

PAVILLON HOLDINGS LTD.

(Company Registration No. 199905141N)

(Incorporated in the Republic of Singapore)

ENTRY INTO SUBSCRIPTION AGREEMENT

1. INTRODUCTION

- 1.1. The board of directors (the “**Board**”) of Pavillon Holdings Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”, each a “**Group Company**”) is pleased to announce that it has, on 9 March 2022, entered into a subscription agreement (the “**Subscription Agreement**”) with New Development Hotel Management Pte. Ltd. (the “**Subscriber**” and the Company, collectively as parties to the Subscription Agreement, the “**Parties**”), where it is agreed that the Company shall allot and issue, and the Subscriber shall subscribe for S\$42,935,961.02 (the “**Subscription Amount**”), being the Singapore dollar equivalent of RMB 200 million (the “**RMB Subscription Amount**”) at the agreed exchange rate of S\$1.00 to RMB 4.6581 (the “**Agreed Exchange Rate**”), in principal amount of new ordinary shares in the Company (the “**Subscription Shares**”), on the terms and subject to the conditions of the Subscription Agreement (the “**Proposed Subscription**”).
- 1.2. It is also further agreed in the Subscription Agreement that the Subscriber shall pay the RMB Subscription Amount (being the proceeds from the Proposed Subscription) for the Subscription Shares and the RMB Subscription Amount shall be used to fund (through a shareholder’s loan or equivalent with agreed initial terms¹) the operations of 丰驰物联网管理有限公司 (Fengchi IOT Management Co., Ltd.)² (“**Fengchi IOT**”), including but not limited to the payment of suppliers and creditors of the Fengchi IOT (the “**Use of Proceeds**”).

2. INFORMATION ON THE SUBSCRIBER

- 2.1. The Subscriber was incorporated in Singapore on 10 August 2016 with its principal activities to carry on the business of hotel management and an investment holding company. As at the date of this announcement, it has an issued and paid-up share capital of S\$10,000 and 10,000 ordinary shares. It also has 100.0% shareholding interests in a real estate development subsidiary incorporated in the United States of America.

As at the date of this announcement, Mr. Ding Furu (丁福如) (“**Mr. Ding**”) is the sole shareholder and director of the Subscriber. Mr. Ding is a naturalised Singaporean and is based in Shanghai in the People’s Republic of China (“**PRC**”), with investments in various industries, including property development and hotel ownership and development. Through his investments, he has majority interest in a public company listed on the Shanghai Stock Exchange, Vohringer Home Technology (菲林格尔) and is also the owner of various hotel properties in the PRC including Courtyard by Marriott Shanghai Fengxian, The JW Marriott Hotel Shanghai Changfeng Park and Fairfield by Marriott Shanghai Jing’an.

Please also see section 3 (*Background to and Rationale for the Proposed Subscription*) below for the initial investment into Fengchi IOT by Mr. Ding through 上海津茂科技发展有限公司 (“**Jinmao**”), a company where Mr. Ding is the 100.0% ultimate beneficial shareholder.

- 2.2. As at the date of this announcement, Mr. Ding holds 190,200 ordinary shares in the Company, constituting approximately 0.05% of the existing issued and paid-up share capital of the Company, and is a shareholder of Fengchi IOT through Jinmao.

¹ The initial terms of the shareholder’s loan or equivalent for the proceeds from the Proposed Subscription to be loaned to the China JV, being an interest rate of 5.0% per annum (or such other interest rate to be mutually agreed by the Parties) and an initial tenure of three (3) years (or such other period to be mutually agreed by the Parties).

² Fengchi IOT is a joint venture between Pavillon Financial Leasing Co., Ltd. (兰亭融资租赁有限公司) (49.0%), a subsidiary of the Company, and Mr. Ding (51.0%) through Jinmao.

- 2.3. Save as disclosed in section 2.2 above, as at the date of this announcement, the Subscriber and its shareholder (a) does not hold any ordinary shares in the Company (the “**Shares**”); and (b) is not related to any of the directors of the Company (the “**Directors**”), substantial shareholders of the Company, or their respective associates and there is also no connection (including business relationship) between the Subscriber (and its shareholder) and the Directors or substantial shareholders of the Company.

3. BACKGROUND TO AND RATIONALE FOR THE PROPOSED SUBSCRIPTION

3.1. Background to the Proposed Subscription

In April 2017, the Company had sought and obtained approval from its shareholders (the “**Shareholders**”) for the proposed diversification of the Group’s core businesses to include, *inter alia*, the provision of logistics and warehousing solutions and services, including but not limited to, warehousing, transportation, delivery and freight forwarding services (the “**Logistics Business**”). It was contemplated by the Group then to seek opportunities or engage in the Logistics Business through Fengchi IOT (which was incorporated in 2017).

