kitchen culture

KITCHEN CULTURE HOLDINGS LTD.
(Company Registration No: 201107179D)
(Incorporated in the Republic of Singapore on 25 March 2011)

PROPOSED DISPOSAL OF 60% OF THE REGISTERED CAPITAL OF KITCHEN CULTURE (SICHUAN) CO. LTD.

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1. INTRODUCTION

The board of directors (the "**Board**" or the "**Directors**") of Kitchen Culture Holdings Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that its wholly owned subsidiary, KHL Marketing Asia-Pacific Pte. Ltd. ("**KHL**"), had on 21 May 2020 entered into an agreement (the "**Agreement**") with Zhejiang Wanhao Investment Co., Ltd. (the "**Purchaser**") to dispose of 60% of the registered capital of Kitchen Culture (Sichuan) Co., Ltd. ("**KCSC**"), KHL's wholly-owned subsidiary, to the Purchaser for a nominal consideration of RMB1 (the "**Proposed Disposal**"). Subsequent to the completion of the Proposed Disposal, the Purchaser will make further capital injection of RMB6.0 million into KCSC, consisting of paid-up capital of RMB4,019,534 and capital reserve of RMB1,980,466 ("**Capital Injection**").

KCSC is currently an indirect wholly-owned subsidiary of the Company. Following the completion of the Proposed Disposal, the Company, through its wholly-owned subsidiary, KHL, will hold 40% equity interests in KCSC, and KCSC will cease to be a subsidiary of the Company and become an associated company of the Company.

2. INFORMATION ON KCSC

2.1 KCSC was incorporated on 24 March 2014 in the People's Republic of China ("**PRC**"), with a registered capital of RMB10.0 million and a total issued and paid-up capital of RMB5,980,466. KCSC is principally engaged in the business of sales and distribution of kitchen systems and appliances, wardrobe system, household furniture and appliances. Upon the completion of the Proposed Disposal, it is intended for the current local management team of KCSC in the PRC to continue managing its operations.

2.2 Financial Information on KCSC

Based on the latest unaudited consolidated financial statements of the Group for the half-year ended 31 December 2019 ("**1HFY2020**"),

(i) negative book value and net tangible liabilities ("**NTL**") of KCSC amounted to RMB10.9 million (approximately of S$2.1 million) as at 31 December 2019;

(ii) net loss attributable to KCSC amounted to RMB2.0 million (approximately S$0.4 million) for 1HFY2020; and

(iii) aggregate net amount due to related corporations (being the Company and its subsidiaries) ("**Intercompany Loans**") of RMB10.1 million (approximately S$1.9 million) as at 31 December 2019.

3. INFORMATION ON THE PURCHASER

The Purchaser is a limited liability company incorporated in the PRC and having its registered office at Room 1203, Building 3, Blue Diamond Tiancheng, Gongshu District, Hangzhou City, Zhejiang Province. The Purchaser is engaged in the business of investment management, investment consulting, economic information consulting, financial management consulting, and business management consulting. The Purchaser is an acquaintance of the Company and is not related to the Company, its Directors or the controlling shareholders of the Company and their respective associates.

4. RATIONALE FOR THE PROPOSED DISPOSAL

KCSC had faced challenging market conditions in Sichuan Province, PRC since the start-up of business in 2014. It had not generated a significant amount of sales since 2014, and had recorded losses for more than 5 years contributing to the negative cash flow of the Group.

As the existing capitalisation of KCSC does not meet the requirement for optimal operational efficiency, the Board, having considered the resources of the Group, determined that it would be in the best interests of the Company and its shareholders to bring in an investor with the possibility to expand further in Sichuan Province.

The Proposed Disposal is an opportunity for the Company to divest a loss-making business and will allow the Group to conserve its cash and resources, and the management to better focus on the rest of the Group's operations.

5. PRINCIPAL TERMS OF THE PROPOSED DISPOSAL

5.1 The Sale Consideration, the Capital Injection, the waiver of Intercompany Loans and the Intended Use of Sale Proceeds

The sale consideration for the Proposed Disposal shall be a nominal consideration of RMB1 (the "**Sale Consideration**"). The Sale Consideration shall be satisfied wholly in cash at completion (the "**Completion**").

