Far East Group Limited
(Company Registration No. 196400096C)
(Incorporated in the Republic of Singapore on 18 March 1964)

ACQUISITION OF THE ENTIRE ISSUED AND PAID-UP ORDINARY SHARES IN M-TECH AIR-CON & SECURITY ENGINEERING PTE LTD

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1. INTRODUCTION

The Board of Directors (the "**Board**" or "**Directors**") of Far East Group Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that the Company has, on 4 March 2019, entered into a sale and purchase agreement (the "**SPA**") with Quek Poh Chuan and Lee Sui Fook (collectively known as the "**Vendors**") for the acquisition by the Company of the entire issued and paid-up ordinary shares in M-Tech Air-Con & Security Engineering Pte Ltd ("**M-Tech**") (the "**Sale Shares**") from the Vendors (the "**Acquisition**").

2. INFORMATION ON M-TECH

2.1 M-Tech is a company incorporated on 24 June 1993 with limited liability under the laws of Singapore and as on the date of this announcement, has an issued and paid-up capital of S$500,000 divided into 500,000 ordinary shares. M-Tech is principally engaged in the business of plumbing, heating (non-electrical) and air-conditioning engineering solutions in the heating, ventilation, air-conditioning and refrigeration industry.

2.2 The Vendors are currently the directors and shareholders of M-Tech. The Vendors are independent and unrelated third parties to the Company, its Directors, or its controlling shareholders.

3. PURCHASE CONSIDERATION

3.1 The purchase consideration for the Sale Shares (the "**Purchase Consideration**") is as follows:

(i) S$7,000,000 in cash, to be satisfied in the following tranches:

(a) S$5,500,000 (less related party loans) to be paid on the date of completion of the Acquisition (the "**Completion**");

(b) S$750,000 (less accounts receivables which have been outstanding for more than 60 days as at 31 December 2018 which have not been collected by the Company as at 31 December 2019) to be paid upon fulfilment of the FY2019 Profit Guarantee (as defined below) (the "**Second Tranche Purchase Consideration**");

(c) S$750,000 (less retention sums for projects which have completed by 31 December 2017 but remains uncollected by the Company as at 31 December 2020) to be paid upon fulfilment of the FY2020 Profit Guarantee (as defined below) (the "**Third Tranche Purchase Consideration**"); and

(ii) 2,982,000 new ordinary shares in the capital of the Company (the "**Consideration Shares**") to be allotted and issued on Completion at an issue price equivalent to the volume weighted average price of the Company's shares (the "**Shares**") on the last market day on which Shares are traded on Catalist immediately prior to the date of Completion.

3.2 The Company will be making an application, through its sponsor, to the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for dealing in, listing of, and quotation for, 2,982,000 Consideration Shares on Catalist. An announcement will be made by the Company to notify shareholders of the receipt of the listing and quotation notice in due course.

3.3 The Consideration Shares will be issued pursuant to the general mandate obtained at the annual general meeting of the Company held on 27 April 2018 (the "**2018 AGM**") which authorised the Directors to, *inter alia*, issue new Shares not exceeding 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings) as at the date of the 2018 AGM, in the case where new Shares are issued other than on a *pro rata* basis to existing shareholders (the "**Share Issue Mandate**").

As at the date of the 2018 AGM, the Company had 108,480,000 Shares (excluding treasury shares and subsidiary holdings) and as such, the total number of new Shares that may be issued pursuant to the Share Issue Mandate on a non-*pro rata* basis is 54,240,000 Shares. The Company had not issued any new Shares subsequent to the 2018 AGM. Accordingly, the proposed issue of 2,982,000 Consideration Shares will fall within the limit of the Share Issue Mandate.

3.4 Assuming the successful allotment and issue of the Consideration Shares, the total number of issued Shares will increase from 108,480,000 Shares to 111,462,000 Shares. The Consideration Shares represents 2.75% of the existing total number of issued Shares as at the date of this announcement and approximately 2.68% of the enlarged total number of issued Shares following the allotment and issue of the Consideration Shares.

3.5 The Consideration Shares will be issued free from all claims and encumbrances and rank in all respects *pari passu* with the then existing issued Shares at the time of the issue except that the Consideration Shares will not rank for any dividends, rights, allotments or other distributions the record date for which falls on or before the date of the issue of the Consideration Shares.

3.6 The Purchase Consideration was arrived on a "willing buyer-willing seller basis", after taking into account, *inter alia*, the future profitability of M-Tech in light of the profit guarantee referred to in paragraph 5.2 below, and the historical profitability and future business potential of M-Tech.

