HL GLOBAL ENTERPRISES LIMITED
Company Registration No. 196100131N
(Incorporated in the Republic of Singapore)

ANNOUNCEMENT

EXTENSION OF TIME GRANTED BY THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED (THE "SGX-ST") FOR THE COMPANY TO SATISFY RULE 1314(1) OF THE LISTING MANUAL (THE "LISTING MANUAL") OF THE SGX-ST FOR REMOVAL FROM THE SGX-ST WATCH-LIST (THE "WATCH-LIST")

The Board of Directors ("**Board**") of HL Global Enterprises Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to its announcement dated 3 June 2014, whereby the Company announced that it would be placed on the Watch-List with effect from 4 June 2014 and that the Company would need to meet the requirements under Rule 1314 of the Listing Manual for the submission of an application to the SGX-ST within 24 months from 4 June 2014 ("**Cure Period**") for its removal from the Watch-List.

The Board wishes to announce that:-

(1) the Company had on 25 May 2016 written to the SGX-ST to request for an extension of the Cure Period by a further 12 months for the Company to meet the requirements relating to the financial exit criteria set out in Rule 1314(1) of the Listing Manual ("**Financial Exit Criteria**") for its removal from the Watch-List[1]; and

(2) the SGX-ST has on 31 May 2016 informed the Company that it has no objection to granting the Company an extension of time of up to 12 months to 3 June 2017 to meet the Financial Exit Criteria, subject to the following conditions:

   (i) the confirmation by the Board that it intends to complete the disposal of the Company's 60% equity interest in Copthorne Hotel Qingdao Co., Ltd ("**CHQ**") by the financial year ending 31 December 2016 ("**FY2016**") and will provide regular updates on milestones relating to the disposal via SGXNET;

   (ii) the Company announcing via SGXNET the period of extension granted, the reasons for seeking the extension of time and the conditions as required under Rule 107 of the Listing Manual; and

   (iii) submission of a written confirmation from the Company that the extension of time does not contravene any laws and regulations governing the Company and the constitution of the Company.

The Company's reasons for seeking the extension of time are, *inter alia*, as follows:

(a) The Company is in the process of disposing its 60% equity interest in CHQ, which is a key step to significantly improving the Company's financial position

[1] For information, as the Company had completed a share consolidation of every ten (10) issued ordinary shares in the capital of the Company into one (1) consolidated share on 14 May 2015, the Company has been given a 6-month extension of up to 1 September 2016 before it is reviewed for compliance with the minimum trading price exit criterion set out in Rule 1314(2) of the Listing Manual.

The Company has been trying to dispose of the 60% equity interest held by its wholly-owned subsidiary, LKN Investment International Pte. Ltd. ("**LKNII**") in CHQ ("**LKNII Equity Interest**"), which has been loss-making, and has taken active steps in relation to the disposal of the LKNII Equity Interest ("**LKNII Disposal**").

As announced in the Company's announcements dated 22 February 2016, 25 February 2016, 22 March 2016 and 26 April 2016, LKNII and its joint venture partner in CHQ, CAAC East China Regional Administration Authority Service Center ("**CAAC**") listed the LKNII Equity Interest and CAAC's 40% equity interest in CHQ ("**CAAC Equity Interest**"), respectively on the Shanghai United Assets and Equity Exchange for sale by way of public tender ("**Public Tender Process**") for two rounds of bidding in February 2016 and March 2016 respectively. No bid has however been received under the Public Tender Process, and the Company is currently continuing its discussions with CAAC to review and explore options in relation to the proposed disposal of the LKNII Equity Interest and the CAAC Equity Interest (the "**Transaction**").

The Company had requested for an extension of the Cure Period in order to pursue and undertake the LKNII Disposal, as the Company expects that the LKNII Disposal will enable the Company to satisfy the pre-tax profit requirement under the Financial Exit Criteria and will bring about the following benefits to the Company and the Group:-

(1) <u>The recurring loss from CHQ will not appear in the subsequent consolidated financial results of the Group</u>

Since the commencement of its operations in 1997, CHQ has been loss-making, and it has been adversely affecting the financial performance of the Group. The accumulated losses incurred by CHQ since the commencement of its operations up to 31 March 2016, amounted to approximately S$41 million, of which approximately S$25 million (being 60% thereof) has been equity accounted in the Group's accounts. The accumulated losses attributable to the LKNII Equity Interest for the last four (4) financial years ended 31 December 2015 amounted to approximately S$6.3 million, based on the audited accounts of CHQ (prepared in accordance with Singapore Financial Reporting Standards) for these years.

Given such huge recurring losses of CHQ, it is critical for the Company to pursue and undertake the LKNII Disposal so that the Company can stem such losses, which would otherwise negate or materially reduce any positive financial impact arising from any acquisition, reverse takeover of the Company ("**RTO**") or asset injection which may be undertaken. It is essential that the Company undertakes the LKNII Disposal as the first key step prior to pursuing and undertaking any acquisition, RTO or asset injection. With the LKNII Disposal, the recurring losses of CHQ will no longer appear in subsequent consolidated financial results of the Group.

