



HONG LAI HUAT GROUP LIMITED

(Incorporated in the Republic of Singapore)

Reg. No. 199905292D

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ENTRY INTO A SALE AND PURCHASE AGREEMENT IN RELATION TO THE PROPOSED DISPOSAL OF HLH AGRI R&D PTE LTD

1. INTRODUCTION

- 1.1. The Board of Directors (the “**Board**” and each director, a “**Director**”) of Hong Lai Huat Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the Company’s announcement dated 22 April 2021 (the “**Term Sheet Announcement**”) in respect of the entry by the Company’s wholly-owned subsidiary, HLH Agri International Pte. Ltd. (the “**Vendor**”), into a term sheet with Gallop Green (S) Pte. Ltd. (the “**Purchaser**”, and together with the Vendor, the “**Parties**”) for the proposed disposal of the entire equity interest in HLH Agri R&D Pte. Ltd. (the “**Target**”) by the Vendor to the Purchaser (the “**Term Sheet**”) (the “**Proposed Disposal**”). Unless otherwise expressly defined herein, all capitalised terms and references used in this announcement shall have the meanings ascribed to them in the Term Sheet Announcement.
- 1.2. The Board is pleased to announce that, further to the Term Sheet, the Parties have, on 4 June 2021, entered into a sale and purchase agreement (the “**SPA**”) in connection with the Proposed Disposal. Pursuant to the SPA, the Vendor has agreed to sell to the Purchaser, and the Purchaser has agreed to purchase from the Vendor, the entire issued and paid up share capital of the Target comprising 12,631,962 ordinary shares (the “**Sale Shares**”) on the terms and conditions of the SPA.

2. INFORMATION ON THE TARGET AND THE PURCHASER

2.1. Information on the Target

As at the date of this announcement, the Target is a wholly-owned subsidiary of the Vendor and the Vendor is, in turn, a wholly-owned subsidiary of the Company.

Pursuant to State Lease No. 26375 between the President of the Republic of Singapore and the Target dated 9 May 2007 (as amended and modified by its four supplemental leases) (the “**State Lease**”) in respect of the premises at 10 Neo Tiew Lane 2, #01-05, Singapore 718813 (the “**Premises**”), the Target is the legal owner of a 20 years leasehold “Agri-tainment Farm Resort” operating under the name “Gallop Kranji Farm Resort” (previously known as “D’Kranji Farm Resort”) (the “**Farm Resort**”) located at the Premises.

Pursuant to a lease agreement between the Target and Blue Dolphin Gallery (Singapore) Pte. Ltd. (“**Blue Dolphin**”) dated 16 May 2018 (the “**Lease Agreement**”), the Premises are currently leased by Blue Dolphin from the Target for a period of three (3) years, commencing on 1 July 2018 and expiring on 30 June 2021. Blue Dolphin has been the appointed managing agent of the Farm Resort since 1 July 2018. As at the date of this announcement, the Target has collected, in aggregate, S\$2,990,000 in rental fees pursuant to the Lease Agreement.

2.2. Information on the Purchaser

The information presented herein relating to information on the Purchaser is based on information provided by the Purchaser. In respect of such information, the Company has not independently verified the accuracy and correctness of the same and the Company’s responsibility is limited to ensuring that such information has been accurately and correctly extracted and reproduced in this announcement in its proper form and context.



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The Purchaser is a Singapore-incorporated company and its principal business activities are (a) aquaponics, aquaculture and seafood farming and (b) the treatment and disposal of waste.

The Purchaser, its directors and shareholders, and their respective associates are not related to the Company, its subsidiaries, their directors or substantial shareholders, or their respective associates, and they do not currently hold any shareholding interest (direct or indirect) in the Company.

3. PRINCIPAL TERMS OF THE PROPOSED DISPOSAL

3.1. Consideration

The aggregate consideration for the Sale Shares of S\$4,800,000 (the “**Consideration**”) was arrived at following arm’s length negotiations between the Vendor and the Purchaser on a willing-buyer-willing-seller basis and taking into account, *inter alia*, (a) the book value of the Sale Shares of S\$6,503,721; (b) the net tangible asset value of the Sale Shares of S\$6,503,721; and (c) the net loss attributable to the Sale Shares of S\$980,122, as at 31 December 2020.

The Consideration is also subject to the following:

- (a) pursuant to and upon the signing of the Term Sheet, the Purchaser has placed a goodwill non-refundable deposit in the amount of S\$100,000 with the Vendor (the “**Goodwill Deposit**”), on the mutual understanding that the Goodwill Deposit shall be used to offset the Consideration payable on completion of the Proposed Disposal (“**Completion**”); and
- (b) the Target currently holds a S\$300,000 security deposit (the “**Security Deposit**”) from Blue Dolphin pursuant to the Lease Agreement. The Parties have agreed and the Vendor shall procure that the Security Deposit shall be used to offset the Consideration payable on Completion and, in this regard, the Vendor shall be entitled to retain the Security Deposit for its benefit.

