VIVIDTHREE HOLDINGS LTD.
(Incorporated in Singapore)
(Company Registration No. 201811828R)

PROPOSED INVESTMENT IN ELLIOT COMMUNICATIONS PTE. LTD.
- ENTRY INTO SIDE LETTER
- RESPONSE TO SGX QUERIES

The Board of Directors of Vividthree Holdings Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the Company's announcement dated 27 March 2023 (the "**Announcement**"). Capitalised terms have the meanings set out in the Announcement.

The Board wishes to update shareholders that since the Announcement, the Company, the Vendor and the Target Company have further entered into a side letter on 30 March 2023 in order to clarify their common understanding in relation to the calculation of the Call Option Consideration (the "**Side Letter**").

Under the terms of the Side Letter, the Parties have confirmed that in calculating the Call Option Consideration, the aggregate net profit recorded by each Operating Company in the Relevant FY as referred to in in the formula shall mean the aggregate net profit recorded by each Operating Company in the Relevant FY after adjusting for the Special Dividend (if applicable).

In addition, the Board wishes to inform shareholders that the Company has received the following queries from the Singapore Exchange Securities Trading Limited ("**SGX-ST**") regarding the Announcement.

The Company sets out its responses as follows:

Query 1:

How was the Company introduced to the Vendor and the Co-founder?

Company's Response:

The Company's Chief Executive Officer, Mr Zhang Weiquan, Jonathan, was introduced to the Vendor through a mutual business associate. No introducer or other fee was paid by the Company for such introduction.

Query 2:

It is disclosed that the purchase consideration of S$775,393 was arrived at after arm's length negotiations with the Vendor on a willing-buyer willing-seller basis, and is based on valuing the Operating Companies at a 6x multiple of the aggregate net profit recorded by each Operating Company in its unaudited financial statements for the financial year ended 31 December 2021 (the "**Aggregate FY2021 Net Profit**"), which was in turn arrived at after taking into consideration (i) valuations achieved by comparable companies in the same industry; and (ii) the Vendor's experience and expertise in the communications industry.

(a) If the purchase consideration were to be based on the aggregate net profit recorded by each Operating Company in its unaudited financial statements for the financial year ended 31 December 2022, what would be the PE Ratio?

(b) Did the Company consider adjusting the purchase consideration based on the Target's updated financials for FY2022? Otherwise, why not?

(c) What is the average valuation of comparable companies in the same industry?

Company's Response:

(a) The aggregate net profit recorded by each Operating Company in its unaudited financial statements for the financial year ended 31 December 2022 ("**FY2022**") is approximately S$673,200, which is higher than the Aggregate FY2021 Net Profit of approximately S$430,700. Based on the net profit for FY2022, the purchase consideration would value the Operating Companies at a 4.1x multiple of the aggregate net profit recorded by each Operating Companies.

(b) No. The parties had entered into discussions about a potential investment in the second quarter of 2022. This culminated in the signing of the memorandum of understanding in December 2022 ("**MOU**") as announced by the Company on 15 December 2022. In connection with the MOU, the parties came to a commercial agreement to (i) value the Operating Companies based on the latest available financial statements during the discussions before MOU, being the financial statements for the year ended 31 December 2021; and (ii) that such valuation shall be on the basis that the Vendor extracts all cash and will pay off all debt prior to completion. While definitive agreements were only entered into on 27 March 2023, the definitive agreements reflected the commercial agreement of the parties at the time of signing of the MOU. As disclosed in our response in query 2(a) above, the net profit recorded by each Operating Company in its unaudited financial statements for the financial year ended 31 December 2022 was ultimately higher than the Aggregate FY2021 Net Profit and the 6x multiple that was agreed by the Parties took into account the expected financial performance of the Operating Companies in FY2022.

(c) The Company had conducted internal investigations on the appropriate valuation to impute on the Operating Companies. Based on a survey of companies listed in India, Thailand and China that are in the public relations sector, the average P/E Ratio of such companies in 2022 ranged from 6.8x to 25.2x . The Company will be engaging an independent valuer to prepare a valuation report on the Target Company and the key findings of such valuation report will be disclosed in the circular to be despatched to Shareholders in connection with the EGM.

Query 3:

The SPA also details a call option agreement with the Target, allowing the Group to acquire a further 21% stake for at least S$1.98 million should the Target achieve a net profit of not less than S$0.90 million for any FY between FY2023 and FY2025.

