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Acquisitions and Disposals :: Discloseable Transaction :: Memorandum of Understanding relating to proposed acquisition of leasehold property

* Asterisks denote mandatory information

Name of Announcer *	HAFARY HOLDINGS LIMITED
Company Registration No.	200918637C
Announcement submitted on behalf of	HAFARY HOLDINGS LIMITED
Announcement is submitted with respect to *	HAFARY HOLDINGS LIMITED
Announcement is submitted by *	Tay Eng Kiat Jackson
Designation *	Financial Controller
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>> Announcement Details

The details of the announcement start here ...

Announcement Title *	Memorandum of Understanding relating to proposed acquisition of leasehold property
Description	Please refer to the attachment.

Attachments

HHL-MOU_on_proposed_acquisition.pdf
Total size = **114K**
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HAFARY HOLDINGS LIMITED
(Company Registration No.: 200918637C)
(Incorporated in the Republic of Singapore)

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(1) THE PROPOSED INCORPORATION OF A SPECIAL PURPOSE VEHICLE WITH MR LOW SEE CHING, MR CHING CHIAT KWONG AND SITRA HOLDINGS (INTERNATIONAL) LIMITED, AS AN INTERESTED PERSON TRANSACTION; AND

(2) THE PROPOSED ACQUISITION OF 18 SUNGEI KADUT STREET 2, SUNGEI KADUT INDUSTRIAL ESTATE, SINGAPORE 729236 FROM SITRA HOLDINGS (INTERNATIONAL) LIMITED, AS A DISCLOSEABLE TRANSACTION

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1. INTRODUCTION

The board of directors (the "**Board**" or "**Directors**") of Hafary Holdings Limited (the "**Company**") wishes to announce that its wholly-owned subsidiary, Hafary Pte Ltd ("**HPL**"), together with Mr Low See Ching and Mr Ching Chiat Kwong (the "**Promoters**" and each a "**Promoter**") have entered into a legally binding memorandum of understanding ("**MOU**") on 11 December 2012 with the following transactions contemplated therein:-

(i) the incorporation of a special purpose vehicle (the "**SPV**") by the Promoters and Sitra Holdings (International) Limited (the "**Vendor**") (the "**Proposed Incorporation**"). Further details on the Proposed Incorporation are set out in Paragraph 6 below; and

(ii) the proposed acquisition by the SPV of the whole of 18 Sungei Kadut Street 2, Sungei Kadut Industrial Estate, Singapore 729236 (the "**Property**") from the Vendor (hereinafter referred to as the "**Proposed Acquisition**").

The Vendor and the Promoters shall collectively be referred to as the "**Parties**".

As at the date of the MOU, Mr Low See Ching ("**Mr Low**") is a director of the Company and of HPL and Mr Low and Mr Ching Chiat Kwong ("**Mr Ching**") are controlling shareholders of the Company. Accordingly, Mr Low and Mr Ching are "interested persons" of the Company and the Proposed Incorporation constitutes an "interested person transaction" within the ambit of Chapter 9 of Section B: Rules of Catalist of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "**Catalist Rules**").

2. THE PROPOSED ACQUISITION AS A DISCLOSEABLE TRANSACTION

2.1 Information on the Vendor

The Vendor is a public limited company (Company Registration No. 197901237E) incorporated in Singapore on 5 May 1979 and listed on Catalist on 17 November 2006. The Vendor is an international distributor of quality wood-based products and lifestyle outdoor furniture. The Vendor is not related to the Company or any of its subsidiaries and none of the Company's Directors, substantial shareholders and/or their respective associates has any interests (direct or indirect) in the Vendor.

2.2 **The Property**

The Property is a leasehold property with a leasehold interest granted by the Jurong Town Corporation ("**JTC**") to the Vendor for a term of 16 years commencing on 1 March 2009 and expiring on 28 February 2025 (the "**Lease Term**"). The Property is within the International Furniture Park in Sungei Kadut Singapore ("**IFP**") that is designated for redevelopment as an international furniture hub.

As of the date of this announcement, the remaining Lease Term on the Property is approximately 12 years. It covers a land area of approximately 107,000 square feet. The Property is free from encumbrances.