In December 2017, the Group obtained the land use rights for a period of 50 years to a piece of land (approximately 57,052.9 square meters) at a tender price of approximately RMB 42.8 million (equivalent to approximately S\$9.2 million) within the Dongjiang Bonded Part area in Tianjin, for the development of its Logistics Business. The land is to be used for the construction of a multi-storey bonded warehouse, automotive warehouse showroom, automotive financial services center and logistics network management center in Tianjin East Xinjiang Bonded Port, PRC, to provide a venue that will allow motor traders to store their products, showcase their brands and conduct online-offline transactions (the “**Warehouse**”).

To complete the development of the Warehouse (where the Company had already invested approximately RMB 90 million (equivalent to approximately S\$19.3 million) into Fengchi IOT), the Company sourced for various financing options and opted to enter a joint venture in October 2018 with a new partner, Mr. Ding (through Jinmao) which injected an expanded capital of approximately RMB 121.8 million (equivalent to approximately S\$26.1 million) into Fengchi IOT over three (3) tranches (at a premium value of 30.0%) (the “**Capital Injection**”). Together with the new partner, the Group secured a bank loan of RMB 300 million (equivalent to approximately S\$64.4 million) (the “**Bank Loan**”) for the construction of the Warehouse. The Group’s shareholding in Fengchi IOT was consequently reduced to 49.0%.

The Bank Loan was secured and guaranteed by Mr. Ding through the provision of collateral from his investment portfolio including his hotel properties. As at the date of this announcement, the Bank Loan is almost fully drawn down by Fengchi IOT for the Warehouse. Further, Fengchi IOT secured financing arrangements with the contractors for deferred payments of the remaining fees for the construction of the Warehouse (the “**Construction Financing**”). The Group was able to obtain these financing for the Warehouse without provision of any collateral or parent corporate guarantees by the Company on its end.

The Warehouse was completed and the property title was received in January 2021. Operations have started in the Warehouse, and the Group has been sourcing and securing various tenants. Please also refer to our announcement dated 4 March 2022 in response to queries from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) in relation to our financial statements for the financial year ended 31 December 2021.

3.2. Rationale for the Proposed Subscription

Further to the completion of the Warehouse, Fengchi IOT is required to make payments of the instalments under the Bank Loan, which is inclusive of the principal and interest and also to pay for the final outstanding payments under the Construction Financing of approximately RMB 166.9 million (equivalent to approximately S\$35.8 million) in 2022. The total amount to service and repay the liabilities of Fengchi IOT for the financial year ending 31 December 2022 is estimated to be approximately RMB 200 million (equivalent to approximately S\$42.9 million).

Whilst the Group expects to increase the operations of the Warehouse through its marketing efforts and plans for sourcing more tenants, the Group does not expect the Warehouse operations to be profitable for the financial year ending 31 December 2022. Therefore, to ensure that its liabilities are met, the Group has to source for financing and/or capital injection options.

Having considered various options, the Group believes that the Proposed Subscription is necessary for the following reasons:

- (a) notwithstanding that the Group's other operations are unaffected by any default of Fengchi IOT, not being able to finance the outstanding payments due under the Bank Loan and the Construction Financing will result in difficulties caused to the survival of the Logistics Business of the Group, being a core business of the Group. This may result in a substantial loss of the investment which the Group has invested into Fengchi IOT (approximately RMB 90 million (equivalent to approximately S\$19.3 million)).
- (b) the Group continues to believe that the potential returns from the Warehouse and its investment in Fengchi IOT can be a steady source of material revenue for the Group in the future, provided that it is able to have sufficient support from its stakeholders including relevant governmental authorities (in relation to favourable economic policies) and sustainable cash flows to continue with its marketing and operational efforts in developing the Warehouse as a notable logistics hub in Tianjin; and
- (c) as noted in the sections above, Mr. Ding had already invested in Fengchi IOT through the Capital Injection at a premium, secured and guaranteed the Bank Loan through his investment portfolio and also provided certain loans to Fengchi IOT. A continuation of Mr. Ding's investment in Fengchi IOT through the equity investment in the Group will be mutually beneficial as Mr. Ding will remain vested in the success of the Group as a whole, in addition to providing the necessary financial support for the Group's Logistics Business through Fengchi IOT.

Accordingly, the Directors are of the opinion that the Proposed Subscription will be in the interests of the Shareholders.

