

HONG LEONG ASIA LTD.

(Incorporated in the Republic of Singapore)
(Company Registration No.: 196300306G)

IMPLEMENTATION OF EQUITY INCENTIVE SCHEMES BY CHINESE SUBSIDIARIES

1. INTRODUCTION

- 1.1 The board of directors (the “**Board**” or the “**Directors**”) of Hong Leong Asia Ltd. (the “**Company**”, “**HLA**” and together with its subsidiaries, the “**Group**”) wishes to inform shareholders of the Company (the “**Shareholders**”) that its subsidiaries incorporated in the People’s Republic of China (“**China**”), Guangxi Yuchai Machinery Co., Ltd (“**GYMCL**”) and Guangxi Yuchai Marine and Genset Power Co., Ltd. (“**MGP**”) have resolved to implement two (2) share schemes, namely the “GYMCL Equity Holding Scheme” and the “MGP Incentive Scheme” (collectively, the “**Two Schemes**”), pursuant to which the registered capital of MGP will be increased by an aggregate of RMB28.00 million (equivalent to approximately S\$5.20 million) which corresponds to approximately 6.54% interest of the enlarged registered capital of MGP (the “**MGP Interest**”). GYMCL will convene a shareholders’ meeting before 30 June 2024 to approve the Two Schemes (the “**GYMCL Shareholders Meeting**”). Participants of the Two Schemes will contribute an aggregate amount of RMB82.88 million (equivalent to approximately S\$15.40 million) (the “**Consideration**”) at a price of RMB2.96 (equivalent to approximately S\$0.55) per RMB1 (equivalent to approximately S\$0.19) registered capital in consideration for the MGP Interest, on and subject to the terms and conditions of the respective scheme documents. The MGP Interest will be held by separate partnership vehicles established by the participants of the Two Schemes in different proportions¹. Unless otherwise stated, all currency translations of Singapore dollars (“**S\$**”) and Chinese Renminbi (“**RMB**”) used in this announcement are based on the exchange rate of S\$1.00 : RMB5.3821 as at 6 June 2024 as published by the Monetary Authority of Singapore.
- 1.2 GYMCL is a 76.41%-subsidiary of China Yuchai International Limited (“**CYI**”) and MGP is a wholly-owned subsidiary of GYMCL. CYI is a 44.72%-subsidiary of the Company and it is listed on the New York Stock Exchange.
- 1.3 Given that the MGP Interest will be held by separate partnership vehicles which have rights to participate in distributions from MGP thereby diluting the Group’s interest in MGP, the Company considers the implementation of the Two Schemes as a disposal of the MGP Interest (the “**Disposal**”). The Disposal is considered a “discloseable transaction” as defined under Chapter 10 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the “**Listing Manual**”) and a share scheme under Rule 843 of the Listing Manual. For more information on the computation of the relative figures under Rule 1006 of the Listing Manual, please refer to paragraph 6 of this announcement.
- 1.4 Following the Disposal, GYMCL will hold 93.46% interest in MGP. This Disposal is considered a transaction with non-controlling interest and accounted for as an equity transaction.

¹ The amount of registered capital in MGP to be contributed by GYMCL Equity Holding Scheme is RMB7.33 million (equivalent to approximately S\$1.36 million) which corresponds to approximately 1.71%. The amount of registered capital in MGP to be contributed by the MGP Incentive Scheme is RMB20.67 million (equivalent to approximately S\$3.84 million) which corresponds to approximately 4.83%.

2. INFORMATION ON MGP AND THE PARTICIPANTS OF THE TWO SCHEMES

2.1 MGP

MGP produces products such as power generators used in applications such as power generation, data centres, various industrial applications as well as marine engines. It also has a 50% joint venture, MTU Yuchai Power Company Limited², with MTU Friedrichshafen (a unit of Rolls-Royce Holdings plc). MGP has grown rapidly with strong market share rankings to become a key subsidiary of the GYMCL group with strong profitability in the past few years.