4. VALUE OF THE SALE SHARES

4.1 Based on the audited financial statements of M-Tech for the last completed financial year ended 30 June 2018, the book value of the Sale Shares as at 30 June 2018, the net tangible asset ("**NTA**") value of the Sale Shares as at 30 June 2018 and the net profit attributable to the Sale Shares for the financial year ended 30 June 2018 were approximately S$4,702,000, S$4,702,000 and S$734,000 respectively.

4.2 No valuation was commissioned by the Company in respect of the Sale Shares.

5. MATERIAL CONDITIONS OF THE ACQUISITION

5.1 <u>Conditions Precedent</u>

Completion of the Acquisition is expected to take place on the date falling 3 business days after the fulfillment and/or waiver of the conditions precedent (or on such other date as the parties may agree in writing) (the “**Completion Date**”), and is conditional upon the fulfillment or waiver of, *inter alia*, the following conditions precedent:

(i) there has been no material adverse change, or events, acts or omissions which will lead to such a material adverse change, in the corporate structure, management team, principal activities, operations, assets, business, profits, performance or financial position of M-Tech occurring on or before the Completion Date;

(ii) all consents, approvals and authorisations of bankers, financial institutions, relevant third parties, government or regulatory authorities required to be obtained by M-Tech and/or the Vendors in connection with the transfer of the Sale Shares from the Vendors to the Company and the Company having obtained legal and beneficial title to the Sale Shares (including without limitation, waivers of pre-emption rights by the existing shareholders of M-Tech and consents from existing bankers) being obtained by M-Tech and/or the Vendors, and if subject to conditions, on such conditions reasonably acceptable to the Company, prior to the Completion Date, and such consents and approvals remaining in full force and effect and not being revoked as at Completion;

(iii) the approval of the shareholders of the Company in an extraordinary general meeting (if required), and the approval and consents of any regulatory authorities (where necessary), in relation to the following:

(a) the acquisition of the Sale Shares by the Company on the terms and conditions set out in the SPA;

(b) the allotment and issuance of the Consideration Shares to the Vendors; and

(c) such other corporate action(s) in connection with the transactions contemplated by the SPA;

(iv) the listing and quotation notice being received from the SGX-ST for the listing of and quotation for the Consideration Shares, such approval not being revoked, rescinded or cancelled prior to Completion and, where such listing and quotation notice is obtained subject to any conditions, such conditions being acceptable to the Company;

(v) the Vendors or the Company not having received notice of any injunction or other order, directive or notice restraining or prohibiting the consummation of the transactions contemplated by the SPA, and there being no action seeking to restrain or prohibit the consummation thereof, or seeking damages in connection therewith, which is pending or any such injunction, other order or action which is threatened;

(vi) all representations, warranties and undertakings of the Vendors and the Company under the SPA being complied with, and being true, accurate and correct in all respects as at the Completion Date, as if repeated at Completion and at all times between the date hereof and Completion;

(vii) no material contract, lease, licence or other similar commercial arrangement of M-Tech would be terminated or adversely affected as a result of a change in the legal and beneficial title to the Sale Shares;

(viii) each of the Vendors having entered into a service agreement with M-Tech for a period of two (2) years commencing from the Completion Date on such terms and conditions acceptable to the Company (the “**Service Agreements**”);

(ix) where a supplemental disclosure letter is issued, such supplemental disclosure letter being acceptable to the Company in its sole and absolute discretion; and

(x) written consents from Standard Chartered Bank, DBS Bank Ltd. and United Overseas Bank Limited (in such form reasonably acceptable to the Company) for:

(a) the change in the legal and beneficial ownership of the shares in M-Tech and management control of M-Tech; and

(b) creation of security interests over the Company's assets in favour of United Overseas Bank Limited.

If any of the conditions precedent set out in paragraph 5.1 above is not fulfilled and not waived within three (3) months from the date of the SPA (or such later date as the parties may mutually agree in writing), the SPA shall *ipso facto* cease and determine with immediate effect.

5.2 Profit Guarantee

The Vendors jointly and severally guarantee that:

(i) M-Tech shall achieve a net profit after taxes ("**NPAT**") of at least S$750,000 for the financial year commencing on 1 January 2019 and ending 31 December 2019 ("**FY2019**"), which shall be determined based on the audited financial statements prepared by an auditor appointed by M-Tech (the "**FY2019 Profit Guarantee**"); and

(ii) M-Tech shall achieve a NPAT of at least S$750,000 for the financial year commencing on 1 January 2020 and ending 31 December 2020 ("**FY2020**"), which shall be determined based on the audited financial statements prepared by an auditor appointed by M-Tech (the "**FY2020 Profit Guarantee**").

