

ENTRY INTO SALE AND PURCHASE AGREEMENT IN RELATION TO THE PROPOSED DISPOSAL OF 100% EQUITY INTEREST OF SANTAK METAL MANUFACTURING (WUXI) CO., LTD., AN INDIRECT WHOLLY OWNED SUBSIDIARY OF SANTAK HOLDINGS LIMITED.

1. INTRODUCTION

The board of directors (“**Directors**” or “**Board**”) of Santak Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that Santak Metal Manufacturing Pte Ltd (the “**Vendor**”), a wholly owned subsidiary of the Company, has entered into a sale and purchase agreement dated 24th November 2016 (the “**SPA**”) with LY Investment (HK) Limited (领益(香港)有限公司) (the “**Purchaser**”) for the sale of 100% equity interest of Santak Metal Manufacturing (Wuxi) Co., Ltd. (“**Santak Wuxi**”) to the Purchaser (the “**Proposed Disposal**”).

As the relative figure under Rule 1006(a) and Rule 1006(c) of the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) Section B: Rules of Catalist (the “**Catalist Rules**”) exceeds 50%, the Proposed Disposal constitutes a major transaction under Chapter 10 of the Catalist Rules and as such, it is subject to the approval of the Company’s shareholders (“**Shareholders**”) at the extraordinary general meeting to be held in due course (“**EGM**”).

2. INFORMATION RELATING TO THE PROPOSED DISPOSAL

2.1 Information on Santak Wuxi

Santak Wuxi is a limited liability company incorporated and existing under the laws of the People Republic of China (“**PRC**”) and having its registered address at Plants 22-2 and 23, Wang Zhuang Industrial Park, Wuxi New District and is a wholly owned subsidiary of the Vendor.

Santak Wuxi is engaged in the manufacturing of the precision machined components, sub-assembly, die casting, as well as mould/fixture design and fabrication. Santak Wuxi recorded net loss after tax of approximately S\$21.07 million and S\$2.78 million for the financial year ended 30 June 2016 (“**FY2016**”) and the financial year ended 30 June 2015 (“**FY2015**”) respectively. The net asset value and net tangible asset value of Santak Wuxi as at 30 June 2016 are approximately S\$27.1 million and S\$27.1 million respectively.

As at the date of this announcement, no valuation was conducted in respect of Santak Wuxi for the purpose of the Proposed Disposal.

2.2 Information on the Purchaser

The Purchaser is a company incorporated in Hong Kong and having its registered office at Flat C 22/F Blk 3 Hong Kong Gold Coast, Phase 1A, T.M.T.L.238, So Kwun Wat, Tuen Mun, N.T., Hong Kong. The Purchaser is part of the TriumphLead Group (领胜集团) which is primarily engaged in computer numerical control (“**CNC**”) precision machining, mould/fixture cutting, metal stamping, equipment manufacturing and medical sector covering electronics, electrical appliances manufacturing, computers, communications, automotive, medical, transportation and other fields. The TriumphLead Group has six production bases in Shenzhen, Suzhou, Chengdu, Langfang, Dongtai and Dongguan in PRC.

The Purchaser is an independent third party. The Purchaser, its directors and shareholders are not in any way related to the Group, the Directors or any of the substantial Shareholders of the Company (“**Substantial Shareholders**”).

3. PRINCIPAL TERMS OF THE PROPOSED DISPOSAL

3.1 Sale and Purchase

Subject to the terms and conditions of the SPA, the Vendor shall sell as legal and beneficial owner and the Purchaser shall purchase the 100% equity interest of Santak Wuxi ("**Equity Interest**"), free from all encumbrances (being any mortgage, assignment of receivables, debenture, lien, hypothecation, charge, pledge, title retention, right to acquire, security interest, option, pre-emptive or other similar right, right of first refusal, or any other encumbrance or condition), and together with all rights, dividends and entitlements as of and including the Completion Date (defined below).

3.2 Consideration

3.2.1. The consideration for the Equity Interest shall be US\$21,000,000 (the "**Consideration**"). However, subject to such adjustments ("**Adjustments**") as provided for in the SPA, the Consideration may be adjusted ("**Adjusted Consideration**") as set out in paragraph 3.2.2 below.

