



Far East Group Limited

(Company Registration No.:196400096C)
(Incorporated in the Republic of Singapore on 18 March 1964)

PROPOSED DIVERSIFICATION OF BUSINESS AND ENTRY INTO SUBSCRIPTION AND SHAREHOLDERS AGREEMENT IN RESPECT OF COMFRESH GROUP HOLDINGS PTY LTD

1. Introduction

- 1.1 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 23 July 2021 entered into a subscription and shareholders agreement (“**SSHA**”) with Comfresh Group Holdings Pty Ltd (“**Comfresh**”, and together with its subsidiaries, the “**Comfresh Group**”), TDL Investment Holdings Pty Ltd (“**TDL**”) and D.S.A. Processing as trustee of the Michael Vorrasi Family Trust (“**Vorrasi**”). The SSHA is for the issue and allotment of 200 new ordinary shares (representing 20% of the total enlarged number of ordinary shares) in the capital of Comfresh (the “**Subscription Shares**”) to the Company (the “**Proposed Subscription**”).
- 1.2 Upon completion of the Proposed Subscription, Comfresh will become an associated company of the Company.
- 1.3 In connection with the Proposed Subscription, the Board wishes to announce that subject to the approval of the shareholders of the Company (the “**Shareholders**”), the Company intends to diversify its business and expand its core business to include the business of farming, storage and distribution of fresh produce (the “**Proposed Diversification**”).
- 1.4 The Company intends to convene an extraordinary general meeting (“**EGM**”) to seek approval of the Shareholders for the Proposed Subscription and Proposed Diversification.

2. Proposed Diversification

2.1 Background

In its continued search for opportunities, the Group has considered opportunities in the storage and distribution of fresh produce, including farming of vegetables and salad greens to diversify its business and broaden its stream of income and revenue. In this regard, the Group intends to diversify its core business being that of a provider of refrigeration and air-conditioning systems and products for the heating, ventilation, air-conditioning and refrigeration (“**HVAC&R**”) industries to include the business of distribution and farming of fresh produce (“**Fresh Produce Business**”). The Company will be carrying out the Fresh Produce Business through Comfresh.

The Group intends to foray into the agricultural segment and provide consultancy on HVAC&R solutions for operating the farm in a controlled environment, maximise efficiencies in cold storage, processing and distribution of fresh produce. The Group intends to initially focus on the production of vegetables and salad greens in hydroponic farms in Australia farmed under controlled conditions, and to sell its products to retailers in Australia.

The Group does not plan to restrict the Proposed Diversification to any specific geographical market as each project and investment will be evaluated and assessed by the Board on its merits.

2.2 Rationale

The Group believes that the Proposed Diversification should contribute positively to the Company and Shareholders as it will provide the following benefits to the Group:

(i) **Additional sustainable and growing revenue streams and complementary to existing business**

The Proposed Diversification is expected to provide additional, recurrent and sustainable revenue streams for the Group while complementing its existing businesses. The supply of fresh produce is a very sustainable business where consumers increasingly demand good quality and fresh produce. It is thus also a scalable business with the correct expertise applied to its production, storage and distribution.

There exists a beneficial collaboration amongst the Group's existing refrigeration and air-conditioning business and the proposed Fresh Produce Business as the Group's expertise in solutions in cooling and refrigeration have natural synergy with the technological expertise necessary in the storage and processing of the fresh produce to ensure proper air circulation and humidity controls. In addition, the refrigeration equipment required in such storage locations is already supplied by the Group through a distributor in Australia.

With the expansion plans of Comfresh, the Group believes that its Proposed Diversification into the Fresh Produce Business is in fact a natural expansion of the Group's refrigeration and air-conditioning business, in view of the Group's experience in managing sophisticated controls for energy efficient heating, cooling and air-handling.

In this regard, the Group can leverage on its current network, experience, and knowledge in the operations of refrigeration and air-conditioning to identify and seek suitable opportunities in the high-tech farming industry. Therefore, the Group believes that it will benefit particularly in terms of economies of scale and having a proven setup to showcase its proficiencies leverage on its existing cold storage and refrigeration operations to take advantage of business opportunities in the Fresh Produce Business.

(ii) **More diversified income base, reducing reliance on and business risks of existing business especially as experienced during the period of COVID-19**

The Proposed Diversification may provide the Group with a more diversified business and sustainable income base for future growth and reduce the Group's reliance on its current core business for its revenue streams. Comfresh, being a well establish leader in the industry for growing and distribution of fresh produce, has a proven track record and also a strong management team that brought the company to new heights despite the challenges brought about by the COVID-19 pandemic.

