MENCAST HOLDINGS LTD.
(Incorporated in the Republic of Singapore)
(Company registration no.: 200802235C)
(The "Company")

ENTRY INTO SHARE SALE AND PURCHASE AGREEMENT RELATING TO THE PROPOSED DISPOSAL OF SHARES IN MENCAST-KSE PTE. LTD.

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1. INTRODUCTION

The board of directors (the "**Board**" or "**Directors**") of the Company (together with its subsidiaries, the "**Group**") is pleased to announce that Mencast Investment Holdings Pte. Ltd. (the "**Seller**"), a wholly owned subsidiary of the Company, has on 02 October 2020 entered into a sale and purchase agreement (the "**SPA**") with KSE Marine Works Pte. Ltd. (the "**Purchaser**") for the proposed disposal by the Seller of shares representing 51% of the total issued share capital of Mencast-KSE Pte. Ltd. ("**MKSE**") (the "**Proposed Disposal**").

2. INFORMATION ON MKSE AND THE PURCHASER

MKSE is a company incorporated under the laws of the Republic of Singapore. It is involved in the business of dredging and land reclamation. As of the date of this announcement, MKSE has an issued and paid-up share capital of S$300,000 comprising 300,000 ordinary shares. The Seller currently owns 51% of the issued and fully paid-up capital ("**Sales Shares**") in the capital of MKSE, whilst the Purchaser owns the remaining 49% stake.

The Purchaser is a company incorporated under the laws of the Republic of Singapore, and is a shareholder of MKSE. As the Sale Shares represent the entire interest of the Seller in MKSE, the Seller will cease to have any interest in MKSE following the completion of the Proposed Disposal (the "**Completion**").

3. SALIENT TERMS OF THE PROPOSED DISPOSAL

3.1 Consideration

The consideration for the purchase of the Sale Shares under the SPA shall be an amount in cash equal to the sum of S$600,000, to be paid by the Purchaser to the Seller on the date of the SPA.

The consideration was determined following arms' length negotiations between the Seller and the Purchaser on a willing-buyer-willing-seller basis, taking into consideration various commercial factors, amongst others, (a) the net liability position of MKSE as at 30 June 2020 amounting to S$1,699,000, (b) the net loss attributable to MKSE of S$1,815,000 for the six months ended 30 June 2020, (c) anticipated financial performance and capital expenditure requirements of MKSE, and (d) the estimated net gain of S$541,000 from the Proposed Disposal.

3.2 Conditions Precedent

The SPA is conditional upon satisfaction or waiver (as the case may be) of the following conditions, or their satisfaction subject only to Completion:

(a) the Seller and the Purchaser entering into an agreement by 15 October 2020 for the Seller to exclusively repair and maintain the Purchaser's dredgers, such agreement having a duration of at least 12 months, with a value of at least S$1,000,000;

(b) the Seller, the Purchaser, and MKSE entering into an agreement (the "**Debt Novation Agreement**") wherein:

(i) MKSE shall agree to novate all debts owed by MKSE to the Group as at 31 August 2020 (the "**Inter-Company Debts**"); and

(c) the Purchaser shall agree to undertake and repay such Inter-Company Debts, and use its best endeavours to enter into such loan facilities as may be necessary in order for the Purchaser to fully and immediately satisfy its obligations under the agreement;

(d) the seller warranties given by the Seller being true, correct and not misleading on the date of the SPA and immediately prior to Completion;

(e) the passing of resolutions by the shareholders and board of the Seller approving the sale of the Sale Shares and any other agreement or document to be entered into pursuant to or in connection with the SPA; and

(f) no material adverse change having occurred in the operations, assets or position (financial, trading or otherwise), profits or prospects of MKSE, or any event or circumstance that may result in such a material adverse change;

3.3 Assumption of accounts

The Purchaser agrees to assume upon Completion:

(a) the revenue, costs, and related profit and loss of MKSE (based on the management accounts of MKSE) from 1 January 2020 to the date of Completion (the "**Specified Period**"), subject to:

(i) the Seller waiving all rights and claims that it may have against MKSE for any act performed or omission neglected to be performed during the Specified Period, save for any claim which arises or is increased as a result of, fraud, wilful misconduct, wilful concealment or gross negligence by MKSE or any of its directors, officers, employees or agents; and