3.2.2. The Consideration shall be paid by the Purchaser in US\$ in accordance with the following provisions:

- (a) within seven (7) Business Days after the date of the SPA, the Purchaser shall pay a first instalment of US\$5,200,000 to the Vendor by telegraphic transfer to the bank account designated by the Vendor ("**Vendor's Account**");
- (b) on the date falling five (5) Business Days after the date on which the conditions set out in paragraph 3.3.1 below have been fulfilled or such other date as both the Vendor and the Purchaser may mutually agree in writing ("**Completion Date**"), the Purchaser shall pay the remaining Consideration of US\$15,800,000 to the Vendor by telegraphic transfer to the Vendor's Account; and
- (c) in addition to the Consideration, on the Completion Date, the Purchaser shall pay to the Vendor, based on the unaudited balance sheet of Santak Wuxi as at the Completion Date (to be provided by the Vendor on the Completion Date):
 - (i) an amount equal to the total account receivables plus cash balance minus the total account payables. If the amount is negative, this amount shall be deducted from the Consideration; and
 - (ii) an amount equal to the aggregate amount of deposits and prepayments paid by or on account of Santak Wuxi in respect of leased premises, utilities services, insurance policies, professional services contracts, maintenance and services contracts and such similar amounts.

Computed based on the Consideration of US\$21.0 million (or approximately S\$29.95 million based on the exchange rate of US\$1: S\$1.426 as at 23 November 2016 being the Business Day immediately preceding the date of SPA), the Consideration is approximately S\$2.85 million in excess of the net book value of Santak Wuxi of approximately S\$27.1 million as at 30 June 2016. For illustrative purpose only, in the event the adjustments as highlighted in (c) above are taken into account, the Adjusted Consideration will be approximately US\$20 million (or approximately S\$28.6 million based on the exchange rate of US\$1: S\$1.426 as at 23 November 2016) which is approximately S\$1.5 million in excess of the net book value of Santak Wuxi of approximately S\$27.1 million as at 30 June 2016.

The Proposed Disposal is part of an ongoing restructuring involving the Group's business. The Consideration was arrived at after an arms-length negotiation and on a willing seller and willing buyer basis taking into account, *inter alia*, the net book value of Santak Wuxi as at 30 June 2016 and the fact that Santak Wuxi has been in the loss making position in FY2014 - FY2016.

Based on the unaudited consolidated financial statements of the Group for FY2016 and the Adjusted Consideration, the Group will recognise a gain of approximately S\$2.5 million from the Proposed Disposal subject to any accounting adjustments which may be necessary upon the finalisation of the transaction.

3.3 Conditions Precedent

3.3.1. Completion of the sale and purchase of the Equity Interest is conditional upon the following conditions ("**Conditions**") having been fulfilled:

- (a) The Company having received the approval of its Shareholders in a general meeting of the transaction contemplated under the SPA, or the SGX-ST granting a waiver of the requirement for such Shareholders' approval;
- (b) the SPA and the new articles of association of Santak Wuxi having been approved by the Ministry of Commerce of the PRC or its local counterpart ("**MOFCOM**") and Santak Wuxi having received its new certificate of approval or filing receipt from MOFCOM reflecting the Purchaser as its sole shareholder;
- (c) Santak Wuxi having received its new business license, reflecting the Purchaser as its sole shareholder; and
- (d) all other consents and approvals required under all applicable laws and relevant agreements for the sale of the Equity Interest and to give effect to the transaction contemplated under the SPA (including, without limitation, such waivers as may be necessary of terms which would otherwise constitute a default under any instrument, contract, document or agreement to which the Vendor or Santak Wuxi is a party or by which the Vendor or Santak Wuxi or their assets are bound) being obtained.

3.3.2. Each of the Vendor and the Purchaser shall use its best efforts to procure the fulfillment of the Conditions by the date falling five (5) months after the date of the SPA ("**Long Stop Date**") or such other date as the Vendor and the Purchaser shall mutually agree in writing. If any of the Conditions is not fulfilled by the Long Stop Date or such other date as the Vendor and the Purchaser shall mutually agree in writing, the SPA shall be terminated in accordance with terms and conditions of the SPA.

3.3.3. The Vendor and the Purchaser will jointly handle all necessary approval and registration procedures for the transaction contemplated hereunder, including but not limited to obtaining approval from MOFCOM and completing the registration with the State Administration for Industry and Commerce and its local counterpart ("**SAIC**").

3.4 Completion

3.4.1. Subject to paragraph 3.3 above, completion of the Proposed Disposal shall take place on the Completion Date at the office of Santak Wuxi (or at such other place as the Vendor and the Purchaser may agree).

