

ASSET ACQUISITIONS AND DISPOSALS::THE PROPOSED DISPOSAL OF ASSETS BY AIRWELL AIR-CONDITIONING TECHNOLOGY (CHINA) CO., LTD.

Issuer & Securities

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HONG LEONG ASIA LTD.

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Please refer to the attachment relating to the Proposed Disposal of Assets by Airwell Air-Conditioning Technology (China) Co., Ltd.

Attachments

[09_30_2020 Airwell Annt.pdf](#)

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HONG LEONG ASIA LTD.
(Company Registration Number: 196300306G)
(Incorporated in the Republic of Singapore)

THE PROPOSED DISPOSAL OF ASSETS BY AIRWELL AIR-CONDITIONING TECHNOLOGY (CHINA) CO., LTD.

1. INTRODUCTION

The board of directors (the "**Board**") of Hong Leong Asia Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that its subsidiary, Airwell Air-Conditioning Technology (China) Co., Ltd. (the "**Vendor**"), has on 30 September 2020 entered into a sale and purchase agreement (the "**SPA**") with Taicang Loucheng High-tech Group Co., Ltd. (太仓娄城高新集团有限公司) (the "**Purchaser**") for the sale of (a) a property located at No. 82, Guangzhou East Road, Taicang, China (the "**Property**") and (b) the state-owned construction land use rights, home ownership rights and the facilities and assets attached to the Property ((a) and (b) collectively referred to as the "**Underlying Assets**") to the Purchaser for a total cash consideration of RMB141,000,000 (or approximately S\$28,341,139¹) (the "**Consideration**"), upon the terms and subject to the conditions of the SPA (the "**Proposed Disposal**").

2. INFORMATION ON THE PROPERTY

The Property located at No. 82 Guangzhou East Road, Taicang, China has a remaining leasehold tenure of approximately 41 years and an aggregate gross floor area of approximately 149,293.3 m² for industrial use.

The Underlying Assets constitute significant operational assets of the Vendor, the sale of which would lead to the eventual voluntary winding up and dissolution of the Vendor.

3. PRINCIPAL TERMS OF THE SPA

3.1. Sale of Underlying Assets

The Proposed Disposal involves the disposal of the Underlying Assets on an "as is where is basis" as at the date of the preliminary acceptance of the Underlying Assets by the Purchaser, which shall be a date falling within 15 business days from the date on which the real estate certificate referred to in paragraph 3.2(c) below is obtained.

¹ Unless otherwise stated, translations of amounts from RMB to S\$ have been made on the basis of RMB4.9751:S\$1.00 as at 29 September 2020.

3.2. Consideration

The Consideration of RMB141,000,000 (or approximately S\$28,341,139) was arrived at after negotiations on an arm's length basis and on a willing-buyer and willing-seller basis, after taking into account, *inter alia*, the valuation of the Underlying Assets as set out in the valuation reports issued by Taicang Zhongxin Real Estate Appraisal and Mapping Co., Ltd. (太仓市众信房地产评估土地评估测绘有限公司) (the "**Independent Valuer**"), an independent firm of professional valuers which had been commissioned by the Purchaser to conduct an independent valuation on the Underlying Assets (the "**Valuation Reports**"). The valuations (as reflected in the Valuation Reports) were based on the cost approach (成本逼近法), benchmark land prices and correction coefficients (基准地价系数修正法) (in respect of the land) and the cost method (成本法) in respect of the real estate. Based on the Valuation Reports, the total value of the Underlying Assets as at 4 September 2019 is RMB141,138,635 (approximately S\$28,369,005).

Pursuant to and subject to the terms of the SPA, the Consideration shall be fully satisfied in cash by the Purchaser in the following manner:

- (a) within 7 business days from the date of execution of the SPA, the Purchaser shall pay an amount of RMB42.3 million (approximately S\$8.5 million) (the "**Deposit**") representing approximately 30% of the Consideration, into a bank account jointly held by the Vendor and the Purchaser (the "**Joint Account**"), which Deposit shall be applied towards partial satisfaction of the Consideration;
- (b) within 7 business days from the completion of tax payments in respect of the transaction by the Vendor ("**Tax Payment**") and receipt of the certificate of tax payment, the Purchaser shall pay RMB62.04 million (approximately S\$12.5 million) representing 44% of the Consideration into the Joint Account, which shall be applied towards partial satisfaction of the Consideration;
- (c) within 7 business days from the date of issue of the real estate certificate to the Purchaser or within 3 working days from the date of receipt of the real estate certificate by the Purchaser from the regulatory authority, Taicang Real Estate Registration Centre (太仓市不动产登记中心) (whichever is earlier), the Vendor and Purchaser shall cooperate to transfer the aggregate amount of RMB104.34 million (approximately S\$21.0 million) (less any taxes paid in respect of the Proposed Disposal) from the Joint Account to the bank account of the Vendor;
- (d) within 7 business days of:
 - (i) the Vendor obtaining the relevant certificate from the lender in respect of the repayment of all outstanding amounts under a loan owing by the Vendor (the "**Loan**"). As at 31 December 2019, the outstanding amount under the Loan was approximately RMB21.6 million (approximately S\$4.3 million);
 - (ii) the Vendor obtaining the relevant certificate from the lender in respect of the payment of all outstanding amounts made or to be made by the Vendor under a guarantee (the "**Guarantee**"). As at 31 December 2019, the amount to be paid under the Guarantee was approximately RMB67.1 million (approximately S\$13.5 million); and

- (iii) the Vendor providing details of severance payments made by it to its employees in accordance with an employee severance plan, to the Purchaser (the "**Severance Payment**"),

the Purchaser shall transfer RMB28.2 million (approximately S\$5.7 million) representing approximately 20% of the Consideration to the Vendor; and

- (e) within 5 business days of the completion of the delivery of the Underlying Assets to the Purchaser (the "**Completion**"), the balance of RMB8.46 million (approximately S\$1.7 million) representing approximately 6% of the Consideration shall be paid by the Purchaser to the Vendor. Under the SPA, the Vendor is required to vacate the Underlying Assets before 31 March 2021, failing which the Vendor will be required to pay to the Purchaser an occupancy fee of RMB56 / m² / month from 1 April 2021 onwards.

3.3. Conditions Precedent

Save as mentioned above, there are no other conditions attached to completion of the sale and purchase of the Underlying Assets.

3.4. Other material terms

The Vendor shall, *inter alia*,

- (a) cooperate with the Purchaser to submit the necessary transaction documents to the relevant regulatory departments for the purposes of completing the Tax Payment;
- (b) upon receipt of the certificate of Tax Payment, cooperate with the Purchaser to effect the transfer of ownership of the Underlying Assets;
- (c) upon issuance of the real estate certificate to the Purchaser or the receipt of the real estate certificate by the Purchaser (whichever is earlier), cooperate with the Purchaser to conduct a preliminary inspection of the Underlying Assets;
- (d) repay the Loan, the Guarantee and effect the Severance Payment; and
- (e) vacate the Property by 31 March 2021.

Pursuant to the terms of a supplemental agreement to a joint venture agreement entered into on or about the date of the SPA, the board of directors of the Vendor will take steps for the voluntary winding up and dissolution of the Vendor upon completion of the Proposed Disposal.

4. RATIONALE FOR THE PROPOSED DISPOSAL

The Vendor has been loss-making since 2012. Its performance has in recent years deteriorated further in view of the overall excess capacity and the highly competitive environment in the air-conditioning systems market in China. In the last two years, the net losses after tax attributable to the Vendor were approximately S\$11.0 million and S\$17.1 million, respectively for the years ended 31 December 2018 and 31 December 2019.

The Board believes that the Proposed Disposal is in the interests of the Company as disposing the Underlying Assets and exiting the business will allow the Group to limit its losses.

Based on the net book value of the Underlying Assets of RMB111.3 million, the Proposed Disposal is expected to result in a net gain on disposal of approximately RMB14.0 million (approximately S\$2.8 million), after taking into account legal fees, taxes and other relevant transaction costs from the disposal of the Underlying Assets.

The proceeds from the Proposed Disposal will be used to settle the financial obligations of the Vendor.

Following completion of the Proposed Disposal of the Vendor's key operational assets, the Company intends to take steps to wind up and dissolve the Vendor. As the Vendor has been loss-making, the Proposed Disposal and eventual winding up and dissolution of the Vendor are expected to have positive effects on the financial performance of the Group going forward.

