

HL GLOBAL ENTERPRISES LIMITED

(Company Registration No. 196100131N)
(Incorporated in the Republic of Singapore)

ANNOUNCEMENT

MEMORANDUM OF UNDERSTANDING IN RELATION TO THE PROPOSED DISPOSAL OF 100% OF THE ISSUED AND PAID-UP SHARE CAPITAL IN LKN INVESTMENT INTERNATIONAL PTE. LTD.

1. INTRODUCTION

The Board of Directors of HL Global Enterprises Limited ("**HLGE**" or the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that the Company has on 13 February 2017 entered into a memorandum of understanding (the "**MOU**") with Jingrui Properties (Group) Co., Ltd ("**Purchaser**") in relation to the proposed disposal of all the issued shares in the capital of LKN Investment International Pte. Ltd. ("**LKNII**"), comprising 15,493,000 ordinary shares and 13,000,000 preference shares (collectively, the "**Sale Shares**"), to the Purchaser (the "**Proposed Disposal**"). The MOU is intended to provide a framework and basis for the negotiation of the sale and purchase agreement in relation to the Proposed Disposal (the "**SPA**") to be entered into between the Company and the Purchaser (collectively, the "**Parties**" and each a "**Party**"). The Proposed Disposal will be subject to the Parties entering into the SPA and further details will be announced in the event the SPA is entered into by the Parties.

The Proposed Disposal, if undertaken and completed, is expected to constitute a "major transaction" under Chapter 10 of the Listing Manual (the "**Listing Manual**") of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and accordingly is subject to the approval of the shareholders of the Company (the "**Shareholders**") at an extraordinary general meeting to be convened.

2. BACKGROUND INFORMATION ON LKNII AND THE PURCHASER

2.1 Information on LKNII

LKNII was incorporated in Singapore on 24 October 1986. LKNII is an investment holding company which owns 100% equity interest in Shanghai Hutai Real Estate Development Co., Ltd ("**Hutai**") and 60% equity interest in Copthorne Hotel Qingdao Co., Ltd. ("**CHQ**"). The remaining 40% equity interest in CHQ is held by CAAC East China Regional Administration Authority Service Center ("**CAAC**").

Hutai was incorporated in November 1992 in the People's Republic of China ("**PRC**") to invest in, construct and manage a serviced apartment building now known as "Elite Residences" in Shanghai, the PRC. Elite Residences has 106 refurbished apartment units and is located near Shanghai's central district. As at the date of this announcement, Hutai has a registered capital of approximately RMB79.5 million.

CHQ was established by LKNII and CAAC in 1994 as the joint venture company to jointly invest in, construct and manage a hotel, which is now known as "Copthorne Hotel Qingdao" in Qingdao, PRC. Copthorne Hotel Qingdao, which consists of a tower block and a

convention centre, is located in Qingdao's central business district and has 455 guestrooms and suites. As at the date of this announcement, CHQ has a registered capital of approximately RMB217.4 million, of which 60% is held by LKNII and 40% is held by CAAC.

2.2 Information on the Purchaser

The Purchaser was established in 1993 in the PRC and is based in Shanghai. It invests in and develops property land in Shanghai, Chongqing, Changzhou, and Zhoushan. The Purchaser is an indirect wholly-owned subsidiary of Jingrui Holdings Limited, which is listed on the Stock Exchange of Hong Kong.¹

3. PRINCIPAL TERMS OF THE MOU

Subject to the terms and conditions of the SPA to be entered into between the Parties, the principal terms of the MOU are as follows:-

3.1 Sale and Purchase of the Sale Shares

The Purchaser intends to purchase the Sale Shares from the Company, through the Purchaser's affiliate.

3.2 Consideration

The indicative aggregate consideration payable by the Purchaser to the Company for the Proposed Disposal ("**Consideration**") will be Renminbi ("**RMB**") 550 million (which is equivalent to approximately S\$113.7 million²). The Parties have agreed that RMB20 million (which is equivalent to approximately S\$4.1 million) of the Consideration shall be paid into LKNII's bank account for the repayment of the debts of CHQ, other than the Bank Loan (as defined below) and the Shareholder's Loan (as defined below). The Consideration is payable to the Company upon satisfaction of certain conditions to be set out in the SPA, including the completion of not less than 85% of the CHQ Restructuring (as defined below), subject to the retention of the sum of RMB20 million (which is equivalent to approximately S\$4.1 million) ("**Retention Amount**") which shall be paid by the Purchaser into an escrow account on the date of completion of the Proposed Disposal ("**Completion Date**"). The terms for the release of the Retention Amount shall be set out in the SPA.