The Sale Consideration was arrived at after arms' length negotiations between the Company and the Purchaser on a 'willing buyer-willing seller' basis taking into consideration, among other factors, (a) the negative book value and NTL of KCSC amounting to RMB10.9 million (approximately S$2.1 million) as at 31 December 2019; (b) the net loss attributable to KCSC of RMB2.0 million (approximately S$0.4 million) for 1HFY2020; and (c) KCSC's historical losses for more than 5 years. No valuation was conducted for the purpose of the Proposed Disposal.

Under the terms of the Agreement, the Purchaser will make the Capital Injection of RMB6.0 million (approximately S$1.2 million) into KCSC within 3 working days from the completion of the Proposed Disposal.

Pursuant to the Agreement, the Intercompany Loans amounting to RMB10.1 million (approximately S$1.9 million) as at the date of the Agreement, will be waived by the Group.

As the sale consideration for the Proposed Disposal is a nominal consideration of RMB1, disclosure of the intended use of the sale proceeds is not meaningful. The proceeds from Capital Injection will be used for working capital purposes of KCSC.

5.2 Conditions Precedent

The Completion of the Proposed Disposal ("**Completion**") is subject to, *inter alia*, the following:

i) KHL having obtained all relevant internal and external approvals necessary for the completion of the transactions contemplated in the Agreement;

ii) All government approvals required by relevant laws and regulations are obtained;

iii) All approvals of the shareholder and executive directors of KCSC having been obtained for the Proposed Disposal and the relevant documents required for the Proposed Disposal;

iv) there has been no material adverse change to the business, legal or financial aspects of KCSC; and

v) KCSC has complied with the relevant laws and regulations in completing all procedures required, such as change of registration information, filing of report for change in foreign investment information, etc., to effect the Proposed Disposal, and such procedures being approved by the relevant authorities.

5.3 Other Salient Terms

Other salient terms of the Agreement are as follows:

i) Within 15 days from the date of the Agreement, KCSC is to handover the financial records, company seal, financial seal and bank tokens of KCSC ("**Documents**") to the Purchaser.

Despite the term in sub-paragraph 5.3 (i) above, the management and the Directors confirm that the Documents will not be handed over until the Proposed Disposal is completed with the transfer of 60% of legal ownership title of KCSC from KHL to the Purchaser being effected. In the event that the Proposed Disposal is not completed within 15 days from the date of the Agreement for whatsoever reason, KHL will request the Purchaser for an extension of time for the handover of the Documents.

ii) Within 3 working days from the Completion, the Purchaser will pay RMB6.0 million into KCSC, of which RMB4,019,534 will be for paid-up capital and RMB1,980,466 as capital reserve.

iii) The Intercompany Loans made by the Company and KHL to KCSC will be waived upon Completion.

iv) After Completion, if KCSC implements capital increase (including but not limited to the issuance of new ordinary shares in KCSC, convertible bonds, preference shares and other securities representing KCSC's rights and interests), the Purchaser has the right to maintain its shareholding percentage by receiving the preferential rights to subscribe to the instrument for such capital increase under the same conditions, except for the implementation of share incentive schemes under KCSC which will be subject to the approval of the shareholders of KCSC.

v) After Completion, save for internal reorganisation purposes, if KHL decides to use direct or indirect methods to transfer all or part of the shares and/or interests that it holds in KCSC, KHL must first inform the Purchaser who shall receive the rights of first refusal in relation to the transfer of those shares and/or interests from KCSC under the same conditions.

vi) After Completion, save for internal reorganisation purposes, if KHL uses direct or indirect methods to sell all or part of the shares and/or interests that it holds in KCSC, KCSC will notify the Purchaser, and the Purchaser, at its request, will have the right to request KHL to make the necessary arrangements with the relevant buyer to agree to preferentially purchase the equity of KCSC held by the Purchaser under the same conditions. Within 15 days after receiving a notice from KHL, the Purchaser shall provide a response as to whether it will exercise these rights. If the Purchaser does not reply within the given time frame, it shall be deemed that the Purchaser has chosen to waive such rights.