(2) <u>It is expected that the LKNII Disposal (if completed in FY2016) would enable the Company to be profitable for FY2016</u>

Given that no bids have been received for the LKNII Equity Interest and the CAAC Equity Interest during the two rounds of bidding under the Public Tender Process (as mentioned above), the reserve or floor price for the Transaction may have to be further lowered if the Company, after studying its available options and pursuant to discussions with CAAC, decides to proceed for another round of bidding with CAAC under the Public Tender Process. In this respect, the Company and CAAC have been in discussions with a potential buyer who has indicated an interest in acquiring the LKNII

Equity Interest and the CAAC Equity Interest. Based on the audited net book value of the LKNII Equity Interest as at 31 December 2015 of S$895,000 and assuming the Company is able to undertake the LKNII Disposal at the preliminary indicative non-binding price proposed by such potential buyer, the Company expects that the LKNII Disposal will have a significant positive impact on the net tangible assets ("**NTA**") and earnings of the Group for the financial year during which the LKNII Disposal takes place. Assuming that the LKNII Disposal can be completed in FY2016, the Company expects that:

(i) the NTA of the Company would become positive upon the completion of the LKNII Disposal; and

(ii) the LKNII Disposal would enable the Company to satisfy the pre-tax profit requirement under the Financial Exit Criteria for FY2016.

(3) <u>The proceeds from the LKNII Disposal could be used to explore viable business opportunities to improve the Company's earnings, reduce borrowings and interest expense and/or for working capital purposes</u>

The sale proceeds from the LKNII Disposal may be used for:-

(i) funding suitable acquisitions to improve the Company's earnings;

(ii) the partial repayment of the outstanding unsecured loan of S$68 million owing by the Company to Venture Lewis Limited ("**Venture Lewis**"), an indirect wholly-owned subsidiary of China Yuchai International Limited, a deemed 48.91% substantial shareholder of the Company ("**Venture Lewis Loan**"), which will help to reduce the Company's interest expense; and/or

(iii) the Group's working capital purposes.

It would take a considerable amount of time for the LKNII Disposal and the CAAC Disposal to materialise as CAAC and therefore the Company would have to abide by the procedural requirements (including undertaking a re-valuation of CHQ) of the Public Tender Process, which is expected to be lengthy. Accordingly, the Company requires an extension of the Cure Period to allow it more time to pursue and undertake the LKNII Disposal and give the Company a better chance of disposing of the LKNII Equity Interest.

(b) More time is required for the Company to identify, consider and undertake new acquisitions

The Company has been considering several potential acquisitions over the last couple of years. However, despite the efforts of the Company, the potential deals unfortunately did not materialise after due consideration and review of the commercial and financial feasibility of the businesses and the proposed terms of the deals.

Any acquisition to be undertaken by the Company will require careful consideration of the commercial and financial feasibility of the business and whether such acquisitions would indeed bring about benefits for the Company. Further, the market conditions have been adversely affected amidst lacklustre growth in the world economy over the past few years, and as such, the Company requires an extension of the Cure Period to identify, consider and pursue potential new acquisitions in the current weak economic climate.

(c) Financial support from Venture Lewis and steps taken to reduce interest expense

Since 2009, Venture Lewis has been providing financial support to the Company through the extension of the Venture Lewis Loan and yearly extensions of the repayment date of such loan. Such support has enabled the Company to remain as a going concern to date. In addition, pursuant to negotiations by the Company, Venture Lewis had agreed to reduce the interest margin on such loan from 2.5% per annum in 2009, to 1.75% in 2011, 1.5% per annum in 2012, 1.25% in 2014, 1% in 2015 and 0.5% in 2016. The reduction in the interest margin set by Venture Lewis has helped the Company to reduce its interest expense accordingly.

(d) Increasing the market capitalisation of the Company

The Company's average daily market capitalisation over the last six (6) months from 24 November 2015 to 23 May 2016 is approximately S$9.8 million.

In addition to pursuing the LKNII Disposal and potential acquisitions, the Company will continue to explore options to increase the market capitalisation to S$40 million or more, including the possibility of issuing new shares as consideration for an acquisition and/or other equity fund raising exercises, so as to assist the Company to meet the market capitalisation criterion under the Financial Exit Criteria. As the Company would be better placed to pursue these options after undertaking the LKNII Disposal, the Company would need an extension of the Cure Period to enable it to satisfy the market capitalisation criterion under the Financial Exit Criteria.

(e) Continued listing in the interests of the Company and its shareholders

The Company believes that it would be in the interests of the Company and its shareholders for the shares in the Company to continue to be publicly listed and traded on the Main Board of the SGX-ST.

The Board wishes to remind the shareholders of the Company that the SGX-ST reserves the right to amend/vary the above decision and such decision is subject to changes in the SGX-ST's policies.

The Company is in the process of obtaining the confirmations referred to in paragraphs (2)(i) and (2)(iii) above and shall submit the same to the SGX-ST.

BY ORDER OF THE BOARD

Foo Yang Hym
Chief Financial Officer
HL Global Enterprises Limited
31 May 2016
Singapore