TO-BE INCORPORATED PROJECT COMPANY WITH CERTAIN HOSPITALITY ASSETS AND LIABILITIES TRANSFERRED FROM HAINAN XINGLONG PEARL INVESTMENT CO., LTD

The Company has received queries from the SGX Regco on 12 October 2023 in relation to the Company's announcement on 8 October 2023 released on the SGXnet, titled "The Proposed Acquisition of 100% Equity of a to-be Incorporated Project company with certain hospitality assets and liabilities transferred from Hainan Xinglong Pearl Investment Co., Ltd." (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 the findings from the due diligence exercise.

The due diligence exercise was performed on the Target Company, covering financial, tax, business operations and legal issues. Of note is that the Target Company was incorporated on 7 May 1996, and has been actively conducting business operations to date.

The key outcome of the due diligence exercise was that the Target Company carried legacy issues, and the financial due diligence adviser, Zhonghui Jiangsu Tax Accountant Office Co., Ltd. (中汇江苏税务师事务所有限公司), recommended that the transaction structure should be such that the Target Company should transfer an agreed set of assets and liabilities (which are the Assets and Liabilities as defined in the Announcement) to a newly incorporated company (which is the Project Company), have the Sellers and the Project Company settle all the Liabilities transferred, before the Group acquires 100% equity of the Project Company, with Assets only, and zero Liabilities. In addition, the Sellers are to undertake to take full responsibility for any third party claims against the Project Company incurred or arising prior to completion of the Proposed Acquisition.

By adopting this transaction structure, which the Group has done so, the Group will not inherit any of the legacy issues of the Target Company when acquiring 100% of the equity of the Project Company.

2. Please describe the current use of the Assets under the Target Company and its track record. Please also disclose the tenure of the Land Use Rights and the net profits attributable to the Assets being acquired.

The tenure of the Land Use Rights is 39 years and 3 months, expiring on 31 December 2037. The Land may only be used for tourism related purposes.

The Assets, other than the Entertainment Centre (which operations have ceased) are currently leased to Hainan Shenzhou Xinglong Tourism Co., Ltd. (the "**HSXT**" 海南神州兴隆旅业有限公司) where HSXT operates and manages the Assets. As a condition precedent to the payment of the Third Tranche Payment, the Sellers have undertaken to, and shall have terminated the lease with HSXT, and that all operations involving the Assets will have similarly been ceased and terminated. The Group has no intentions of continuing the lease to HSXT nor continue the operations of the Assets in the manner

operated by HSXT, and will instead, re-evaluate the options available to the Group post completion of the Proposed Acquisition (see reply to Query 3 below).

The transaction structure involves the transfer of Assets and Liabilities to the Project Company, before Hainan World Tourism Investment Co., Ltd. acquires 100% of the equity in the Project Company. As set out in the paragraph above, the Assets will no longer be in operation by the time the Group takes over control of the Assets of the Project Company. All Liabilities of the Project Company will also have been settled by the completion of the Proposed Acquisition. Accordingly, the track record of the Assets under the Target Company is not of relevance from the Group's perspective.

With reference to the pro forma balance sheet of the Project Company at Completion as set out in paragraph 1.5.1 of the Announcement and to paragraphs 2.1.1 and 2.1.2 of the Announcement (which set out the effect of the Proposed Acquisition to the NTA and the Earnings Per Shares of the Group respectively), the net profits attributable to the Assets being acquired is nil.

3. Please explain what is meant by, “the Proposed Acquisition allows the Group to diversify the Group’s earnings base” and disclose the Company’s plans for the Assets.

As mentioned in the Company's announcement dated 7 December 2022, the Board had on 13 October 2022 adopted a Group Strategy Plan (“**Plan**”), outlining the Group's investment strategy planning for the next 5 to 10 years. The Plan sets out parameters for future investments of the Group, in line with the Group's long-term business and investment strategy so as to utilise cash in excess of the Group's short to medium term budgeted working capital and long term capital expenditure requirements. The Proposed Acquisition is for investment purposes, and is in line with the parameters set out in the Plan. The Board will, in due course, determine how to monetise the assets of the Project Company, such as whether to (i) sell the Project Company or its assets at a later date, and/or (ii) further invest in the Assets so as to operate as a resort hotel, or for such other commercial use.

4. Please disclose whether the Company, its directors and substantial shareholders have no connections (including any business relationship) with the Sellers, their directors and substantial shareholders.

No, the Company, its directors and substantial shareholders have no connections (including any business relationship) with the Sellers, their directors and substantial shareholders, other than through their shareholdings in the Company and arising in the course of the Proposed Acquisition.

5. Please disclose (i) the book value and net tangible asset value of Assets being acquired; and (ii) whether any valuation has been performed. If yes, please disclose the value placed on the assets, the party who commissioned the valuation and the basis and date of such valuation. If no, please explain why.