In the event that M-Tech fails to achieve the FY2019 Profit Guarantee and/or the FY2020 Profit Guarantee (as the case may be) for FY2019 and/or FY2020 respectively:

(i) (where the NPAT is a positive figure) the Second Tranche Purchase Consideration and/or the Third Tranche Purchase Consideration payable by the Company to the Vendors (where applicable) shall be adjusted in accordance with the formula set out below:

$$A = B - (50\% \times C)$$

Where:

"**A**" means the adjusted Second Tranche Purchase Consideration and/or the Third Tranche Purchase Consideration (where applicable). If A for FY2019 and/or FY2020 is a negative value, the Company shall not be required to pay the Second Tranche Purchase Consideration and/or the Third Tranche Purchase Consideration (as the case may be) to the Vendors;

"**B**" means the NPAT of M-Tech for FY2019 and/or FY2020 (where applicable); and

"**C**" means an amount equivalent to the difference between S$750,000 and the NPAT achieved by M-Tech for FY2019 and/or FY2020 (where applicable).

(ii) where the NPAT is zero or a negative figure:

(a) the Vendors shall not be entitled to the Second Tranche Purchase Consideration and/or the Third Tranche Purchase Consideration (as the case may be) and the Company shall not be required to make payment of the Second Tranche Purchase Consideration and/or the Third Tranche Purchase Consideration (as the case may be) to the Vendors; and

(b) the Vendors jointly and severally agree and undertake to compensate the Company by paying a cash sum as compensation for the non-fulfilment of the FY2019 Profit Guarantee and/or the FY2020 Profit Guarantee (where applicable) (the "**Compensation Sum**") calculated in accordance with the formula set out below:

Compensation Sum (for each of FY2019 and/or FY2020, where applicable)	=	S$375,000

For the avoidance of doubt, where the NPAT of M-Tech for both FY2019 and FY2020 is zero or a negative figure, the Vendors are required to pay a total sum of S$750,000 (as the Compensation Sum) to the Company.

(c) The Vendors shall pay to the Company the Compensation Sum by way of cheque within three (3) weeks of the date of issuance of the audited financial statements of M-Tech for FY2019 and/or FY2020 (where applicable).

For the purposes of calculating the NPAT for FY2019 and FY2020, any amounts paid by the Vendors to M-Tech in respect of or in connection with any warranty or indemnity relating to the collection of receivables shall be deemed to be and treated as if the relevant receivable had been collected by M-Tech.

Having reviewed, *inter alia*, the terms and rationale of the Acquisition and the financial effects thereof, the Board accepts the profit guarantee after due and careful enquiry and is of the view that the profit guarantee is reasonable, appropriate and is in the interest of the Company. Other factors taken into consideration and basis for such view are the historical revenue generated by M-Tech and its recurrent contracts with key customers.

The quantum of the profit guarantee was derived based on reasonable assumptions from past financial results and the track record of M-Tech, current year's performance of M-Tech and anticipated sizeable future projects.

In the event the profit guarantee is not met while the NPAT is positive, the Vendors shall only be entitled to adjusted Second Tranche Purchase Consideration and/or the Third Tranche Purchase Consideration as described above. However, if the NPAT is zero or negative, the Vendors shall compensate the Company by paying the Compensation Sum.

5.3 Forfeiture of remaining Purchase Consideration

If at any time prior to the end of FY2020, any Vendor: (i) voluntarily resigns from the Company (whether as director or employee); or (ii) commits any fraud or is in gross default of any term in the relevant Service Agreement, the Vendors acknowledge, agree and undertake that the remaining Purchase Consideration payable to the Vendors shall be forfeited.

If at any time prior to the end of FY2020, any Vendor is unable to perform any of his duties under the relevant Service Agreement for a continuous period of three (3) months due to death or ill-health, the Company and the Vendors agree to discuss in good faith on the forfeiture of the remaining Purchase Consideration payable to the Vendors and payment of the Compensation Sum by the Vendors to the Company.

5.4 Net Tangible Assets as at 31 December 2018

Subject to Completion taking place, if the net tangible assets of the Company as at 31 December 2018 ("**31 Dec NTA**"), as determined from the audited accounts for the financial half-year of M-Tech commencing on 1 July 2018 and ending on 31 December 2018 shall be more or less than S$4,701,956 (the "**NTA Amount**"), then the following shall apply:

(a) if the 31 Dec NTA is more than the NTA Amount, the Company shall pay to the Vendors an amount equal to the difference between the 31 Dec NTA and the NTA Amount; and

(b) if the 31 Dec NTA is less than the NTA Amount, the Vendors shall pay to the Company an amount equal to the difference between the NTA Amount and the 31 Dec NTA.