3.4.2. On the Completion Date, the Vendor shall deliver the documents and/or items set out in the SPA to the Purchaser at the registered office of Santak Wuxi (or such other place agreed by the Vendor and the Purchaser).

3.4.3. On the Completion Date, the Purchaser shall pay the amounts referred to in paragraph 3.2.2. above.

3.4.4. Unless otherwise provided in the SPA, all contracts, agreements and other documents executed by the Company prior to Completion as well as all debts and liabilities incurred by the Company prior to Completion shall continue to be assumed by the Company after Completion.

3.5 Vendor's Undertakings

3.5.1. Subject to completion of the Proposed Disposal pursuant to paragraph 3.4 above, from the date of the SPA to the date falling 12 months after the Completion Date, the Vendor undertakes to the Purchaser that it:

- (a) shall not, without the prior written consent of the Purchaser, dispose of, or agree to dispose of, create or have outstanding any encumbrance over any production machines owned by the Vendor; and
- (b) shall perform email verification of the trade account receivables balances of Santak Wuxi as at the Completion Date with the respective customers.

3.5.2. On or before the Completion Date, the Vendor shall ensure the waiver of all intercompany loan amounts between the Vendor and Santak Wuxi.

Save as disclosed above, there are no other material terms and conditions attaching to the Proposed Disposal.

4. RATIONALE FOR THE PROPOSED DISPOSAL AND USE OF PROCEEDS

The Proposed Disposal is resulted from the ongoing business restructuring plan which was announced on 29 August 2016 and 22 September 2016. The Board is of the view that the Proposed Disposal is in the best interest of the Company and the Shareholders after taking into account the weak financial performance of Santak Wuxi (loss making for FY2014 - FY2016) which resulted from the weak demand for its China's operation.

In addition, as stated in the results announcement for FY2016 (announced on 29 August 2016), the Company's subsidiary did not fulfil a financial covenant for its bank loans. As such, the proceeds from the Proposed Disposal will, *inter alia*, reduce the Group's borrowings and thereby strengthen the financial position of the Group.

Upon completion of the Proposed Disposal, the Company shall continue with its Singapore operations (1) under Santak Metal Manufacturing Pte Ltd, a wholly owned subsidiary of the Company, which is mainly engaged in the manufacturing of the precision machined components; and (2) under Santak Industrial Pte Ltd, a wholly owned subsidiary of the Company, which is mainly engaged in the trading and distribution of electronic, electrical and mechanical components/products. For illustrative purpose only, the continuing operations generated revenue of approximately S\$48.7 million and recorded net loss after tax of approximately S\$1.5 million in FY2016.

The Company intends to utilize the Consideration for the purposes of reducing the Group's bank borrowings and general corporate and working capital purposes.

Pending the deployment of the proceeds from the Proposed Disposal for the purposes mentioned above, the proceeds may be placed as deposits with financial institutions as the Directors may deem fit in the interest of the Company.

5. RELATIVE FIGURES UNDER RULE 1006 OF THE CATALIST RULES

The relative figures computed on the applicable bases set out in Rule 1006 of the Catalist Rules in respect of the Proposed Disposal and based on the unaudited consolidated financial statements of the Group for FY2016 as announced by the Company on 29 August 2016 are set out below.

Rule 1006	Computations	Percentage (%)
(a)	The net asset value of the Disposed Assets to be disposed of compared with the Group's net asset value.	120.9% ⁽¹⁾
(b)	The net profits attributable to the Disposed Assets compared with the Group's net profit	Not Meaningful ⁽²⁾

(c)	Aggregate value of the consideration received, compared with the Group's market capitalization	217.5% ⁽³⁾
(d)	The number of equity securities issued by the issuer as consideration, compared with the number of equity securities previously in issue	Not Applicable
(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

Notes:

- (1) Based on the net asset value of the Disposed Assets of approximately S\$27.06 million as at 30 June 2016 and the net assets value of the Group of approximately S\$22.38 million as at 30 June 2016.
- (2) Not meaningful as the Disposed Assets and the Group recorded pre-tax loss for FY2016 of approximately S\$16.01 million and S\$17.73 million respectively.
- (3) Computed based on the Consideration of US\$21.0 million (or approximately S\$29.95 million based on the exchange rate of US\$1: S\$1.426 as at 23 November 2016 being the Business Day immediately preceding the date of SPA) which has not taken into account the Adjustments under section 3.2.2(c) of this announcement and the market capitalisation of the Group of approximately S\$13.77 million as at 26 September 2016, being the last trading day for the Company's shares ("Shares") preceding the date of signing of the SPA. The Group's market capitalisation is computed based on the number of issued Shares of 107,580,980 and the weighted average price of approximately S\$0.1280 per Share on 26 September 2016, being the last trading day for the Shares preceding the date of signing of the SPA. Assuming that the Consideration takes into account the Adjustments under section 3.2.2(c) of this announcement, the Adjusted Consideration will be approximately US\$20 million (or approximately S\$28.6 million) which represents 207.7% of the Group's market capitalisation.