2.3 **Valuation of the Property**

Based on a valuation report dated 4 June 2012 (the "**Valuation Report**") by a professional valuer, GB Global Pte Ltd, commissioned by the Vendor, the open market value of the Property was determined to be S$8,000,000. The valuation is based on the comparable sales method, where a comparison is made with recent transactions of similar properties, preferably in the vicinity. Appropriate adjustments are made for differences in location, area, age, condition, tenure, design and layout, dates of transactions and the prevailing economic conditions affecting the property market, among others.

2.4 **The Exclusive Period**

The Vendor has agreed to grant the Promoters an exclusive right of purchase for a period of 8 weeks or such extended period as may be mutually agreed in writing by the Parties commencing 11 December 2012 (the "**Exclusive Period**") on the following terms:-

2.4.1 the Parties shall negotiate in good faith the sale and purchase agreement (the "**SPA**") in furtherance of the Proposed Acquisition and shall use their best endeavours to enter into the SPA before the expiry of the Exclusive Period. The SPA shall contain the terms set out in the MOU and such other terms and conditions as may be mutually agreed by the Parties;

2.4.2 the Vendor agrees to deal exclusively with the Promoters in relation to the matters contemplated in the MOU during the Exclusive Period and agrees not to negotiate or undertake any discussion with any other party with a view to the disposal of the Property (other than those contemplated under the MOU);

2.4.3 in the event that the SPA is not entered into between the Vendor and the SPV upon the expiry of the Exclusive Period, the Vendor shall have absolute and unfettered right to sell the Property to any other party and to deal in the Property in any way as the Vendor deems fit, without any reference to the Promoters whatsoever; and

2.4.4 as consideration of the grant of the Exclusive Period by the Vendor to the Promoters, the Promoters had collectively, at the date of signing of the MOU, made a payment of S$200,000 (the "**Earnest Money**") to the Vendor. The Earnest Money forms part of the Consideration (as defined in Paragraph 2.5.1) upon completion of the transactions contemplated under the SPA.

2.4.5 In the event that:-

(i) the SPA is not completed solely due to the default by the Vendor;

(ii) without the default by the Promoters or breach of the MOU or SPA by the Promoters and/or the SPV, the JTC Approval (as defined in Paragraph 2.6.l) is not granted by JTC before the expiry of 6 months from the date of the SPA (the "**Long-Stop Date**");

(iii) the approval of the shareholders of the Vendor and the Company (as the case may be) are not obtained for the transactions under the SPA on or before the Long-Stop Date; or

(iv) a condition is imposed in the JTC Approval that requires an investment in machinery and equipment of an amount exceeding an agreed amount is imposed by JTC as a condition for the grant of the JTC Approval,

the Earnest Money shall be refunded by the Vendor to the Promoters without any interest, and neither party to the MOU or the SPA shall thereafter have any claim or demand against each other in respect of the MOU or the SPA. The Earnest Money shall otherwise be forfeited absolutely to the Vendor in the event that the SPA is not entered into on before the expiry of the Exclusive Period or that the SPA is terminated and not completed for any reason whatsoever.

2.5 **The Purchase Price**

2.5.1 The consideration payable by the SPV to the Vendor for the Property is S$8,650,000 (inclusive of the Earnest Money) (the "**Consideration**"), payable in the following manner:-

(i) S$665,000, being a sum equivalent to 10% of the Consideration (less the Earnest money), to be paid upon the execution of the SPA; and

(ii) the remaining balance of S$7,785,000 to be paid on completion of the SPA.

The SPV shall pay any goods and services tax on the Consideration as may be imposed by the relevant authorities. The Consideration was arrived at following arms' length negotiation between the Promoters and the Vendor, on a willing-buyer-willing-seller basis, after taking into account various commercial factors including the current market prices of properties in the surrounding area, the location of the Property and the terms and conditions of the Proposed Acquisition as set out in the MOU.

2.5.2 The Consideration would be funded as follows:-

(i) approximately S$6,920,000 (being 80% of the Consideration) is expected to be funded by bank borrowings. The Promoters will guarantee the bank borrowings in the amounts proportionate to their respective shareholding (not taking into account the Vendor's shareholding) in the SPV;

(ii) approximately S$1,000,000 to be paid from the SPV's share capital; and

(iii) the balance of approximately S$730,000 to be paid by the Promoters in their respective proportion of shareholding (not taking into account the Vendor's shareholding) in the SPV.

