

HL GLOBAL ENTERPRISES LIMITED
Company Registration No. 196100131N
(Incorporated in the Republic of Singapore)

ANNOUNCEMENT

PROPOSED DISPOSAL OF 60% EQUITY INTEREST IN COPTHORNE HOTEL QINGDAO CO., LTD.

1. INTRODUCTION

- 1.1 The Board of Directors ("Board") of HL Global Enterprises Limited ("HLGE" or the "Company", and together with its subsidiaries, the "Group") refers to the announcements made by the Company on 22 February 2016, 25 February 2016, 22 March 2016, 26 April 2016, 31 March 2017 and 18 April 2017 (collectively, the "Previous Announcements") in relation to the proposed disposal by its wholly-owned subsidiary, LKN Investment International Pte. Ltd. ("LKNII") of its 60% equity interest in Copthorne Hotel Qingdao Co., Ltd. ("CHQ") ("LKNII's CHQ Equity Interest") by way of public tender on the Shanghai United Assets and Equity Exchange ("SUAEE") ("LKNII's CHQ Disposal").
- 1.2 Unless otherwise defined herein, capitalised terms used in this announcement shall bear the same meaning ascribed to them in the Previous Announcements.

2. INFORMATION ON CHQ

CHQ was established by LKNII and CAAC East China Regional Administration Authority Service Center ("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.

LKNII currently owns 60% equity interest in CHQ, while the remaining 40% equity interest in CHQ is currently held by CAAC ("CAAC Equity Interest").

3. FORMAL LISTING OF THE LKNII'S CHQ EQUITY INTEREST ON THE SUAEE

- 3.1 The Board wishes to announce that the Pre-Listing Period had expired on 28 April 2017 and that pursuant to an application made by LKNII and CAAC (collectively, the "Sellers") to the SUAEE, and as announced by the SUAEE today, the LKNII's CHQ Equity Interest and the CAAC Equity Interest will be formally listed on the SUAEE with effect from 22 May 2017 for sale pursuant to the Public Tender Process ("Formal Listing"). At the Formal Listing stage, interested parties will be invited to bid for the LKNII's CHQ Equity Interest and the CAAC Equity Interest in accordance with the transaction rules of the SUAEE.
- 3.2 Upon the close of the Public Tender Process, the successful bidder (if any) for the LKNII's CHQ Equity Interest and the CAAC Equity Interest ("Purchaser") will be selected by the SUAEE and the Sellers, and the Sellers will thereafter negotiate and enter into sale and purchase agreements for the sale of the LKNII's CHQ Equity Interest and the CAAC Equity Interest ("SPA") with the Purchaser.

4. PROPOSED SALIENT TERMS OF THE SALE OF THE LKNII'S CHQ EQUITY INTEREST AND THE CAAC EQUITY INTEREST ("CHQ DISPOSAL")

Certain proposed salient terms of the CHQ Disposal under the Public Tender Process are set out below:

- (a) **LKNII's CHQ Disposal and the CAAC Disposal are inter-conditional.** The LKNII's CHQ Disposal and the CAAC Disposal will be inter-conditional upon each other, i.e. a bidder for the LKNII's CHQ Equity Interest will be required to also bid for and purchase the CAAC Equity Interest, and *vice versa*.
- (b) **Reserve Price and Consideration.** At the Formal Listing stage, the Sellers are required to set a reserve or floor price for the CHQ Disposal. In this respect, the Sellers had commissioned Shanghai Li Xin Asset Valuation Co Ltd to conduct a re-valuation on CHQ as at 30 June 2016 ("**Revised Valuation**"). Based on the Revised Valuation (which was conducted based on an asset-based method) which was issued in January 2017, the fair value of 100% equity interest in CHQ as at 30 June 2016 was estimated to be RMB396.95 million. Based on the Revised Valuation, the reserve or floor price for the CHQ Disposal under the Public Tender Process has been set by the Sellers at approximately RMB396.95 million (which is approximately S\$80.13 million¹) ("**Revised Reserve Price**"). Accordingly, the reserve or floor price for the LKNII's CHQ Disposal has been set by LKNII at approximately RMB238.17 million (which is approximately S\$48.08 million¹) ("**LKNII CHQ Revised Reserve Price**"), being 60% of the Revised Reserve Price. The actual aggregate consideration for the CHQ Disposal will be based on the bid price of the Purchaser and will be specified in the SPA. The consideration for the CHQ Disposal is to be satisfied by the Purchaser in cash.
- (c) **Timing and Option to reduce the reserve or floor price for the CHQ Disposal.** The Formal Listing could comprise two rounds of bidding for the LKNII's CHQ Equity Interest and the CAAC Equity Interest. The first round of bidding will take place for a period of 20 business days. In the event that no bid is received during this period, the Sellers may at their option proceed with the second round of bidding, which will also take place for a period of 20 business days. For purposes of the second round of bidding, the Sellers have the option to reduce the reserve or floor price for the CHQ Disposal by up to 10%.
- (d) **Repayment of loans owing by CHQ.** The Purchaser will be required, under the terms of the SPA:
 - (i) to repay to LKNII, on behalf of CHQ, the outstanding amounts owing under the outstanding shareholders' loan of a principal amount of approximately RMB21.14 million granted by LKNII to CHQ, together with all interests accrued thereon, upon terms to be agreed and set out in the SPA; and
 - (ii) to repay in full, on behalf of CHQ, all outstanding principal amounts and interests accrued thereon owing by CHQ to Standard Chartered Bank, China ("**SCB**") under a bank loan of a principal amount of approximately RMB146.37 million, granted by SCB to CHQ.
- (e) **Profits and Losses.** The Purchaser shall be entitled to all profits, and shall bear all losses, of CHQ for the period from (and including) the Revised Valuation Date up to completion of the CHQ Disposal.

¹ Based on the exchange rate of S\$1:RMB 4.954 as at 18 May 2017 (the "**Exchange Rate**").

5. RATIONALE FOR THE LKNII'S CHQ DISPOSAL

CHQ has been loss-making since the commencement of its operations in 1997. Its performance has in recent years deteriorated further in view of the oversupply of hotel rooms in Qingdao, PRC, and the austerity measures imposed in the PRC. As a result, the financial performance of the Group has been adversely affected. The net loss after tax attributable to the LKNII's CHQ Equity Interest from the financial year ended 31 December ("FY") 2012 to FY2016 amounted to approximately S\$7.2 million, based on the audited consolidated accounts of the Group for FY2012 to FY2016 (prepared in accordance with the Singapore Financial Reporting Standards ("SFRS")).

The Board is of the view that if the Public Tender Process is successful, the LKNII's CHQ Disposal would allow the Group to dispose of an under-performing and unprofitable asset, and to realise and unlock the value of its investment in CHQ. The LKNII's CHQ Disposal is also part of the Company's on-going efforts to strengthen its balance sheet. Assuming that the LKNII's CHQ Disposal is effected at the LKNII CHQ Revised Reserve Price, it is expected that LKNII will realise a significant net gain on disposal (after deducting related expenses) from the LKNII's CHQ Disposal. For illustrative purposes only, assuming that the LKNII's CHQ Disposal is effected at the LKNII CHQ Revised Reserve Price and based on the audited net book value of the LKNII's CHQ Equity Interest as at 31 December 2016 of S\$30,000² as reflected in the Group's audited consolidated financial statements for FY2016, it is expected that the LKNII's CHQ Disposal will result in an estimated net gain of approximately S\$48.24 million (after taking into account the gain arising from reclassification of the exchange translation reserve in respect of CHQ from equity to the Group's income statement on disposal, and after deducting tax and related expenses). **Shareholders and potential investors should note however that there is no assurance that the LKNII's CHQ Disposal (if any) will be undertaken at the LKNII CHQ Revised Reserve Price.** As CHQ has been loss-making, the LKNII's CHQ Disposal is further expected to have a positive effect on the financial performance of the Group going forward. The LKNII's CHQ Disposal will also enable the Group to focus on its other business operations.

Further, the Company had been placed on the Watch-List on 4 June 2014. The SGX-ST had on 31 May 2016 granted the Company an extension of time of up to 12 months to 3 June 2017 to meet the financial exit criteria as set out in Rule 1314(1) of the Listing Manual ("Financial Exit Criteria"). The Board is of the view that the LKNII's CHQ Disposal would, amongst other things, enable the Company to meet the Financial Exit Criteria.