The final settlement amount, after accounting for the Goodwill Deposit and the Security Deposit, shall be S\$4,400,000 (“**Final Settlement Amount**”).

3.2. Conditions Precedent

Completion of the Proposed Disposal is conditional upon the fulfilment of the following conditions precedent (or the waiver thereof by the relevant Party) on or before the Completion Date (as defined below) (collectively, the “**Conditions Precedent**”):

- (a) approval of the respective board of directors of the Vendor and the Purchaser for the Proposed Disposal having been obtained;
- (b) where required, approval of the Company’s shareholders for the Proposed Disposal (“**Shareholders’ Approval**”) or the grant of a waiver by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) of the requirement to seek shareholders’ approval for the Proposed Disposal (“**Waiver**”) having been obtained by the Company;
- (c) the discharge of all existing bank debts and liabilities of the Target. For the avoidance of doubt, all assets (save for the State Lease of the Premises) and liabilities including but



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not limited to the revaluation reserves are to be cleared from the Target's balance sheets before Completion;

- (d) the Target having signed, approved, and filed its audited financial statements for the financial year ended 31 December 2020 (“FY2020”);
- (e) the Target having performed and discharged all statutory duties arising prior to the Completion Date (as defined below) including but not limited to the holding of its annual general meeting and filing of annual returns with the Accounting and Corporate Regulatory Authority;
- (f) the Target having submitted and cleared all tax payable for the year of assessment 2021 being the basis period from 1 January 2020 to 31 December 2020;
- (g) the completion of all financial, business and legal due diligence (“**Due Diligence**”) by the Purchaser and its professional advisers on the Target no later than six (6) weeks from the date of the Term Sheet (i.e. by 3 June 2021), and the results of such Due Diligence being satisfactory to the Purchaser acting reasonably;
- (h) the Vendor having delivered a disclosure letter to the Purchaser, in a form satisfactory to the Purchaser acting reasonably;
- (i) the Vendor's warranties (except as qualified in the disclosure letter) and the Purchaser's warranties being true, complete and accurate in all respects as at the Completion Date;
- (j) where required, any and all necessary consents, approvals and waivers from government, administrative and regulatory authorities, bodies or courts, and third parties in respect of the transaction contemplated in the SPA pursuant to any contractual arrangements or otherwise having been obtained and such consents, approvals and waivers not having been amended or revoked before the Completion Date; and
- (k) the execution and performance of the SPA by the Parties not being prohibited, restricted or otherwise adversely affected by any law, statute, order, directive or regulation promulgated by any legislative, executive or regulatory body or authority having jurisdiction over the matter, including the SGX-ST.

If any of the Conditions Precedent are not satisfied or waived, as the case may be, on or before the Long Stop Date (as defined below), the SPA (other than certain surviving provisions) shall terminate, and neither Party shall have any claim against the other under it, save for any rights or liabilities accruing prior to such termination.

3.3. Completion

Completion of the Proposed Disposal shall take place on a date falling five (5) business days after the date on which all the Conditions Precedents are fulfilled or waived by the relevant Party (as the case may be) (“**Completion Date**”), provided that the Completion Date shall fall on a date no later than 30 June 2021, or one (1) week from the date of receipt of Shareholders' Approval (if so required) or the Waiver by HLH (as the case may be), or such other date to be mutually agreed between the Parties in writing (“**Long Stop Date**”).

3.4. Indemnities

Each Party (the “**Indemnifying Party**”) undertakes to indemnify and hold harmless the other Party (the “**Innocent Party**”) from any and all costs, damages, claims, demands, actions, proceedings, liabilities and expenses whatsoever which the Innocent Party may at any time



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sustain, incur or suffer as a result of or in connection with or arising from any act done by the Indemnifying Party, its officers and/or their affiliates, prior to Completion.

In addition, the Parties (each an “**Indemnifying Party (Target)**”) severally further undertake to indemnify and hold harmless the Target from any and all costs, damages, claims, demands, actions, proceedings, liabilities and expenses whatsoever which the Target may at any time sustain, incur or suffer as a result of or in connection with or arising from any act done by the relevant Indemnifying Party (Target), its officers and/or affiliates, prior to Completion.

4. RATIONALE FOR THE PROPOSED DISPOSAL

- 4.1. Currently, more than 95% of the Group’s business operations is focused in Cambodia for its property, real estate and agricultural business, while the remaining 5% remains in Singapore with the Farm Resort which is owned by the Target.
- 4.2. As the Group intends to completely focus on its business in Cambodia, the Proposed Disposal is a continuation of the Group’s efforts to strengthen its financial position and utilise its resources to focus on its business in Cambodia. Accordingly, the Board is of the opinion that the Proposed Disposal is beneficial to the Group in the long run.