2.6 **Conditionality of the Proposed Acquisition**

The Proposed Acquisition is conditional upon:-

(i) the SPV obtaining the in-principle approval from JTC (the "**JTC Approval**") for the assignment of the existing leasehold interest in the Property to the SPV with an option for the SPV to extend or renew the term of the leasehold interest to the SPV subject to the Parties' and/or SPV's compliance with such conditions as may be imposed by JTC; such that the new leasehold interest (inclusive of any extension or renewal term) shall be for a term of 30 years or more commencing on or about the date of the JTC Approval;

(ii) no condition is imposed in the JTC Approval that requires an investment in machinery and equipment exceeding an agreed amount; and

(iii) the approval of the shareholders of the Vendor and the Company being obtained in an extraordinary general meeting to be convened respectively by each of the Vendor and the Company for the transactions contemplated under the MOU and the SPA. In this regard, the controlling shareholders of the Vendor (holding in aggregate 47.18% of the total issued shares of the Vendor) shall undertake to vote in favour of the Proposed Acquisition in the extraordinary general meeting to be convened by the Vendor and not to sell or otherwise dispose of their interests in the Vendor pending the extraordinary general meeting.

The SPA shall be terminated in the event that the abovementioned conditions are not fulfilled or complied on or prior the Long-Stop Date.

2.7 Termination of the MOU

The MOU shall continue to be in force until the following events occur:-

(i) the execution of the SPA or the expiry of the Exclusive Period;

(ii) the Promoters and the Vendor may mutually agree to terminate the MOU via written notice;

(iii) by a party if the other party commits any material breach of any term in the MOU which is incapable of being remedied; or

(iv) by a party if the other party commits any material breach of any term in the MOU which is capable of being remedied and such breach has not been remedied within 30 days of a written request from the first-mentioned party to the other party to remedy the same.

3. RATIONALE FOR THE PROPOSED ACQUISITION

The Company's management is of the view that the Proposed Acquisition is advantageous and will benefit the Company and its subsidiaries (together, the "**Group**") for the reasons stated below.

It is the intention of the Parties that upon the successful consummation of the Proposed Acquisition, the SPV shall develop the Property in accordance with the objectives, concept and development strategy envisioned for the IFP by JTC, International Enterprise (IE) Singapore and SPRING Singapore.

The cooperation between the Vendor and the Promoters via the SPV is a synergistic partnership. Parties may leverage on each other's strengths to respectively expand and/or strengthen their local and overseas markets and presence in *inter alia*, the furnishing industry and to add value to each other's business operations.

Portion of the Property is also expected to be used as warehousing facility for the Group's surfacing and furnishing products to support its showroom to be located in the Property.

4. RELATIVE FIGURES PURSUANT TO RULE 1006 OF THE CATALIST RULES

Based on the audited consolidated financial statements of the Company for the financial year ended 30 June 2012 ("**FY2012**"), the relative figures for the Proposed Acquisition, computed in accordance with Rule 1006 of the Catalist Rules, are as follows:-

Rule	Bases	Relative Figures
Rule 1006(a)	The net asset value of the assets to be disposed of, compared with the Group's net asset value. This basis is not applicable to an acquisition of assets.	Not applicable
Rule 1006(b)	The net profits attributable to the assets acquired or disposed of, compared with the Group's net profits.	Not applicable [1]
Rule 1006(c)	The aggregate value of the consideration given or received, compared with the Company's market capitalization based on the total number of issued shares excluding treasury shares.	7.4% [2]
Rule 1006(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
Rule 1006(e)	The aggregate volume or amount of proven and probable reserves to be disposed of, compared with the aggregate of the Group's proven and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not applicable to an acquisition of such assets.	Not applicable

Since the relative figure computed on the basis set out in Rule 1006(c) of the Catalist Rules exceeds 5% but does not exceed 75%, the Proposed Acquisition constitutes a "discloseable transaction" pursuant to Rule 1010 of the Catalist Rules.

[1] There is no impact to net profits as the Parties intend to redevelop the Property for use by the Group and the Vendor after the Proposed Acquisition is completed.

[2] Based on (i) the Company's proportion of shareholding (not taking into account the Vendor's shareholding) in the SPV; (ii) the Company's existing issued share capital of 194,500,000 ordinary shares; and (iii) the volume weighted average price of the Company's shares of S$0.265 traded on Catalist on 14 November 2012, being the last traded day preceding the date of the MOU.

5. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

The Proposed Acquisition has no financial effect on the net tangible assets per share and earnings per share of the Company as the Parties intend to redevelop the Property for use by the Group and the Vendor after the Proposed Acquisition is completed.

6. THE PROPOSED INCORPORATION AS AN INTERESTED PERSON TRANSACTION

6.1 As set out above, the Parties intend to incorporate the SPV for purposes of the Proposed Acquisition. Rule 904(6)(f) of the Catalist Rules states that the establishment of joint ventures or joint investments constitute a "transaction" within the ambit of Chapter 9 of the Catalist Rules.

As at the date of the MOU, Mr Low is a director of the Company and of HPL and Mr Low and Mr Ching are controlling shareholders of the Company. As such, Mr Low and Mr Ching are defined as "interested persons" of the Company within the ambit of Chapter 9 of the Catalist Rules.

Accordingly, the Proposed Incorporation constitutes an "interested person transaction" between the Company, Mr Low and Mr Ching within the ambit of Chapter 9 of the Catalist Rules.

6.2 **Details of the SPV**

6.2.1 The shareholding interest of the Promoters and the Vendor in the SPV shall as from incorporation and for as long as the SPV holds the leasehold interest in the Property, be in the following proportion:-

(i) 90% in the aggregate to be held by the Promoters with each Promoter holding such percentage of the total issued shares in the SPV as may be required or permitted by JTC; and

(ii) 10% to be held by the Vendor.

For the purposes of computing (i) the relative figures pursuant to Rule 1006 of the Catalist Rules under Paragraph 4; and (ii) the value of the interested person transaction under Paragraph 6.3 of this announcement, HPL is assumed to hold 40% of the shareholding interests in the SPV.

6.2.2 The Vendor shall at all times be entitled to a board seat in the SPV.

6.2.3 The 10% shareholding interest in the SPV attributable to the Vendor is sweat equity for its participation as a joint venture partner in the SPV. The Vendor shall not be required to make any capital contributions or financial support, including loans or other monetary payment to the SPV for the purpose of the Proposed Acquisition and/or development of the Property. The Promoters shall ensure that the SPV will whenever necessary, issue to the Vendor such number of shares, fully paid-up, in order for the Vendor to maintain at all times its 10% shareholding interest in the SPV; and all subscription monies payable in respect thereof shall be borne absolutely by the Promoters on a joint and several basis. This obligation shall subsist for as long as the SPV holds the leasehold interest in the Property.

6.2.4 The Promoters shall grant to the Vendor a put option to require the Promoters to purchase the Vendor's 10% shareholding in the SPV at a consideration equal to 10% of the prevailing market value of the Property or the sale price of the Property if the Property shall have been sold or contracted to be sold when the option is exercised. Concurrently, the Vendor shall grant to the Promoters a call option to require the Vendor to sell to the Promoters its 10% shareholdings in the Company at the same option price, such option to be exercised only after completion of the development of the Property. The exercise of the put and call options shall be subject to compliance with applicable JTC conditions that may be imposed.

6.3 Materiality Thresholds under Chapter 9

6.3.1 Under Chapter 9 of the Catalist Rules, shareholders' approval is required for an interested person transaction of a value equal to, or exceeding, 5% of the Group's latest audited net tangible assets (the "**NTA**").

6.3.2 Rule 909(2) of the Catalist Rules states that in the case of a joint venture, the value of a transaction (being the amount at risk to the issuer) includes the equity participation, shareholders' loans and guarantees given by the entity at risk. The calculation of the value of the Proposed Incorporation, which ties in with the Proposed Acquisition, is set out below:-

		S$'000
1.	NTA (as at 30 June 2012)	31,304
2.	Value of transaction [1]:-	
	(i) Proposed equity participation of 40% by HPL in the SPV	400
	(ii) Shareholders' loans to be granted by HPL	4,444
	(iii) Corporate guarantee to be provided by HPL	19,554
	Total	24,398
3.	Value of transaction against the NTA	77.9%

[1] Based on the assumption that (i) the initial share capital of the SPV is S$1,000,000; and (ii) subsequent to the Proposed Acquisition, the estimated redevelopment costs for the Property (including the Consideration, development charge and construction cost) amounts to approximately S$55,000,000.