2.2 Information on the Disposal

As at the date of this announcement, the registered capital of MGP is RMB400 million representing 100% interest in MGP held by GYMCL. Based on the management accounts of MGP Group (as defined in paragraph 2.4 below) for FY2023, the net asset value of MGP Group as at 31 December 2023 was RMB1.314 billion (equivalent to approximately S\$244.09 million).

The Disposal, which results in the dilution of the Group's interest in MGP, is considered an equity transaction and the carrying amounts of the controlling and non-controlling interests (being the MGP Interest held by the partnership vehicles) are adjusted to reflect the changes in their relative interests in MGP.

2.3 Independent Valuation

As MGP is not publicly listed on any stock exchange, there is no available open market valuation on MGP. As such, in connection with the Disposal, MGP has commissioned Zhongming (Beijing) Assets Appraisal International Co., Ltd. ("**Zhongming Valuer**") for a valuation on MGP. The Company has been informed that Zhongming Valuer will only issue its report (the "**Final Valuation Report**") after the GYMCL Shareholders' Meeting. The Company will make an announcement upon the increase in the registered share capital of MGP.

Pursuant to the latest draft valuation report by Zhongming Valuer, the fair value of the MGP Interest as at 31 December 2023, based on the income approach – discounted cash flow method, and adjusted for lack of marketability of shares is estimated to be approximately RMB131.69 million (approximately S\$24.47 million). The management of CYI has obtained confirmation from Zhongming Valuer that, barring unforeseen circumstances, there will not be material changes to the estimated fair value of MGP (and hence, the MGP Interest).

The Consideration of approximately RMB82.88 million (equivalent to approximately S\$15.40 million) as compared with the adjusted fair value of MGP Interest of RMB131.69 million (approximately S\$24.47 million) would result in an estimated share-based expense amounting to RMB48.81 million (approximately S\$9.07 million) (the "**Share-based Expense**") to be amortised over a specific period of time. For more information, please refer to paragraph 5.1 of this announcement.

As part of the evaluation of the Disposal, the Board has also considered and relied on a review letter issued by an independent valuer. Based on its review of the draft valuation report prepared by Zhongming Valuer and its high-level analysis, the independent valuer is of the opinion that the Share-based Expense concluded by Zhongming Valuer is reasonable.

² For more information on MTU Yuchai Power Company Limited, please go to <https://www.mtu-solutions.com> and <https://www.cylimited.com>

2.4 Identities of Participants

The participants of the Two Schemes are employees (who may also be directors) of GYMCL and its subsidiaries including MGP. Participants of the GYMCL Equity Holding Scheme are employees within the GYMCL group of entities (other than MGP and its subsidiaries (the “**MGP Group**”)) and participants of the MGP Incentive Scheme are employees in the MGP Group. Save for the aforementioned, none of the participants of the Two Schemes are directors or employees of the Company, the Company’s parent company, its subsidiaries or associates.

3. RATIONALE FOR THE DISPOSAL AND USE OF PROCEEDS

3.1 Rationale of the Disposal

It is GYMCL’s intent to create a long-term share incentive scheme to better align the interest of employees to that of GYMCL by allowing selected employees whose contributions are important to the long-term growth of the GYMCL group to have a personal stake by way of an equity participation.

MGP has grown rapidly to become a key subsidiary of the GYMCL group with strong profitability in the past few years when compared to GYMCL. Given the growth potential of MGP, GYMCL believes that having an interest in MGP will enable the GYMCL group to attract, retain and provide incentives to selected employees to produce better performance as well as encourage greater dedication and loyalty to the GYMCL group. It is also a way to motivate employees to contribute towards the long-term growth of the GYMCL group and thus, enhancing shareholder value. The Two Schemes will be extended to employees of GYMCL group who have made and who continue to make significant contributions to the growth and development of the GYMCL group.

