

**HONG LEONG ASIA LTD.**  
(Company Registration No. 196300306G)  
(Incorporated in the Republic of Singapore)

**ANNOUNCEMENT**

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**INCORPORATION OF NEW WHOLLY-OWNED SUBSIDIARIES, AND ACQUISITION BY HONG LEONG ASIA LTD. OF A MAJORITY STAKE IN AIRWELL AIR-CONDITIONING (ASIA) COMPANY LIMITED (“AIRWELL ASIA”) AND THE ENTIRE ISSUED SHARE CAPITAL OF FEDDERS HONG KONG COMPANY LIMITED (“FHK”)**

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The Board of Directors of Hong Leong Asia Ltd. (“**HLA**” or the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce the following:

**A. INCORPORATION OF NEW WHOLLY-OWNED SUBSIDIARIES**

Hong Leong Climate Control Holdings Pte. Ltd. (“**HL1**”) and Fedders Investment Holdings Pte. Ltd. (“**HL2**”), have been incorporated in Singapore as wholly-owned subsidiaries of the Company, each with an initial share capital of S\$1. These two new subsidiaries were incorporated as investment holding companies to hold the Company’s investment in Airwell Asia.

**B. ACQUISITION BY HLA OF A MAJORITY STAKE IN AIRWELL ASIA AND THE ENTIRE ISSUED SHARE CAPITAL OF FHK**

**1. INTRODUCTION**

The Board of Directors of the Company wishes to announce that:-

- (a) HL1 and HL2 (collectively, the “**HL Shareholder Group**”), have today entered into a share purchase agreement (the “**Airwell Asia SPA**”) with ACE SAS (the “**Vendor**”), Elco Holland BV (“**EHL**”) and Elco Holdings Ltd. for the acquisition by HL1 and HL2 from the Vendor of 80% of the issued share capital of Airwell Asia (the “**Airwell Asia Sale Shares**”) for a total cash consideration of approximately US\$5,957,000 (the “**Airwell Cash Consideration**”) (which is equivalent to approximately S\$7.5 million<sup>1</sup>), subject to a post-closing audit and post-closing adjustments (the “**Airwell Asia Acquisition**”); and
- (b) the Company has today also entered into a share purchase agreement with EHL (the “**Fedders SPA**”) for the acquisition of the entire issued share capital of FHK (“**FHK Sale Shares**”) for a total cash consideration of US\$2 million (the “**Fedders Cash Consideration**”) (which is equivalent to approximately S\$2.5 million<sup>1</sup>) (the “**Fedders Acquisition**”),

(collectively, the “**Transactions**”). There were no conditions precedent attached to the Airwell Asia Acquisition and the Fedders Acquisition. Both the Transactions were completed today.

The obligations of the HL Shareholder Group and the Vendor under the Airwell Asia SPA are guaranteed by the Company and Elco Holdings Ltd (a company listed on the Tel-Aviv Stock Exchange) respectively.

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<sup>1</sup> For purpose of this announcement, an exchange rate of US\$1 : S\$1.2595 was used for translation purposes, where applicable.

## **2. OVERVIEW OF THE AIRWELL ASIA ACQUISITION**

### **2.1 Information on Airwell Asia<sup>2</sup>**

Airwell Asia is a company incorporated in Hong Kong. Immediately prior to the completion of the Airwell Asia Acquisition, Airwell Asia was owned as to 100% by the Vendor, which in turn is ultimately owned by Elco Holdings Ltd.

As at the date of this Announcement, Airwell Asia is the legal and beneficial owner of 67% of the equity interest in Airwell Air-conditioning Technology (China) Co., Ltd. (“**ATC**”), a Sino-foreign equity joint venture company established in Taicang City, Jiangsu Province, the People’s Republic of China (“**PRC**”) by Airwell Asia and Taicang Hengtong Investment Group Co. Ltd. (“**Taicang**”), which owns the remaining 33% of the equity interest in ATC, pursuant to a Sino-Foreign Joint Venture Contract executed by Airwell Asia and Taicang in December 2010 (the “**Sino-Foreign JVC**”).