Leveraging Comfresh's success, the Proposed Diversification may provide the Group with a sustainable and diversified business model that reduces the Group's business risks relating to the HVAC&R industry.

(iii) **Enhance shareholder value**

The Proposed Diversification is part of the corporate strategy of the Group to provide Shareholders with diversified returns and long-term growth. It may provide the Group with additional funds, which can be channelled towards the enhancement of shareholder value over the long-term. Additionally, as mentioned above, the Group believes that the Proposed Diversification can offer new business opportunities such as food distribution and provide it with new revenue streams and improve its prospects, so as to enhance shareholder value in the Company.

3. Proposed Subscription

3.1 Information on Comfresh

Comfresh is a private company limited by shares incorporated in Australia and registered on 16 July 2020 and has an issued and paid-up share capital of 800 ordinary shares, of which 600 ordinary shares are held by TDL and 200 ordinary shares are held by Vorrasi, as at the date of the SSHA.

It is principally engaged in the business of growing, wholesaling and distribution of fresh produce such as fruits and vegetables in Australia. Comfresh consists of two established growers and distributors of fresh produce and salad greens with more than 20 years of combined experience between them. It is also one of the top suppliers of cucumbers throughout the whole of Australia distributing to the key supermarket chains in Australia. Comfresh employs hydroponics as a farming technique for their herbs and salad greens. The Subscription Price (as defined below) will be used to set up a high-tech green house with controlled environment for their farming which is then not subject to fluctuating and unpredictable weather conditions to increase their yields and profitability.

As at the date of this announcement, Comfresh holds 100% of the total number of shares in Comfresh Assets Pty Ltd, Comfresh Pty Ltd, Standvastig Pty Ltd, and D.S.A. Fresh Pty Ltd. Comfresh also has two 50%-owned associated companies, namely Dvise Solutions Pty Ltd and 321 Tozer Road Pty Ltd. The remaining shareholders of the aforesaid associated companies are unrelated to Comfresh or its key management personnel.

3.2 Consideration

The aggregate subscription price of the Subscription Shares is AUD\$7,300,000 (the "**Subscription Price**"), to be satisfied in the following tranches:

- (a) AUD\$3,000,000 paid as a deposit as part payment of the Subscription Price upon signing the SSHA (the "**Deposit**"); and
- (b) AUD\$4,300,000, being the balance Subscription Price, to be paid by the Company to Comfresh on the closing of the Proposed Subscription, being 27 September 2021, or such other date as mutually agreed by the parties ("**Closing**").

The Subscription Price was arrived at after arm's length negotiations and on a willing buyer and willing seller basis between the Company and Comfresh after taking into account, *inter alia*, the net tangible assets of the Comfresh Group of approximately AUD\$11,037,000 as at 28 February 2021 and the book value of the Comfresh Group of AUD\$13,022,000 as at 28 February 2021, as estimated from the management accounts of the Comfresh Group, the preliminary indicative valuation of the Comfresh Group as at 28 February 2021 (between AUD\$30.5 million and AUD\$37.2 million) as well as the growth potential and future plans of the Comfresh Group.

No valuation based on international valuation standard was commissioned by the Company in respect of the Subscription Shares. However, the Company has assessed the preliminary indicative valuation of the Comfresh Group as estimated from enterprise value

and equity value using future maintainable earnings and earnings multiple, with the assistance of a reputable international accounting firm which is also commissioned by the Company to perform the financial due diligence on the Comfresh Group.

The Subscription Price will be funded by the Group through internal resources and will be satisfied in cash by the Company.

3.3 Share Capital at Closing

At Closing, the issued ordinary share capital of Comfresh shall comprise such number of ordinary shares held by TDL, Vorrasi and the Company as set out below:

Shareholder	Ordinary Shares held	Percentage of Ordinary Shares held
TDL	600	60%
Vorrasi	200	20%
The Company	200	20%

3.4 Salient Terms

The salient terms of the SSHA are set out below:

- (a) **(Appointment of Directors)** the Company shall have the right to nominate one director to Comfresh's board. Comfresh's board shall be comprised of not more than 3 directors at any time, of which 1 shall be appointed by the Company, 1 shall be appointed by TDL and 1 shall be appointed by Vorrasi;
- (b) **(Pre-emptive Rights on New Issues)** each new issue of shares by Comfresh must be first offered to the existing shareholders on a pro-rata basis according to the proportion of their respective shareholding in Comfresh;
- (c) **(Restriction on Transfers)** the shareholders of Comfresh shall not, sell or transfer, or otherwise dispose any of his or its shares, and the Company shall not effect a transfer of any of such shares, unless such transferee executes a deed agreeing to be bound by the SSHA;
- (d) **(Pre-emptive Rights on Transfers)** if any shareholder of Comfresh proposes to sell or transfer any of its or his shares in the Company to a third party, the selling shareholder shall first offer those shares by notice in writing to the remaining shareholders on a pro-rata basis according to the proportion of their respective shareholding in Comfresh;
- (e) **(Drag-Along Rights)** if the majority shareholders of Comfresh at the relevant time desire to transfer all of their shares to a third party, such major shareholders are entitled to require all other shareholders to transfer all of their shares to such third party; and
- (f) **(Restraint)** the shareholders of Comfresh shall not engage in a business or activity that is similar to the Fresh Produce Business or competes with the Fresh Produce Business, save that the Company shall not be restricted from providing refrigeration or other equipment in the ordinary course of business; and
- (g) **(Dividend)** at least 30% of the after-tax profits shall be paid as dividends but the shareholders may waive this requirement if the directors justify any exceptions with regard to current and future cash flow, liquidity and further investment.

3.5 Conditions Precedent

The SSHA is conditional upon, *inter alia*, the following conditions precedent having been fulfilled and/or waived:

- (a) the Company being satisfied in its absolute discretion with the results of the due diligence investigation (whether legal, financial, contractual, tax or otherwise) carried out by a professional service firm engaged by the Company in respect of Comfresh, including but not limited to the affairs, business, assets, liabilities, operations, records, financial position, financial performance, tax liabilities, accounts, results and prospects of Comfresh;
- (b) the approval of the Shareholders in an EGM being obtained for the Proposed Diversification and Proposed Subscription, and such other corporate action(s) in connection with the transactions contemplated by the SSHA;
- (c) there being no material adverse change, or events, acts or omissions likely to lead to such a change in the corporate structure, management team, principal activities, prospects, operations, assets, business, profits, performance, financial position or results of operations of Comfresh occurring on or before Closing; and
- (d) Comfresh maintaining a minimum unaudited net asset value of AUD\$13,000,000 as at Closing.

3.6 Deposit

As the Deposit represents part payment of Subscription Price, if:

- (a) any of the conditions precedent is not fulfilled by Comfresh or not waived by the Company, as the case may be;
- (b) any of the pre-completion undertakings as set out in the SSHA has not been carried out or complied with; or
- (c) Closing does not take place by 27 September 2021, or such other date as mutually agreed by parties ,

the Company is entitled to demand that Comfresh refund the Deposit fully in cash, free from all deductions and set-off. Vorrasi and TDL have jointly and severally agreed to fully indemnify the Company against any losses reasonably incurred by the Company as a result of any breach or default by Comfresh of its obligations to refund the Deposit.

3.7 Rationale

In line with the Group's aims to focus on broadening its stream of income and revenue, the Proposed Subscription will allow the Group to expand its core business to include the Fresh Produce Business currently carried out by Comfresh which will provide additional, recurrent and sustainable revenue streams and may reduce the Group's reliance on its core business. As such, the Company is of the view that the Proposed Subscription will enhance shareholder value for the Company.

3.8 Relative Figures Computed Based on Catalist Rule 1006

Based on the Company's latest announced audited financial statements of the Group for the financial year ended 31 December 2020 ("FY2020"), the relative figures computed on the bases set out in Catalist Rule 1006 in respect of the Proposed Subscription are set out below.

Catalist Rule 1006		Relative Figures
Rule 1006 (a)	The net asset value of the assets to be disposed of, compared with the Group's net asset value	Not applicable ⁽¹⁾

Catalist Rule 1006		Relative Figures
Rule 1006 (b)	The net profits ⁽²⁾ attributable to the assets acquired or disposed of, compared with the Group's net profits	14% ⁽³⁾
Rule 1006 (c)	The aggregate value of the consideration given or received, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares	69% ⁽⁴⁾
Rule 1006 (d)	The number of equity securities issued by the Company as consideration for the Proposed Subscription, compared with the number of equity securities previously in issue	Not applicable ⁽⁵⁾
Rule 1006 (e)	The 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 ⁽⁶⁾

