



**TRAVELITE HOLDINGS LTD.**

(Incorporated in Singapore)

(Company Registration Number: 200511089K)

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**RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE PROPOSED DIVERSIFICATION OF BUSINESS AND PROPOSED ACQUISITION OF 40% OF THE TOTAL NUMBER OF ISSUED SHARES IN THE CAPITAL OF FUNKIE MONKIES VENTURES PTE. LTD.**

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*Unless otherwise defined or the context otherwise requires, all capitalised terms used herein bear the same meanings as in the Announcements (as defined below).*

The Board of Directors (the “**Board**” or “**Directors**”) of Travelite Holdings Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the Company’s announcements dated 24 March 2023, 11 April 2023 and 13 April 2023 (the “**Announcements**”) relating to the proposed diversification of business and proposed acquisition of 40% of the total number of issued shares in the capital of Funkie Monkeys Ventures Pte. Ltd.. The Company sets out its response to the SGX-ST’s further queries below.

**Corrigendum to Announcement on Proposed Acquisition**

**Query 1**

*Please provide details to reconcile the Net Asset Value of S\$166,274 to the Net Tangible Liability of S\$170,539 of the Target Group and provide details on the significant intangible asset and explain how its value was determined. Please also disclose whether any impairment will have to be provided for the intangible asset after completion of the proposed acquisition.*

**Response**

The reconciliation provided by the management of the Target Group is as follows:

Net Asset Value	S\$166,274
Less: Goodwill on consolidation *	S\$336,813
Net Tangible Liability	(S\$170,539)

However, the above numbers are subject to the independent valuation and financial due diligence review to be conducted by the Company.

\* The goodwill on consolidation arises due to the Target’s acquisition of TSMC at a nominal consideration.

Based on the information provided by the management of the Target Group, there is no indication of impairment on the intangible asset upon Completion. However, the Company will practise to review the impairment of the intangible assets on a half yearly basis and report the outcome in its results announcement, where required.

## **Query 2**

*Please reconcile the Net Tangible Asset amount of S\$15,607,000 disclosed at paragraph 2 with the Net Tangible Liability disclosed at paragraph 1 amounting to S\$170,539.*

## **Response**

The financial effects of the Proposed Acquisition on the NTA attributable to equity holders of the Company as at 31 March 2022 as illustrated in the Company's announcement dated 11 April 2023 were based on the consolidated method of accounting, i.e. S\$16,363,000 less S\$688,000 and 40% of S\$170,539.

Based on the equity method of accounting, the Proposed Acquisition has no material impact on the NTA attributable to equity holders of the Company as at 31 March 2022, which remains at S\$16,363,000.

## **Company's Response dated 13 April 2023**

## **Query 3**

*With reference to the Company's response to Query 6,*

- a. Please describe and quantify the main items contributing to the net liabilities position of TSMC and the Target Group and explain the change in net tangible liabilities of TSMC from S\$574,618 (for the period 1 April 2021 to 31 March 2022) to S\$336,813 (for the period 1 April 2022 to 28 February 2023), and the Target Group from S\$346,243 (for the period 1 April 2021 to 31 March 2022) to S\$170,539 (for the period 1 April 2022 to 28 February 2023). In your explanation, please disclose relevant details and figures from the relevant entity's balance sheet and also the underlying transactions.*

## **Response**

The relevant details provided by the management of the Target Group are as follows:

<b>Entity/Group</b>	<b>NTL as at 31 March 2022</b>	<b>NTL as at 28 February 2023</b>	<b>Difference</b>	<b>Increase in Share Capital and a Proforma Adjustment*</b>	<b>Operating Loss from 1 April 2022 to 28 February 2023</b>
TSMC	S\$574,618	S\$336,813	S\$237,805	S\$431,850	(S\$194,045)
Target Group	S\$346,243	S\$170,539	S\$175,704	S\$433,226	(S\$257,522)

As presented above, the decrease in the NTL of TSMC of S\$237,805 is due to (i) the capitalisation of amount due to shareholders of S\$431,850 as paid-up share capital on 31 December 2022, offset by (ii) the operating loss incurred for the period from 1 April 2022 to 28 February 2023 of S\$194,045.