6. RELATIVE FIGURES FOR THE PROPOSED DISPOSAL UNDER RULE 1006 OF THE CATALIST RULES

The relative figures for the Proposed Disposal as computed on the bases set out in Rule 1006 of the Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited (the "**Catalist Rules**") based on the latest unaudited consolidated financial statements of the Group for 1HFY2020 are:

Rule 1006	Bases	Relative Figures
(a)	Net asset value of assets to be disposed of, as compared with the Group's net asset value. This basis is not applicable to an acquisition of assets	2.3% (1)
(b)	Net profits attributable to the assets disposed of, compared with the Group's net profits (2)	24.1% (3)
(c)	Aggregate value of the consideration to be received, compared with the Company's market capitalisation	8.8% (4)
(d)	Number of equity securities to be issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable as this is a disposal.
(e)	Aggregate volume or amount of proven and probable reserves to be disposed of, compared with the aggregate of the Group's proven 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 as the Company is not a mineral, oil or gas company.

Notes:

(1) For purposes of determining the relative figure under Rule 1006(a) of the Catalist Rules, the net liability value of KCSC as at 31 December 2019 had been adjusted to take into account the waiver of Intercompany Loans of RMB10.1 million, which resulted in adjusted net liabilities of RMB0.8 million (approximately S$154,660), and the Group's net liabilities of S$6,835,502 as at 31 December 2019.

(2) Under Rule 1002(3)(b) of the Catalist Rules, "net profits" is defined to be profit or loss including discontinued operations that have not been disposed and before income tax and non-controlling interests.

(3) Computed based on the net losses before income tax and non-controlling interests of S$386,719 of KCSC for 1HFY2020, and the Group's net losses before income tax and non-controlling interests of S$1,603,939 for 1HFY2020.

(4) For the purpose of determining the relative figure under Rule 1006(c) of the Catalist Rules, (i) the aggregate value of consideration of RMB16.1 million (approximately S$3.1 million) used in the computation is based on the aggregate of the Sale Consideration of RMB1, the Capital Injection of RMB6.0 million and the waiver of Intercompany Loans of RMB10.1 million, and (ii) the Company's market capitalisation of S$35,261,625 is based on the total number of issued shares excluding treasury shares in the Company of 176,750,000 shares ("**Shares**"), and the volume weighted average price of the Shares of S$0.1995 on 20 May 2020, being the last market day preceding the date of the Agreement.

The relative figures under Rules 1006(a) and 1006(b) of the Catalist Rules are negative, which may not give a meaningful indication of the significance of the Proposed Disposal to the Company. The Group is expected to record a loss on disposal of approximately S$154,845 which represents 9.7% of the Group's net losses for 1HFY2020 of S$1,603,939. Accordingly, the Proposed Disposal falls under the scenarios provided for in paragraph 4.4(e) of Practice Note 10A of the Catalist Rules, and the Proposed Disposal will constitute a "discloseable transaction" under Rule 1010 of the Catalist Rules.

7. FINANCIAL EFFECTS

Bases and Assumptions

For the purposes of illustration only, the *pro forma* financial effects of the Proposed Disposal are set out below. The *pro forma* financial effects do not necessarily reflect the actual future financial position and performance of the Group in the event that the Proposed Disposal is completed. The *pro forma* financial effects have been prepared on the following assumptions:

(i) based on the latest audited financial statements of the Group for the financial year ended 30 June 2019 ("**FY2019**");

(ii) application of equity accounting for the 40% interest in the net losses of KCSC for FY2019 after the completion of the Proposed Disposal; and

(iii) the expenses incurred for the Proposed Disposal are assumed to be insignificant and have been ignored for the purposes of computing the financial effects.

For the avoidance of doubt, these financial effects do not take into account (i) any other corporate actions announced and undertaken by the Group; and (ii) any issuance of new Shares, on or after 1 July 2019.