4. PRINCIPAL TERMS OF THE SUBSCRIPTION AGREEMENT

4.1. Details of Subscription Shares

The Subscriber will be allotted and issued the Subscription Shares at the subscription price of S\$0.041 per Subscription Share (the "**Subscription Price**") for the full Subscription Amount, with fractional entitlements to be disregarded, in the following proportions on the relevant Completion Date (as defined below):

Tranche	Completion Date	Number of Subscription Shares	Subscription Amount (S\$) / RMB Subscription Amount (RMB)
First Tranche	The later of (a) 1 July 2022 (or such other earlier date as may be mutually agreed between the Parties); or (b) the date which is no later than seven (7) days from the date falling on which all of the conditions precedent as set out in section 4.2 (<i>Conditions</i>) have been satisfied or waived (the " First Completion Date ").	523,609,280	S\$21,467,980.51 / RMB 100 million
Second Tranche	31 December 2022 (or such other earlier date as may be	523,609,280	S\$21,467,980.51 / RMB 100 million

Tranche	Completion Date	Number of Subscription Shares	Subscription Amount (S\$) / RMB Subscription Amount (RMB)
	mutually agreed between the Parties) (the “ Second Completion Date ”).		
Total	-	1,047,218,560	S\$42,935,961.02 / RMB 200 million

For the purposes of this announcement, “**Completion Date**” shall mean the First Completion Date and/or the Second Completion Date (as the case may be).

For further details, please see section 5 (*Principal Terms of the Proposed Subscription*) as set out below.

4.2. Conditions

The obligations of the Subscriber under the Subscription Agreement to subscribe for the Subscription Shares are conditional upon:

- (a) the grant by the Securities Industry Council of Singapore (the “**SIC**”) (and the SIC not having revoked or repealed such grant) of the waiver of the obligation of the Subscriber to make a mandatory general offer under Rule 14 of the Singapore Code on Take-overs and Mergers for the Shares not held by the Subscriber following the allotment and issue of the Subscription Shares pursuant to the Proposed Subscription under the Subscription Agreement, subject to (i) any conditions that the SIC may impose, provided that such conditions are reasonably acceptable to the Subscriber (the “**Whitewash Waiver**”); and (ii) the independent shareholders of the Company approving at an extraordinary general meeting (an “**EGM**”) the proposed ordinary resolution of the Company which if passed by the independent shareholders of the Company would result in a waiver by the independent Shareholders of their right to receive a mandatory general offer from the Subscriber in connection with the issue of the Subscription Shares (the “**Whitewash Resolution**”);
- (b) in-principle approval being obtained from the SGX-ST for the listing and quotation of the Subscription Shares on the Mainboard of the SGX-ST (the “**SGX-ST AIP**”) and not having been revoked or amended and, where such SGX-ST AIP is subject to conditions, to the extent that any conditions for the listing and quotation of the Subscription Shares on the SGX-ST are required to be fulfilled on or before the allotment and issue of the Subscription Shares, they are so fulfilled;
- (c) approval from the Shareholders and/or the independent Shareholders (as the case may be) being obtained at an EGM to be duly convened for, *inter alia*, the Proposed Subscription (including the allotment and issue of the Subscription Shares), the Use of Proceeds (as defined below) as an interested person transaction, the transfer of controlling interest to the Subscriber and the Whitewash Resolution (the “**Shareholders’ Approvals**”);
- (d) the allotment, issue and subscription of the Subscription Shares is not prohibited by any statute, order, rule, regulation or directive promulgated or issued after the date of the Subscription Agreement by any legislative, executive or regulatory body or authority of Singapore or any other jurisdiction, which is applicable to the Company or the Subscriber;
- (e) the nomination by the Subscriber of such number of Directors (as mutually agreed upon by the Parties, taking into consideration the Board size) to be appointed to the Board on or about the First Completion Date, provided that the nominating committee of the Company shall be satisfied on the suitability of such nominee(s) and the Company shall always be in compliance with the relevant laws and regulations (including the constitutive documents of

the Company, the Listing Manual of the SGX-ST (the “**Listing Manual**”) and the Code of Corporate Governance 2018 of Singapore); and

- (f) the nomination by the Subscriber of such director(s) and/or legal representatives to be appointed to the boards of the PRC Subsidiaries³ on or about the First Completion Date, provided that the PRC Subsidiaries shall always be in compliance with the relevant laws and regulations (including the constitutive documents of such PRC Subsidiaries); and
- (g) each of the representations, warranties and undertakings of each Party under this Agreement shall remain true and not misleading in all material respects at the First Completion Date and at all times between the date of this Agreement and the First Completion Date, and that the undertakings (where applicable) will be fulfilled down to the First Completion Date.

4.3. Longstop Date

The Company undertakes to use all reasonable endeavours to ensure that the conditions as set out in section 4.2 (*Conditions*) above are fulfilled as soon as reasonably practicable, and in any event no later than the date falling six (6) months from the date of the Subscription Agreement (or such other date as may be mutually agreed between the Parties) (the “**Longstop Date**”).

4.4. Completion

Subject to section 4.2 (*Conditions*) above and provided that all completion obligations under the Subscription Agreement have been complied with, completion for the First Tranche and the Second Tranche shall take place on the relevant Completion Date at the office of the Company (or at such other place or by such other means as may be mutually agreed between the Parties).