(ii) the Seller undertaking that MKSE shall not, during the Specified Period, without the prior consent of the Purchaser:

(A) enter into any agreement or incur any commitment which is not capable of being terminated without compensation at any time with six months' notice or less, or which involves total annual expenditure in excess of S$100,000, exclusive of GST or equivalent tax;

(B) acquire or dispose of, or agree to acquire or dispose of, any material asset, or enter into or amend any agreement in each case involving consideration, expenditure or liabilities in excess of S$100,000, exclusive of GST or equivalent tax;

(C) incur any additional borrowings or incur any other indebtedness save in the ordinary and usual course as carried on prior to Specified Period; or

(D) enter into any guarantee, indemnity or other agreement to secure any obligation of a third party or create any encumbrance over any of its assets or undertaking in any such case; and

(b) the assets and liabilities of MKSE as reflected in the management accounts of MKSE on the date of Completion.

3.4 Condition subsequent

Immediately following Completion, and as a condition subsequent to the SPA, the Purchaser undertakes to the Seller that the Purchaser shall procure and ensure that MKSE shall enter into an agreement with the Company under which:

3.4.1 MKSE shall grant the Company a charge over two vessels which are flagged in Singapore and owned by MKSE, in order to secure all debts owed by the Purchaser to the Company following the Purchaser's entry into the Debt Novation Agreement; and

3.4.2 the Company may agree to release the charge on the charged vessels subject to further conditions to be discussed, including if such release is absolutely necessary in order for the Purchaser to enter into a loan facility;

4. RATIONALE FOR THE PROPOSED DISPOSAL

The Seller intends to enter the Proposed Disposal for the following reasons:

(a) The business of MKSE is capital intensive in nature, requiring the upfront purchase of dredgers to support bids for new projects. However, the Group is currently under a debt restructuring arrangement which prevents the Seller from injecting profits from its existing businesses to fund MKSE, and instead requires such profits to be used to satisfy the Group's existing debts and to fund the Group's capital expenditure requirements. As a result, the Seller may face future difficulties in contributing its share of capital expenditure and working capital to support MKSE's bid for higher value projects, ultimately hindering the growth of MKSE.

(b) MKSE is projected to increase their foreign worker headcount, a direction which is contrary to the Group's objective in moving away from labour intensive businesses to contain its cash flow.

(c) The Proposed Disposal will help the Group's to realise its value by preventing further losses and deterioration of shareholder's equity.

(d) The Proposed Disposal will help reduce the Group's reliance on the offshore and marine sector whilst the Group concentrates its resources on the waste management business.

5. EXCESS ON THE DISPOSAL AND USE OF PROCEEDS

Based on the audited financial statements of MKSE as at 31 December 2019, the Group's share of the net asset value of the Sale Shares was S$59,000. The Seller will recognise a net gain of approximately S$541,000 from the Disposal, subject to any accounting adjustments which may be necessary upon the completion of the transaction.

The Seller intends to utilise the consideration for general working capital requirement of the Group.

6. FINANCIAL EFFECT OF THE PROPOSED DISPOSAL

6.1 Bases and Assumptions

The pro forma financial effects of the Proposed Disposal have been prepared based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2019 and are purely for illustrative purposes only and do not reflect the actual future financial position of the Group following Completion. The pro forma financial effects have also been prepared based on, *inter alia*, the following assumptions:

(a) the Proposed Disposal had been effected on 31 December 2019, being the end of the most recently completed financial year of the Group, for illustrating the financial effects on the consolidated net tangible assets ("**NTA**") of the Group;

(b) the Proposed Disposal had been effected on 1 January 2019, being the beginning of the most recently completed financial year of the Group, for illustrating the financial effects on the consolidated earnings of the Group; and

(c) estimated expenses for the Proposed Disposal are not material and have not been included in the financial effects.

