ASSET ACQUISITIONS AND DISPOSALS::PROPOSED DISPOSAL OF THE GROUP'S PRIMARY PRODUCTION BUSINESS

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Description (Please provide a detailed description of the event in the box below)

Please see attached announcement regarding entry into the sale and purchase agreement for the Proposed Disposal of the Group's Primary Production Business.

Attachments

QAF Limted - SPA Announcement_final_cln_8.6.2021.pdf

Total size =245K MB

QAF LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number: 195800035D)

PROPOSED DISPOSAL OF THE GROUP'S PRIMARY PRODUCTION BUSINESS

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1. INTRODUCTION

The board of directors (the "**Board**") of QAF Limited ("**QAF**" or the "**Company**", and together with its subsidiaries, "**QAF Group**" or the "**Group**") wishes to announce that the Group has on 8 June 2021 entered into a sale and purchase agreement ("**SPA**") to dispose of its Primary Production business in Australia (the "**Proposed Disposal**"), pursuant to a competitive sale process. The Primary Production business is classified as a disposal group held for sale in the financial statements of QAF Group for FY2020 and no longer falls within the description of an existing core business.

The Group's wholly-owned subsidiaries, Hamsdale International Pte Ltd and Oxdale Investments Pte Ltd (the "**Vendors**"), have agreed to sell the entire issued share capital of Rivalea Holdings Pty Ltd ("**Rivalea Holdings**") and Oxdale Dairy Enterprise Pty Ltd ("**Oxdale**") (collectively, the "**Sale Shares**") to Industry Park Pty Ltd (the "**Purchaser**"), subject to the terms and conditions of the SPA.

The indicative aggregate purchase price for the Sale Shares is to be satisfied entirely in cash and, as at the date hereof, is estimated at approximately A$107.9 million (equivalent to approximately S$110.3 million) (the "**Indicative Purchase Price**")[1]. Shareholder loans extended by the QAF Group to the Primary Production business (amounting to approximately A$40.0 million (equivalent to approximately S$40.9 million)) will be fully repaid on completion of the sale. Together with the Indicative Purchase Price, QAF Group will, subject to and on completion, receive estimated total cash of A$148.1 million (equivalent to approximately S$151.3 million). Please see Section 4.2 below for further information.

Rivalea Holdings owns two subsidiaries incorporated in Australia, namely, Rivalea (Australia) Pty Ltd (held as to 100%) and Diamond Valley Pork Pty Ltd (held as to 80%) (together with Rivalea Holdings and Oxdale, the "**Target Group**" and each, a "**Target Group Company**").

2. INFORMATION ON THE PURCHASER

The Purchaser is incorporated in Australia and is part of JBS S.A. ("**JBS**"), a Brazilian company listed on B3 – Brazil Stock Exchange with a market capitalization of approximately USD15 billion. JBS is the largest animal protein business and second largest food company in the world with operations in North America, South America, Europe, Australia and New Zealand. JBS has been present in Australia since 2007 and is one of the largest meat and food processors in the country with a portfolio of beef, lamb,

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1 Unless otherwise stated, the S$ equivalent of the A$ figures in this Announcement has been arrived at based on an exchange rate of A$1.00:S$1.022 as at 31 May 2021. Any discrepancies in figures included in this Announcement between the amounts shown and the totals thereof may be due to rounding.

pork and value added products. JBS' Australia business employs about 12,000 people and generated revenues of approximately A$6.8 billion in FY2019.

3. INFORMATION ON THE TARGET GROUP

The Target Group is a leading integrated pork producer in Australia with feedmills, pig genetics, pig breeding and grower farms and pork processing plants. It has access to nationwide distribution in Australia and sells various pork products in both branded and unbranded format. Pork products of the Target Group are sold across leading supermarkets in Australia and also to leading wholesalers. The bulk of its business is in Australia, with a small portion of the pork products exported to countries such as Japan, Singapore and Hong Kong. The Target Group also sells branded feed to dairy, beef, sheep, pig and poultry producers.

Based on the Target Group's financial information as included in QAF Group's audited consolidated financial statements for the financial year ended 31 December 2020 ("**FY2020**"), the Target Group recorded net profit before and after tax of approximately S$19.8 million and S$15.0 million, respectively, for FY2020, and net tangible asset value and net asset value amounting to approximately S$133.6 million as at 31 December 2020.