The Pro Forma Balance Sheet of the Project Company as at Completion is as follows:

	Per GL	Adjustment	Adjusted	Take over	Proforma
	RMB'000	RMB'000	RMB'000	adjustment	RMB'000
				RMB'000	
Assets					
Cast and bank balances	364	-364	-	-	-
Trade receivables	142	-142	-	-	-
Other receivables	19,689	-19,689	-	-	-
Stocks	3,169	-3,169	-	-	-
Investments	42,990	-42,990	-	-	-
Property, plant and equipment	33,404	-3,861	29,543	25,905	55,448
Land use rights	25,995	-14,250	11,745	92,807	104,552
	125,753	-84,465	41,288	118,712	160,000
Liabilities					
Trade payables	540	-540	-	-	-
Other payables	60,344	-7,763	52,581	-52,581	-
Tax payables	96	-96	-	-	-
Salary payables	-	-	-	-	-
Loans	-	-	-	-	-
	60,980	-8,399	52,581	-52,581	-
Net assets	64,773	-76,066	-11,293	171,293	160,000
Equity					
Share capital	90,000	-61,200	28,800	52,581	81,381
Capital reserves	135,761	-	135,761	-	135,761
Fair value reserves	-	-	-	118,712	118,712
Retained earnings	-160,988	-14,866	-175,854	-	-175,854
	64,773	-76,066	-11,293	171,293	160,000

The net tangible asset of the Project Company (the "NTA"), immediately post completion, is based on adjustments of its balance sheet to take into account (a) the settlement in full by the Project Company of all Liabilities, (b) the Sellers undertaking to settle any other liabilities (contingent or otherwise) of the Project Company arising up to Completion, (c) the value of the Land Use Right after taking into account of the current market value of similar parcels of land in the vicinity of the Land. 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 Land, released by the Hainan Government for public auction in October 2022, the information of which is as follows:-

Total consideration			
Area (Sqm)	RMB	Price per Sqm	
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 per square meter

For reference purposes only, to benchmark the Purchase Price to the value of the Land Use Right, the land area attributable to the Land Use Right is 52,668.00 square metres and at RMB2,912.96 per square metre, this amounts to RMB153,419,777. This is before attributing value to the plant, property and equipment which are situated on the Land, and which are part of the Assets transferred.

As a further reference, when the Group acquired Wanning Yinhu Hot Spring Holiday Hotel Co., Ltd. (the “**Wanning Yinhu Acquisition**”), the land the Group had acquired then was 54,430 square metres for a total consideration of RMB 155 million, which was RMB 2,847.69 per square metre. The Land to be acquired pursuant to the Proposed Acquisition, will be acquired at the value of RMB 3,037,89 per square metre.

On the basis of the above information, with the Purchase Price in line with the recent market value of similar parcels of land released by the Hainan Government for public auction in the vicinity of the Land, and the management team’s familiarity gained over the Wanning Yinhu Acquisition, which is located nearby the Land, the management team of the Group took the view that it was not necessary to commission a valuation of the assets of the Project Company which the Board concurred with.

6. Please disclose details of any service contracts of the directors proposed to be appointed to the issuer in connection with the transaction.

There are no directors proposed to be appointed to the Company in connection with the Proposed Acquisition.

7. Please disclose whether the Proposed Acquisition relates to a diversification of the Company’s main business and whether it will change the risk profile of the Company.

Until the Board determines how to monetise the assets of the Project Company, such as whether to (i) sell the Project Company or its assets at a later date, and/or (ii) further invest in the Assets so as to operate as a resort hotel, or for such other commercial use, the Proposed Acquisition is for investment purposes only and is not a diversification of the Company’s main business.

As to whether there is a change in risk profile of the Company, the Board has taken guidance from Practice Note 10.1 of the Listing Manual and the following factors were into consideration:-

- a. The Proposed Acquisition does not have any material impact on the net profit and net asset value of the Group, save for transaction costs incurred. Please refer to the pro-forma balance sheet of the Project Company as at Completion set out in the reply to query 5 above, and paragraphs 2 and 3 of the Announcement on “Financial Effect of the Proposed Acquisition” and “Relative Figures Computed Based on Rule 1006 of the Listing Manual”.
- b. The Purchase Price for 100% of the equity of the Project Company corresponds to the NTA of the Company, save for transaction costs incurred. The Proposed Acquisition is therefore NTA neutral to the Group.
- c. As set out in the reply to query 2 above, the net profits attributable to the Assets being acquired is nil.
- d. The Group has obtained bank loans amounting to (i) RMB 150 million from Shanghai Pudong Development Bank Co. Ltd. in June 2023 (“**SPDB Loan**”), and (ii) RMB 100 million from Bank of Jiangsu in September 2023 (the “**BOJ Loan**”). The SPDB Loan and BOJ Loan were not obtained specifically with the Proposed Acquisition in mind. It is noted that as at 30 June 2023, the gearing of the Group was 12.32%, and for illustration purposes only, on the basis that the BOJ Loan was also drawn down on or before 30 June 2023, the gearing of the Group would increase 8.21% to 20.53%.

- e. There is no expansion of the jurisdiction for the Group. The Proposed Acquisition is the acquisition of assets in the PRC, where the Group's business and operations are currently based.

Accordingly, the Board takes the view that until the Board determines how to monetise the assets of the Project Company, there is no change to the risk profile of the Group.

8. Please disclose whether there are any material conditions attaching to the transaction, and clarify whether the Company has entered into / intends to enter into other agreements with the Sellers.

See paragraph 1.4 of the Announcement for the material (but not exhaustive list of) conditions to the Proposed Acquisition, and of note, as set out in the reply to query 2 above, the termination of (i) the lease to HSXT and (ii) operations of the Assets are also conditions precedent to the payment of the Third Tranche Payment.

By Order of the Board
World Precision Machinery Limited

Shao Jianjun
Executive Chairman
18 October 2023