6.2 Net Tangible Assets ("NTA")

	Before Completion of the Proposed Disposal	After Completion of the Proposed Disposal
NTA attributable to Shareholders (S$'000)	11,688	12,229
Number of Shares ('000)	428,849	428,849
NTA per Share attributable to Shareholders (cents)	2.73	2.85

6.3 Earnings Per Share ("EPS")

	Before Completion of the Proposed Disposal	After Completion of the Proposed Disposal
Net profit/(loss) attributable to Shareholders (S$'000)	(7,073)	(6,532)
Number of Shares ('000)	427,268	427,268
EPS/(Loss per Share) (cents)	(1.65)	(1.53)

7. RELATIVE FIGURES COMPUTED BASED ON RULE 1006 OF THE LISTING MANUAL

For the purposes of Chapter 10 of the SGX-ST Listing Manual, the relative figures for the Proposed Disposal using the applicable bases of comparison under Rule 1006 of the Listing Manual based on the unaudited consolidated accounts of the Company for the period ended 30 June 2020 are as follows:

Listing Rule	Content	Percentage (%)
Rule 1006(a)	Net asset value of the assets to be disposed of, compared with the group's net asset value of S$27,020,000	0.2% [(a)]
Rule 1006(b)	Net profits attributable to the assets acquired or disposed of, compared with the Group's net profit of S$9,662,000	NIL [(b)]
Rule 1006(c)	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.	10.5% [(c)] [(d)]
Rule 1006(d)	Number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not applicable
Rule 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

Notes:

(a) Based on MKSE's audited net asset value of S$116,000 as at 31 December 2019 of which the Group's 51% share is $59,000 over the Group's net asset value of S$27,020,000 as at 30 June 2020, taken from the latest consolidated accounts of the Group as announced by the Company on 14 August 2020. For MKSE, the reason for the use of figures from 31 December 2019 instead of those from 30 June 2020 was mainly due to the Purchaser's agreement to subsume the profit and losses of MKSE from 1 January 2020. The movement in the NAV of MKSE for the period 1 January 2020 to 30 June 2020 was attributed to a net loss of S$1,815,000 for the said period.

Consequently, the net asset value of MKSE deteriorated from a positive net asset value of S$116,000 as at 31 December 2019 to a negative net asset value of S$1,699,000 for the period ended 30 June 2020. Accordingly, the asset value of the assets to be disposed of shall be S$116,000, after adjusting for the Purchaser's agreement to subsume the net loss of S$1,815,000 for the period ended 30 June 2020, of which the Group's share of loss is S$926,000 (being 51% of the net loss of S$1,815,000).

(b) As explained in point (a) above, the net profits or losses attributable to the assets disposed shall be nil, after adjusting for the Purchaser's agreement to subsume the profit & loss of MKSE from 1 January 2020. For the avoidance of doubt and assuming that such agreement is not in place, the net loss attributable to the assets disposed of as compared to the Group's net profit works out to a negative value in percentage term of approximately 18.8%, being MKSE's net loss of S$1,815,000 for the period ended 30 June 2020 over the Group's net profit of S$9,662,000.

(c) In line with SGX-ST Listing Manual, Practice Note 10.1, paragraph 3.2(b)(iii), any losses and/or liabilities to be assumed by the Purchaser should be included in computing the aggregate value of consideration received. Accordingly, the aggregate value of the consideration works out to be approximately S$1,526,000, i.e. the sum of:

   (i) the consideration of S$600,000 in cash to be paid by the Purchaser to the Seller for the Proposed Disposal as prescribed under the SPA; and

   (ii) the net losses in MKSE assumed by the Purchaser amounting to S$926,000 (being the Group's 51% share of MKSE's net loss of S$1,815,000 for the period ended 30 June 2020).

(d) Market capitalisation of S$14,496,000 is computed based on 439,283,000 issued shares at S$0.033 cents per share.

As the relative figures in respect of Rule 1006(a), (b) & (c) of the Listing Manual exceed 5% but does not exceed 20%, the Company is required to make an immediate announcement after the terms of the Proposed Disposal have been agreed.

8. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors and controlling shareholders of the Company or of the Seller has any interest, direct or indirect, in the Proposed Disposal (other than through their respective shareholding interests in the Company or the Seller, as the case may be).

9. DIRECTORS' SERVICE CONTRACTS

No person has been 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 such person.

10. DOCUMENT AVAILABLE FOR INSPECTION

A copy of the SPA will be made available for inspection during normal business hours of the Company for three (3) months from the date of this announcement at the Company's registered office address at 42E Penjuru Road, Mencast Central, Singapore 609161.

BY ORDER OF THE BOARD

SIM SOON NGEE GLENNDLE
Executive Chairman & Chief Executive Officer
02 October 2020