

FU YU CORPORATION LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number 198004601C)

**ACQUISITION OF SHARES REPRESENTING 100% OF THE ISSUED AND PAID-UP SHARE
CAPITAL OF AVANTGARDE ENTERPRISE PTE LTD**

1 INTRODUCTION

The Board of Directors (the “**Board**”) of Fu Yu Corporation Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) wishes to announce that:

- (a) on 14 June 2021, the Group incorporated a new wholly-owned subsidiary in Singapore, Fu Yu Ventures Pte Ltd (referred interchangeably as “**Fu Yu Ventures**” or the “**Purchaser**”), with an initial issued and paid-up share capital of S\$1, comprising 1 ordinary share. The principal activity of Fu Yu Ventures is as an investment holding company; and
- (b) its wholly-owned subsidiary, Fu Yu Ventures, has entered into a Sale and Purchase Agreement (“**SPA**”) on 16 July 2021 with Hu Huilan (the “**Seller**”) to acquire 21,500 issued ordinary shares in Avantgarde Enterprise Pte Ltd (the “**Target Company**”, and the “**Sale Shares**”), representing the entire issued and paid-up share capital of the Target Co (the “**Transaction**”).

2 INFORMATION RELATING TO THE SELLER

As of the date hereof, the Seller is not an associate of the Company’s directors, chief executive officer, substantial shareholder and/or controlling shareholder.

3 INFORMATION RELATING TO THE TARGET COMPANY

The Target Company is an exempt private company limited by shares incorporated in Singapore on 11 November 2019. According to a business profile report from the Accounting and Corporate Regulatory Authority dated 10 June 2021 procured by the Company, the Target Company has an issued and paid-up share capital of S\$21,500 comprising of 21,500 issued ordinary shares (“**Shares**”) and the Seller owns 100% of the total issued Shares in the Target Company.

The Target Company is engaged in the business of providing supply chain management services for commodities and trading in exchange-traded financial futures.

Based on the latest audited financial statements of the Target Company for the financial year ended 31 December 2020 (“**FY2020**”), the Target Company recorded net profit before tax of approximately S\$3.73 million for FY2020.

Further, based on the audited financial statements of the Target Company, the net book value and net tangible assets attributable to the Sale Shares were approximately S\$3.14 million and S\$3.14 million respectively. The open market value of the Shares is not available as the Shares are not listed or traded on any securities exchange.

4 TERMS OF THE TRANSACTION

4.1 Sale and Purchase

Under the terms of the SPA, the Seller has agreed to sell, and the Purchaser has agreed to purchase, the Sale Shares, free from all encumbrances and together with all rights, interests, benefits and advantages attaching thereto.

Upon completion of the Transaction, the Target Company will become a wholly-owned subsidiary of the Purchaser.

4.2 Consideration

Under the terms of the SPA, the consideration for the Sale Shares is US\$4,500,000 which will be paid by the Purchaser to the Seller on the Completion Date (which, under the SPA, is to be 30 July 2021 or such other date that the parties may agree upon).

The Company engaged JLB Alliance Pte Ltd to provide a valuation report (on a scenario basis) on the Target Company, which was issued on 10 May 2021 (the “**Valuation Report**”) and the Board relied on the Valuation Report and adopted the most prudent and lowest probability valuation of the Target Company in the Valuation Report in arriving at this amount in respect of the consideration for the Transaction. The Board also considered the strong cash flow generation abilities of the Target Company and was of the view that the consideration amount is a fair estimate of the Target Company’s valuation.

Payment of the aggregate consideration will be funded through internal resources and reserves.

4.3 Conditions

The completion of the Transaction is subject to the successful completion of legal documentation in relation to the Transaction, and the satisfactory conclusion of legal and financial due diligence conducted on the Seller and the Target Company. Save for the aforementioned, there are no other material conditions attached to the completion of the Transaction.

4.4 Completion

The completion of the Transaction is set to take place on 30 July 2021 (the “**Completion Date**”). In the event that the completion cannot take place on the Completion Date for any reason whatsoever, the non-defaulting party may, among other things, notify the defaulting party of a new date for completion which shall not be more than 10 Singapore business days after the Completion Date (i.e. 13 August 2021).

In the event that a party is unable to comply with its obligations at such deferred completion (which shall be before 13 August 2021), the non-defaulting party shall have the right to terminate the SPA.

4.5 Post-completion

Following the completion of the Transaction, the Group shall appoint Haytham T KH S Al Essa (“**Haytham**”), an Independent Non-Executive Director of the Company, and David Seow Jun Hao (“**David**”), an Executive Director of the Company, each of whom have experience in the commodities industry, to be directors of the Target Company.

5 DIVERSIFICATION OF THE GROUP'S BUSINESS

5.1 Structure and scope of the new business

The proposed new business will include the following activities, as and when appropriate opportunities arise:

- (a) the provision of supply chain management services in relation to commodity raw materials; and
- (b) to trade in exchange-traded financial futures in relation to commodity raw materials.

