

ASX ANNOUNCEMENT

HPP Group enters into agreement to sell macadamia business

- HPP has entered into a Share Sale and Purchase Agreement with MNP Holdings LLC for the sale of its macadamia nut business for an enterprise value of US\$23 million (A\$32.9 million) ¹
- Following completion of the transaction and, subject to receipt of US tax clearance, HPP intends to distribute approximately A\$4.9 million to A\$7.4 million to shareholders (equivalent to A\$0.04 and A\$0.06 per share)
- The transaction is the result of a detailed strategic review and competitive sale process and the HPP Board considers the transaction to be in the best interests of shareholders
- The transaction is conditional on shareholder approval under ASX Listing Rule 11.2, which will be sought at an extraordinary general meeting to be held in mid March 2023
- Completion of the transaction is targeted for the end of March 2023. The timing of the distribution to shareholders is subject to US tax clearance which in the ordinary course is expected Q2 CY2023.

Brisbane, 30 January 2023: Health and Plant Protein Group Limited (**HPP**) today announces that it has entered into a Share Sale and Purchase Agreement for the sale of its wholly owned subsidiary, HPP America Inc, the United States of America (US) based holding company of MacFarms, LLC to MNP Holdings LLC, based in Wyoming, US (**MNP**) whose shareholders have significant investments in the Hawaiian macadamia nut industry (**Proposed Transaction**).

Background

The Proposed Transaction follows a strategic review of HPP's US assets and a competitive sale process under which HPP held discussions with interested parties in relation to the future ownership of the Kapua Orchard and macadamia nut business.

The HPP Board unanimously decided that the offer received from MNP represents the best available option for HPP to meet its near-term obligations and maximise shareholder value.

¹ All AUD equivalent figures in this announcement are based on an exchange rate of A\$0.70 to US\$1.00, except for the estimated distribution to shareholders (subject to US tax clearance), which is based on exchange rate of A\$0.65 - A\$0.70 to US\$1.00.

Overview of the sale

HPP has entered into a Share Sale and Purchase Agreement for the sale of its wholly owned subsidiary, HPP America Inc to MNP for cash consideration of US\$23 million (A\$32.9 million),

subject to adjustments for net working capital and debt as at the completion date. The agreed purchase price is on an enterprise value basis and inclusive of HPP's US \$10 million (A\$14.3 million) loan facility with American AgCredit.

HPP America Inc is the holding company of MacFarms, LLC, which owns HPP's macadamia nut business assets, including:

- the Kapua Macadamia Orchard and on-site processing facility in Hawaii (**Kapua Orchard**) – including all land, buildings, inventory, plant and equipment, equipment leases, statutory licences and related operating assets; and
- the brands (including Royal Hawaiian Orchards® and MacFarms®), business contracts, goodwill and intellectual property used in the macadamia nut business.

The transaction will see MNP take on all US based employees of HPP, along with all assets and liabilities of HPP's US business both in California and Hawaii. MNP will also offer to employ certain key executives of HPP based in Australia with effect from Completion.

Completion of the Proposed Transaction is subject to satisfaction of various conditions precedent, including HPP shareholder approval under ASX Listing Rule 11.2 for the disposal of its main undertaking, release of security interests and compliance by HPP with all covenants under the Share Sale and Purchase Agreement prior to completion.

MNP has agreed to pay a US\$500,000 (cA\$715,000) deposit into an escrow account held by an independent escrow holder, which is only refundable in the event of termination for HPP breach or non-satisfaction of any condition precedent. HPP has also agreed to pay a break fee of US\$500,000 (cA\$715,000) to MNP if completion of the Proposed Transaction does not occur due to HPP's default under the agreement or its failure to obtain shareholder approval.

The acquisition is otherwise on terms and conditions which are customary for transactions of comparable size, nature and type including adjustments for net working capital and debt as at the completion date and provisions as to seller representations and warranties and qualifications, limitations and exclusions for warranty liability, seller indemnities, and restrictions on HPP competing with the business sold for up to three years from completion.

Use of funds

The funds received from the sale of HPP America Inc. will be applied to meet any US withholding tax obligations (see below), repayment of the American AgCredit facility and HPP's existing convertible note debt obligations of A\$10 million (plus accrued interest), transaction costs and Australian based employee entitlements and costs.

At completion, approximately US\$3.5 million (A\$5 million) will be withheld from the purchase price and held in escrow by the independent escrow holder, pending review by the US

Internal Revenue Service (**IRS**) and confirmation that US withholding tax does not apply under the US *Foreign Investment in Real Property Tax Act of 1980 (FIRPTA)*.

HPP expects to lodge its FIRPTA application with the IRS in February 2023 and for the IRS to complete its review after completion, during Q2 CY 2023. HPP Shareholders will receive a distribution of the remaining surplus proceeds of the Proposed Transaction². With the recent fluctuation in the exchange rate between AUD and USD ranging from \$0.65 and \$0.70, subject to US tax clearance, it is anticipated that HPP will distribute between approximately A\$4.9 million and A\$7.4 million to HPP shareholders, equivalent to A\$0.04 and A\$0.06 per share.

