



ACQUISITION OF REMAINING 30% INTEREST IN COMMERCIAL PROPERTY KNOWN AS 20 MIDTOWN AND DISPOSAL OF 50% INTEREST IN COMMERCIAL PROPERTY KNOWN AS HERBAL HILL

1. Introduction

1.1 The Board of Directors of Hwa Hong Corporation Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that:

- (a) its wholly-owned subsidiary, Vantagepro Investment Limited (“**VPL**”), has on 23 April 2018 acquired the remaining 30% interest in the freehold commercial property known as 20 Midtown (formerly known as Eagle House), located at 2 to 32 (Even) Procter Street, Holborn, London WC1 6NX, United Kingdom (the “**20 Midtown Property**”) from Eagle House LLC (“**Eagle House**”), Langland Estates Limited (“**Langland**”) and other unrelated parties (collectively, the “**20 Midtown Sellers**”) (the “**20 Midtown Property Acquisition**”); and
- (b) its wholly-owned subsidiary, Singapore Warehouse Company (Private) Ltd. (“**SWC**”), has on 23 April 2018 disposed of its 50% interest in the freehold commercial property known as Herbal Hill, located at 3 to 7 Herbal Hill, Clerkenwell, London EC1R 5EJ, United Kingdom (the “**Herbal Hill Property**”) to Eagle House (the “**Herbal Hill Disposal**”).

The 20 Midtown Property Acquisition and Herbal Hill Disposal allow the Group to (i) consolidate its interest in its income producing properties in London; (ii) realise gains from its investment in the Herbal Hill Property; and (iii) reinvest the proceeds from the Herbal Hill Property Disposal into a newly refurbished income producing asset.

The Group expects to realise approximately SGD6.6 million in gains in the second quarter ending 30 June 2018 from the transaction. The financial effects are discussed in detail below.

Further details of the 20 Midtown Property Acquisition and the Herbal Hill Disposal are set out below.

2. The 20 Midtown Property Acquisition

2.1 Prior to the date hereof, VPL held (i) 70% of the total and issued paid-up share capital of Capital Eagle Limited (“**CEL**”) and (ii) a 70% share in the equitable estate of the 20 Midtown Property. CEL holds the 20 Midtown Property on trust for VPL (as to 70%), Eagle House (as to 20%), and Langland and the other unrelated parties (as to 10%), pursuant to separate deeds of trust dated 15 December 2014 between CEL as trustee and VPL or each 20 Midtown Seller as beneficiary, respectively.

- 2.2 VPL has on 23 April 2018 entered into:
- (a) deeds of assignment with each of the 20 Midtown Sellers (each as the assignor of their respective beneficial interests) and CEL (as the trustee), pursuant to which (i) the 20 Midtown Sellers have assigned their 30% share in the equitable estate of the 20 Midtown Property to VPL for a total cash consideration of GBP10,425,161 (equivalent to approximately SGD19,084,310¹) (the “**Acquisition Consideration**”), and (ii) CEL has agreed to hold such 30% beneficial interest in the 20 Midtown Property on trust for VPL; and
 - (b) share purchase agreements with each of the 20 Midtown Sellers (each as the seller) for the acquisition by VPL of an aggregate of 300 ordinary shares of GBP0.10 each in the share capital of CEL, representing an aggregate of 30% of the total issued and paid-up share capital of CEL (the “**Remaining CEL Shares**”), for a nominal cash consideration of GBP10.00.
- 2.3 Based on a valuation of the 20 Midtown Property conducted by GVA Grimley Limited on 23 November 2017 and commissioned by CEL (the “**20 Midtown Valuation Report**”), the 20 Midtown Property was valued at GBP33,700,000 (equivalent to approximately SGD61,691,254 as at 23 November 2017). The Acquisition Consideration was arrived at following arm’s length negotiations on a willing-buyer willing-seller basis, taking into account, amongst others, (i) the 20 Midtown Valuation Report, (ii) the current market conditions and (iii) an internal updated valuation exercise as at 12 March 2018.
- 2.4 The consideration for the transfer of the Remaining CEL Shares was arrived at following arm’s length negotiations on a willing-buyer willing-seller basis, taking into account, amongst others, the unaudited net asset value of CEL as at 6 April 2018.
- 2.5 Completion of the 20 Midtown Property Acquisition and the Herbal Hill Disposal have occurred concurrently on 23 April 2018. Accordingly, as at the date of this Announcement, CEL has become a wholly-owned subsidiary of the Company and the Group holds 100% of the beneficial interest in the 20 Midtown Property.
- 2.6 The 20 Midtown Property is a freehold retail and commercial property located in the Holborn area of London within walking distance of Covent Garden, The British Museum and the Royal Courts of Justice. The 20 Midtown Property is served by excellent transport links as it is located approximately 200 metres from Holborn London Underground station and within walking distance of three other London Underground stations, two of which are future Crossrail stations. It has a total floor area of approximately 30,533 square feet and comprises five floors of office accommodation and street level retail shops. The 20 Midtown Property is currently fully leased and based on existing signed leases, is expected to produce an annual gross rental income in excess of GBP1.1 million in the financial year ending 31 December 2018 (“**FY2018**”).

¹ For the purpose of this announcement, all currency exchange rate throughout this announcement is based on the exchange rate of GBP1 to SGD1.830601. Such exchange rate has been presented solely for information only and should not be constructed as representations that the relevant amounts have been or could be converted at the rates indicated or at any other rate.