The decrease in the NTL of the Target Group of S\$175,704 is due to (i) the increase in TSMC's paid-up share capital as stated above, (ii) the incorporation of a new subsidiary, FME with a paid-up share capital of S\$1,000 and (iii) a proforma adjustment of S\$376\*, offset by (iv) the operating loss incurred for the period from 1 April 2022 to 28 February 2023 of S\$257,522.

However, the above numbers are subject to the independent valuation and financial due diligence review to be conducted by the Company.

b. Paragraph 3.2(b)(iv) of Practice Note 10.1 states that “if a business to be acquired has negative net asset value, the absolute value of the negative net asset value shall be taken into account in computing the aggregate value of consideration”. Please compute the aggregate value of consideration taken into consideration the net tangible liabilities of the Target Group and disclose the corresponding changes to the ratios computed under Listing Rule 1006.

#### **Response**

The Company wishes to clarify that the unaudited pro forma NAV of the Target Group as at 28 February 2023 was positive, being S\$166,274.

Taking into consideration the unaudited pro forma NTL of the Target Group as at 28 February 2023 of S\$170,539, the revised relative figure computed under Rule 1006(c) of the Listing Manual is 96.59% which was derived based on the aggregate value of consideration of S\$5,546,199 divided by the Company’s market capitalisation of S\$5,741,955 on 23 March 2023.

#### **Query 4**

The Company disclosed the price-earnings ratio of the Purchase Consideration is 8 times and it is fixed with a general reference to the education industry. Please provide details relating to the benchmarks used, including the companies compared to, their business activities, their size and earnings and price-earnings ratio. Please provide the Audit Committee’s opinion on the appropriateness of the above price-earnings ratio for the transaction.

#### **Response**

The Company has reached the price-earnings ratio of 8 times with general reference to the education industry. The Company notes that there are no similar listed companies that have the exact same business model as the Target. However, as general benchmarks, the following companies had been selected for consideration.

<b>Name of Company</b>	<b>Business Activities</b>	<b>Market Capitalisation (as at 30 December 2022)</b>	<b>Net Income (Trailing Twelve Months)</b>	<b>PE Ratio</b>
Raffles Education Ltd (SGX: NR7.SI)	A private education provider based in Singapore. Operates various education institutions worldwide and offers courses in design, business, and psychology.	S\$71.76 million	S\$7.17 million	10.01x
Overseas Education Limited (SGX: RQ1.SI)	A private education provider based in Singapore. Specializes in providing language, tertiary and test preparation courses for international students.	S\$91.38 million	S\$5.28 million	17.31x
Cathay Media and Education Group Inc. (1981.HK)	Operates as an education training company focusing on media and arts in China. Provides higher education service and training in arts	HKD2.11 billion	HKD52.76 million	39.92x

Name of Company	Business Activities	Market Capitalisation (as at 30 December 2022)	Net Income (Trailing Twelve Months)	PE Ratio
	field and television production business.			
YG Entertainment Inc. (122870.KQ)	A South Korean entertainment company involved in the production, marketing and distribution of music recordings, music publishing, record manufacturing and sales, artist management, concert production, and new artist discovery and training.	KRW798.07billion	KRW21.55 billion	37.03x

Source: <https://sg.finance.yahoo.com/>

The price-earnings ratio of the above companies ranged from 10.01x to 39.92x. The Company considered the lowest with a discount of 20% and the price-earnings ratio worked out to be 8.0x.

The Company has also referenced the homepage of Mr Aswath Damodaran, a professor of finance at the Stern School of Business at New York University ([https://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/pedata.html](https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/pedata.html)), which has listed the forward and trailing price-earnings ratios of the education sector in the United States to be 20.51x and 18.21x, respectively.

Having considered the above, the growth prospects and the niche market of the Target Group, the Audit Committee is of the view that the price-earnings ratio of 8 times is a reasonable multiple for the Proposed Acquisition.