In addition to the Consideration, the Purchaser has undertaken to:

- (a) arrange to settle the outstanding bank loan of RMB146.7 million (which is equivalent to approximately S\$30.3 million) owing by CHQ to a bank ("**Bank Loan**") on the Completion Date; and
- (b) take over the outstanding shareholder's loan of RMB20.4 million (which is equivalent to approximately S\$4.2 million) owing by CHQ to LKNII ("**Shareholder's Loan**").

3.3 CHQ Disposal by way of Public Tender

The Parties agree that prior to completion of the Proposed Disposal and further to the announcements made by the Company on 22 February 2016, 22 March 2016 and 26 April 2016 in relation to the proposed disposal of LKNII's 60% equity interest in CHQ, LKNII may proceed with the listing of its 60% equity interest in CHQ on the Shanghai United Assets and

¹Based on the 2015 Annual Report of Jingrui Holdings Limited.

²Unless stated otherwise, the exchange rate of S\$1:RMB4.836 as at 10 February 2017 has been used in this announcement.

Equity Exchange (“**SUAEE**”) (“**CHQ Disposal**”), together with the listing of CAAC’s 40% equity interest in CHQ, for sale by way of public tender on the SUAEE.

3.4 **Deposit**

The Purchaser shall pay to the Company RMB20 million (which is equivalent to approximately S\$4.1 million) as deposit (“**Deposit**”) within a specified period from the signing of the MOU. The Deposit shall be paid into a bank account to be opened and jointly operated by the Parties (“**Joint Account**”) and shall upon execution of the SPA, be applied towards satisfaction of the Consideration.

3.5 **Nature of MOU and Exclusivity**

The MOU is intended to provide a framework and basis for the negotiation of the terms and conditions of the Proposed Disposal and the SPA. The Parties shall further discuss their rights and obligations in relation to the Proposed Disposal which shall be finalised in the SPA.

The Parties shall use reasonable commercial efforts to execute the SPA within the period from the date of the MOU to 28 February 2017 or such other date as may be agreed by the Parties in writing (“**Long-Stop Date**”), during which the Company or any of its affiliates shall not carry out any discussion or negotiation with any other third party in respect of the transfer of the Sale Shares or the equity interests held by LKNII in Hutai. In the event that the Company breaches such obligation, the Company shall pay to the Purchaser liquidated damages of an amount equal to the Deposit.

3.6 **Termination and Refund of Deposit**

In the event that the Parties fail to reach an agreement on the terms of the SPA and the SPA is not executed by the Long-Stop Date, the MOU shall terminate and each Party shall not be liable to the other Party in any way. The Company shall refund the Deposit to the Purchaser within three (3) business days after the termination of the MOU.

3.7 **Shareholders’ Approval and Other Consents**

The Proposed Disposal is subject to the approval of the Shareholders of the Company at an extraordinary general meeting to be convened.

The Company shall obtain the written consent from CHQ for the Proposed Disposal, the CHQ Restructuring and the nomination of four (4) directors by the Purchaser to the board of directors of CHQ.

3.8 **Pre-Completion Matters**

The MOU contemplates that prior to the completion of the Proposed Disposal:

- (a) a restructuring of certain aspects of the operations of CHQ on terms to be agreed between the Parties (“**CHQ Restructuring**”) shall be undertaken by CHQ by 30 June 2017. The Purchaser has undertaken to bear up to RMB12 million (which is equivalent to approximately S\$2.5 million) of the costs of the CHQ Restructuring, which shall be paid by the Purchaser into the Joint Account. Any costs of the CHQ Restructuring in excess of RMB12 million shall be borne by the Company. If completion of not less than 85% of the CHQ Restructuring is not achieved by 30 June 2017, the Parties shall negotiate as to whether the Proposed Disposal should be cancelled or the terms on which it should be continued. In the event that the Parties fail to reach an agreement by 31 July 2017 on how the transaction should be amended and proceeded with, either Party shall be entitled to terminate the

transaction and neither Party shall be liable to the other in any way. If the Purchaser elects to terminate the transaction, all amounts which the Purchaser had paid into the Joint Account, shall be returned to the Purchaser within seven (7) business days, together with all interest accrued thereon;

- (b) a restructuring of certain aspects of the operations of Hutai on terms to be agreed between the Parties (“**Hutai Restructuring**”) shall be undertaken by Hutai. The costs of the Hutai Restructuring shall be borne by the Company; and
- (c) if necessary, the Company shall obtain the written consent of the relevant bank for the Bank Loan for the Purchaser’s indirect acquisition of 60% equity interest in CHQ pursuant to the Proposed Disposal prior to the execution of the SPA. The Company shall also liaise with such bank on the extension of the Bank Loan until the Completion Date.

3.9 **Governing Law**

The MOU is governed by the laws of Singapore, save as otherwise provided by the laws of the PRC.