Without prejudice to any other remedies available, if in any respect the completion provisions of the Subscription Agreement are not complied with by any Party on the Completion Date, the Party(ies) not in default may:

- (a) defer completion for the First Tranche and/or the Second Tranche (as the case may be) to a date not more than 28 days after the relevant Completion Date, provided that the First Completion Date shall not be later than the Longstop Date (and so that the completion provisions of the Subscription Agreement shall apply to completion as so deferred);
- (b) effect completion for the First Tranche and/or the Second Tranche (as the case may be) so far as practicable having regard to the defaults which have occurred (without prejudice to their rights hereunder; or
- (c) terminate the Subscription Agreement (save for the relevant surviving provisions thereto) and no Party shall have any claim against the other for costs, expenses, damages, losses, compensation or otherwise in respect of the Proposed Subscription, save for any antecedent breach of the Subscription Agreement or the Parties’ respective liability in relation to the payment of costs and expenses under the Subscription Agreement.

4.5. Representations and Warranties

Each Party has, in the Subscription Agreement, provided such representations and warranties as are customary in each capacity for transactions of the nature of the Proposed Subscription or other similar transactions.

4.6. Undertakings

The Company undertakes to the Subscriber that it will:

³ “PRC Subsidiaries” means the PRC subsidiaries of the Company, being Pavillon Business Development (Shanghai) Co., Ltd; Pavillon Financial Leasing Co., Ltd., State Research Pavillon Finance Leasing Co., Ltd. and Tianjin Pavillon Assets Management Co., Ltd.

- (a) utilise all of the proceeds from the Proposed Subscription to fund (through a shareholder's loan or equivalent with agreed initial terms) the operations of Fengchi IOT, including but not limited to the payment of suppliers and creditors of Fengchi IOT;
- (b) provide, and/or use its best endeavours to procure that its PRC Subsidiaries provide, to the Subscriber the relevant and required financial information of such PRC Subsidiaries within 14 Business Days of receipt of a written notice from the Subscriber and provided always that the Subscriber shall ensure that all such information provided shall be kept strictly confidential and that it shall at all times in respect of such information, comply with all relevant laws and regulations including (without limitation to) the Securities and Futures Act 2001 of Singapore, and in particular, all rules and regulations in connection with insider trading;
- (c) within 14 Business Days of receipt of a written notice from the Subscriber, use its best endeavours to take all necessary actions to prepare for the restructuring the Group (including but not limited to making changes to the business operations and personnel) required by the Subscriber to prepare to have majority control over the operations and management of the Group (the "**Restructuring**"), provided always that (i) the Group Companies shall remain in compliance with all applicable laws and regulations; and (ii) the implementation and completion of the Restructuring shall only be after the First Completion Date (the "**Restructuring Implementation**"). Notwithstanding that the Restructuring Implementation shall take place only after the First Completion Date, the Company agrees that it shall deliver to the Subscriber all requisite documentation necessary for the Restructuring (finalised and duly signed), which shall be reviewed and approved by the Subscriber, no later than 14 Business Days from the date of receipt of a written notice from the Subscriber requesting the same (which in any event shall be prior to the First Completion Date), such that the Restructuring Implementation may take place promptly after the First Completion Date;
- (d) perform and comply with all rules, regulations and requirements imposed by the SGX-ST in order to maintain its listing on the SGX-ST; and
- (e) for so long as it remains listed on the SGX-ST, take all necessary steps to ensure that all approvals for the allotment, issue, listing and quotation of the Subscription Shares on the Mainboard of the SGX-ST (including the SGX-ST AIP) are not revoked, amended and where such approval is subject to conditions, use best endeavours to fulfil them and obtain and maintain a listing for all such Subscription Shares as and when they are issued.

4.7. Specific Indemnification

The Company shall indemnify, hold harmless and keep indemnified the Subscriber from and against all foreseeable losses, liabilities, damages, costs or expenses (including, without limitation, interest, penalties and reasonable legal fees and disbursements) based upon and arising out of any material breach of the Company of its representation in relation to information disclosure under the Subscription Agreement which has a Material Adverse Effect⁴.

The maximum liability under this indemnity (together with any other indemnities under this Agreement) shall, in no circumstances, exceed the value of the RMB Subscription Amount which has been paid by the Subscriber as at the date of any such breach.

⁴ "Material Adverse Effect" means (a) a material adverse change, occurrence or effect (direct or indirect) on the condition (financial or otherwise), business, assets, obligations, liabilities (whether absolute, contingent or otherwise) or results of operations of the Company or each Group Company that where taken as whole for the Company or each Group Company, results in an additional unforeseen recurring loss exceeding RMB 5,000,000, based on the latest unaudited financial statements for the financial year ended 31 December 2021 as announced on 25 February 2022 by the Company; or (b) any and all effect(s) resulting (whether directly or indirectly) from a Corporate Deadlock Event.