**Query 5**

*With reference to the Company’s response to Query 7(b) and 7(c),*

- a. *Given a price-earnings ratio of 8 times, the Minimum Consideration of 8 times assumes an average annual after-tax earnings of the Target Group amounting to S\$86,000 for financial years ending 31 March 2024 and 2025. We note that the Target Group made a substantial loss before tax of S\$220,000 in the financial year ending 31 March 2022 and the loss widened to S\$258,000 in the period from 1 April 2022 to 28 Feb 2023. Given there is no indication of an improvement in earnings, please robustly explain how an after-tax earnings of S\$86,000 is justified, including details relating to assumptions, figures to support the assumptions and the methodology for the earnings projection.*

**Response**

The Company wishes to clarify that the above theoretical after-tax earnings should not be taken as an indication of the actual future financial performance or position of the Target Group after the Completion.

As mentioned in the response to Query 7(c) of the Company’s announcement dated 13 April 2023, the Target Group has made losses over the past 2 years largely due to the COVID-19 situation that affected TSMC’s operations and hampered its intended growth plans to tap into the international market for students through the attaining of the EduTrust certification. With the attainment of the EduTrust Provisional award

by TSMC in March 2023 coupled with the re-opening of the international borders, the Target Group will be able to implement its intended growth plans to improve its financial performance based on the following key assumptions:

- (i) the Target Group is able to capture a significant market share in the music education industry of the region through its local and regional marketing efforts;
- (ii) TSMC is able to tap on new revenue streams from the recruitment of international students through its internal sales team and external recruitment agents;
- (iii) FME is able to onboard more artists from its student pool into its portfolio of artists;
- (iv) TSMC is able to attain the EduTrust Four-Year award by early 2024 which would enable TSMC to partner notable overseas music colleges to offer pathway programmes and external degree programmes to its students, further expanding its market; and
- (v) the Target Group is able to achieve cost savings from economies of scale and synergies through leveraging on the resources available in the Company.

*b. Please explain how the projected after-tax earnings of S\$1,500,000 was derived and justified considering the revenue for the Target group was below \$500,000 for both FY2022 and the period from 1 April 2022 to 28 February 2023, and the Target reported significant and widening losses of S\$220,000 and S\$257,000 for each period respectively. Please include details regarding any assumptions and supporting evidence and figures for each assumption and the methodology for the earnings projection of \$1,500,000. Please provide details as set out in Listing Rule 1012 and comply accordingly.*

### **Response**

The Company wishes to clarify that the sum of S\$1,500,000 is a net profit target mutually agreed by the Company and Vendors after negotiations to facilitate the earnout mechanism having considered the price-earnings ratio of 8 times and the intended growth plans of the Target Group. In principle, the earnout mechanism serves to bridge the gap in the expectation between the Company and the Vendors.

Please refer to the response to Query 5(a) above for the key assumptions made. The Company will provide the information required under Rule 1012 (b) and (c) of the Listing Manual of the SGX-ST, if required, in the shareholders' circular to be issued by the Company in due course.

*c. The Company stated that the Minimum Consideration was reached after taking into account "(i) the attainment of EduTrust Provisional award by TSMC; (ii) the reputation and experience of the Vendors in the music industry; and (iii) the expected influx of foreign students to pursue better education in Singapore...". Please provide supporting research and evidence on (iii). Please also disclose the internal valuations of each of (i) to (iii), explain the methodology and assumptions behind the Company's internal valuation of each of (i) to (iii) and detailed computations that give rise to the Minimum Consideration.*

### **Response**

The Company has referenced to the following in respect of item (iii):

- (i) Business Times's article entitled "Foreign enrolment in Singapore private schools picks up as borders reopen, The Business Times" (<https://www.businesstimes.com.sg/singapore/economy-policy/foreign-enrolment-singapore-private-schools-picks-borders-reopen>).
- (ii) 2021 Private Education Sector Overview issued by the Committee for Private Education to the private education institutions ("PEIs").

Items (i) to (iii) are intangible benefits that cannot be quantified directly in economic terms, and the Company has considered their significant impact on the Target Group's business as follows:

(a) EduTrust certification is a voluntary scheme under the Committee of Private Education (“CPE”) that assures the quality of private education institutions in Singapore. It aims to assure students that the institutions they are interested in provide quality education and services. Awarded PEIs will be able to enrol foreign students for its courses. PEIs who wish to apply for the EduTrust certification must already possess the ERF Four-Year Registration under the Enhanced Registration Framework. To qualify for the EduTrust certification, a PEI undergoes an EduTrust audit by CPE, to ensure that it meets the requirements set by CPE under the EduTrust guidance document. Under the EduTrust guidance document, there are seven sets of criteria which specify the standards for policies and processes in the areas of corporate governance, academics, operations, student protection, student and graduate outcomes and continual improvement. TSMC has undergone the EduTrust Audit for the first time in December 2022 and attained the EduTrust Provisional award in March 2023.