3. Herbal Hill Disposal

3.1 SWC has on 23 April 2018 entered into:

- (a) a deed of assignment with Eagle House (as the assignee) and Capital Herbal Limited (“**CHL**”) (as the trustee), pursuant to which (i) SWC has assigned its 50% share in the equitable estate of the Herbal Hill Property to Eagle House for a total cash consideration of GBP6,951,760 (equivalent to approximately SGD12,725,899) (the “**Disposal Consideration**”), and (ii) CHL has agreed to hold such 50% beneficial interest in the Herbal Hill Property on trust for Eagle House; and
- (b) a share purchase agreement with Eagle House (as the buyer) for the sale by SWC of 500 ordinary shares of GBP1.00 each in the share capital of CHL representing 50% of the total issued and paid-up share capital of CHL (the “**CHL Sale Shares**”), for a nominal cash consideration of GBP1.00.

3.2 Based on a valuation of the Herbal Hill Property conducted by GVA Grimley Limited on 17 July 2017 and commissioned by CHL (the “**Herbal Hill Valuation Report**”), the Herbal Hill Property was valued at GBP29,250,000 (equivalent to approximately SGD53,545,079) as at 17 July 2017. The Disposal Consideration was arrived at following arm’s length negotiations on a willing-buyer willing-seller basis, taking into account, amongst others, (i) the Herbal Hill Valuation Report, (ii) the current market conditions, (iii) outstanding bank loans and accrued interest amounting to approximately GBP16,038,055 secured against the Herbal Hill Property as at 6 April 2018, (iv) the lease expiration profile of the property’s tenants, and (v) an internal updated valuation exercise as at 12 March 2018.

3.3 The consideration for the transfer of the CHL Sale Shares was arrived at following arm’s length negotiations on a willing-buyer willing-seller basis, taking into account, amongst others, the unaudited net asset value of CHL as at 6 April 2018.

3.4 As stated in paragraph 2.5 above, completion of the 20 Midtown Property Acquisition and the Herbal Hill Disposal have occurred concurrently on 23 April 2018. Accordingly, as at the date of this Announcement, CHL has ceased to become a subsidiary of the Company and the Group has ceased to hold any beneficial interest in the Herbal Hill Property.

4. Rationale for the 20 Midtown Property Acquisition and Herbal Hill Disposal

The 20 Midtown Property Acquisition and Herbal Hill Disposal allow the Group to (i) consolidate its interest in its income producing properties in London; (ii) realise gains from its investment in the Herbal Hill Property; and (iii) reinvest the proceeds from the Herbal Hill Property Disposal into a newly refurbished income producing asset. The Group is of the view that the concurrent acquisition of the 20 Midtown Property and disposal of the Herbal Hill Property is in line with the Group’s strategic objectives of generating recurring income, unlocking value in its property portfolio and capital recycling.

5. Source of Funding

The 20 Midtown Property Acquisition will be funded by the Group's internal cash resources.

6. Financial Effects

6.1 The pro forma financial effects of the 20 Midtown Property Acquisition and the Herbal Hill Disposal as set out below are for illustrative purposes only and do not necessarily reflect the actual results and financial position of the Company following completion thereof.

The pro forma financial effects have been prepared based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2017 ("**FY2017**") and subject to the following assumptions:

- (a) the 20 Midtown Property Acquisition and the Herbal Hill Disposal had been completed on 31 December 2017 for the purposes of illustrating the financial effects on the consolidated net tangible assets ("**NTA**") per share of the Group; and
- (b) the 20 Midtown Property Acquisition and the Herbal Hill Disposal had been completed on 1 January 2017 for the purposes of illustrating the financial effects on the consolidated earnings per share ("**EPS**") of the Group.

6.2 NTA

Assuming that the 20 Midtown Property Acquisition and the Herbal Hill Disposal had been completed on 31 December 2017, the financial effect on the NTA per share for FY2017 would be as follows:

	Before the 20 Midtown Property Acquisition and the Herbal Hill Disposal	After the 20 Midtown Property Acquisition and the Herbal Hill Disposal
Number of shares ('000)	652,958	652,958
NTA (SGD'000)	197,141	204,671
NTA per share (cents)	30.19	31.35

6.3 EPS

Assuming that the 20 Midtown Property Acquisition and the Herbal Hill Disposal had been completed on 1 January 2017, the financial effect on the EPS for FY2017 would be as follows:

	Before the 20 Midtown Property Acquisition and the Herbal Hill Disposal	After the 20 Midtown Property Acquisition and the Herbal Hill Disposal
Consolidated net profit attributable to shareholders (SGD'000)	7,407	9,557
Weighted average number of issued shares (excluding treasury shares)	653,048	653,048
Consolidated EPS (cents)	1.13	1.46

6.4 Gains from the 20 Midtown Property Acquisition and the Herbal Hill Disposal

Based on the net book value of the Herbal Hill Property of approximately GBP926,000 (equivalent to approximately SGD1.7 million) as at 6 April 2018, the gain on the Herbal Hill Disposal is expected to be approximately SGD1.1 million, including realisation of currency translation reserves of SGD1.5 million. The net book value takes into account shareholder loans of GBP10.2 million.

The Group is also expected to realise a provisional gain of approximately GBP3.0 million (equivalent to approximately SGD5.5 million) from the 20 Midtown Property Acquisition as a result of remeasurement of its 70% interest in the 20 Midtown Property held before the business combination to fair value upon completion of the 20 Midtown Property Acquisition pursuant to SFRS(I) 3. This provisional gain is subject to a purchase price allocation exercise to be completed within FY2018.

7. Interest(s) of Directors and Controlling Shareholders

None of the Directors or, so far as the Directors are aware, the controlling shareholders of the Company has any direct or indirect interest in the 20 Midtown Property Acquisition and the Herbal Hill Disposal.

BY ORDER OF THE BOARD

Lee Soo Wei
Chief Financial Officer

24 April 2018