Net Tangible Liabilities ("**NTL**")

Assuming that the Proposed Disposal was completed on 30 June 2019, the *pro forma* financial effects of the Proposed Disposal on the consolidated NTL of the Group are as follows:

	Before the Proposed Disposal	**After completion of the Proposed Disposal**
(NTL)[1] of the Group (S$)	(4,926,316)	(4,813,722)
Number of Shares	118,477,000	118,477,000
(NTL) per share (cents)	(4.16)	(4.06)

Note:

(1) NTL refers to total assets less total liabilities, non-controlling interests and intangible assets.

Loss Per Share ("**LPS**")

Assuming that the Proposed Disposal was completed on 1 July 2018, the *pro forma* financial effects of the Proposed Disposal on the consolidated EPS of the Group for FY2019 are as follows:

	Before the Proposed Disposal	**After completion of the Proposed Disposal**
(Loss) after tax attributable to the equity holders of the Company (S$)	(3,874,348)	(3,761,754)
Weighted Average Number of Shares	118,477,000	118,477,000
EPS per share (cents)	(3.27)	(3.18)

Gearing

Assuming that the Proposed Disposal completed on 30 June 2019, the *pro forma* financial effects of the Proposed Disposal on the gearing of the Group as at 30 June 2019 are as follows:

	Before the Proposed Disposal	**After completion of the Proposed Disposal**
Total borrowings[1] (S$)	6,572,995	6,497,995
Net borrowings[2] (S$)	6,239,318	6,164,318
Total liabilities and equity (S$)	13,785,898	13,673,304
Gearing ratio[3] (times)	0.48	0.48
Net gearing ratio[4] (times)	0.45	0.45

Notes:

(1) Total borrowings is a summation of borrowings from financial and non-financial institutions, finance lease liabilities and loan from a director and a shareholder of a subsidiary as at 30 June 2019.
(2) Net borrowings is total borrowings less cash and cash equivalents.
(3) Gearing is computed using total borrowings divided by total liabilities and equity.
(4) Net gearing is computed using net borrowings divided by total liabilities and equity.

8. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Mr Lim Wee Li is currently a director of KCSC, and it is intended that he remain a director of KCSC after the Proposed Disposal. Save for which, none of the Company's Directors or controlling Shareholders or their associates has any interest, direct or indirect, in the Proposed Disposal, other than through their respective shareholdings (if any) in the Company.

9. DIRECTORS' SERVICE CONTRACTS

As at the date of this announcement, no person is proposed to be appointed as a Director of the Company in connection with the Proposed Disposal. Accordingly, as at the date of this announcement, no service contract is proposed to be entered into between the Company and any such person in connection with the Proposed Disposal.

10. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm after making all reasonable enquiries that, 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, and 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.

11. CAUTION IN TRADING

Shareholders and potential investors should note that the Proposed Disposal is subject to, among others, the fulfilment of the conditions precedent set out above, and there is no certainty or assurance as at the date of this announcement that the Proposed Disposal 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 Disposal. Shareholders are advised to read this announcement and any further announcements by the Company carefully and should exercise caution when trading in the shares of the Company. Persons who are in doubt as to the action they should take should consult their legal, financial, tax or other professional advisers.

12. DOCUMENT AVAILABLE FOR INSPECTION

The Agreement is available for inspection during normal business hours from 9.00 am to 5.00 pm at the registered office of the Company at 2 Leng Kee Road, #01-08 Thye Hong Centre, Singapore 159086 for a period of three (3) months from the date of this announcement. However, shareholders should note that in compliance with the Singapore Government's "Circuit Breaker" measures, the Group's registered office and showroom will be closed from 7 April 2020 to 1 June 2020, subject to further directives from the Singapore Government.

By Order of the Board

Lim Wee Li
Executive Chairman and Chief Executive Officer
21 May 2020

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*This announcement has been reviewed by the Company's sponsor, SAC Capital Private Limited (the "**Sponsor**"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.*

The contact person for the Sponsor is Ms. Lee Khai Yinn (Tel (65) 6232 3210), at 1 Robinson Road, #21-00 AIA Tower, Singapore 048542.