5. RELATIVE FIGURES FOR THE PROPOSED DISPOSAL UNDER CHAPTER 10 OF THE LISTING MANUAL

- 5.1. The relative figures in relation to the Proposed Disposal are computed on the applicable bases set out in Rule 1006 of the SGX-ST Listing Manual (“**Listing Manual**”) based on the latest announced audited consolidated financial statements for the Group for FY2020 (as at the date of the SPA).

Rule 1006	Bases of Calculation	Relative Figure
(a)	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.	5.53% ⁽¹⁾
(b)	The net profits attributable to the assets acquired or disposed of, compared with the Group’s net profits.	11.49% ⁽²⁾
(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.	10.19% ⁽³⁾
(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 ⁽⁴⁾



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(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. If the reserves are not directly comparable, the Exchange may permit valuations to be used instead of volume or amount.	Not applicable ⁽⁵⁾
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Notes:

- (1) The net asset value attributable to the Sale Shares is S\$6,503,721 and the Group's net asset value for FY2020 is S\$117,640,000.
 - (2) The net loss attributable to the Sale Shares is S\$980,122 and the Group's net loss for FY2020 is S\$8,531,000.
 - (3) The aggregate value of the consideration is S\$4,800,000. The market capitalisation of the Company is approximately S\$47,123,814 (as determined by multiplying 517,844,114 ordinary shares in issue ("**Shares**") as at the date of this announcement by the volume weighted average price of the Shares of approximately S\$0.091 for trades done on 3 June 2021, being the full market day immediately preceding the date of the SPA).
 - (4) Rule 1006(d) of the Listing Manual is not applicable to a disposal of assets.
 - (5) Rule 1006(e) of the Listing Manual is not applicable as the Company is not a mineral, oil and gas company.
- 5.2. Based on the latest audited consolidated financial statements of the Group for FY2020, the book value of the Target was approximately S\$6,503,721. The Proposed Disposal is expected to result in a loss on disposal of approximately S\$1,703,721.
- 5.3. With reference to paragraph 4.4(e) of Practice Note 10.1 of the Listing Manual, the Proposed Disposal constitutes a disposal of a loss-making asset by a loss-making issuer where: (i) the absolute relative figure computed on the basis of each of Rule 1006(a), Rule 1006(c) and (if applicable) Rule 1006(e) of the Listing Manual does not exceed 20%; and (ii) the Proposed Disposal will result in a loss on disposal of approximately S\$1,703,721, which represents 19.97% of the consolidated net loss of the Group for FY2020 of S\$8,531,000.
- 5.4. With reference to paragraph 4.6 of Practice Note 10.1 of the Listing Manual, as the loss on disposal exceeds 10% of the consolidated net loss of the Group for FY2020, the transaction does not fall within the situations in paragraphs 4.3 and 4.4 of Practice Note 10.1 of the Listing Manual, and Rule 1014 shall apply to the Proposed Disposal. Accordingly, the Proposed Disposal is a "major transaction" which must be made conditional upon approval by shareholders in general meeting. The Company will be making an application to the SGX-ST to seek a waiver from the requirement to obtain shareholders' approval for the Proposed Disposal and will keep shareholders apprised of any developments in this regard.

6. FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL



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6.1. The pro forma financial effects of the Proposed Disposal, based on the audited consolidated financial statements of the Group for FY2020, are set out below. The pro forma financial effects are presented for illustration purposes only and do not necessarily reflect the actual results and financial performance and position of the Group after the Proposed Disposal. No representation is made as to the actual financial position and/or results of the Company or the Group after completion of the Proposed Disposal.

6.2. Net Tangible Assets (“NTA”)

Assuming the Proposed Disposal had been effected on 31 December 2020, the financial effect on the NTA of the Group will be as follows:

	Before the Proposed Disposal	After the Proposed Disposal
Consolidated NTA attributable to the shareholders of the Company (S\$'000)	117,640	123,767
Number of issued shares (excluding treasury shares) ('000)	221,933	221,933
Net tangible assets per share (Singapore cents)	53.01	55.77

6.3. Loss Per Share (“LPS”)

Assuming the Proposed Disposal had been effected on 1 January 2020 (being the beginning of the most recently completed financial year ended 31 December 2020), the financial effect on the LPS of the Group will be as follows:

	Before the Proposed Disposal	After the Proposed Disposal
Net loss attributable to shareholders after tax (S\$'000)	8,530	7,550
Number of issued shares (excluding treasury shares) ('000)	221,933	221,933
Loss per share (Singapore cents)	3.84	3.40

7. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

As at the date of this announcement, save for their respective shareholdings in the Company (if any), none of the Directors or substantial shareholders of the Company has any interest, direct or indirect, in the Proposed Disposal.



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8. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed to the board of directors 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. DOCUMENT(S) FOR INSPECTION

A copy of the SPA is available for inspection during normal business hours at the Company's registered office at 1 Gateway Drive, #20-12/13, Westgate Tower, Singapore 608531 for a period of three (3) months from the date of this announcement.

BY ORDER OF THE BOARD

Ong Jia Jing

Group General Manager and Executive Director

6 June 2021