



KEONG HONG HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration Number: 200807303W)

PROPOSED ACQUISITION OF 60% OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF HANSIN TIMBER SPECIALIST AND TRADING PTE. LTD. – SUPPLEMENTAL ANNOUNCEMENT

1. INTRODUCTION

- 1.1 The Board of Directors (the “**Board**”) of Keong Hong Holdings Limited (the “**Company**”) refers to the announcement dated 21 April 2017 in relation to the Proposed Acquisition (the “**Previous Announcement**”) and wishes to provide further updates on the Proposed Acquisition.
- 1.2 All capitalized terms undefined in this announcement shall have the meaning ascribed to them in the Previous Announcement.

2. CONSIDERATION

- 2.1 The Purchase Consideration was arrived on a willing-buyer, willing-seller basis, after taking into account, inter alia, the order book of the Target, the historical revenue and profitability of the Target’s business (which was, prior to 2014, carried on by the Vendors as a partnership) for the financial years of 2012 to 2014, the total and net asset values of the Target, payback period, and a range of price to earnings ratios attributable to the Sale Shares based on the net profit after tax of the Target for the financial years ended 31 December 2014, 2015 and 2016 that is acceptable to the Company. Other than the above quantitative factors, qualitative and strategic factors, such as the additional revenue streams and new business opportunities that the Target may bring, were also factors in determining the Purchase Consideration.
- 2.2 However, as the audited financial statements of the Target for the financial years ended 31 December 2015 (“**FY2015**”) and 31 December 2016 (“**FY2016**”) were not ready when the parties were negotiating the Proposed Acquisition and entered into the term sheet and definitive agreements relating to the Proposed Acquisition, in order to safeguard the interests of the Company and the Shareholders, the Purchase Consideration of S\$4,500,000 is payable in three (3) tranches of S\$1,500,000, by way of cash or Consideration Shares (as the case may be), depending on the audited NPATs achieved by the Target in the relevant years (“**Profit Targets**”). Please refer to paragraph 4.2.2(c) of the Previous Announcement for more details on the Profit Targets.
- 2.3 Based on the audited financial statements of the Target for FY2015, the Target had achieved an NPAT of S\$2,280,000, being no less than S\$2,000,000, and accordingly, the second tranche payment in cash of the amount of S\$1,500,000 as set out paragraph 4.2.2(c)(ii) of the Previous Announcement shall be payable to the Vendors on Completion.
- 2.4 The financial statements of the Target for the FY2016 are still undergoing audit by the Target's auditors and are expected to be ready in July 2017. The Company will review the same accordingly for the third tranche payment of the Purchase Consideration. In the event the Target achieves the Profit Target for FY2016, then the

third tranche payment of the Purchase Consideration, as set out in paragraph 4.2.2(c)(iii) of the Previous Announcement, shall be payable. The Company will make the relevant announcement once the audited financial statements of the Target for FY2016 are available.

- 2.5 In the event the NPAT for FY2016 is equal to or more than 50%, but less than 80% of the 50% of the Profit Target, the part Consideration shall be adjusted as follows:

$$\begin{array}{l} \text{Adjusted part} \\ \text{Purchase} \\ \text{Consideration} \end{array} = \frac{\text{NPAT for FY2016}}{\text{Profit Target for FY2016}} \times \begin{array}{l} \text{Remaining Part} \\ \text{Purchase} \\ \text{Consideration} \end{array}$$

- 2.6 In the event the NPAT for FY2016 is equal to or more than 80%, but less than 100% of the Profit Target, there shall be no change to the remaining part Purchase Consideration (together, with paragraph 2.5, the “**Adjustment Mechanism**”).
- 2.7 In the event the NPAT for FY2016 is less than 50% of the Profit Target, the Company shall not be required to make payment for the remaining Purchase Consideration and shall have the right, at its sole and absolute discretion, to require the Vendors to buy back, the Sale Shares, or part thereof, at such amount already paid by the Purchaser to the Vendors, or such proportionate sum (as the case may be) (“**Repurchase Right**”).
- 2.8 Assuming the audited financial statements of the Target for FY2016 are available and all conditions precedent for the Completion of the Proposed Acquisition are satisfied, Completion is targeted to occur on or around 31 July 2017. The Company will make the relevant announcement when appropriate.