4. CERTAIN PRINCIPAL TERMS OF THE SPA

4.1. Sale Shares

The Proposed Disposal involves the sale of the Sale Shares to the Purchaser free from encumbrances and settlement of the Shareholder Loan (defined below), on and subject to the terms and conditions of the SPA.

4.2. Purchase Price

The purchase price for the Sale Shares ("**Purchase Price**") will be determined based on the agreed enterprise value of the Target Group of A$175.0 million (approximately S$178.9 million) and taking into account net external debt, net working capital and related party amounts owing to the Vendor(s) by the Target Group as at a specified time immediately before the date of completion for the sale and purchase ("**Completion**"). The related party amounts primarily consist of shareholder loan(s) ("**Shareholder Loan**") from the Vendor(s), which amounts to approximately A$40.0 million (approximately S$40.9 million) as at 31 May 2021. On Completion, the Shareholder Loan will be fully repaid and guarantees furnished by QAF Group to secure Target Group borrowings will be released. The foregoing terms were arrived at on a willing-buyer and willing-seller basis, pursuant to a competitive bid process.

As stated above, the Indicative Purchase Price is estimated at approximately A$107.9 million (approximately S$110.3 million). The final Purchase Price will however only be determined based on the financial condition of the Target Group as at the Completion date, taking into account:

(i) aggregate enterprise value of A$175.0 million (approximately S$178.9 million);

(ii) aggregate actual net external debt;

(iii) aggregate actual related party amounts owing by the Vendors to the Target Group or payable to the Vendors by the Target Group (as the case maybe);

(iv) aggregate actual net working capital, measured against the pre-agreed net working capital amount.

Based on the Indicative Purchase Price and the net asset value of the Target Group as at 30 April 2021 including remeasurement losses, the gain on disposal for the QAF Group (that is, the excess over the net asset value) is estimated at approximately S$10.8 million.

Under the SPA, the Purchase Price shall be fully satisfied in cash by the Purchaser as follows:

(a) upon execution of the SPA, the Purchaser shall pay a deposit totalling A$8.75 million (approximately S$8.94 million) (the "**Deposit**"), being 5% of the aggregate enterprise value, which shall be released to the Vendors upon Completion; and

(b) on Completion, the Purchaser shall:

    (i) pay the Vendors the estimated Purchase Price determined in accordance with the SPA, less the Deposit; and

    (ii) procure that each Target Group Company repays in full on Completion all related party payables (including the Shareholder Loan) owing by any Target Group Company to any member of the Group (excluding the Target Group Company).

The Deposit is to be released to the Purchaser under certain circumstances prescribed in the SPA in the event that Completion does not take place.

No independent valuation of the Sale Shares was carried out in connection with the Proposed Disposal by the Group. The Group, through Rabobank Singapore, undertook a competitive international and domestic sale process. Further, the sale was advertised in the national press in Australia pursuant to Australian regulatory rules. Accordingly, a market-based price discovery process was undertaken, which the Company believes to be a more relevant, robust and extensive price discovery mechanism.

4.3. Conditions Precedent

The Proposed Disposal is conditional upon the satisfaction (or waiver in accordance with the SPA) of the following conditions, a summary of which is set out below:

(a) the Purchaser having obtained the requisite regulatory approval under the Foreign Acquisitions and Takeovers Act 1975 of Australia for its acquisition (“**FIRB Approval**”);

(b) the Purchaser having received no objections from the Australian Competition and Consumer Commission for its acquisition of the Sale Shares; and

(c) the Company’s shareholders having approved the Proposed Disposal at an extraordinary general meeting.

The condition relating to FIRB Approval cannot be waived by the parties. If any of the other conditions is not satisfied or waived in accordance with the SPA on or before the date falling six months after the date of the SPA (or any later date as the Vendors and the Purchaser may agree in writing), or becomes incapable of satisfaction, the Purchaser or the Vendors (as the case may be) may terminate the SPA prior to the Completion date by written notice subject to and in accordance with the terms of the SPA.

On Completion, the Target Group companies will cease to be subsidiaries of QAF.

4.4. Warranties and undertakings

Under the SPA, the Vendors have provided the Purchaser with warranties in respect of, amongst others, the Target Group, its business and operations. Breach of warranties would not entitle the Purchaser to terminate the SPA, but such breach may entitle the Purchaser to damages, subject to the terms of the SPA including certain limitations on liability. The SPA also contains various undertakings that, pending Completion, the Vendors shall take or refrain from taking various actions with respect to the Target Group's business and operations, as well as certain indemnities. The Vendors have also furnished certain non-compete and non-solicitation undertakings to the Purchaser under the SPA.