4.8. Termination

- (a) If there shall have come to the notice of any Party (the “**Non-Defaulting Party**”) of any breach of the representations, warranties and undertakings set out in the Subscription Agreement (each, a “**Breach**”) by the other Party (the “**Defaulting Party**”) which is not remedied (to the reasonable satisfaction of the Non-Defaulting Party) within up to 30 business days (or such other period to be agreed between the Parties, as appropriate) from the receipt of a written notice by the Defaulting Party from the Non-Defaulting Party notifying of such Breach, the Non-Defaulting Party may thereafter at any time prior to and up to the relevant Completion Date by notice in writing to the Defaulting Party terminate the Subscription Agreement, but failure to exercise this right shall not constitute a waiver of any other rights of the Non-Defaulting Party arising out of any such Breach.
- (b) Subject always to the paragraph (c) below and upon such notice referred to in the paragraph (a) above being given, the Subscription Agreement shall terminate forthwith and the Parties hereto shall be released and discharged of their obligations, without prejudice to any rights in respect of any antecedent breach under the Subscription Agreement or the Parties’ respective liability in relation to the payment of costs and expenses under the Subscription Agreement, and the Subscription Agreement shall be of no further effect and no Party hereto shall be under any liability to the other in respect of the Subscription Agreement.
- (c) In the event a Breach causes, whether directly or indirectly, (i) the failure and/or inability of the Parties to complete the First Tranche and/or the Second Tranche of the Proposed Subscription (as the case may be); and/or (ii) any losses, damages, liabilities, claims, costs or expenses to be suffered or incurred by the Non-Defaulting Party, the Defaulting Party shall be liable to pay, make reimbursement or indemnify in respect of, any and all such direct losses and damages suffered or incurred by the Non-Defaulting Party in consequence, in addition to and not in lieu of, any other rights the Non-Defaulting Party may have relating to or in connection with the Breach available to it in law or under the Subscription Agreement. The maximum liability under this indemnity (together with any other indemnities under the Subscription Agreement) shall, in no circumstances, exceed the value of the RMB Subscription Amount which has been paid by the Subscriber as at the date of any such Breach. Further, no Party shall be entitled to recover more than once in respect of any one (1) matter giving rise to a claim under any of the indemnities provided in the Subscription Agreement.
- (d) In addition to the foregoing, the Parties agree that the Subscriber shall have the right to terminate the Subscription Agreement at any time prior to and up to the First Completion Date, upon the provision of five (5) business days’ prior written notice of such termination to the Company, if any of the following shall occur
 - (i) there has been a 10.0% decrease from the net assets value of the Group, without taking into consideration the financial results of the China JV (based on the latest unaudited financial statements for the financial year ended 31 December 2021 as announced on 25 February 2022 by the Company), provided that such decrease has been solely (whether directly or indirectly) caused by act(s) of fraudulence, gross negligence or wilful default of any Director and/or key management personnel of the Company and/or its PRC Subsidiaries (as the case may be); and
 - (ii) there has been an event of continued failure, neglect or refusal by any Director and/or key management personnel of the Company and/or its PRC Subsidiaries (as the case may be) to reasonably cooperate in the provision of any financial information as required by the Company from its PRC Subsidiaries (each event, a “**Corporate Deadlock Event**”).

For the avoidance of doubt:

- (1) upon such notice referred to in this paragraph (d) being given, the Subscription Agreement shall terminate forthwith and the Parties hereto shall be released and discharged of their obligations, without prejudice to any rights in respect of any antecedent breach under the Subscription Agreement or the Parties’ respective

liability in relation to the payment of costs and expenses under the Subscription Agreement, and the Subscription Agreement shall be of no further effect and no Party hereto shall be under any liability to the other in respect of the Subscription Agreement; and

- (2) the Parties acknowledge and agree that any termination rights under this paragraph (d) shall extinguish immediately upon the completion of the First Tranche on the First Completion Date.

4.9. Governing Law and Jurisdiction

The validity, construction and performance of the Subscription Agreement (and any claim, dispute or matter arising under or in connection with it or its enforceability) shall be governed by and construed in accordance with the laws of Singapore.

Any claims, disputes or matters arising out of or in connection with the Subscription Agreement, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration administered by the Singapore International Arbitration Centre (the “SIAC”) in accordance with the Arbitration Rules of the SIAC for the time being in force.

