

* 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
Date & Time of Broadcast	26-Dec-2011 23:56:10
Announcement No.	00006

>> ANNOUNCEMENT DETAILS

The details of the announcement start here ...

Announcement Title *	This Announcement supersedes Announcement No. 00005
Description	SHARE TRANSFER AND REGISTERED CAPITAL SUBSCRIPTION AGREEMENT AND EQUITY JOINT VENTURE AGREEMENT ENTERED INTO BY THE COMPANY'S SUBSIDIARY, HAFARY CHINA PTE. LTD. Please see attachment.
Attachments	 HHL_Announcement_Signing_of_Agreements_26Dec2011_final.pdf Total size = 61K (2048K size limit recommended)

SHARE TRANSFER AND REGISTERED CAPITAL SUBSCRIPTION AGREEMENT AND EQUITY JOINT VENTURE AGREEMENT ENTERED INTO BY THE COMPANY'S SUBSIDIARY, HAFARY CHINA PTE. LTD.

1. INTRODUCTION

The Board of Directors (the "**Board**" or the "**Directors**") of Hafary Holdings Limited (the "**Company**") and together with its subsidiaries (collectively, the "**Group**") refers to the announcement of 18 October 2011 (the "**Previous Announcement**") in relation to the Company's private placement (the "**Placement**") of shares in the Company ("**Shares**") and its proposed use of proceeds from the Placement (the "**Placement Proceeds**").

Further to the Previous Announcement, the Company wishes to announce that its wholly-owned subsidiary, Hafary China Pte. Ltd. ("**HChPL**"), had on 23 December 2011 entered into a share transfer and registered capital subscription agreement (the "**Agreement**") with Hunan Cappuccino Construction Materials Co., Ltd. ("**HCCM**") and certain shareholders of HCCM, namely Zhang Haobin, Chu Chunbao, Li Qingbing and Cai Xilong, and an equity joint venture agreement (the "**JVA**") with all existing shareholders of HCCM (the "**Existing Shareholders**").

HCCM is a limited liability company incorporated under the laws of the People's Republic of China (the "**PRC**") on 25 October 2010 with an issued and paid-up capital of RMB 30,000,000. HCCM will be engaged in the business of producing and selling tiles and related construction materials. The construction of the factory and facilities by HCCM for tile-manufacturing is already underway, with completion scheduled in March 2012. Pursuant to the terms and conditions of the Agreement, HChPL would be acquiring a 45% interest in HCCM (the "**Transaction**").

The Existing Shareholders are citizens of the PRC with considerable experience in their respective areas of expertise in the construction materials industry. The particulars of the Existing Shareholders are as follows:

S/n	Name of Existing Shareholders	Age	Area of Expertise	Years of relevant experience
1	Zhang Haobin (张浩斌)	43	Sales and business development	20 years
2	Jiao Yuping (焦玉萍)	45	Finance	20 years
3	Chu Chunbao (储春宝)	43	Production	20 years
4	Li Qingbing (李庆兵)	40	Marketing	16 years
5	Cai Xilong (蔡喜龙)	38	Finance	16 years

In accordance with the terms of the JVA, HChPL will appoint 4 directors to the board of HCCM to act as HChPL's corporate representatives. They are as follows:

S/n	Name	Position in the Group
1	Low Kok Ann	Executive Chairman
2	Low See Ching	Chief Executive Officer
3	Tay Eng Kiat Jackson	Financial Controller
4	Koh Yew Seng	General Manager

The Company's proposed investment into HCCM is subject to certain conditions precedent, including but not limited to:

- a) all the approvals of and registrations and filings with the PRC governmental authorities required for the execution and performance of this Agreement shall have been obtained, which includes without limitation to approvals from the competent foreign investment authority, the registrations and filing with the competent Administration of Industry and Commerce, the competent local branch of State Administration of Foreign Exchange;
- b) no material contracts, leases, licenses or such other commercial arrangements would terminate or be adversely affected as a result of a change of shareholding structure in HCCM after the Completion Date (as defined in the Agreement); and
- c) the execution of the Agreement, JVA and the Articles of Association of HCCM and other application documents that shall be submitted to Changde Bureau of Commerce (常德市商务局) for approval and registered with Changde Administration for Industry and Commerce (常德市工商行政管理局).