The relative figures computed on the bases set out in Rule 1006(a) and Rule 1006(c) had exceeded 50%. As such, the Proposed Disposal constitutes a major transaction as defined in Chapter 10 of the Catalist Rules and is accordingly subject to the approval of the Shareholders at the EGM.

As the relative figure under Rule 1006(b) involve a negative figure, pursuant to Rule 1007(1), the SGX-ST will be consulted.

The circular to shareholders ("**Circular**") containing information on, *inter alia*, the Proposed Disposal together with the notice of the EGM will be dispatched to shareholders in due course.

6. FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

The pro-forma financial effects of the Proposed Disposal, prepared based on the unaudited consolidated financial statements of the Group for FY2016, are set out below. The pro-forma financial effects of the Proposed Disposal are presented for illustration purposes only and are not intended to reflect the actual future financial situation of the Group after completion of the Proposed Disposal.

6.1 Net Tangible Assets ("NTA") per Share

Assuming the Proposed Disposal had been completed on 30 June 2016, being the end of the most recently completed financial year of the Group, the financial effects on the NTA per share of the Group would be as follows:

	Before the Proposed Disposal	After the Proposed Disposal
NTA (S\$'000)	22,278	21,685
Number of Shares	107,580,980	107,580,980
NTA per Share (S\$)	0.21	0.20

6.2 Loss/Profit per Share

Assuming that the Proposed Disposal had been effected on 1 July 2015, being the beginning of the most recently completed financial year of the Group, the financial effects on the loss per share of the Group would be as follows:

	Before the Proposed Disposal	After the Proposed Disposal
(Loss)/Profit after tax attributable to equity holders of the Company (S\$'000)	(22,576)	1,007 ⁽¹⁾
Number of Shares	107,580,980	107,580,980
(Loss)/Profit per Share (S\$ cents)	(20.99)	0.94

Note:

(1) Taking into account the potential gain from the Proposed Disposal of approximately S\$2.5 million.

7. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Other than through their respective shareholdings in the Company, none of the Directors and/or controlling Shareholders of the Company has any interest (direct or indirect) in the Proposed Disposal.

8. DIRECTORS' SERVICE CONTRACTS

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

9. EXTRAORDINARY GENERAL MEETING

The Company intends to seek Shareholders' approval for, *inter alia*, the Proposed Disposal and such other matters in relation thereto, and the Circular setting out further information on, *inter alia*, the Proposed Disposal and such other matters in relation thereto, together with a notice of the EGM to be convened, will be despatched to Shareholders in due course.

10. DOCUMENTS FOR INSPECTION

A copy of the SPA is available for inspection by Shareholders during normal business hours at the registered office of the Company (31 Senoko South Road, Woodlands East Industrial Estate Singapore 758084) for a period of three (3) months commencing from the date of this announcement.

11. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors of the Company 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 Disposal, 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.

12. CAUTIONARY STATEMENT

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 Proposed Disposal will materialize.

Shareholders are advised to read carefully, this announcement, together with any further announcements, and the circular to be dispatched to Shareholders in due time.

The Company will make the necessary announcements when there are further developments on the Proposed Disposal and other matters contemplated by this announcement. Shareholders should consult their stock brokers, bank managers, solicitors or other professional advisors if they have any doubt about the actions they should take.

By Order of the Board

Lynn Wan Tiew Leng
Company Secretary
24 November 2016

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor ("**Sponsor**"), Asian Corporate Advisors Pte. Ltd., for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("**Exchange**"). The Company's Sponsor has not independently verified the contents of this announcement including the correctness of any of the figures used, statements or opinions made.*

This announcement has not been examined or approved by the Exchange and the Exchange assumes no responsibility for the contents of this announcement including the correctness of any of the statements or opinions made or reports contained in this announcement.

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