

CIRCULAR DATED 8 DECEMBER 2017

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

If you are in any doubt about its contents or the action you should take, you should consult your bank manager, stockbroker, solicitor, accountant, tax adviser or other professional adviser immediately.

If you have sold or transferred all your shares in the capital of SMJ International Holdings Ltd. (the “**Company**”) held through the Central Depository (Pte) Limited (“**CDP**”), you need not forward this Circular to the purchaser or transferee as CDP will arrange for a separate Circular to be sent to the purchaser or transferee. If you have sold or transferred all your shares in the capital of the Company (“**Shares**”) which are not deposited with CDP, you should immediately forward this Circular, the Notice of Extraordinary General Meeting and the attached proxy form to the purchaser or the transferee, or to the bank, stockbroker or agent through whom the sale or the transfer of Shares was effected for onward transmission to the purchaser or the transferee.

Your attention is drawn to the section entitled “Risk Factors Relating to the Proposed New Business Scope” of this Circular, which you should review carefully.

This Circular has been prepared by the Company and its contents have been reviewed by the Company’s sponsor, Hong Leong Finance Limited (the “**Sponsor**”) for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) Listing Manual Section B: Rules of Catalyst. The Sponsor has not independently verified the contents of this Circular.

This Circular has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this Circular, including the correctness of any of the statements or opinions made or reports contained in this Circular.

The contact person for the Sponsor is Mr Tang Yeng Yuen, Vice President, Head of Corporate Finance, at 16 Raffles Quay, #40-01A Hong Leong Building, Singapore 048581, telephone (65) 6415 9886.



SMJ INTERNATIONAL HOLDINGS LTD.

(Company Registration Number: 201334844E)
(Incorporated in the Republic of Singapore)

CIRCULAR TO SHAREHOLDERS

in relation to

- (1) THE PROPOSED DISPOSAL OF THE ENTIRE 100% EQUITY INTEREST IN SMJ FURNISHINGS (S) PTE LTD AS AN INTERESTED PERSON TRANSACTION AND MAJOR TRANSACTION**
- (2) THE PROPOSED EXPANSION OF THE GROUP’S EXISTING CORE BUSINESS TO INCLUDE THE PROPOSED NEW BUSINESS SCOPE**

**Independent Financial Adviser to the Independent Directors of the Company
in relation to the Proposed Disposal**



RHT CAPITAL PTE. LTD.

(Company Registration Number: 201109968H)
(Incorporated in the Republic of Singapore)

IMPORTANT DATES AND TIMES

Last date and time for lodgement of Proxy Form	:	24 December 2017 at 2.10 p.m.
Date and time of Extraordinary General Meeting	:	26 December 2017 at 2.10 p.m.
Place of Extraordinary General Meeting	:	31 Jurong Port Road #02-20 Jurong Logistics Hub (South Wing) Singapore 619115

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DEFINITIONS

In this Circular, the following definitions shall apply throughout unless the context otherwise requires or otherwise stated:

<i>“Act”</i>	:	The Companies Act, Chapter 50 of Singapore, as amended or modified from time to time
<i>“Associate”</i>	:	(a) in relation to any Director, chief executive officer, Substantial Shareholder or Controlling Shareholder (being an individual) means: <ul style="list-style-type: none">(i) his immediate family;(ii) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and(iii) any company in which he and his immediate family together (directly or indirectly) have an interest of 30% or more (b) in relation to a Substantial Shareholder or a Controlling Shareholder (being a company) means any company which is its subsidiary or holding company or is a subsidiary of any such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30% or more
<i>“Board”</i>	:	The board of directors of the Company as at the Latest Practicable Date
<i>“Business Day”</i>	:	A day (other than Saturday, Sunday or public holiday) on which banks are open for business in Singapore
<i>“Catalist Rules”</i>	:	Any or all of the rules in Section B: Rules of Catalist of the Listing Manual of the SGX-ST, as amended or modified from time to time
<i>“CDP”</i>	:	The Central Depository (Pte) Limited
<i>“CEO”</i>	:	Chief Executive Officer
<i>“Circular”</i>	:	This circular to Shareholders dated 8 December 2017 in respect of the Proposed Expansion of Core Business and the Proposed Disposal
<i>“Company”</i>	:	SMJ International Holdings Ltd.
<i>“Completion”</i>	:	The completion of the sale and purchase of the Sale Shares pursuant to the Sale Agreement

DEFINITIONS

<i>“Completion Date”</i>	:	The date on which Completion occurs
<i>“Control”</i>	:	The capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of the Company
<i>“Controlling Shareholder”</i>	:	A person who: <ul style="list-style-type: none"> (a) holds directly or indirectly 15% or more of the issued share capital of the Company; or (b) in fact exercises Control over the Company
<i>“COO”</i>	:	Chief Operating Officer
<i>“Directors”</i>	:	The directors of the Company as at the date of this Circular
<i>“EGM”</i>	:	The extraordinary general meeting of the Company, notice of which is given on page 61 of this Circular
<i>“EPS”</i>	:	Earnings per Share
<i>“FY”</i>	:	Financial year of the Company ended or ending 31 December (as the case may be)
<i>“Group”</i>	:	The Company and its Subsidiaries
<i>“HY2017 Results”</i>	:	The Group’s unaudited financial statements for the half year ended 30 June 2017
<i>“IFA”</i>	:	RHT Capital Pte. Ltd.
<i>“Interested Person”</i>	:	Has the meaning ascribed to it in the Catalist Rules
<i>“Interested Person Transaction”</i>	:	Transaction proposed to be entered or entered into between the Company, its Directors, Substantial Shareholders and their Associates as has the meaning ascribed to it in the Listing Manual
<i>“Latest Practicable Date”</i>	:	29 November 2017, being the latest practicable date prior to the printing of this Circular
<i>“Management”</i>	:	The management team of the Company that is headed by its executive Directors
<i>“Market Day”</i>	:	A day on which SGX-ST is open for securities trading
<i>“NAV”</i>	:	Net asset value