The full set of conditions precedent is also set out below.

2. RATIONALE FOR THE TRANSACTION

HChPL's investment in HCCM is part of the Group's expansion of its business operations into the PRC and growth strategy to strengthen its core surfacing materials retailing business. This Transaction is the Group's first step of its geographical expansion plan and is focused on the PRC market where there are opportunities for the production and sale of construction materials.

The JVA is required by the PRC law and entered into to regulate and govern the rights and obligations of HChPL and the Existing Shareholders of HCCM.

3. CONSIDERATION

The consideration for the Transaction (the "**Consideration**") under the Agreement amounted to RMB 30,000,000. The Consideration was arrived at after arms' length discussions between HChPL, HCCM and certain shareholders (namely Zhang Haobin, Chu Chunbao, Li Qingbing and Cai Xilong), on a willing-buyer, willing seller basis.

In accordance with the Previous Announcement, the Company will be financing the Consideration with the Placement Proceeds.

4. SALIENT TERMS OF THE TRANSACTION

4.1 The Agreement

Pursuant to the Agreement, HChPL will:-

- (a) acquire 29.4% of the existing registered and paid-up capital in HCCM from certain shareholders (namely Zhang Haobin, Chu Chunbao, Li Qingbing and Cai Xilong) for a consideration of RMB 21,500,000, representing approximately 22.9% of the enlarged registered and paid-up capital in HCCM; and
- (b) subscribe additional registered and paid-up capital in HCCM for a consideration of RMB 8,500,000, representing approximately 22.1% of the enlarged registered and paid-up capital in HCCM,

following which HChPL will hold 45% of the enlarged registered and paid-up capital of HCCM. Accordingly, HCCM will become an associated company (as defined in the Singapore Exchange Securities Trading Limited Listing Manual Section B: Rules of Catalist (the "**Catalist Rules**")) of the Company. Subject to approval by Changde Bureau of Commerce (常德市商务局) and registration with Changde Administration for Industry and Commerce (常德市工商行政管理局), HCCM will be converted from a domestic company to a foreign-invested enterprise. Pursuant to the completion of the Transaction, the revised shareholding structure is illustrated in the table below. This shareholding structure is subject to approval by Changde Bureau of Commerce (常德市商务局). If there is any change(s) in the actual shareholding structure, the Company will make an announcement on SGXNET accordingly.

S/n	Name of shareholders	Percentage of shareholdings (%)
1	Hafary China Pte. Ltd.	45.00
2	Zhang Haobin (张浩斌)	32.91
3	Jiao Yuping (焦玉萍)	10.52
4	Chu Chunbao (储春宝)	6.43
5	Li Qingbing (李庆兵)	2.57
6	Cai Xilong (蔡喜龙)	2.57
	Total	100.00

The conditions precedent under the Agreement, to be fulfilled within 6 months from the signing of the Agreement, are as follows:-