5.5 <u>Acceleration of payment of balance Purchase Consideration</u>

If:

(a) at any time prior to the end of FY2020, the Company (i) ceases to own (directly or indirectly) or control (whether directly or indirectly) at least 50% of either the voting or economic interests in M-Tech, whether in a single transaction or a series of related transactions; or (ii) having nominated a subsidiary to hold the Sale Shares, ceases to own (directly or indirectly) or control (whether directly or indirectly) at least 50% of either the voting or economic interests of such subsidiary; or

(b) any Service Agreement is terminated by the Company other than for cause before the end of FY2020,

then any remaining Purchase Consideration (being the Second Tranche Purchase Consideration and/or the Third Tranche Purchase Consideration) which has not been paid by the Company shall become due and payable to the Vendors according to their respective shareholding proportions.

5.6 <u>Service Agreements</u>

Under the terms of the Service Agreements, in the event that M-Tech's NPAT exceeds S$1,000,000 for any full financial year ("**Excess Profits**") during the period of two (2) years from the date of the respective Service Agreements, the Vendors (as executives of M-Tech) are entitled to an aggregate profit-sharing bonus being an amount equivalent to 40% of the Excess Profits, calculated in accordance with the formula set out below:

Excess Profits	=	NPAT of M-Tech for the relevant financial year	–	S$1,000,000

6. RATIONALE FOR THE ACQUISITION

The rationale for and benefits of the Acquisition are, *inter alia*, as follows:

(i) ***Investment in complementary business***: As M-Tech's core revenue stream is in the air-conditioning contracting business within the residential and commercial segments of the heating, ventilation, air-conditioning and refrigeration ("**HVACR**") industry in Singapore, the Acquisition enables the Group to expand the contribution from the residential and commercial (air-conditioning) segment via a well-regarded company with long-standing track record and existing customer base. The Group sees potential in the commercial segment;

(ii) ***Derive a more sustainable income stream***: The air-conditioning industry is multiple times larger than the refrigeration industry. The Acquisition would allow the Group to expand its residential and commercial (air-conditioning) segment and to offer value-added services in the areas of energy-efficiency enhancement and Building Management Services. The Acquisition of M-Tech would also allow the Group to move up the value chain with its Mechanical & Engineering (M&E) capabilities;

(iii) ***Excellent track record***: M-Tech has an excellent track record and strong, long-standing ties with multiple construction firms and corporations in Singapore and had been awarded "SME 1000 Companies Ranked By Sales/ Turnover" on several occasions. Recurring projects from business partners and clients are largely due to its reputation of consistency in quality workmanship and on-time delivery track record;

(iv) ***Synergy***: In the provision and installation of refrigeration equipment and air-conditioning systems, M-Tech requires the supply of peripheral accessories, materials and parts used in their business. The Group will be able to provide these, which would manage downstream costs for M-Tech, as well as generate an additional revenue stream for the Group.

(v) ***Strong management team***: The founders and core team of M-Tech (being Lee Sui Fook and Quek Poh Chuan) have more than 20 years of experience in the HVACR industry in Singapore. Lee Sui Fook has experience in the sheet metal ducting business, and Quek Poh Chuan is an engineer in the HVACR business;

Given the foregoing, the Board believes that the Acquisition will enhance shareholder value for the Company.

7. SOURCE OF FUNDS FOR THE ACQUISITION

The Purchase Consideration payable by the Company in cash will be funded through internal resources of the Group and/or bank borrowings. Part of the Purchase Consideration will be satisfied by way of issuing Consideration Shares to the Vendors.

8. FINANCIAL EFFECTS OF THE ACQUISITION

The *pro forma* financial effects of the Acquisition set out below, based on the Group's unaudited consolidated financial statements for the financial year ended 31 December 2018 ("**FY2018**") and M-Tech's audited financial statements for the financial year ended 30 June 2018, are purely for illustrative purposes only and do not reflect the future actual financial position and performance of the Company or the Group after Completion. The financial effects as shown below are prepared on the assumption that the estimated expenses in connection with the Acquisition amounted to S$100,000.