5. PRINCIPAL TERMS OF THE PROPOSED SUBSCRIPTION

5.1. Subscription Price

The Subscription Price of S\$0.041 for each Subscription Share was arrived at pursuant to discussions with the Subscriber, taking into account, among others, the net assets of the Group and the prevailing market price of the Shares, and represents a premium of approximately 86.4% to the volume weighted average price of S\$0.22 for trades done on the Shares on the Mainboard of the SGX-ST on 4 March 2022, being the preceding full market day on which the Shares were traded up to the time the Subscription Agreement was signed.

5.2. Issue Size

The Subscription Shares represent the following:

Tranche	Number of Subscription Shares	Total Number of Shares after the Allotment and Issue of the Relevant Tranche of the Subscription Shares ⁽¹⁾	Shareholding Percentage of the Subscriber after the Allotment and Issue of the Relevant Tranche of the Subscription Shares (%)
First Tranche	523,609,280	911,357,980	57.45%
Second Tranche	523,609,280	1,434,967,260	72.98%

Note:

- (1) This does not take into consideration any other Shares which may be allotted and issued otherwise.

The 1,047,218,560 Subscription Shares represent approximately 270.07% of the existing issued and paid-up share capital of the Company comprising 387,748,700 Shares as at the date of this announcement (excluding treasury shares) and will represent approximately 72.98% of the total enlarged issued and paid-up share capital of the Company (excluding treasury shares) of 1,434,967,260 Shares.

The Subscription Shares, when allotted and issued, shall be credited as fully-paid Shares, free from any and all encumbrances, listed and tradable on the Mainboard of the SGX-ST and rank *pari passu* with all other existing Shares, save that they will not rank for any dividends, rights,

allotments, distributions or entitlements, the record date for which falls before the date of issue of the Subscription Shares.

The Subscription Shares, when allotted and issued, will result in a transfer of controlling interest in the Company to the Subscriber.

5.3. Authority to Issue the Subscription Shares

The Company will be seeking specific Shareholders' approval for the Proposed Subscription and the allotment and issue of the Subscription Shares at an EGM to be convened pursuant to Rules 803, 805(1) and 811(3) of the Listing Manual.

Shareholders are to note that the Subscriber will be a new controlling Shareholder. A circular is expected to be issued and despatched by the Company to its Shareholders in due course, containing the necessary information to seek for the approvals required. Please see section 11 (*Regulatory and Shareholder Approvals Required*) of this announcement for further details of the regulatory and shareholder approvals required.

5.4. Use of Proceeds

The Subscriber shall pay the RMB Subscription Amount (being the proceeds from the Proposed Subscription) for the Subscription Shares and 100% of the RMB Subscription Amount shall be used to fund (through a shareholder's loan or equivalent with agreed initial terms) the operations of Fengchi IOT, including but not limited to the payment of suppliers and creditors of Fengchi IOT.

The Company will make an announcement upon the proceeds from the Proposed Subscription being disbursed and whether such use is in accordance with the stated use. The Company will also provide a status report on the use of the proceeds from the Proposed Subscription in the Company's half year and full year financial statements and the Company's annual report. Where there is any material deviation from the stated use, the Company will announce the reasons for such deviation.

5.5. Confirmation by Directors

The Directors are of the opinion that after taking into consideration the Group's present bank facilities and the proceeds from the Proposed Subscription, the working capital available to the Group (including Fengchi IOT) is sufficient to meet its present requirements.

The reasons for undertaking the Proposed Subscription (including its necessity) are as set out in section 3 (*Background to and Rationale for the Proposed Subscription*) above.

5.6. Rule 812 of the Listing Manual

The Subscriber is not a person who falls within the categories set out in Rule 812(1) of the Listing Manual. Accordingly, none of the Subscription Shares will be placed to any person who is a Director or substantial Shareholder of the Company, or any other person in the categories set out in Rule 812(1) of the Listing Manual.

5.7. No Placement Agent

There is no placement agent appointed for the Proposed Subscription. The Proposed Subscription will be by way of a private placement pursuant to an exempted offer under Section 272B of the Securities and Futures Act 2001 of Singapore. Hence, no prospectus or offer information statement will be issued in connection with the Proposed Subscription.

6. USE OF PROCEEDS AS AN INTERESTED PERSON TRANSACTION

6.1. Interested Person Transaction

Pursuant to the completion of the Proposed Subscription, Mr. Ding, through his shareholding of the Subscriber, will be a controlling Shareholder of the Company and Fengchi IOT is an

associate of Mr. Ding. Hence, Fengchi IOT is an interested person as defined in the Listing Manual. In accordance with Rule 906 of the Listing Manual, an issuer must obtain shareholders' approval for an interested person transaction of a value equal to, or more than 5.0% of the Group's latest audited net tangible assets ("NTA") value.

Please refer to section 3.2 (*Rationale for the Proposed Subscription*) above for further information on the rationale for, and benefit to, the Company, in respect of the Use of Proceeds as an interested person transaction.