- (a) the execution of the JVA and the Articles of Association of HCCM and other application documents that shall be submitted to Changde Bureau of Commerce (常德市商务局) and registration with Changde Administration for Industry and Commerce (常德市工商行政管理局);
- (b) the approval from the shareholders (namely Zhang Haobin, Chu Chunbao, Li Qingbing and Cai Xilong), as may be necessary, for the execution and performance of the Agreement;
- (c) the approval from the board of directors and/ or shareholders (namely Zhang Haobin, Chu Chunbao, Li Qingbing and Cai Xilong) (if necessary) of HCCM of the share transfer to and subscription by HChPL under the Agreement;
- (d) all the approvals of and registrations and filings with the PRC governmental authorities required for the execution and performance of the Agreement to be obtained, including without limitation, approvals from Changde Bureau of Commerce (常德市商务局), the registrations and filing with the Changde Administration for Industry and Commerce (常德市工商行政管理局), the competent local branch of State Administration of Foreign Exchange;
- (e) the registered capital of HCCM (RMB 30,000,000 as at the date of the Agreement) to be fully paid up and there having no capital withdrawal or unpaid capital;
- (f) that no material contracts, leases, licenses or such other commercial arrangements would terminate or be adversely affected as a result of a change of shareholding structure in HCCM after the Completion Date (as defined in Clause 3.3 of the Agreement);
- (g) that the representations, warranties and undertakings made by the shareholders (namely Zhang Haobin, Chu Chunbao, Li Qingbing and Cai Xilong) and HCCM under the Agreement shall be true, complete and accurate as at the Completion Date (as defined in Clause 3.3 of the Agreement), and such representations, warranties and undertakings shall be effective as if they were made on the Completion Date (as defined in Clause 3.3 of the Agreement); and
- (h) that none of the following events have occurred from the date of the Agreement up to Completion Date (as defined in Clause 3.3 of the Agreement):-
 - (i) HCCM being named as a defendant in litigation or other legal proceedings in the PRC; or
 - (ii) the business license of HCCM being revoked,such that, in each of the abovementioned (i) and (ii), where applicable, results or will result in:-
 - (A) HCCM not being able to carry on its current business or a substantial part of such business;
 - (B) HCCM suffering a material reduction in the book value of its assets; or

- (C) (in relation to (i) only) HChPL not being able to perform its obligations under the Agreement including by reason of an order, decision, ruling or written directive by the competent administration of industry and commerce or other similar regulatory body.

Where the abovementioned conditions precedents are fulfilled and the approvals obtained are not revoked:-

- (a) HChPL shall pay the shareholders (namely Zhang Haobin, Chu Chunbao, Li Qingbing and Cai Xilong) a collective sum of RMB 21,500,000 within 3 months after the registration of HChPL as one of HCCM's shareholders with the corporate registry (being the 29.4% interest in HCCM transferred to it) as well as obtaining the business license of a foreign-invested enterprise of HCCM, as evidenced by the issue of new business certificates; and
- (b) HChPL shall contribute RMB 1,700,000 in cash when HCCM applies for the business license as a foreign-invested enterprise. The remaining RMB 6,800,000 payable by HChPL shall be contributed by HChPL in cash within six months after HCCM obtains the business license as a foreign-invested enterprise.

Accordingly, the Company will provide further updates on the disbursement of the Placement Proceeds in due course.

4.2 The JVA

The salient terms of the JVA are, *inter alia*, as follows:-

- (a) the principal activities of HCCM will be the production and sales of construction materials, pottery and porcelain, bathroom products and ceramic colour glaze. These principal activities shall also be set out in the new business license(s) that HCCM will be obtaining under the relevant PRC laws and regulations;
- (b) the board of directors of HCCM shall comprise of 9 directors, of which 4 will be appointed by HChPL;
- (c) HChPL's responsibilities under the JVA are:-
 - (i) to maintain its (referring to HChPL) legal status as a corporation;
 - (ii) to ensure the due payment of acquisition funds and any contribution to increase registered capital; and
 - (iii) to assist in preparing relevant legal documentation as may be required for any changes of HCCM;
- (d) the Existing Shareholders' responsibilities under the JVA are:-
 - (i) to maintain the legal status of HCCM;
 - (ii) to maintain their legal right over their interest in HCCM;
 - (iii) to maintain the value and effectiveness of HCCM's assets;
 - (iv) to assist in the relevant matters on the relevant changes of HCCM; and