5. RATIONALE FOR THE PROPOSED DISPOSAL

The Group had previously announced its intention to focus on its Bakery and Distribution and Warehousing segments in the core markets of Singapore, Malaysia and the Philippines, catering to a growing 650 million population of ASEAN countries. The strategic sale of the Primary Production business is being pursued as such business is in the animal protein segment, which is very different from the Bakery and Distribution and Warehousing businesses and operates in a different geographical region. Following nearly 20 years of ownership by the Group, the Primary Production business is now an ideal platform and has reached the necessary scale for a new owner with a strong focus on the animal protein segment to bring it to its next growth phase and take the business to the next level.

The Group is in the process of adding a new line at the Gardenia Malaysia plant in Bukit Kemuning (approximately S$26 million). Plans to expand production facilities at North Luzon in the Philippines are also being reviewed (approximately S$40 million). An additional bread line at the Johor plant (approximately S$30 million) to supply both Malaysia and Singapore markets, and an upgrade to the bread production lines in Singapore (approximately S$20 million) are currently being studied. Total expected capital expenditure for these projects is approximately S$116 million. This is in addition to the significant investments into the Bakery business in Philippines (approximately S$80 million) and Malaysia (approximately S$130 million) that had been made in recent years, as the Group seeks to expand its bakery production capabilities. The disposal of the Primary Production business would enable the Group to focus on and support the growth of the Bakery and Distribution and Warehousing businesses and enable the Group to invest in new business opportunities related to these businesses.

Further information will be provided in the Company's Circular to shareholders on the Proposed Disposal (see Section 7 below).

6. USE OF PROCEEDS INCLUDING SPECIAL DIVIDEND

Based on the Indicative Purchase Price and including proceeds from the settlement of the Shareholder Loan, the net proceeds from the Proposed Disposal after deducting, amongst others, the estimated expenses of the sale process and the Special Dividend (as defined below), is expected to amount to approximately S$134.7 million.

As previously announced by the Company, the Company intends, after the Completion of the Proposed Disposal, to pay a special dividend of S$0.02 per share ("**Special Dividend**"). Based on 575,268,440 issued ordinary shares in the capital of the Company ("**Shares**") as at the date of this Announcement, the Company proposes to set aside a total of approximately S$11.5 million for the Special Dividend. Subject to the Completion of the Proposed Disposal, the Company will announce the record date for the Special Dividend in due course.

The net proceeds will enable the Group to focus on and support the growth of the Bakery and Distribution and Warehousing businesses and enable the Group to invest in new business opportunities related to these businesses.

7. CHAPTER 10 OF THE LISTING MANUAL & GENERAL MEETING OF SHAREHOLDERS

7.1. Relative Figures under Rule 1006 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST")

The relative figures for the Proposed Disposal computed on the relevant bases in accordance with Rule 1006 of the SGX-ST Listing Manual, including, for the purpose of Rule 1006(c), the proceeds from the settlement of the Shareholder Loan together with the Indicative Purchase Price, are as follows:

Rule 1006	**Bases**(1)	**Relative Figures (%)**
(a)	The net asset value of the assets to be disposed of, compared with the Group's net asset value	25.8(2)
(b)	The net profits attributable to the Target Group, compared with the Group's net profits	26.7(3)
(c)	The aggregate value of the Indicative Purchase Price and the Shareholder Loan, compared with the Company's market capitalisation based on the total number of issued Shares excluding treasury shares	27.5(4)

Notes

(1) The relative bases under Rules 1006(d) and (e) of the SGX-ST Listing Manual are not relevant to the Proposed Disposal.

(2) The relative figure for Rule 1006(a) has been computed based on (a) the Target Group's net asset value of approximately S$133.6 million as included in the QAF Group's FY2020 audited consolidated financial statements; and (b) the QAF Group's audited net asset value of approximately S$516.9 million as at 31 December 2020.

(3) The relative figure for Rule 1006(b) has been computed based on (a) the pre-tax profits attributable to the Sale Shares as included in the QAF Group's FY2020 audited consolidated financial statements, of approximately S$19.8 million; and (b) the QAF Group's FY2020 audited profit including profit before tax for the discontinuing operations that have not been disposed and before income tax and non-controlling interests, of approximately S$74.2 million, which excludes the remeasurement loss of S$28.7 million. The QAF Group's profit before tax and non-controlling interests taking into account the remeasurement loss of S$28.7 million would be S$45.5 million, and the relative percentage based on such a profit figure would be 43.5%.