(collectively, the "**New Business**").

The New Business will become a new segment of the Group's business and will be carried out through Fu Yu Ventures and the Target Company. The Group may also enter into joint ventures, partnerships and/or strategic alliances with third parties and seek to build its expertise and capabilities in the field.

5.2 Rationale for the Transaction

The Company has been sourcing for investment opportunities while continuing its business operations in manufacturing precision plastic components and the fabrication of precision moulds. The Company's revenues derived only from its previous main line of manufacturing activities has declined in the last few years having wound up previous subsidiaries, and it is imperative that the Company should embrace change as with other listed companies in diversifying its core business to include new business arms. In the current and post-Covid-19 economy, it will be challenging to purely rely on the core manufacturing business to continue a growth trajectory for the Company.

Further, the Board is of the view that the Transaction and the diversification of the Company's business to include the supply chain management services sector (the "**Proposed Diversification**") would help to provide additional and recurrent revenue streams for the Group and provide shareholders of the Company ("**Shareholders**") with diversified returns and long-term growth. The Transaction is also in line with the Company's capital allocation strategy and will enable the Company to deliver enhanced long-term growth and capital returns to its shareholders.

Further, the Target Company's business is synergistic and complimentary to the Company's current core business.

(a) Supply chain management services

The Target Company is in the business of providing supply chain management services whereby the Target Company acts as a middle-man agent to procure commodities for the subsequent sale of such commodities to an end purchaser.

Currently, the Company's operations make use of resin and the costs of acquiring the Company's manufacturing materials amount to approximately half of the Group's Cost of Goods Sold. After the completion of the Transaction, the Company intends to centralise the Group's resin procurement process via the Target Company, thereby achieving economies of scale and significant costs savings on the cost of goods sold in respect of resin (and potentially, other raw materials used by the Group).

Further, given the Target Company's experience in the provision of supply chain management services, the Company intends to have the Target Company manage and improve the Group's

logistics standard operating procedures. This would help to optimise and streamline the Group's supply and logistics chain with the goal of minimising operating costs.

(b) Trading in exchange-traded financial futures ("Derivatives")

The Company notes that the Target Company is also engaged in the business of trading Derivatives. In respect of Derivatives (especially in the area of commodities), the Board understands that the position taken by a trader (such as the Target Company) in such Derivatives is used to hedge for physical cargoes of commodities, and non-physical related positions have an internal limit so as to limit losses (if any).

The Company will consider leveraging on the Target Company's business of buying and selling Derivatives, especially in relation to raw materials that are used in the Group's operations, with a view to benefit and/or protect the Group's profitability.

In order to minimise the risks of engaging in trading in Derivatives, the Company will implement a risk management policy and strategy in respect of the Target Company's business after due consideration by the Board.

5.3 Management of the New Business

The current team in the Target Company, which is experienced and has a strong track record in this industry, will continue to be employed by the Target Company after the completion of the Transaction.

Further, Haytham, having had experience in the commodities industry, would be well-placed to oversee the team and the operations of the Target Company in carrying out the New Business.

The Company is also on the lookout for individuals with the relevant experience in this industry that would help to bolster the day-to-day operations and running of the New Business, via the Target Company, and to provide strategic advice with the aim of growing the New Business and the business of the Target Company.

5.4 Financing for the New Business

The Company intends to fund the New Business by internal resources and/or bank borrowings. The Board will determine the optimal mix of internal funding and external funding, taking into account the cash flow requirements of the Group and prevailing funding costs.

5.5 Requirements under the Listing Manual

Pursuant to Practice Note 10.1 of the SGX-ST Listing Manual (the "**Listing Manual**"), Shareholders' approval is not required if a transaction will result in an expansion of an issuer's existing core business, unless such transaction changes the issuer's risk profile.

As none of the relevant figures for the Transaction under Rule 1006 of the Listing Manual crosses the major transaction threshold of 20% (see Section 6 of this Announcement), the Company is of the view that the Transaction will not result in a significant increase in the Group's scale of operations, notwithstanding the Proposed Diversification of the Group's existing businesses. Further, the Transaction would not result in a change in control, nor is it expected to have a significant adverse impact to the Company's earnings, working capital or gearing.

In light of the foregoing, the Company believes that the Transaction would not result in a change in risk profile of the Company.

The Company notes that the Singapore Exchange Securities Trading Limited recommends, in relation to the diversification of business, that if an issuer has not operated in the new business space, where the issuer enters into the first major transaction involving the New Business (the “**First Major Transaction**”), or where any of the figures computed based on Rule 1006 of the Listing Manual in respect of several transactions involving the New Business aggregated over the course of a period of 12 months (the “**Aggregated Transactions**”) exceeds 20%, such First Major Transaction or the last of the Aggregated Transactions will be made conditional upon Shareholders’ approval.