- (v) to assist in providing necessary technology, knowledge and design concept on the construction materials production processes so as to enable HCCM to achieve better brand awareness and competitiveness in the construction materials industry;
- (e) unanimous consent of the directors of HCCM is required for the following matters:-
- (i) where the registered capital of HCCM, any loan granted to HCCM and any income generated by HCCM in the course of its businesses is to be applied towards operations other than that stated in paragraph 4.2(a) above;
 - (ii) any pledge, mortgage or other encumbrances or security over all or part of share capital of HCCM;
 - (iii) any change in the registered capital of HCCM;
 - (iv) any amendments to the Articles of Association of HCCM;
 - (v) the termination and dissolution of HCCM; and
 - (vi) the separation of HCCM and its merger with another business entity;
- (f) where there is an Event of Deadlock (as defined in Clause 12.2 of the JVA) and resolution is not reached within the Deadlock Discussion Period (as defined in Clause 12.2 of the JVA), any shareholder of HCCM (the **"Offering Shareholder"**) has the option of making an offer to buy out the other HCCM shareholders' interest in HCCM. If:
- (i) all the other HCCM shareholders accept the offer, the Offering Shareholder shall buy all the shares of the other HCCM shareholders and repay any loans granted by such shareholders to HCCM; or
 - (ii) some of the other HCCM shareholders accept the offer (the **"Accepting Shareholders"**) but other HCCM shareholders refuse the offer (the **"Refusing Shareholders"**), the Refusing Shareholders will have to buy, on a pro-rata basis, the shares of the Offering Shareholder and the Accepting Shareholders as well as repay any loans granted by such shareholders to HCCM; and
- (g) if any shareholder of HCCM plans to transfer all or part of his interest in HCCM, the other shareholders of HCCM shall have first right of refusal to purchase such interest.

5. VALUATION OF HCCM

The net book value of HCCM based on its unaudited financial statements as at 30 November 2011 was approximately RMB 28,512,000 (equivalent to approximately S\$5,825,000 based on the foreign currency exchange rate of S\$1:RMB4.895 on 22 December 2011), adjusted for pre-operating expenses amounting to RMB 1,518,000 (equivalent to approximately S\$310,000 based on the foreign currency exchange rate of S\$1:RMB4.895 on 22 December 2011).

6. FINANCIAL EFFECTS

6.1 Assumptions

The financial effects on the net tangible assets ("NTA") per share and the earnings per share of the Company are set out below. The financial effects, which have been prepared based on the audited consolidated financial statements of the Company for its most recently completed financial year ended 30 June 2011 ("FY2011") and the unaudited management financial statements of HCCM for the period from its date of incorporation (being 25 October 2010) to 30 November 2011, are purely for ILLUSTRATIVE PURPOSES ONLY and do not reflect the actual financial position of the Company after the completion of the Transaction.

6.2 NTA

For illustrative purposes only and assuming the Transaction and the placement of 32,000,000 new Shares had been completed at the end of FY2011, the estimated financial effects of the Transaction and Placement on the consolidated net tangible asset of the Group ("NTA") as at the end of FY2011 are as follows:-

	As at 30 June 2011	Assuming completion of the Placement ⁽¹⁾ as at the end of FY2011	Assuming completion of the Transaction and Placement as at the end of FY2011
NTA (S\$'000)	23,798	30,158	27,454 ⁽²⁾
Number of Shares ('000)	162,500	194,500	194,500
NTA per Share (cents)	14.6	15.5	14.1

Notes:

- (1) Net proceeds from issuance and allotment of 32,000,000 new Shares at S\$0.20 per Share amounting to S\$6,360,000.
- (2) After deducting provisional goodwill arising from the acquisition of HCCM amounting to approximately S\$2,679,000 (equivalent to approximately RMB 13,115,000) and expenses of estimated acquisition-related costs of S\$25,000.

Provisional goodwill is the difference between consideration paid for 29.4% of registered and paid-up capital of HCCM amounting to S\$4,392,000 (equivalent to RMB 21,500,000) and the Company's 29.4% share of adjusted net assets of HCCM as at 30 November 2011 amounting to S\$1,713,000 (equivalent to RMB 8,385,000).

Foreign currency exchange rate of S\$1:RMB4.895 on 22 December 2011 is applied.

6.3 Earnings

For illustrative purposes only and assuming that the Transaction and the placement of 32,000,000 new Shares had been completed at the beginning of FY2011, the effects of the Transaction and Placement on the earnings per Share of the Group for FY2011 are as follows:-

	FY2011	Assuming completion of the Placement at the beginning of FY2011	Assuming completion of the Transaction and Placement at the beginning of FY2011
Profit, net of tax attributable to owners of the Company (S\$'000)	6,873	6,873	6,736 ⁽³⁾
Weighted average number of Shares ('000)	162,500	194,500	194,500
Earnings per Share (cents)	4.2	3.5	3.5

Note:

- (3) Based on a 45% share of the unaudited, adjusted loss before tax, non-controlling interest and extraordinary items of HCCM amounting to RMB1,487,000 from date of incorporation on 25 October 2010 to 30 November 2011 and translated at the foreign currency exchange rate of S\$1:RMB4.895 on 22 December 2011. The amount relates to pre-operating expenses incurred in relation to the incorporation of HCCM.