ATC was established in January 2011 for the design, manufacture and distribution of air conditioning systems used in residential, commercial, and industrial applications. In May 2011, it entered into an agreement with Airwell Air-conditioning (China) Co., Ltd. (“**Airwell Shenzhen**”) to take over the equipment, tools and other fixed assets (the “**Fixed Assets**”) of Airwell Shenzhen. ATC is in the process of construction of a new manufacturing plant in the Taicang Economic Development Area, PRC (the “**ATC Factory**”), which is expected to be operational by the third quarter of 2012.

ATC also owns the entire issued share capital of Airwell Air-conditioning (Hong Kong) Company Limited (“**Airwell HK**”), which is principally engaged in research and development of HVAC products.

Airwell Asia, ATC and Airwell HK are hereafter collectively referred to as the “**Airwell Asia Group**”.

### **2.2 Airwell Cash Consideration**

The Airwell Cash Consideration was arrived at after negotiations on an arm’s length and willing buyer and willing seller basis, taking into account, *inter alia*, the unaudited net asset value of ATC. As stated above, the Airwell Cash Consideration is subject to post-closing adjustments by reference to the audited consolidated net asset value of the Airwell Asia Group as at closing. The unaudited consolidated net asset value of the Airwell Asia Sale Shares as at 31 March 2012 was RMB(6.7 million) (equivalent to approximately (S\$1.3 million)<sup>3</sup>). The unaudited net loss attributable to the Airwell Asia Sale Shares based on the Airwell Asia Group’s proforma unaudited consolidated accounts for the financial year ended 31 December 2011 was approximately S\$1.7 million.

The Airwell Asia Acquisition was funded by internal resources.

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<sup>2</sup> Where information in this Announcement (including in relation to the Airwell Asia Group and FHK) has been extracted from published or otherwise publicly available sources or obtained from Airwell Asia or FHK (as the case maybe), the sole responsibility of the Directors of the Company 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.

<sup>3</sup> For purpose of this announcement, an exchange rate of RMB1 : S\$0.1999 was used for translation purposes, where applicable.

## 2.3 Rationale for the Airwell Asia Acquisition

The Airwell Asia Acquisition is part of the Group's 5-year strategic plan to move into high-value manufacturing and complements the consumer appliance business of its subsidiary in the PRC, Henan Xinfei Electric Co., Ltd. This acquisition also diversifies the Group's manufacturing business to include the provision of commercial heating, ventilation, and air-conditioning ("HVAC") systems.

Whilst the PRC remains a large market for HVAC systems, the Group also believes that the Asia Pacific region, particularly its emerging economies, offers vast opportunities for the growth of the regional market for HVAC systems.

The Group further believes that the "Airwell" brand name, coupled with Airwell Asia's local research and development capabilities (particularly in variable refrigerant flow ("**VRF**") and water source heat pump technologies) and high-end HVAC technology, which was developed in France, will bring value to the Company as Airwell Asia will be able to tap on the Group's extensive distribution network for white goods and consumer products in the PRC.

Following the completion of the Airwell Asia Acquisition, the Group has a shareholding interest of 80% in Airwell Asia, and an effective equity interest of 53.6% in each of ATC and Airwell HK. Accordingly, Airwell Asia, ATC and Airwell HK have become subsidiaries of the Group.

## 2.4 Certain key terms of the Airwell Asia SPA

### 2.4.1 Shareholders' Agreement

The Airwell Asia SPA also provided for the acquisition by EHL (another member of the Elco Holdings Ltd group) of 20% of the issued share capital of Airwell Asia from the Vendor for a total cash consideration of approximately US\$2,239,000 (which is equivalent to approximately S\$2.8 million<sup>1</sup>) ("**EHL Acquisition**").