6.2. Value of the Interested Person Transaction

Having considered Rule 909 of the Listing Manual, which considers the value of the transaction to be the amount at risk to the Group, the Company has considered the value of the interested person transaction in relation to the Use of Proceeds to be the following:

The RMB Subscription Amount of RMB 200 million (equivalent to the Subscription Amount of S\$42,935,961.02 based on the Agreed Exchange Rate, which will be fully used by the Company used to fund (through a shareholder's loan or equivalent with agreed initial terms) the operations of Fengchi IOT, including but not limited to the payment of suppliers and creditors of Fengchi IOT.

Taking into consideration the RMB Subscription Amount, the 5.0% interest rate per annum and the tenure of three (3) years, the value of the interested person transaction of approximately RMB 230 million (equivalent to approximately S\$49.4 million) represents approximately 178.3% of the audited NTA of the Group for the financial year ended 31 December 2020 (being the latest audited NTA) amounting to approximately S\$27.7 million.

As the value of the interested person transaction exceeds 5.0% of the Group's latest audited NTA, the Use of Proceeds by the Company will require independent Shareholders' approval pursuant to Rule 906 of the Listing Manual.

6.3. Total Value of Interested Person Transactions for Financial Year Ending 31 December 2022

As at the date of this announcement, assuming the completion of the Proposed Subscription, save for the Proposed Subscription (and the Use of Proceeds), the total value of other interested person transactions with Mr. Ding or any of his associates for the current financial year ending 31 December 2022 is S\$200,367.82⁵, amounting to approximately 0.7% of the audited NTA of the Group for the financial year ended 31 December 2020 (being the latest audited NTA) amounting to approximately S\$27.7 million.

The total value of all other interested person transactions for the current financial year ending 31 December 2022 is nil.

6.4. Audit Committee Statement

The Audit Committee of the Company will obtain an opinion from an independent financial advisor (the "IFA") before forming its view in relation to the interested person transaction. Both the opinion of the IFA and the views of the Audit Committee will be included in the circular to be issued to the Shareholders to seek for the approvals required.

6.5. Abstention from Voting

Pursuant to Rule 919 of the Listing Manual, Mr. Ding, the Subscriber and their respective associates, shall abstain from exercising their voting rights in respect of all existing issued Shares owned by them and shall not accept appointments as proxies unless specific instructions as to

⁵ Being the maximum amount of interest payable on a short-term financing loan of RMB 20 million provided to Fengchi IOT by an associated company of Mr. Ding. As at the date of this announcement, only approximately 25% of the loan has been drawn down by Fengchi IOT. For the avoidance of doubt, Mr. Ding and his associates are not considered interested persons prior to the completion of the Proposed Subscription.

voting are given, in respect of the resolution to approve the Use of Proceeds as an interested person transaction.

7. PRO FORMA FINANCIAL EFFECTS OF THE PROPOSED SUBSCRIPTION

The *pro forma* financial effects of the Proposed Subscription on the Company's share capital and the Group's NTA per share, losses per share (the "**LPS**") and borrowings as set out below are strictly for illustrative purposes and are not indicative of the actual financial position and results of the Group following the Proposed Subscription.

As at the date of this announcement, the Company has an issued and paid-up capital of approximately S\$39,433,461 comprising 387,748,700 ordinary shares, excluding treasury shares and subsidiary holdings, and does not have any outstanding convertible securities, options, warrants or other derivatives in issue which are convertible or exchangeable into the Shares.

The *pro forma* financial effects have been prepared based on the latest unaudited financial statements of the Group for the financial year ended 31 December 2021, and on the following bases and assumptions:

- (a) 523,609,280 Subscription Shares will be allotted and issued on the completion of the First Tranche and 523,609,280 Subscription Shares will be allotted and issued on the completion of the Second Tranche;
- (b) any other Shares which may be allotted and issued otherwise have not been taken into consideration; and
- (c) the expenses incurred for the Proposed Subscription (including listing and application fees, professional fees and other miscellaneous expenses) are not considered for the purposes of computing the financial effects.

7.1. Share Capital

	Number of Shares (excluding treasury shares)
Before the Proposed Subscription	387,748,700
After completion of the First Tranche	911,357,980
After completion of the Second Tranche	1,434,967,260

7.2. NTA per Share

Assuming that the Proposed Subscription was completed on 31 December 2021, the *pro forma* financial effects on the Group's NTA per Share would be as follows:

	NTA ⁽¹⁾ (S\$'000)	Number of Shares	NTA per Share (Singapore cents)
Before the Proposed Subscription	12,421	387,748,700	3.20
After completion of the First Tranche	33,889	911,357,980	3.72

	NTA ⁽¹⁾ (S\$'000)	Number of Shares	NTA per Share (Singapore cents)
After completion of the Second Tranche	55,357	1,434,967,260	3.86

Note:

- (1) Refers to the total assets minus intangible assets and total liabilities, without non-controlling interests.