6. CHAPTER 10 OF THE LISTING MANUAL

6.1 **Rule 1006.** Assuming that the LKNII's CHQ Disposal is effected at the LKNII CHQ Revised Reserve Price, the relative figures computed pursuant to Rules 1006 (a) to (d) of the Listing Manual, based on the unaudited consolidated financial statements of the Group for the first quarter ended 31 March 2017 ("1Q2017") (being the latest announced consolidated accounts of the Group) are as follows:

Rule 1006	Bases of computation	LKNII's CHQ Disposal S\$' million	Group S\$' million	Relative Figure
(a)	Net asset value of assets being disposed of, compared with the Group's net asset value ⁽¹⁾	0.03	(6.29)	(0.5%)

² The Company has been writing down the investment in CHQ due to the share of losses incurred by CHQ and exchange translation difference. The Company's investment in CHQ was written down from S\$3.5 million in FY2014 to S\$0.9 million in FY2015 and to S\$30,000 in FY2016.

Rule 1006	Bases of computation	LKNII's CHQ Disposal S\$' million	Group S\$' million	Relative Figure
(b)	Net profit/(loss) attributable to the assets disposed of, compared with the Group's net profit/(loss) ⁽¹⁾⁽²⁾	0	(0.64)	Not Meaningful
(c)	Aggregate value of consideration received, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares ⁽³⁾	48.08	26.58	180.9%
(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	-	-	Not Applicable ⁽⁴⁾

Notes:

- (1) The net asset value of the LKNII's CHQ Equity Interest and the net loss attributable to the LKNII's CHQ Equity Interest are based on the unaudited consolidated financial statements of the Group for 1Q2017 which were prepared in accordance with the SFRS. As announced in the Company's results announcement on 2 May 2017, the Group's investment in CHQ has been re-classified as asset held for sale since February 2016. The Group has discontinued the use of equity method to recognize the interest in CHQ and as such, the Group did not take into account the loss incurred by CHQ.
- (2) Based on profit or loss before income tax, minority interest and extraordinary items.
- (3) Based on the LKNII CHQ Revised Reserve Price of RMB238.17 million (which is approximately S\$48.08 million, based on the Exchange Rate) and the market capitalisation of the Company of approximately S\$26.58 million (which is determined by multiplying the existing number of shares in the Company ("Shares") excluding treasury shares (i.e. 96,321,318 Shares) by S\$0.276, being the weighted average price of the Shares transacted on 18 May 2017, the market day preceding the date of this Announcement).
- (4) This is not an acquisition and there is no issuance of equity securities by the Company.

6.2 **Major Transaction.** Assuming that the LKNII's CHQ Disposal is effected at or above the LKNII CHQ Revised Reserve Price, as the relative figure under Rule 1006(c) exceeds 20%, the LKNII's CHQ Disposal would constitute a major transaction under Chapter 10 of the Listing Manual and is subject to the approval of the shareholders of the Company, unless the requirement for such shareholders' approval is waived by SGX-ST.

6.3 **SGX-ST's Waiver.** As announced by the Company on 18 April 2017, the Company had on 24 March 2017 submitted an application to SGX-ST for a waiver of the requirement for the Company to obtain its shareholders' approval for the LKNII's CHQ Disposal under Rule 1014(2) of the Listing Manual ("Waiver"), and SGX-ST had on 18 April 2017 informed the Company that it had no objection to granting the Waiver. Accordingly, the Company is not required to obtain the approval of its shareholders for the LKNII's CHQ Disposal.

7. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save for the controlling shareholders' interests in the Company, none of the Directors nor (so far as the Directors are aware) controlling shareholders of the Company has any interest, direct or indirect, in the LKNII's CHQ Disposal.

8. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company in connection with the LKNII's CHQ Disposal and no service contract is proposed to be entered into by the Company and any such person in connection with the LKNII's CHQ Disposal.

9. FURTHER ANNOUNCEMENTS

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

10. CAUTIONARY STATEMENT

Shareholders and potential investors are advised to exercise caution when dealing with the shares of the Company as there is no certainty that a successful bidder will be selected for the LKNII's CHQ Equity Interest, that the SPA will be entered into, that the final terms and conditions of the SPA with respect of the LKNII's CHQ Disposal (including the consideration for the LKNII's CHQ Disposal) will not differ from those set out in paragraph 4 above, or that the LKNII's CHQ Disposal will be undertaken at the LKNII CHQ Revised Reserve Price or at all.

Shareholders and potential advisers are advised to read this announcement and any further announcements by the Company carefully. Shareholders and potential investors 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

19 May 2017
Singapore