Simultaneously with the completion of the Airwell Asia Acquisition and the EHL Acquisition, HL1, HL2, EHL and Airwell Asia have today entered into a shareholders agreement (the "**Shareholders Agreement**") which sets out certain matters regarding their rights and obligations in respect of Airwell Asia, including the following:-

- (a) EHL's right to purchase an additional 10% of the issued share capital of Airwell Asia from the HL Shareholder Group on the terms and conditions set out in the Shareholders Agreement, so that upon completion of such acquisition, the issued shares of Airwell Asia shall be held by EHL and the HL Shareholder Group in the ratio of 30:70 respectively (the "**EHL Transaction**"); and
- (b) for a period of 36 months after the closing of the EHL Transaction, the HL Shareholder Group shall have the option to purchase from EHL (the "**Call Option**"), and EHL shall have the option to sell to the HL Shareholder Group (the "**Put Option**"), 10% of the issued share capital of Airwell Asia on the terms and conditions set out in the Shareholders Agreement.

Under the Shareholders Agreement, EHL and the HL Shareholder Group (as shareholders) have further agreed to make capital contributions (in the case of HL Shareholder Group, up to approximately RMB153.9 million (equivalent to approximately S\$30.8 million<sup>3</sup>) (the "**HL Shareholder Group's Further Funding Commitment**")) to Airwell Asia to enable the Airwell Asia Group to, amongst others, complete the construction of the ATC Factory.

#### **2.4.2 Deed of Non-Competition**

The HL Shareholder Group has obtained certain non-compete undertakings from EHL for the duration of the term of the Shareholders Agreement.

#### **2.4.3 Airwell Trademark License Agreements**

In May 2011, the Vendor and ATC had entered into the Airwell Trademark License Agreement whereby the Vendor had agreed to license certain Airwell trademarks to ATC for use in the PRC, Hong Kong, Macau and Taiwan on certain products for a certain period of time.

Pursuant to the Airwell Asia SPA, the Vendor and Airwell Asia have entered into an Airwell Trademark License Agreement whereby the Vendor has agreed to license certain Airwell Trademarks to Airwell Asia for use in the Asia Pacific Region (as defined therein) (excluding the PRC, Hong Kong, Macau and Taiwan) on certain products for a certain period of time.

Under the Shareholders Agreement, the HL Shareholder Group has agreed that it will not, and will procure its affiliated companies and the Airwell Asia Group not to, sell, distribute, market or supply products and/or services bearing the Airwell Trademark in non-Asia Pacific Region countries. Conversely, EHL has undertaken that it will not, and will procure its affiliated companies not to, sell, distribute, market or supply products and/or services bearing the Airwell Trademark in the Asia Pacific Region countries.

### **3. OVERVIEW OF THE FEDDERS ACQUISITION**

#### **3.1 Information on FHK**

FHK is a company incorporated in Hong Kong whose only business is to hold the “Fedders” trademarks.

The “Fedders” brand was established since 1896, and has been a recognized name in North America. It is known for its quality, reliability and the long life of its residential air conditioning products.

#### **3.2 Fedders Cash Consideration**

The Fedders Cash Consideration was arrived at after negotiations on an arm’s length and a willing buyer and willing seller basis, taking into account, *inter alia*, the fact that this acquisition will enable the Group to diversify beyond the PRC and, in particular, will facilitate its extension of the market for its consumer products in the Asia Pacific Region and internationally.

The unaudited net asset value of the FHK Sale Shares as at 31 March 2012 was HK\$10.3 million (equivalent to approximately S\$1.7 million<sup>4</sup>). The net profits attributable to the FHK Sale Shares based on FHK’s audited accounts for the financial year ended 31 December 2011 was approximately HK\$656,000 (which is equivalent to approximately S\$106,500<sup>4</sup>).

The Fedders Acquisition was funded by internal resources.