Notes:

- (1) Not applicable as this is not a disposal.
- (2) Under Catalist Rule 1002(3), "net profits" means profit or loss including discontinued operations that have not been disposed and before income tax and non-controlling interests.
- (3) Based on the *pro forma* unaudited profit before tax attributable to the Subscription Shares of AUD\$1,040,800 (being 20% of the *pro forma* unaudited profit before tax of the Comfresh Group of AUD\$5,204,000) or equivalent to approximately S\$967,000 for the latest financial year ended 30 June 2020 and the Group's audited loss before tax of S\$6,944,000 for FY2020.
- (4) Based on the Subscription Price of AUD\$7,300,000 (or equivalent to approximately S\$7,439,000) and the Company's market capitalisation of approximately S\$10,811,814 on 14 July 2021 (being the last market day on which the Company's shares were traded preceding the date of the SSHA), computed based on the Company's volume weighted average price of S\$0.097 per Share and the Company's total number of issued shares of 111,462,000 shares.
- (5) Not applicable as the Subscription Price will be fully satisfied in cash.
- (6) Not applicable as this is not a disposal of mineral, oil or gas assets.

Pursuant to paragraph 4.4(b) of Practice Note 10A of the Catalist Rules, as the absolute relative figures computed on the bases set out in Catalist Rule 1006(c) exceeds 5% but does not exceed 75%, and the net profits attributable to the Subscription Shares exceeds 5% of the consolidated net loss of the Group, the Proposed Subscription constitutes a "disclosable transaction" pursuant to Chapter 10 of the Catalist Rules.

Notwithstanding the above, the Company will be seeking Shareholders' approval for the Proposed Subscription given that this is the Group's first foray into a new business sector.

3.9 Financial Effects

The financial effects of the Proposed Subscription set out below are strictly for illustrative purposes only and do not reflect the future financial position of the Company or the Group after the completion of the Proposed Subscription.

The financial effects of the Proposed Subscription were calculated based on the Group's audited consolidated financial statements for FY2020 and the *pro forma* unaudited financial statements of the Comfresh Group for the financial year ended 30 June 2020. The financial effects as shown below are prepared on the assumption that the expenses in connection with the Proposed Subscription have been disregarded.

3.10 Net Tangible Assets per share

The effects of the Proposed Subscription on the consolidated Net Tangible Assets ("NTA") per share of the Group as at 31 December 2020, assuming that the Proposed Subscription had been completed on 31 December 2020 would be as follows:

	Before the Proposed Subscription	After the Proposed Subscription
NTA ⁽¹⁾ (S\$'000)	42,965	42,965
Number of issued shares (excluding treasury shares and subsidiary holdings) ('000)	111,462	111,462
NTA per share (cents)	38.55	38.55

Note:

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

3.11 Loss per share

The effects of the Proposed Subscription on the consolidated loss per share of the Group for FY2020, assuming that the Proposed Subscription had been completed on 1 January 2020 would be as follows:

	Before the Proposed Subscription	After the Proposed Subscription
Loss attributable to owners of the Company ⁽¹⁾ (S\$'000)	(7,179)	(6,502)
Weighted average number of issued shares (excluding treasury shares and subsidiary holdings) ('000)	111,462	111,462
Loss per share (cents)	(6.44)	(5.83)

Note:

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

4. Directors' Service Contracts

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

5. 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 Proposed Subscription, other than through their respective shareholdings (if any) in the Company.

6. Directors' Responsibility Statement

The Directors 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 Diversification and the Proposed Subscription, 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.

7. Document for Inspection

A copy of the SSHA 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.

Due to the mandatory safe distancing measures issued by the Singapore Ministry of Health in relation to the COVID-19 outbreak, please contact the Company at +65 6293 9733 prior to making any visits to arrange for a suitable time slot for the inspection.

8. Circular and Extraordinary General Meeting

The Company will be convening an extraordinary general meeting to seek Shareholders' approval for the Proposed Diversification and the Proposed Subscription, notice of which will be announced in due course. A circular containing, *inter alia*, further information on the Proposed Diversification and the Proposed Subscription will be made available to Shareholders via publication on the Company's website and via the SGXNet, in accordance with the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020, in due course.

By Order of the Board

Loh Mun Yew
Chief Executive Officer and Executive Director
23 July 2021

This announcement has been reviewed by the Company's sponsor, SAC Capital Private Limited (the "Sponsor"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (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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