

HONG LEONG ASIA LTD.
Company Registration No. 196300306G
(Incorporated in the Republic of Singapore)

ANNOUNCEMENT

**PROPOSED MERGER OF THE CONSUMER PRODUCT BUSINESSES OF HONG LEONG ASIA LTD.
GROUP AND GUANGZHOU WANBAO GROUP CO., LTD**

1. INTRODUCTION

The Board of Directors ("**Board**") of Hong Leong Asia Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that its wholly-owned subsidiary, Hong Leong Electric Pte. Ltd. ("**HLE**") has on 13 May 2016 entered into a binding Memorandum of General Agreement ("**MOGA**") with Guangzhou Wanbao Group Co., Ltd ("**GWG**") in relation to a proposed joint venture between GWG and HLE (the "**Parties**") to establish a joint venture company ("**JV Co**") to merge the consumer product businesses of the Xinfei Companies (as defined below) and the Wanbao Companies (as defined below) (the "**Proposed Merger**").

2. INFORMATION ON HLE, GWG, THE XINFEI COMPANIES AND THE WANBAO COMPANIES

- 2.1 HLE is a company incorporated in Singapore and is a wholly-owned subsidiary of the Company. As at the date of this Announcement, HLE holds 90% equity interest in each of Henan Xinfei Electric Co., Ltd., Henan Xinfei Household Appliance Co., Ltd. and Henan Xinfei Refrigeration Appliance Co., Ltd (collectively, the "**Xinfei Companies**"), which are engaged in the business of manufacturing refrigerators, freezers, wine coolers and similar products.
- 2.2 GWG is a company registered and established in accordance with the laws of the People's Republic of China ("**PRC**") and is directly controlled by the Guangzhou City People's Government. As at the date of this announcement, GWG has several subsidiaries which are engaged in the business of manufacturing refrigerators, freezers, washing machines, wine coolers and similar products as well as compressors and display units thereof, including without limitation Guangzhou Wanbao Group Compressor Co., Ltd. and Guangzhou Wanbao Group Refrigerator Co., Ltd. (collectively, the "**Wanbao Companies**").

3. CERTAIN PRINCIPAL TERMS OF THE PROPOSED MERGER

- 3.1 Subject to the mutual agreement on the terms and conditions of the Equity Joint Venture Agreement to be entered into between the Parties in relation to the Proposed Merger ("**Equity Joint Venture Agreement**"), the Parties have agreed in the MOGA to, *inter alia*, the following principal terms of the Proposed Merger:-

(a) Business of JV Co

JV Co will carry on the business of manufacturing air conditioners, refrigerators, freezers, washing machines and wine coolers as well as compressors and display units thereof in the PRC and Italy.

(b) Shareholding proportion

Each of HLE and GWG will hold 50% equity interest in the JV Co or such other shareholding proportion that may be agreed by the Parties in writing.

(c) Parties' contributions towards the registered capital of the JV Co

The Parties' contributions towards the registered capital of the JV Co will be made by way of injection by each Party of equity interests in its subsidiaries and (where applicable) cash, as follows:-

- (i) HLE shall inject the 90% equity interest which it holds in each of the Xinfei Companies ("**Xinfei Equity Interests**") into the JV Co ("**Proposed HLE Injection**");
- (ii) GWG shall inject the equity interests which it holds in the Wanbao Companies ("**Wanbao Equity Interests**") into the JV Co ("**Proposed GWG Injection**"), to the extent that GWG injects all the manufacturing businesses for refrigerators, freezers, washing machines, wine coolers and similar products as well as the compressors and display units of the Wanbao Companies into the JV Co;
- (iii) the Xinfei Equity Interests and the Wanbao Equity Interests will be appraised by a legally established domestic appraisal institution ("**Valuer**") to be mutually agreed by the Parties. The appraised values of the Xinfei Equity Interests and the Wanbao Equity Interests shall be the basis for the determination of the value of the contribution that each of HLE and GWG shall inject into the registered capital of the JV Co; and
- (iv) the remaining registered capital subscribed to by the Parties shall be contributed in cash by each of the Parties accordingly.

The timeline for the contribution of the registered capital of the JV Co by each of HLE and GWG shall be determined by the Parties before the formal establishment of the JV Co.

(d) Future injection of equity interests in the Parties' subsidiaries into JV Co

The Parties have agreed that:-

- (i) GWG shall consider the injection of its equity interest in Guangzhou Hitachi Compressor Co Ltd and Hitachi Air-conditioning and Refrigerating Product (Guangzhou) Co., Ltd into the JV Co, on a date to be mutually agreed between the Parties; and
- (ii) HLE shall consider the injection of its equity interest in Airwell Air-Conditioning Technology (China) Co., Ltd into the JV Co, on a date to be mutually agreed between the Parties.

3.2 Certain other salient terms of the MOGA are set out below:-

(a) Due Diligence

Each of the Parties will be given the opportunity to conduct due diligence investigations on the financial statements, operations and business of the other Party and its subsidiaries. Such due diligence investigations shall be completed within 90 days from the date of its commencement or such other period as may be mutually agreed between the Parties in writing.