#### **3.3 Rationale for the Fedders Acquisition**

The acquisition of the “Fedders” brand will allow the Group to capitalise on its manufacturing expertise to gain a global profile for its consumer appliances including air-conditioners under the internationally recognised “Fedders” brand.

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<sup>4</sup> For the purpose of this announcement, an exchange rate of HK\$1 : S\$0.1624 was used for translation purposes, where applicable.

Following the completion of the Fedders Acquisition, FHK has become a wholly-owned subsidiary of the Group.

#### 4. **FINANCIAL EFFECTS**

Based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2011, the proforma consolidated unaudited accounts of the Airwell Asia Group for the financial year ended 31 December 2011 and the audited accounts of FHK for the financial year ended 31 December 2011:-

- (a) assuming that the Transactions (including the HL Shareholder Group's Further Funding Commitment) had been effected on 1 January 2011, the financial impact on the earnings per ordinary share in the capital of the Company (the "Share") is not material; and
- (b) assuming that the Transactions (including the HL Shareholder Group's Further Funding Commitment) had been effected on 31 December 2011, the financial impact on the net tangible asset per Share is not material.

#### 5. **RELATIVE FIGURES ON THE BASES SET OUT IN RULE 1006 OF THE LISTING MANUAL**

The relative figures for the Transactions (including, *inter alia*, the HL Shareholder Group's Further Funding Commitment) computed on the bases set out in Rule 1006 of the SGX-ST Listing Manual, based on the audited financial statements of the Group for the financial year ended 31 December 2011, the proforma consolidated unaudited accounts of the Airwell Asia Group for the financial year ended 31 December 2011 and the audited accounts of FHK for the financial year ended 31 December 2011, are set out below.

<b>Bases under Rule 1006</b>	
<b>Rule 1006(a)</b>	<b>As at 31 December 2011</b>
The net asset value of the assets to be disposed of, compared with the group's net asset value	Not applicable to an acquisition of assets
<b>Rule 1006(b)</b>	<b>For financial year ended 31 December 2011</b>
Net loss <sup>(1)</sup> attributable to the Airwell Asia Sale Shares and the FHK Sale Shares (S\$'000)	1,587
Net profits of the Group <sup>(1)</sup> (S\$'000)	286,163
Size of relative figure	Not meaningful
<b>Rule 1006(c)</b>	
Aggregate amount of consideration for both the Transactions including the HL Shareholder Group's Further Funding Commitment (S\$'000)	43,380 <sup>(3)</sup>
Market capitalisation <sup>(2)</sup> of the Company as at 10 April 2012 (being the last trading day immediately preceding the date of the Airwell Asia SPA and the Fedders SPA) (S\$'000)	710,426
Size of relative figure	6.11%

<b>Rule 1006(d)</b>	
Number of equity securities to be issued by the Company as consideration for the acquisition compared with the number of equity securities previously in issue	Not Applicable

**Notes:-**

- (1) Based on profits before income tax, minority interest and extraordinary items.
- (2) The market capitalisation of the Company is based on 373,980,559 Shares in issue as at 10 April 2012 (being the last trading day immediately preceding the date of the Airwell Asia SPA and the Fedders SPA) and the weighted average price of the Shares transacted on the SGX-ST on 10 April 2012 of S\$1.90.
- (3) Based on RMB1 : S\$0.1999 and US\$1 : S\$1.2595

**6. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS**

None of the Directors of the Company has any interest, direct or indirect, in the Transactions (save through their respective shareholdings in the Company) and the Company has not received any notification from any of its controlling shareholders that it has any interest, direct or indirect, in the Transactions.

**7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the Airwell Asia SPA and the Fedders SPA will be made available for inspection by Shareholders during normal business hours at the registered office of the Company for a period of 3 months from the date of this Announcement.

By Order of the Board of Hong Leong Asia Ltd.

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

11 April 2012  
Singapore