The Company will make further announcements, in compliance with the requirements of the Listing Manual, when there are material updates or developments in respect of the winding up and dissolution of the Vendor and the related costs.

5. CHAPTER 10 OF THE LISTING MANUAL

5.1. Relative Figures under Rule 1006 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST")

The relative figures for the Proposed Disposal computed on the applicable bases set out in Rule 1006 of the Listing Manual, based on the latest announced unaudited consolidated financial statements of the Group for the six-month period ended 30 June 2020 ("1H2020"), are as follows:

Rule 1006	Bases	Relative Figures (%)
(a)	The net asset value of the Underlying Assets to be disposed of, compared with the group's net asset value	1.0
(b)	The net profits ⁽¹⁾ attributable to the Underlying Assets, compared with the Group's net profits	Not applicable ⁽²⁾
(c)	The aggregate value of the Consideration for the Proposed Disposal, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares	8.1 ⁽³⁾
(d)	The number of equity securities to be issued by the Company as consideration for an acquisition, compared with the number of equity securities of the Company previously in issue	Not applicable ⁽⁴⁾
(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the Group's probable and proved reserves	Not applicable ⁽⁵⁾

Notes:

- (1) Net profits is defined to be profit or loss before income tax, non-controlling interests and extraordinary items.
- (2) Rule 1006(b) of the Listing Manual is not applicable as the Underlying Assets are for the Vendor's own-use (being owner-occupied property) and is not a revenue-generating asset.
- (3) The Company's market capitalisation of approximately S\$351,474,000 is based on its total number of 747,817,118 issued ordinary shares ("**Shares**") and the weighted average price of S\$0.47 per Share on 29 September 2020, being the last traded market day prior to the date of the SPA.
- (4) Rule 1006(d) of the Listing Manual is not applicable as no equity securities are to be issued as part of the consideration of the Proposed Disposal.
- (5) Rule 1006(e) of the Listing Manual is not applicable as the Company is not a mineral, oil and gas company.

As the relative figures set out in Rules 1006(c) of the Listing Manual exceed 5% but do not exceed 20%, the Proposed Disposal is a discloseable transaction under Rule 1010 of the Listing Manual.

6. FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

The unaudited pro forma financial effects of the Proposed Disposal 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 the completion of the Proposed Disposal.

The pro forma financial effects set out below have been prepared based on the latest audited consolidated financial statements of the Group for 31 December 2019, as well as the following bases and assumptions:

- (a) the financial effects on the consolidated net asset value ("**NAV**") per Share is computed based on the assumption that the Proposed Disposal had been completed on 31 December 2019;
- (b) the financial effects on the consolidated earnings per Share ("**EPS**") is computed based on the assumption that the Proposed Disposal had been completed on 1 January 2019; and
- (c) expenses to be incurred in respect of the Proposed Disposal (being legal fees, taxes and other relevant transaction costs from the disposal of the Underlying Assets and for the avoidance of doubt, excluding the Severance Payment) are estimated to be approximately RMB15.7 million (approximately S\$3.2 million).

6.1. NAV per Share

As at 31 December 2019	Before the Proposed Disposal	After the Proposed Disposal
NAV ⁽¹⁾ (S\$'000)	764,824	766,714
NAV per Share (cents)	102.27	102.53

Note:

- (1) NAV means total assets less the sum of total liabilities and non-controlling interest.

6.2. EPS

	Before the Proposed Disposal	After the Proposed Disposal
Net profit attributable to the Shareholders of the Company for financial year ended 31 December 2019 (S\$'000)	34,443	36,333
Weighted average number of Shares	747,817,118	747,817,118
EPS (cents)	4.61	4.86

7. DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS

As at the date hereof, save for their shareholding interests in the Company, none of the Directors nor (so far as the Directors are aware) any controlling Shareholders of the Company has any interest, direct or indirect, in the Proposed Disposal.

8. SERVICE CONTRACTS

As at the date of this Announcement, 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. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the SPA and the Valuation Reports will be made available for inspection during normal business hours 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.

10. FURTHER ANNOUNCEMENTS

The Company will make further announcements, in compliance with the requirements of the Listing Manual when there are material updates or developments in respect of the Proposed Disposal.

BY ORDER OF THE BOARD
HONG LEONG ASIA LTD.

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

30 September 2020
Singapore