As the value of the Proposed Incorporation is more than 5% of the Group's NTA, the approval of the Company's shareholders for the Proposed Incorporation has to be obtained at an extraordinary general meeting ("**EGM**") to be convened by the Company in due course.

6.4 Total Value of Interested Person Transactions

Save for the Proposed Incorporation, the amount of interested person transactions with Mr Low and Mr Ching for the current financial year beginning 1 July 2012 and up to 30 November 2012 are illustrated in the table below. For information only, the amount of interested person transactions with Mr Low and Mr Ching for FY2012 are also illustrated as follows.

Name of Interested Person	1 July 2012 to 30 November 2012 (S$'000)	FY2012 (S$'000)
Rental paid to Ascender Investment Pte. Ltd. [1]	-	174
Sales to Hume Construction Pte. Ltd. [2]	7	37
Sales to Oxley Construction Pte. Ltd. [2]	371	471
Sales to Galaxy Builders Pte. Ltd. [2]	29	324

[1] Associate of Mr Low.
[2] Associate of Mr Ching.

Save for the transactions above, the Group did not enter into any transaction with other interested persons during FY2012 and for the financial period from 1 July 2012 to 30 November 2012.

6.5 Rationale for and Benefit to the Company

The rationale for and the benefit to the Company for the Proposed Incorporation which is in connection with the Proposed Acquisition, is set out in Paragraph 3 above, as the purpose of the incorporation of the SPV is to enter into the SPA for the Proposed Acquisition.

6.6 Circular to Shareholders

A circular to the Shareholders (the "**Circular**") containing, *inter alia*, the notice of the EGM and the terms and conditions of the Proposed Incorporation will be despatched to the Shareholders in due course.

6.7 Independent Financial Adviser

The Audit Committee will be appointing and obtaining from an independent financial adviser (the "**IFA**") an opinion whether the Proposed Incorporation, as an Interested Person Transaction, which is in connection with the Proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders. The opinion of the IFA will be set out in the Circular.

6.8 Audit Committee Statement

The Audit Committee will form its view as to whether the Proposed Incorporation which is in connection with the Proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders after considering the opinion of the IFA referred to in Paragraph 6.7 above. The view of the Audit Committee on the Proposed Incorporation will be set out in the Circular.

7. FURTHER ANNOUNCEMENT

The Company will make a further announcement if, and as soon as the SPA has been entered into.

8. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as disclosed herein, none of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the Proposed Incorporation and/or the Proposed Acquisition (as the case may be). No person will be appointed to the Board in connection with the Proposed Acquisition and no service contracts in relation thereto will be entered into by the Company.

9 RESPONSIBILITY STATEMENT

The Directors (including those who may have delegated detailed supervision of the preparation of this announcement) 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 Incorporation and the Proposed Acquisition, 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.

10. CAUTION IN TRADING

Shareholders and potential investors should note that the Proposed Acquisition is subject to the Parties entering into the SPA, and the fulfillment of, *inter alia*, the conditions precedent set out in the MOU which are to be incorporated in the SPA. There is no certainty that the Parties will be successful in negotiating and entering into the SPA and/or that the conditions precedent applicable thereto will be fulfilled. Accordingly, shareholders and potential investors should exercise caution when trading in the shares of the Company. Persons who are in doubt as to the action they should take should consult their legal, financial, tax or other professional advisers.

11. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents will be made available for inspection during normal business hours at the registered office of the Company at 15 Defu Avenue Singapore 539538 for a period of 3 months from the date of this announcement:-

(i) a copy of the MOU; and

(ii) a copy of the Valuation Report.

By Order of the Board

Tay Eng Kiat Jackson
Financial Controller

11 December 2012

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor (the "**Sponsor**"), Canaccord Genuity Singapore Pte. Ltd. for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). The Sponsor has not independently verified the contents of this announcement.*

This announcement has not been examined or approved by the SGX-ST and the SGX-ST 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.

The contact person for the Sponsor is Mr Alex Tan Tiong Huat, Managing Director, Corporate Finance, Canaccord Genuity Singapore Pte. Ltd. at 77 Robinson Road #21-02 Singapore 068896, telephone (65) 6854 6160.