The Company is acquiring a 30% stake in the Target for about S$775K while a further 21% stake will cost the Company at least S$1.98 million.

(a) Please provide basis and factors taken into consideration in arriving the significant increase in consideration for exercising the call option.

(b) Please provide the Board's view on how and why the significant consideration to exercise the call option is in the best interest of the Company and its minority shareholders. Please provide justifications.

Company's Response:

(a) To clarify, the Call Option Consideration is not fixed and is based on a prescribed formula as stipulated in the SPA. In principle, the formula seeks to determine the additional amount that the Company should pay to increase its stake to 51.0% of the Target Group - it applies a 6x multiple to the aggregate net profit recorded by each Operating Company in the relevant financial year to value the 51.0% stake, less the amounts already paid by the Company for its initial 30% stake (i.e. the Tranche 1 Shares).

(b) On the basis that (i) there is no obligation on the Company to exercise the Call Option; (ii) the Call Option formed an important cornerstone of the transaction that was requested by the Vendor; (iii) the Call Option, if exercised, gives the Company the ability to increase its stake in the Target Company to a controlling one, in the event the Target Company's business exceeds expectations, the Board is of the view that the Call Option is in the best interest of the Company and its minority shareholders.

Query 4:

Special Dividend - Upon the exercise of the Call Option, the Target Company shall pay to the Vendor an amount equal to the aggregate net profit recorded by the Operating Companies for the FY between FY2023 to FY2025 less S$1 million, whether by way of special dividend or otherwise provided that the aggregate net profit recorded is not less than S$1 million.

(a) Please provide rationale for the Special Dividend clause (i.e. paying the Vendor dividend in the event the Company exercises the call option to further acquire 21% at an amount no less than S$1.98 million).

(b) Please also provide basis and considerations in deriving how the special dividend would be calculated.

(c) Please provide the Board's view of how is this arrangement in the best interest of the Company and its minority shareholders. Please provide justifications.

Company's Response:

(a) As clarified by the parties under the Side Letter, the Special Dividend when read with the Call Option has the effect of setting a cap on the maximum future valuation of the Target Group at S$3.06 million (the "**Valuation Cap**"). This benefits the Company as (i) in the event the Company elects to exercise the Call Option, the Call Option Consideration payable by the Company would also be capped to a maximum of S$2.28 million (i.e. reflective of the Valuation Cap), even if the net profit of the business exceeds expectations; and (ii) the Vendor would be motivated to grow the business beyond the Valuation Cap as he would be entitled to extract the excess value via the Special Dividend prior to Company's exercise of the Call Option.

(b) Please see our response in query 4(a) above.

(c) In view of the factors set out in the response to Query 4(a) above, the Board is of the view that the Call Option coupled with the Special Dividend is in the best interest of the Company and its minority shareholders.

Query 5:

Pre-completion dividend - Under the terms of the SPA, the parties have agreed that prior to Completion, the Target shall declare and pay a one-time dividend such that the Target Company's cash position as at Completion shall be no less than the amount owed by the Target to its financiers (excluding interest) as at Completion.

(a) What is the Target's rationale for including such pre-completion dividend clause in the SPA, and who will be entitled to such one-time dividend?

(b) Please clarify who are the Target's financiers and the amount owing by the Target.

(c) Please provide the Company's rationale for accepting the pre-completion dividend arrangement and provide the Board's view of how is this arrangement in the best interest of the Company and its minority shareholders. Please provide justifications.

Company's Response:

(a) As disclosed above, the Company had agreed to the Pre-completion Dividend as the agreed valuation assumed the Vendor extracting all cash and paying off all debt prior to completion. As such, the parties had agreed for the Target Company to declare and pay the Pre-completion Dividend to the Vendor to reflect such commercial understanding.

(b) The Target Group has obtained banking facilities with DBS Bank Ltd. in Singapore. As at 31 December 2022, the Operating Companies have bank borrowings with aggregate principal amount of approximately S$574,170.

(c) Please see response in query 5(a) for the rationale for accepting the Pre-completion Dividend. The Board is of the view that accepting the Pre-completion Dividend is in the best interests of the Company and its minority shareholders, as this was a key assumption underpinning the Parties' commercial agreement relating to the valuation of the Target Group, and the Vendor would not have agreed to enter into the SPA without an express clause permitting the Pre-completion Dividend in the SPA.

BY ORDER OF THE BOARD

Zhang Weiquan, Jonathan
Chief Executive Officer
30 March 2023