Given these considerations, the Two Schemes are structured such that the employees would have immediate ownership interest in MGP and participate in the profits through dividends as stakeholders in MGP’s success, akin to profit-sharing.

Although the structure of the Two Schemes entails the immediate award of the MGP Interest, there are restrictions embedded into the scheme documents such as moratorium, prohibition on dealing and approval from the remuneration committee³ of GYMCL (“**GYMCL RC**”) on newly identified employees for permitted transfers to preserve the objectives of the schemes. For more information on these terms, please refer to paragraph 4 of this announcement.

3.2 Use of Proceeds

The net aggregate proceeds from the Disposal will be used by MGP for its general working capital requirements.

³ As at the date of this announcement, the GYMCL RC members are Mr. Kwek Leng Peck (chairman of HLA and a director of CYI) as chair of GYMCL RC, Mr. Li Hanyang (chairman of GYMCL) and Mr. Neo Poh Kiat (independent director of CYI).

4. PRINCIPAL TERMS OF THE SCHEME DOCUMENTS

The scheme documents comprising the terms and condition of the Two Schemes and partnership agreements for each of the separate partnership vehicles are executed in Chinese. The following principal terms of the scheme documents are based on English translations by Chinese counsels.

Registered capital of MGP	Increased by RMB28.00 million (equivalent to approximately S\$5.20 million) which corresponds to 6.54% interest, being the aggregate limit of the Two Schemes.
Separate Partnership Vehicles	<p>The participants of the Two Schemes would hold interests in newly established separate partnership vehicles as general partners or limited partners (to be known as “Partnership Interest”). GYMCL would also hold a nominal interest in each of these partnership vehicles as a limited partner so that it may undertake certain matters in the partnership vehicles under the respective scheme documents.</p> <p>The list of participants and their allocations have been finalised and approved by the GYMCL RC. No further interest in MGP would be awarded to participants under the Two Schemes.</p>
Consideration	<p>The subscription price is based on fair value of net assets of MGP and its subsidiaries as at 31 December 2022 of RMB1.184 billion⁴ (equivalent to approximately S\$219.99 million), at RMB2.96 (equivalent to approximately S\$0.55) per RMB1 (equivalent to approximately S\$0.19) registered capital of MGP. This amounts to an aggregate of RMB82.88 million.</p> <p>The subscription price was arrived at after taking into consideration, among other things, the rationale for the Disposal as set out in paragraph 3.1 of this announcement and the valuation of MGP factoring in the restrictions placed on the MGP Interest.</p> <p>The Consideration would be satisfied by payment in cash by the participants into the separate partnership vehicles which will in turn pay MGP to increase its registered capital. The full amount of the Consideration will be paid only upon the registration of the increase in capital of MGP.</p>
Lock Up Period	(i) All Partnership Interests will be subject to a lock-up period commencing on the date of issuance of the MGP Interest and a moratorium period ending (aa) in the event that MGP undertakes a public listing, three (3) years after such listing or (bb) in the event that MGP does not undertake a public listing, ten (10) years (the “ Lock Up Period ”).

⁴ Valuation undertaken by Zhongming Valuer with certain adjustments by MGP management.

		(ii) During the Lock Up Period, (aa) the partnership vehicles are to vote on all matters proposed at shareholders' meetings in the same manner as GYMCL; (bb) Partnership Interests cannot be transferred/sold/mortgaged/gifted; and (cc) Partnership Interests must be or can only be, as the case may be, transferred ⁵ in accordance with agreed terms and to approved persons under the special scenarios ⁶ (the " Special Scenarios "). However, 6 key employees who are also the general partners of the partnership vehicles may continue to hold their Partnership Interests upon retirement provided that they shall be converted into a limited partner.
Distributions		The partnership vehicles have the right to distributions declared and made by MGP upon the issuance of MGP Interest.
Administration of the Two Schemes		GYMCL RC
Governing Law		The execution, validity, implementation of the scheme documents and settlement of disputes in respect of the scheme documents shall be governed by and construed in accordance with the laws of the People's Republic of China. Any party shall have the right to submit a dispute to arbitration at the Shenzhen International Arbitration Court.