Based on the 2021 Private Education Sector Overview issued by the CPE, the student intake of the PEIs for the year 2021 increased 14% to 138,000 students and the sector revenue increased by 4% to S\$3.10 billion. 3% of the student intake, which was approximately 4,140 students, enrolled for courses in the field of Fine and Applied Arts. The attainment of the EduTrust Provisional award by TSMC will enable TSMC to expand its student pool by enrolling foreign students.

(b) The Vendors, who are part of the management team of the Target, are veterans in the music industry. They have had tremendous success in the music scene and have groomed renowned music makers such as Kenny Khoo (邱鋒澤), Wu Jiahui (伍家輝) and Ming Bridges (喬毓明). Please refer to the achievements of the Vendors set out in paragraph 3.6 of the Company’s announcement dated 24 March 2023.

d. *Please provide the Audit Committee’s opinion on the appropriateness of the above earnings projections and internal valuations, as well as the basis of their opinion.*

#### **Response**

The Audit Committee is of the view that the Company’s assessments of items (i) to (iii) as set out in the response to Query 5(c) above are reasonable in view of the growth prospects and the niche market of the Target Group.

e. *Please confirm whether there are any additional amounts that should be included in the aggregate value of consideration, including, inter alia, those stated at paragraphs 3.2(b)(i) to (iii) of Practice Note 10.1.*

#### **Response**

There are no additional amounts that should be included in the aggregate value of consideration, including, *inter alia*, those stated at paragraphs 3.2(b)(i) to (iii) of Practice Note 10.1.

f. *Please explain the bases of the Board’s view that the Purchase Consideration (including the earnout mechanism) is (i) “fair” and (ii) in the best interest of the Group, especially considering that the Target Group is in net tangible liabilities position of S\$170,000 and incurring net losses whereas the Purchase Consideration is at least S\$688,000.*

#### **Response**

The Board views that the Purchase Consideration (including the earnout mechanism) is fair and in the best interest of the Group for the following reasons:

- (i) the Minimum Consideration of S\$688,000 is fair as it acknowledges:
  - (a) the Target Group’s know-how in the music and education industry to operate a music education and artist management business through the experience and reputation of the Vendors; and
  - (b) TSMC’s demonstration of the quality of its operations and courses provided through the attaining of the EduTrust Provisional award;

- (ii) the price-earnings ratio of 8 times is a reasonable multiple for the Proposed Acquisition after considering comparable businesses in the education and entertainment industry locally and regionally, the growth potential and the niche market of the Target Group;
  - (iii) the earnout mechanism allows the Company to mitigate risk in the form of less consideration in the event the performance of the Target Group does not reach the agreed net profit target i.e. the balance Purchase Consideration after paying the Minimum Consideration is subject to the Target Group achieving the agreed net profit target up till the financial year ended 31 March 2025; and
  - (iv) the Maximum Consideration provides a cap on the earnout mechanism, which allows the Company to acquire the Target Group at a discount in the event the Target Group registers higher net profits.
- g. Please explain why the Board has not engaged any adviser in respect of the Proposed Acquisition in view of the high Purchase Consideration for a Target Group that is in net loss and net tangible liabilities position.*

### **Response**

The initial stage of the Proposed Acquisition entailed the negotiations and reaching an agreement on the commercial terms of the transaction. As the Proposed Acquisition is a non-asset backing acquisition due to the nature of the business of the Target Group, and the the Target Group has made losses over the past 2 years largely due to the COVID-19 situation that affected its operations and hampered its intended growth plans, the Board is of the view that it is not necessary to engage any adviser in respect of the Proposed Acquisition at the initial stage.

By Order of the Board

Thang Teck Jong  
Executive Chairman  
16 May 2023