7.3. LPS

Assuming that the Proposed Subscription was completed on 1 January 2021, the *pro forma* financial effects on the Group's LPS would be as follows:

	Loss (S\$'000)	Number of Shares	LPS (Singapore cents)
Before the Proposed Subscription	16,124	387,748,700	4.16
After completion of the First Tranche	16,124	911,357,980	1.77
After completion of the Second Tranche	16,124	1,434,967,260	1.12

7.4. Borrowings of the Group

Assuming that the Proposed Subscription was completed on 31 December 2021, the *pro forma* financial effects on the Group's borrowings would be as follows:

	Net Assets ⁽¹⁾ (S\$'000)	Total Borrowings (S\$'000)	Gearing Ratio ⁽²⁾
Before the Proposed Subscription	14,858	4,192	0.28
After completion of the First Tranche	36,326	4,192	0.12
After completion of the Second Tranche	57,794	4,192	0.07

Note:

- (1) Refers to the net assets value including non-controlling interests.
(2) Gearing ratio is derived from total borrowings divided by net assets pursuant to the completion of the First Tranche and the Second Tranche, as the case may be.

8. INTERESTS OF THE DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as disclosed in this announcement, none of the Directors and to the best of the knowledge of the Company, none of the controlling Shareholders have any interest, direct or indirect, in the Proposed Subscription, other than through their respective directorships and shareholdings in the Company, if any.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Subscription Agreement are available for inspection during normal business hours from 9.00 a.m. to 5.00 p.m. at the registered office of the Company at Block 1002 Tai Seng Avenue #01-2536 Singapore 534409 for a period of three (3) months commencing from the date of this announcement.

10. WHITEWASH WAIVER

10.1. Under Rule 14.1 of the Singapore Code on Take-overs and Mergers, except with the consent of the SIC, where:

- (a) any person acquires whether by a series of transactions over a period of time or not, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights of a company; or
- (b) any person who, together with persons acting in concert with him, holds not less than 30% but not more than 50% of the voting rights and such person, or any person acting in concert with him, acquires in any period of six (6) months additional shares carrying more than 1% of the voting rights,

such person must extend offers immediately to the holders of any class of share capital of the company which carries votes and in which such person, or persons acting in concert with him, hold shares (including, where applicable, to make a general offer for the downstream companies held by such company) (a “**Mandatory Offer**”). In addition to such person, each of the principal members of the group of persons acting in concert with him may, according to the circumstances of the case, have the obligation to extend an offer.

10.2. Assuming all of the Subscription Shares have been issued, the Subscriber will hold 1,047,218,560 Shares representing approximately 72.98% of the enlarged share capital of the Company⁶. This triggers the requirement for the Subscriber and its concert parties to make a Mandatory Offer, unless the Whitewash Waiver is obtained and independent Shareholders approve at an EGM to be convened for, *inter alia*, the Whitewash Resolution.

10.3. The Company will, in due course, submit an application to the SIC to seek the Whitewash Waiver for the Subscriber and its concert parties to make a Mandatory Offer as a result of the Proposed Subscription and will make the necessary announcements upon receipt of the Whitewash Waiver from the SIC.

11. REGULATORY AND SHAREHOLDER APPROVALS REQUIRED

The Proposed Subscription will be subject to several conditions precedent as described in section 4.2 (*Conditions*) above, including but not limited to the Whitewash Waiver being granted by the SIC, the SGX-ST AIP and the Shareholders' Approval.

In the event that the Company proceeds with the Proposed Subscription, the Company will be seeking the Shareholders' Approval via an EGM to be convened by the Company in compliance with the Listing Manual.

⁶ Please refer to section 5.2 (*Issue Size*) above for the breakdown of the shareholding of the Subscriber pursuant to the First Tranche and the Second Tranche.

12. FURTHER ANNOUNCEMENTS

The Company will make the requisite announcements in compliance with the requirements of the Listing Manual, when there are material developments in respect of the Proposed Subscription.

13. 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 Subscription, the Company and its subsidiaries, 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.

14. CAUTIONARY STATEMENT

Shareholders should note that the Proposed Subscription remain subject to, amongst others, the fulfilment of the conditions precedent under the Subscription Agreement. **There is no certainty or assurance that the conditions precedent for the Proposed Subscription can be fulfilled or that the Proposed Subscription will be undertaken at all.** Shareholders are advised to read this announcement and any past and future announcements by the Company carefully when dealing with the Shares and securities of the Company. Shareholders, securityholders, and Subscribers should consult their stockbrokers, bank managers, solicitors or other professional advisors if they have any doubt about the actions they should take or when dealing with their shares or securities of the Company.

By Order of the Board

Lee Tong Soon
Managing Director

10 March 2022