⁵ All partners in each of the partnership vehicles including GYMCL have the right (but not the obligation) to buy Partnership Interests in that partnership vehicle under the Special Scenarios. Should GYMCL buy Partnership Interests in any partnership vehicle, it has to transfer to newly identified employees approved by the GYMCL RC within 6 months.

⁶

Special Scenario	Exit Price (to be determined by the GYMCL RC)
Death of a participant	Based on latest audited Net Asset Value (" NAV ") of MGP.
Termination/Resignation/Divorce	Based on 80% of the latest audited NAV of MGP.
Punishment from state administrative department/ Criminal conviction/ Dismissal/Violation of terms of Scheme Documents.	Based on the lower of (a) 80% of the latest audited NAV of MGP; or (b) original subscription price.

5. FINANCIAL EFFECTS OF THE DISPOSAL

5.1 Share-based Expense

The Share-based Expense will be amortised over the duration of the Lock Up Period or employee service period, whichever is shorter (the “**Amortisation**”), as shown in the table below.

(RMB million)	Amortisation of Share-based Expense					
Total share-based expense	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
48.81	10.70	10.40	10.40	6.09	5.72	5.50

The Lock-Up Period will be for a period of six (6) years. The six (6) year amortisation period takes into account a three (3) year moratorium period in the event MGP is publicly listed three (3) years from the date of issuance of the MGP Interest to the partnership vehicles. Three (3) years is considered a reasonable time period for a potential company to list on a stock exchange and is not to be taken as a representation that MGP will be listed in three (3) years' time. Nothing in this announcement shall be taken as a representation or projection of the future financial performance or otherwise of MGP.

5.2 Bases and Assumptions

The *pro forma* financial effects of the Disposal have been prepared based on the Group's latest audited financial statements for FY2023 (the “**Group's AFS**”) (being the latest announced consolidated accounts of the Group), and based on the following key assumptions:

- (a) for the purposes of illustrating the financial effects of the Disposal on the Group's net tangible assets (“**NTA**”) per ordinary share of HLA (“**HLA Share**”), the Disposal was completed on 31 December 2023;
- (b) for the purposes of illustrating the financial effects of the Disposal on the Group's earnings per HLA Share (“**EPS**”), the Disposal was completed on 1 January 2023;
- (c) the total Share-based Expense (disregarding effect of the Amortisation) has been included; and
- (d) relevant taxes, costs and expenses incurred or to be incurred in connection with the Disposal are disregarded for the purposes of calculating the financial effects.

The *pro forma* financial effects presented below are purely for illustrative purposes only and are therefore not necessarily indicative of the actual financial position of the Group following the completion of the Disposal.

5.3 NTA per HLA Share

	Before the Disposal	After the Disposal
NTA attributable to Shareholders (Singapore dollars)	810,865,000	808,734,000
Number of issued HLA Shares	747,978,318	747,978,318
NTA per HLA Share (Singapore cents)	108.41	108.12

5.4 EPS

	Before the Disposal	After the Disposal
Net profit attributable to Shareholders (Singapore dollars)	64,879,000	60,264,000
Weighted average number of HLA Shares	747,978,318	747,978,318
EPS (Singapore cents)	8.67	8.06

6. RELATIVE FIGURES UNDER RULE 1006 OF THE LISTING MANUAL

6.1 The relative figures in relation to the Disposal are computed on the applicable bases set out under Rule 1006 of the Listing Manual based on the Group's AFS and MGP Group's management accounts for FY2023 and the assumption that the total Share-based Expense (disregarding effect of the Amortisation) has been included.