(4) The relative figure for Rule 1006(c) has been computed based on (a) the aggregate of the Indicative Purchase Price and the Shareholder Loan which together amount to approximately S$151.3 million; and (b) the Company's market

capitalisation of approximately S$549.4 million is based on its total number of issued Shares of 575,268,440 and the weighted average price of $0.955 per Share on 7 June 2021, being the market day prior to the date of the SPA.

As the relative figures set out in Rules 1006(a), (b) and (c) of the Listing Manual exceed 20%, the Proposed Disposal is classified as a major transaction under Rule 1014 of the SGX-ST Listing Manual which would require shareholders' prior approval in general meeting under Rule 1014. A circular setting out further information on the Proposed Disposal and the notice to convene the extraordinary general meeting ("**EGM**") for the purpose of seeking shareholders' approval for the Proposed Disposal will be despatched to shareholders in due course ("**Circular**").

8. CERTAIN FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

The unaudited pro forma financial effects of the Proposed Disposal on the Group as set out below are purely for illustrative purposes only and are neither indicative nor do they represent any projection of the financial performance or position of the Group after the Completion of the Proposed Disposal.

The pro forma financial effects set out below have been prepared based on the latest audited consolidated financial statements of the Group for FY2020 and the unaudited combined financial statements of the Target Group for FY2020, as well as the following bases and assumptions:

(a) the financial effects on the consolidated net tangible assets ("**NTA**") per Share is computed based on the assumption that the Proposed Disposal had been completed on 31 December 2020;

(b) the financial effects on the consolidated earnings per Share ("**EPS**") is computed based on the assumption that the Proposed Disposal had been completed on 1 January 2020;

(c) the estimated gain on disposal of approximately S$10.8 million (see Section 4.2 above);

(d) the estimated expenses incurred and to be incurred in respect of the Proposed Disposal of approximately S$5.0 million; and

(e) the financial statements of the Target Group are reported in A$ and have been translated, in respect of profit and loss items using the average exchange rate of A$0.9523 per S$ over the 12 months ended 31 December 2020, and in respect of balance sheet items using the closing exchange rate of A$1.019 per S$ as at 31 December 2020.

8.1. NTA per Share

As at 31 December 2020	Before the Proposed Disposal	After the Proposed Disposal
NTA (S$'000)	516,152	518,531
NTA per Share (cents)	89.72	90.14

8.2. EPS

For FY 2020	Before the Proposed Disposal	After the Proposed Disposal

Net profit attributable to the shareholders of the Company (S$'000)	27,736	13,366
Weighted average number of Shares (‘000)	575,268	575,268
EPS (cents)	4.82	2.32

9. SERVICE CONTRACT(S)

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

10. DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS

As at the date hereof, none of the Directors or controlling shareholders of the Company or their respective associates (as defined in the Listing Manual) has any interest, direct or indirect, in the Proposed Disposal.

The Controlling Shareholders of the Company, Mr. Andree Halim and Mr. Lin Kejian, whose aggregate shareholding interests amount to approximately 69.2% of the total number of issued Shares, have undertaken to vote in favour of the Proposed Disposal at the EGM to be convened to seek shareholders’ approval.

11. PROFESSIONAL ADVISERS

Rabobank Singapore is the financial adviser to QAF Group in relation to the sale process of the Target Group and CIMB Bank Berhad, Singapore Branch is the Company’s financial adviser in relation to relevant listing rules of the SGX-ST applicable to the Proposed Disposal and the Circular. In Australia, the QAF Group has been advised by Allens Linklaters as legal advisers and Ernst & Young Australia and BDO Services as advisers in connection with certain accounting and tax aspects, respectively, of the SPA.

12. DOCUMENT AVAILABLE FOR INSPECTION

Subject to the prevailing regulations, orders, advisories and guidelines relating to safe distancing which may be issued by the relevant authorities, a copy of the SPA will be made available for inspection during normal business hours at the registered office of the Company at 150 South Bridge Road, #09-03 Fook Hai Building, Singapore 058727 for a period of three (3) months from the date of this Announcement.

13. CAUTIONARY STATEMENT

It is highlighted that there is no assurance that the Proposed Disposal will be completed, or that payment of the Special Dividend will materialise in due course. Shareholders and other investors are reminded to exercise caution when dealing in the securities of the Company and should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers if they are in doubt about the actions that they should take.

By Order of the Board
QAF LIMITED

Serene Yeo
Company Secretary
8 June 2021