7. CATALIST RULES 1006 & 1007

RULE 1006

In compliance with the Catalist Rules, the relative figures computed on the bases pursuant to Rule 1006 of the Catalist Rules in relation to the Transaction, based on the latest announced consolidated accounts of the Group for FY2011, are as follows:-

(a) *Rule 1006(a)*

Net asset value of the assets to be disposed of	Not applicable
Net asset value of the Company	Not applicable
Size of relative figure	Not applicable

(b) *Rule 1006(b)*

Net profits/ (losses) attributable to the assets acquired (137)⁽⁴⁾
(S\$'000)

Net profit of the Group⁽⁵⁾ (S\$'000) 9,081

(4) *Based on a 45% share of the unaudited, adjusted loss before tax, non-controlling interest and extraordinary items of HCCM amounting to RMB1,487,000 from date of incorporation on 25 October 2010 to 30 November 2011 and translated at the foreign currency exchange rate of S\$1:RMB4.895 on 22 December 2011. The amount relates to pre-operating expenses incurred in relation to the incorporation of HCCM*

(5) *Net profit of the Group for FY2011 is based on the Group's audited profit before tax, non-controlling interests and extraordinary items of S\$9,081,000 for FY2011.*

Size of relative figure (1.5)%

(c) *Rule 1006(c)*

Aggregate value of the consideration given (S\$'000) 6,129⁽⁶⁾

(6) *Consideration for the Transaction equivalent to RMB 30,000,000 based on the foreign currency exchange rate of S\$1:RMB4.895 on 22 December 2011.*

The Company's market capitalization as at 22 December 2011 based on the total number of Shares, excluding treasury shares (S\$'000) 50,570⁽⁷⁾

(7) *Based on 194,500,000 Shares, including private placement of 32,000,000 Shares on 24 November 2011, and closing Share price of S\$0.26 on 22 December 2011.*

Size of relative figure 12.1%

(d) *Rule 1006(d)*

Number of equity securities issued by the Company as consideration for an acquisition Not applicable as the Consideration is not satisfied by the issuance of the Shares.

Number of equity securities previously in issue Not applicable

Size of relative figure Not applicable

(e) Rule 1006(e)

Not applicable

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 not applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets

RULE 1007

The Sponsor, pursuant to consultation with the SGX-ST, has deemed that the Acquisition is not a major transaction which requires Shareholders' approval according to Rule 1007 of the Catalyst Rules. Accordingly, the Transaction constitutes a "discloseable transaction" for the purposes of Chapter 10 of the Catalyst Rules.

8. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors and the controlling shareholders of the Company have any interest or are deemed to be interested in the Transaction.

9. FURTHER INFORMATION

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

10. MISCELLANEOUS

A copy of the Agreement and the JVA are available for inspection by prior appointment during normal business hours at the registered office of the Company at 15 Defu Avenue 1, Singapore 539538 for 3 months from the date of this announcement.

11. TRADING CAUTION

Shareholders are advised to exercise caution in trading their Shares. The Transaction is subject to certain conditions as at the date of this announcement and there is no assurance or certainty that the Transaction will be completed or that no changes will be made to the terms thereof. The Company will make the necessary announcements when there are further developments. Shareholders are advised to read this announcement and any further announcements by the Company carefully. Shareholders should consult their stock brokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions they should take.

By Order of the Board

Tay Eng Kiat Jackson
Financial Controller
26 December 2011

This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, Collins Stewart Pte. Limited for compliance with the relevant rules of the SGX-ST. Collins Stewart Pte. Limited 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, Managing Director, Corporate Finance, Collins Stewart Pte. Limited at 77 Robinson Road #21-02 Singapore 068896, telephone (65) 6854 6160.