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. ⁽¹⁾	0.6%
(b)	The net profits attributable to the assets acquired or disposed of, compared with the Group's net profits. ^{(2) (3)}	8.4%
(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. ⁽⁴⁾	3.4%
(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 to the Disposal
(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves.	Not applicable to the Disposal as the Company is not a mineral, oil and gas company.

Notes:

- (1) For the purpose of computing Rule 1006(a), the net asset value of the MGP Interest of S\$5.80 million is based on 6.54% of the net assets of MGP Group as at 31 December 2023 of RMB1.314 billion (equivalent to approximately S\$244.09 million), and adjusted for the increase in share capital of MGP and non-controlling interests. It is assumed that the Disposal was completed on 31 December 2023.
- (2) Net profits is defined to be profit or loss before income tax, non-controlling interests and extraordinary items.
- (3) For purpose of computing Rule 1006(b), the net profit attributable to the MGP Interest of S\$13.94 million is based on the net profits of MGP Group for FY2023 of RMB436.78 million (equivalent to approximately S\$81.15 million), and adjusted for (i) dilution impact of 6.54% interest in MGP and (ii) total Share-based Expense, disregarding effect of the Amortisation. It is assumed that the Disposal was completed on 1 January 2023.
- (4) The Company's market capitalisation of approximately S\$452.53 million is based on its total number of 747,978,318 HLA Shares issued and the volume weighted average price of S\$0.6050 per HLA Share on 6 June 2024.

6.2 As the relative figure computed under Rule 1006(b) of the Listing Manual exceeds 5% but does not exceed 20%, the Disposal constitutes a “discloseable transaction” under Rule 1010 of the Listing Manual and hence, the approval of Shareholders is not required for the Disposal.

However, the Share-based Expense will be amortised over a period of time as explained in paragraph 5.1 of this announcement. Accordingly, taking only the impact of Year 1 amortisation of Share-based Expense, all other assumptions remaining unchanged, the relative figures computed under Rule 1006 (a), (b) and (c) of the Listing Manual will be less than 5% and there will not be a material impact on the EPS after the Disposal.

7. DISPOSAL AS A SHARE SCHEME

For the purposes of Rule 843 of the Listing Manual, as MGP is a “principal subsidiary” of the Company, the approval of the Company’s shareholders must be obtained for any share plan implemented by a principal subsidiary if the scheme may cause (a) the principal subsidiary ceasing to be a subsidiary of the Company; or (b) a percentage reduction of 20% or more of the Company’s equity interest in the principal subsidiary.

Upon the implementation of the Two Schemes (i.e. completion of the Disposal), MGP will remain a subsidiary of the Company and the Company’s existing effective interest in MGP as at the date of announcement of 34.17% will be 31.94%. Accordingly, approval of Shareholders is not required for the Two Schemes.

The Company will provide the necessary disclosures (or the appropriate negative statements) in relation to the Two Schemes as required pursuant to Rule 852 of the Listing Manual, in the Company’s annual report.

For more information on the principal terms of the Two Schemes, please refer to paragraph 4 of this announcement.

8. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed in Foot Note 3 above in relation to Mr. Kwek Leng Peck (who is Chairman of the Company) being a member of the GYMCL RC, none of the other Directors or controlling shareholders of the Company or their respective associates has any interest, direct or indirect, in the Disposal, other than through their respective directorships and/or shareholdings in the Company.

9. DIRECTOR'S SERVICE CONTRACTS

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

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the scheme documents 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 16 Raffles Quay, #26-00 Hong Leong Building, Singapore 048581 for a period of three (3) months from the date of this announcement. A copy of the Final Valuation Report to be issued by Zhongming Valuer will be available for inspection during normal business hours from 9.00 a.m. to 5.00 p.m. at the registered office of the Company for a period of three (3) months from the date of completion of the Disposal.

BY ORDER OF THE BOARD

Stephen Ho Kiam Kong
Executive Director and Chief Executive Officer
7 June 2024