8.1 NTA

The effects of the Acquisition on the consolidated NTA per Share of the Group for FY2018, assuming that the Acquisition had been completed on 31 December 2018 would be as follows:

	Before the Acquisition	**After the Acquisition**
NTA(1) (S$'000)	53,834	51,617
Number of issued Shares (excluding treasury shares and subsidiary holdings) ('000)	108,480	111,462
NTA per Share (cents)	49.63	46.31

Note:

(1) NTA refers to total assets less the sum of total liabilities, non-controlling interest and intangible assets.

8.2 Earnings per Share

The effects of the Acquisition on the consolidated earnings per Share of the Group for FY2018, assuming that the Acquisition had been completed on 1 January 2018 would be as follows:

	Before the Acquisition	**After the Acquisition**
Profit attributable to owners of the Company(1) (S$'000)	25,802	26,436
Weighted average number of issued Shares (excluding treasury shares and subsidiary holdings) ('000)	108,480	111,462
Earnings per Share (cents)	23.79	23.72

Note:

(1) Profit attributable to owners of the Company refers to the profit before income tax and extraordinary items, and after deducting non-controlling interests.

9. RELATIVE FIGURES COMPUTED BASED ON RULE 1006 OF THE CATALIST RULES

The relative figures for the Acquisition computed on the bases set out in Rule 1006 of the Listing Manual Section B: Rules of Catalist of the SGX-ST (the "**Catalist Rules**") based on the Group's latest announced unaudited consolidated financial statements for the financial year ended 31 December 2018 ("**FY2018**") are as follows:

Rule	Bases	Relative Figures
1006(a)	Net asset value of the assets to be disposed of, compared with the Group's net asset value	Not applicable [(1)]
1006(b)	Net profits attributable to the assets acquired, compared with the Group's net profits	2.84% [(2)]
1006(c)	Aggregate value of the Purchase Consideration given, compared with the Company's market capitalisation	50.55% [(3)]
1006(d)	Number of Consideration Shares issued by the Company as Purchase Consideration for the Acquisition, compared with the number of Shares previously in issue (excluding treasury shares)	2.75% [(4)]
1006(e)	Aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves	Not applicable [(5)]

Notes:

(1) Rule 1006(a) of the Catalist Rules is not applicable as this is not a disposal.

(2) Based on M-Tech's audited profit before tax of approximately S$0.7 million for the financial year ended 30 June 2018 and the Group's unaudited profit before tax of S$25.7 million for FY2018.

(3) Based on the sum of approximately S$7,402,570 (being the market value of the Consideration Shares of S$402,570 plus the cash consideration of S$7,000,000) and the Company's market capitalisation of approximately S$14,644,800 on 1 March 2019 (being the last market day on which the Shares were traded preceding the date of the SPA), computed based on the Company's volume weighted average price of S$0.135 per Share and the Company's total number of issued Shares of 108,480,000 Shares.

(4) Based on 2,982,000 Consideration Shares and the Company's total number of issued Shares (excluding treasury shares and subsidiary holdings) of 108,480,000 Shares.

(5) Rule 1006(e) of the Catalist Rules is not applicable as this is not a disposal of mineral, oil or gas assets.

As the relative figures computed on the bases set out in Rule 1006(b), (c) and (d) of the Catalist Rules exceed 5% but do not exceed 75%, the Acquisition is considered a "discloseable transaction" under Rule 1010 of the Catalist Rules. Accordingly, the Acquisition is not subject to the approval of the Company's shareholders at a general meeting.

10. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company in connection with the Acquisition. Accordingly, no service contract is proposed to be entered into between the Company and any such person.

11. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors or controlling shareholders of the Company and their respective associates has any interest, direct or indirect, in the Acquisition, other than through their respective shareholdings (if any) in the Company.

12. DOCUMENT FOR INSPECTION

A copy of the SPA is available for inspection during normal office hours at the Company's registered office at 51 Ubi Avenue 3, Singapore 408858 for three (3) months from the date of this announcement.

13. CAUTION IN TRADING

Shareholders and potential investors are advised to exercise caution in trading their shares in the Company as the Acquisition is subject to conditions precedent and there is no certainty or assurance as at the date of this announcement that the Acquisition will be completed. In the event that shareholders and potential investors are in doubt when dealing in the shares of the Company, they should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

14. FURTHER ANNOUNCEMENTS

Further announcement(s) will be made as appropriate when there are material developments to the Acquisition.

By Order of the Board

Loh Mun Yew
Chief Executive Officer and Executive Director
4 March 2019

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*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor ("**Sponsor**"), SAC Capital Private Limited, for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("**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.

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