Comments from HPP Executive Chairman and MNP President

Executive Chairman of HPP, Mr Albert Tse said: "Due to the company's financial situation, HPP has made the strategic review of the Kapua Orchard and MacFarms business a top priority since I became Chair in mid-July 2022. As stated at the Annual General Meeting on 11 November 2022, HPP has received a limited number of proposals from interested parties and while the financial outcome of this transaction is lower than what the Board had originally expected, the agreement reached today is superior in both valuation and structure and allows HPP to exit our US business in its entirety without onerous contractual conditions."

Commenting on the transaction, Mr Brad Nelson, representative of MNP said: "We look forward to working to ensure the long-term viability of brands committed to Hawaii origin macadamia nuts."

Rationale for Proposed Transaction

HPP's Kapua Orchard on the south-western side of the Big Island of Hawaii is relatively remote and largely sits on a slope with volcanic rock covering the ground where the macadamia trees are grown, rendering mechanical harvesting (used in other parts of the island and throughout the world) impossible without significant investments in rock crushing and clearing. Since its inception in the 1960s, MacFarms has relied on hand-picking labour which has for last few years been in shortage and this situation has further deteriorated since the beginning of COVID.

The lack of available labour and raising logistic and energy costs on the Big Island of Hawaii has also affected the processing facility, that also requires significant investment – funding of which HPP is unable to provide. HPP also notes that since December 2022, two volcanos have erupted on the Big Island of Hawaii, one of which, Mauna Loa, was the first eruption in nearly four decades and has resulted in hazardous air quality which could affect MacFarms harvesting program.

Given a multitude of challenging factors including weakening customer demand in the premium nut category, falling world macadamia commodity prices, increasing cost of production on the Big Island of Hawaii and HPP's lack of available funds to further invest into the MacFarms business, the HPP Board believes that the Proposed Transaction is in the best interests of shareholders, in the absence of a superior proposal.

² An amount will be retained by HPP for working capital purposes.

The Proposed Transaction will provide HPP with cash that can be immediately applied towards the repayment of HPP's outstanding debts, including its US\$10 million (A\$14.3 million) facility with American AgCredit and A\$10 million convertible note debt owed to Asia Mark Development Limited, and urgent working capital requirements.

The Board believes that the Proposed Transaction strikes the right balance between the interests of shareholders and stakeholders including HPP's employees.

Consequences for HPP following the Proposed Transaction

Following completion of the Proposed Transaction and distribution to shareholders, HPP will be a listed vehicle without any debts or liabilities, which is well positioned to identify potential opportunities to create further shareholder value, including by way of acquisitions, equity investments or strategic combination opportunities.

There are no changes to the issued share capital or the composition or size of the HPP Board proposed as part of the Proposed Transaction.

Australian based staff retention arrangements

HPP has agreed to pay each of its Australian based staff members a retention payment (including the Executive Chairman).

Half of the staff member retention payment is conditional on completion of the Proposed Transaction and the remaining half conditional on staff members completing a term of service with HPP that is intended to cover the period through to completion of the Proposed Transaction.

The Executive Chairman retention payment is A\$333,750³ and is conditional on the Proposed Transaction completing or if a superior proposal is completed.

The Board considers that the retention payments to staff members are in the best interests of HPP, having regard to the key role that its staff plays in ensuring that the HPP business continues to operate unaffected by the Proposed Transaction and that HPP's relationships with key stakeholders remain secure.

In relation to the Executive Chairman's retention payment, the Board (excluding the Executive Chairman due to his personal interest) considered the Executive Chairman's level of remuneration (which was 50% less than the previous Executive Chairman) since his appointment and the extensive services and expertise that he has provided to HPP during the strategic review and competitive sale process, which has allowed HPP to complete this process without having to appoint an external corporate adviser.

Next Steps

HPP is working to prepare a notice of meeting to be distributed to all shareholders following review by the ASX, which will contain further information about the Proposed Transaction.

³ The Executive Chairman's remuneration is \$127,500 per annum plus compulsory superannuation. Refer to ASX announcement dated 9 August 2022 for further details on the Executive Chairman's terms of engagement. The total bonus amount comprises \$127,500 to bring the total yearly remuneration in line with the former executive chairman's yearly fixed annual remuneration, and \$206,250 relating to Proposed Transaction.

An extraordinary general meeting is anticipated to be held in mid March 2023, at which shareholders will vote on the Proposed Transaction. Subject to shareholder approval, completion of the transaction is targeted for the end of March 2023. The Board would like to thank all HPP staff both in Australia and US for their continued support and will provide further updates to all shareholders in the coming weeks.

HPP is being advised by Thomson Geer in Australia and Lung Rose Voss & Wagnild in the US.

This announcement has been authorised for release to ASX by the Board.

ENDS

Investor enquires:

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About HPP

HPP, through its Royal Hawaiian Orchards® (RHO) and MacFarms® brands, is the largest vertically integrated orchard to retail macadamia nut processor and marketer in the USA. Macadamia nut contains rich nutrients and beneficial plant compounds, and HPP makes its products from wholesome and unmodified ingredients. The macadamia business forms the basis of HPP's strategic ambitions in becoming a leading independent participant in health and plant-based protein food categories.