The MOU provides that certain provisions in the MOU relating to, *inter alia*, governing law, nature of the MOU, exclusivity, the Deposit and confidentiality are legally binding on the Parties.

4. **RATIONALE FOR THE PROPOSED DISPOSAL**

4.1 As previously announced by the Company, LKNII had proposed to dispose of its 60% equity interest in CHQ as it is an under-performing asset and such disposal would allow the Group to realise and unlock the value of its investment in CHQ. The net loss after tax attributable to LKNII’s 60% equity interest in CHQ from the financial year ended 31 December (“**FY**”) 2012 to FY2015 amounted to approximately S\$6.3 million (based on the audited accounts of CHQ from FY2012 to FY2015).

4.2 LKNII had taken the following steps to dispose of its 60% equity interest in CHQ:

- (a) as announced by the Company on 22 February 2016, LKNII had listed its 60% equity interest in CHQ on the SUEX, together with CAAC’s 40% equity interest in CHQ, for sale under the public tender process for two bidding periods. However, no bid had been received for such public tenders; and
- (b) as announced by the Company on 4 August 2016, LKNII and CAAC had, after studying the available options in relation to the proposed disposal of their respective interests in CHQ, decided to proceed with another round of bidding for the disposal of CHQ under the public tender process, and the parties were in the process of undertaking a re-valuation of CHQ. The Company subsequently announced on 3 November 2016 that CAAC was in the process of obtaining approval for the re-valuation price of CHQ.

4.3 In line with the Company’s intention to dispose of its interest in CHQ, the Company decided to also separately explore and pursue the alternative of the Proposed Disposal whereby the Company will instead dispose of LKNII, which is the Company’s investment holding company for the 60% equity interest in CHQ and 100% equity interest in Hutai. The Board considered that a “packaged deal” consisting of both LKNII’s 60% equity interest in CHQ and 100% equity interest in Hutai, which is a profit-making asset, may be more appealing to potential

buyers than the option of acquiring LKNII's 60% equity interest in CHQ on a standalone basis. Both CHQ and Hutai are engaged in hospitality operations in the PRC.

4.4 The Board is of the view that the Proposed Disposal is in the interests of the Company for the following reasons:-

- (a) The Proposed Disposal will enable the Group to dispose of, *inter alia*, its 60% equity interest in CHQ. With the Proposed Disposal, the losses of CHQ will no longer appear in subsequent consolidated financial results of the Group. As announced previously, the Board is of the view that it is essential that the Company undertakes such disposal as the first key step prior to pursuing and undertaking any acquisition or asset injection.
- (b) Under the Proposed Disposal, the Parties have agreed that LKNII may proceed with the CHQ Disposal pursuant to the public tender process on the SUAEE. In the event that CHQ is not sold pursuant to the public tender process, the Company would still have the assurance of disposing of its indirect 60% equity interest in CHQ to the Purchaser pursuant to the Proposed Disposal.
- (c) The Proposed Disposal would enable the Company to realise and unlock the value of its investment in LKNII and therefore its indirect stake in Hutai and CHQ, and is also part of the Company's on-going efforts to strengthen its balance sheet. Based on the unaudited net book value of the Sale Shares as at 30 September 2016, and the Consideration, it is expected that the Company will realise a net gain on disposal from the Proposed Disposal.
- (d) The Company expects that the Proposed Disposal will have a positive effect on the financial performance of the Group going forward.
- (e) The sale proceeds from the Proposed Disposal may be used for (i) funding any suitable acquisitions of new businesses and assets; (ii) repayment of the unsecured loan that is owing to Venture Lewis Limited, which would lower the gearing of the Group, resulting in a healthier balance sheet; and/or (iii) for the Group's working capital purposes, as the Board may deem fit in the interests of the Group.

5 FURTHER ANNOUNCEMENTS

The Company will make further announcements, in compliance with requirements of Chapter 10 of the Listing Manual of the SGX-ST, upon the execution of the SPA and/or when there are material developments in respect of the Proposed Disposal.

6 CAUTION IN TRADING

Shareholders should note that the terms of the MOU are subject to further negotiations and changes. Shareholders are advised to exercise caution in trading their shares as there is no certainty or assurance as at the date of this announcement that the SPA will be entered into, the terms and conditions of the Proposed Disposal (including the Consideration) will not defer from that set out in the MOU, or the Proposed Disposal will be undertaken at all. The Proposed Disposal will be subject to the Parties entering into the SPA and further details will be announced in the event the SPA is entered into by the Parties.

Shareholders are advised to read this announcement and any further announcements of the Company carefully. Shareholders should consult their stock brokers, bank

managers, solicitors or other professional advisers if they have any doubt about the actions that they should take.

BY ORDER OF THE BOARD

Foo Yang Hym
Chief Financial Officer
HL Global Enterprises Limited

13 February 2017
Singapore