3. THE VALUE OF THE SALE SHARES

- 3.1 Based on the unaudited management accounts of the Target for FY2016:
- (a) the net book value of the Sale Shares as at 31 December 2016 is approximately S\$7.74 million;
 - (b) the net profit after tax of the Target for FY2016 attributable to the Sale Shares amounted to approximately S\$2.39 million; and
 - (c) the net tangible assets value of the Target attributable to the Sale Shares as at 31 December 2016 amounted to approximately S\$7.74 million.

4. DISCLOSURE UNDER RULES 1013 OF THE LISTING MANUAL

- 4.1 Rule 1013(1) of the Listing Manual provides, inter alia, that where an issuer enters into a discloseable transaction and accepts a profit guarantee (or any covenant which quantifies the anticipated level of future profits) from a vendor of assets/business, the issuer’s announcement in Rule 1010 must contain information on the profit guarantee, including the following:
- (a) the views of the board of directors of the issuer in accepting the profit guarantee and the factors taken into consideration and basis for such a view;
 - (b) the principal assumptions including commercial bases and assumptions upon which the quantum of the profit guarantee is based;
 - (c) the manner and amount of compensation to be paid by the vendor in the event that the profit guarantee is not met and the conditions precedent, if any, and the detailed basis for such a compensation; and

- (d) the safeguards put in place (such as the use of a banker's guarantee) to ensure the issuer's right of recourse in the event that the profit guarantee is not met, if any.

4.2 **The Views of the Board**

The Payment Tranches are dependent upon the Profit Targets achieved by the Target in the relevant years. The Board, having reviewed, *inter alia*, the terms and rationale of the Proposed Acquisition and the financial effects thereof, has accepted the Profit Targets, the Repurchase Right and the Adjustment Mechanism (collectively, the "**Profit Guarantee**") after due and careful enquiry and is of the view that the Profit Guarantee is reasonable, appropriate. Other factors taken into consideration and basis for such view are the historical revenue and profitability of the Target's business for the financial years of 2012 to 2014, and the future business potential of the Target. Please also refer to paragraph 2.1 above for the factors taken into account to determine the Purchase Consideration.

In addition, as the Purchase Consideration will not be paid out until the financial statements of the Target have been audited accordingly and the Profit Targets are met, this helps to further safeguard the interests of the Company and its Shareholders. The Repurchase Right and the Adjustment Mechanism serve as an additional safeguard to ensure that the Company is not prejudiced even where the Profit Targets are not met.

It is noted that the Target has met the Profit Targets for the financial year ended 31 December 2015.

4.3 **Principal Assumptions**

The principal assumptions upon which the Profit Guarantee was based are as follows:

- (a) there are no material changes in the existing political, economic, legal and social conditions, and regulatory and fiscal measures in Singapore, being the country in which the Target operates;
- (b) there will be no significant changes the Target's principal sources of revenue;
- (c) there will be no material loss of major suppliers, and customers which are essential for the operations of the Target;
- (d) there will be no material capital expenditure during the period of the Profit Guarantee;
- (e) there will be no material changes in the inflation rates during the period of the Profit Guarantee;
- (f) there are no changes to the accounting policies normally adopted in the preparation of the financial statements of the Target;
- (g) there will be no material changes in the borrowings and its prevailing interest rates; and
- (h) there will be no changes in key management of the Target.

5. RESPONSIBILITY STATEMENT

- 5.1 The Directors of the Company (including any who may have delegated detailed supervision of this announcement) have taken all reasonable care to ensure that the facts stated and all opinions expressed in this announcement are fair and accurate and that no material facts have been omitted from this announcement, and the Directors of the Company jointly and severally accept full responsibility accordingly.
- 5.2 Where any information has been extracted or reproduced from published or otherwise publicly available sources, the sole responsibility of the Directors of the Company has been to ensure through reasonable enquiries that such information is accurately extracted from such sources or, as the case may be, reflected or reproduced in this announcement.

6. CAUTION IN TRADING

Shareholders are advised to exercise caution in trading their shares. There is no certainty or assurance as at the date of this announcement that the Proposed Acquisition will be completed or that no changes will be made to the terms thereof. The Company will make the necessary announcements when there are further developments on the Proposed Acquisition and other matters contemplated by this announcement. Shareholders are advised to read this announcement and any further announcements by the Company carefully. Persons who are in doubt as to the action they should take should consult their legal, financial, tax or other professional advisers.

BY ORDER OF THE BOARD

Lo Swee Oi
Company Secretary
30 June 2017