(b) Exclusivity

For a period of 180 days from the date of execution of the MOGA ("**Exclusivity Period**"), neither Party shall, directly or indirectly, initiate, solicit, encourage, discuss, negotiate or accept any offers regarding the establishment of any entity with the same or similar business scope as the JV Co, without the prior written approval from the other Party.

During the Exclusivity Period, each of HLE and GWG shall not dispose of or create any encumbrance over the Xinfei Equity Interests and the Wanbao Equity Interests respectively.

(c) Appointment of the Valuer and Rights of Termination

Within the Exclusivity Period, the Parties shall unanimously appoint the Valuer. In the event that the Parties fail to agree on the selection of the Valuer within the Exclusivity Period or the Parties cannot eventually accept the appraisal result, either Party is entitled to terminate the MOGA and such termination shall not be deemed to be in breach of the MOGA.

After the expiration of the Exclusivity Period, either Party may, by serving a written notice on the other Party, terminate the MOGA without having to assume any liability.

(d) Conditions precedent

The completion of the matters provided in the MOGA shall be subject to the following conditions precedent:

- (i) the approval by the respective board of directors of HLE and GWG of the terms of the MOGA;
- (ii) the shareholders' approval of HLE (which will in turn be subject to the approval of the shareholders of the Company, if required) and the approval of Guangzhou State-owned Assets Supervision and Administration Commission of the State Council of the PRC ("**Guangzhou SASAC**") being obtained;
- (iii) the execution of a definitive Equity Joint Venture Agreement on terms mutually agreed between the Parties and endorsement thereof by the respective boards of directors of HLE and GWG;
- (iv) there is no material adverse change in the financial condition of any of GWG and/or the Wanbao Companies, which in the reasonable opinion of HLE will materially and adversely affect the transactions set out in the MOGA;
- (v) there is no material adverse change in the financial condition of any of HLE and/or the Xinfei Companies, which in the reasonable opinion of GWG will materially and adversely affect the transactions set out in the MOGA; and

- (vi) all necessary corporate third party and regulatory approvals, consents and waivers (including but not limited to those from statutory quasi-governmental or other relevant bodies in the PRC or Singapore) which may be required for the transactions set out in the MOGA being obtained, including without limitation (a) the consent of Henan Xinfei Electrical (Group) Co., Ltd., (which holds the remaining 10% equity interest in each of the Xinfei Companies) and the approval of the competent local branches of the Ministry of Commerce of the PRC in Henan Province for the Proposed HLE Injection, and (b) the approvals of the Guangzhou SASAC and other relevant governmental authorities for the Proposed GWG Injection.

Each Party agrees to use its best efforts to procure the satisfaction of the conditions precedent which are applicable to it.

(e) MOGA binding on the Parties

Except otherwise provided in the MOGA or agreed by the Parties, the MOGA shall be binding on the Parties.

4. RATIONALE FOR THE PROPOSED MERGER

The Board is of the view that the Proposed Merger has the potential to reap significant synergies for the Xinfei Companies and GWG to compete effectively in the highly competitive consumer appliance market in the PRC. Such synergies include improved supply chain management, operational cost savings through rationalisation, increased purchasing bargaining power, stronger branding power and greater operational scale and production efficiencies. Through such synergies, the Company will be better positioned to strengthen the prospects of profitability of this business segment and enhance shareholder value.

5. INSPECTION OF DOCUMENTS

A copy of the MOGA will be made available for inspection during normal business hours at the Company's registered office at 16 Raffles Quay, #26-00 Hong Leong Building, Singapore 048581 for a period of three (3) months from the date of this Announcement.

6. FURTHER ANNOUNCEMENTS

The Company will make the necessary announcements when there are further developments on the Proposed Merger, including the execution of the Equity Joint Venture Agreement, in accordance with the applicable requirements of the Listing Manual of the Singapore Exchange Securities Trading Limited.

7. CAUTIONARY STATEMENT

The Board wishes to emphasise that while a binding MOGA has been entered into between the Parties, the Equity Joint Venture Agreement has not been entered into between the Parties in relation to the Proposed Merger as at the date of this Announcement. Further, the MOGA is subject to the satisfaction of certain conditions precedents described in paragraph 3.2(d) above, and also provide for rights of termination of the MOGA (including in the event the Parties do not eventually accept the appraisal values of the Xinfei Companies and the Wanbao Companies) as described in paragraph 3.2(c) above.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company as there is no certainty or assurance that the Equity Joint Venture Agreement will be entered into, that the final terms and conditions of the Equity Joint Venture Agreement will not differ from those set out in the MOGA, or that the Proposed HLE Injection or the Proposed Merger will be undertaken at all.

Shareholders and potential investors are advised to read this Announcement and any further announcements by the Company carefully. Shareholders and potential investors should consult their stockbrokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions they should take.

BY ORDER OF THE BOARD

**Ng Siew Ping, Jaslin
Yeo Swee Gim, Joanne
Company Secretaries**

**13 May 2016
Singapore**