6 RELATIVE FIGURES FOR THE TRANSACTION

The relative figures in relation to the Transaction computed on the bases set out in Rule 1006 of the Listing Manual are as follows:

Rule 1006	Bases	Relative Figures (%)
(a)	The net asset value of the assets to be disposed of, compared with the Group’s net asset value.	Not Applicable ⁽¹⁾
(b)	The net profits ⁽²⁾ attributable to the assets acquired or disposed of, compared with the Group’s net profits.	19.03% ⁽³⁾
(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.	2.65% ⁽⁴⁾
(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 ⁽⁵⁾
(e)	The aggregate volume or around 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.	Not Applicable ⁽⁶⁾

Notes:

- (1) Rule 1006(a) of the Listing Manual is not applicable to an acquisition of assets.
- (2) “Net profits” is defined to be profit or loss before income tax, non-controlling interests and extraordinary items.
- (3) The relative figure for Rule 1006(b) of the Listing Manual has been computed based on (a) the Target Company’s audited net profits attributable to the Sale Shares for FY2020 of approximately S\$3.73 million, and (b) the Group’s audited consolidated net profits for FY2020 of approximately S\$19.60 million.
- (4) The Company’s market capitalisation of approximately S\$229.66 million is based on its total number of issued ordinary shares (“**Fu Yu Shares**”) of 752,994,775 and the closing market price of S\$0.305 per Fu Yu Shares on 15 July 2021, being the last traded market day prior to the date of the SPA.

- (5) This basis is not applicable to the Transaction as no equity securities are to be issued as part of the consideration for the Transaction.
- (6) This basis is not applicable as the Company and/or the Purchaser is not a mineral, oil and gas company.

As the relative figures set out in Rules 1006(b) and 1006(c) of the Listing Manual exceed 5% but do not exceed 20%, the Transaction will be classified as a discloseable transaction under Rule 1010 of the Listing Manual and is therefore not subject to the approval of the Shareholders in a general meeting.

7 FINANCIAL EFFECTS OF THE TRANSACTION

The unaudited pro forma financial effects of the Transaction on the Group as set out below are purely for illustrative purposes only and are neither indicative nor do they represent any projection of the financial performance or position of the Group after completion of the Transaction.

The pro forma financial effects set out below have been prepared based on the latest audited consolidated financial statements of the Group for FY2020 (being the most recently completed financial year) and the audited financial statements of the Target Company for FY2020, as well as the following bases and assumptions:

- (a) the financial effects on the net tangible assets (“**NTA**”) per Fu Yu Share is computed based on the assumption that the Transaction had been completed on 31 December 2020;
- (b) the financial effects on the consolidated earnings per Fu Yu Share (“**EPS**”) is computed based on the assumption that the Transaction had been completed on had been completed on 1 January 2020; and
- (c) in computing the figures in this Announcement, the Company used an exchange rate of US\$1 to S\$1.3533 which was the exchange rate as of 15 July 2021 obtained from the XE platform.

7.1 NTA per Fu Yu Share

For illustrative purposes only, and assuming that the Transaction had been completed on 31 December 2020, the financial effect of the Transaction on the NTA per Fu Yu Share of the Company as at 31 December 2020 (based on the latest audited consolidated financial statements of the Group for FY2020) is as follows:

	Before the Transaction	After the Transaction
NTA⁽¹⁾ (S\$'000)	172,289	172,289
Number of Fu Yu Shares	752,994,775	752,994,775
NTA per Fu Yu Share (S\$ cents)	22.88	22.88

Note:

- (1) NTA means total assets less the sum of total liabilities, non-controlling interests and intangible assets.

7.2 EPS

For illustrative purposes only, and assuming that the Transaction had been completed on 1 January 2020, the financial effect of the Transaction on the EPS of the Company (based on the latest audited consolidated financial statements of the Group for FY2020) is as follows:

	Before the Transaction	After the Transaction
Net profit attributable to the shareholders of the Company for FY2020 (S\$'000)	16,915	20,031
Weighted average number of Fu Yu Shares	752,994,775	752,994,775
EPS (S\$ cents)	2.25	2.66

8 DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS

As at the date hereof, none of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the Transaction (other than through their respective directorships and shareholdings in the Company, if any).

9 DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company in connection with the Transaction. Accordingly, no service contract is proposed to be entered into between the Company and any such person.

10 SPA AVAILABLE FOR INSPECTION

A copy of the SPA will be made available for inspection during normal business hours at the registered office of the Company at 8 Tuas Drive 1, Singapore 638675 for a period of three (3) months from the date of this Announcement.

In light of the prevailing safe distancing measures due to the COVID-19 situation, shareholders should provide their names, contact number, proposed date and time of inspection to herman@octant.com.sg or lisa@octant.com.sg at least three (3) working days in advance to make a prior appointment to attend at the registered office of the Company to inspect the SPA.

BY ORDER OF THE BOARD

Kong Wei Fung
Company Secretary

16 July 2021