DEFINITIONS

<i>“NTA”</i>	:	Net tangible assets
<i>“P/E”</i>	:	Price to earnings multiple
<i>“PRC”</i>	:	People’s Republic of China
<i>“Property Related Assets”</i>	:	Investments in residential, hospitality, commercial (retail and office), industrial and other suitable types of properties (including mixed development properties)
<i>“Property Related Business”</i>	:	<p>The existing core business of the Group which was approved by the Shareholders by way of an ordinary resolution passed at the extraordinary general meeting of the Company held on 28 June 2016, which covers the following activities:</p> <ul style="list-style-type: none"> (a) to acquire and hold Property Related Assets, and holding the same for long term investment for the collection of rent, capital growth potential and/or provision of property related services and facilities; (b) to trade in properties including but not limited to, buying and selling of Property Related Assets with reasonable yield and/or capital growth potential; and (c) the management of Property Related Assets
<i>“Proposed Disposal”</i>	:	The disposal of the Sale Shares by the Company to the Purchasers pursuant to, and on the terms and conditions of the Sale Agreement
<i>“Proposed Expansion of Core Business”</i>	:	The proposed expansion of the Group’s scope of existing core business to include the Proposed New Business Scope
<i>“Proposed New Business Scope”</i>	:	Has the meaning ascribed to it in Section 10.2 of this Circular
<i>“Purchasers”</i>	:	Rena Ho and Nellie Ho
<i>“Sale Agreement”</i>	:	The sale and purchase agreement dated 20 October 2017 made by the Company with the Purchasers relating to the sale of the Company’s entire equity interests in SMJ Furnishings to Rena Ho and Nellie Ho in the proportion of 50% and 50%, respectively
<i>“Sale Price”</i>	:	The aggregate sum of S\$13.8 million, being the Sale Price for the Proposed Disposal
<i>“Sale Shares”</i>	:	The entire 100% equity interest in SMJ Furnishings

DEFINITIONS

<i>“Securities Account”</i>	:	The securities account maintained by a Depositor with CDP (but does not include a securities sub-account)
<i>“SFA”</i>	:	The Securities and Futures Act (Chapter 289) of Singapore, as amended or modified from time to time
<i>“SGX-ST”</i>	:	Singapore Exchange Securities Trading Limited
<i>“Share(s)”</i>	:	Ordinary share(s) in the share capital of the Company
<i>“Shareholders”</i>	:	The registered holders of the Shares in the register of members of the Company, except where the registered holder is CDP, the term “Shareholders” shall, in relation to such Shares and where the context so admits, mean the Depositors whose Securities Accounts are credited with such Shares
<i>“SMJ Furnishings”</i>	:	SMJ Furnishings (S) Pte Ltd, a wholly-owned subsidiary of the Company
<i>“Skyline Property”</i>	:	A condominium unit located at 608 Telok Blangah Road, #08-01 Skyline Residences, Singapore 109030, which is owned by SMJ Furnishings
<i>“Substantial Shareholders”</i>	:	A person (including a corporation) who holds directly or indirectly 5% or more of the issued capital in the Company
<i>“Subsidiary”</i>	:	A subsidiary of the Company within the definition of Section 5 of the Act

Names used in this Circular

<i>“Rena Ho”</i>	:	Ho Pei Yuen Rena, the Company’s Executive Director and CEO
<i>“Nellie Ho”</i>	:	Ho Wan Jing Nellie, the Company’s Executive Director and Deputy CEO

Currencies, Units and Others

<i>“RMB” or “RMB cents”</i>	:	PRC Renminbi
<i>“SGD”, “S\$”, “\$” or “cents”</i>	:	Singapore dollars and cents, respectively
<i>“%” or “per cent”</i>	:	Per centum or percentage

The terms **“Depositor”**, **“Depository Agent”** and **“Depository Register”** shall have the same meanings ascribed to them, respectively, in Section 81SF of the SFA. The term **“Subsidiary”** shall have the same meaning ascribed to it in Section 5 of the Companies Act.

DEFINITIONS

Words importing the singular shall, where applicable, include the plural and *vice versa*. Words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

The headings in this Circular are inserted for convenience only and shall be ignored in construing this Circular.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act, SFA, Catalist Rules or any statutory modification thereof and not otherwise defined in this Circular shall have the same meaning assigned to it under the Companies Act, SFA, Catalist Rules or any statutory modification thereof, as the case may be.

Any reference to a time of day in this Circular is made by reference to Singapore time unless otherwise stated.

Any discrepancies in this Circular between the sum of the figures stated and the total thereof are due to rounding. Accordingly, figures shown as totals in this Circular may not be an arithmetic aggregation of the figures which precede them.

LETTER TO SHAREHOLDERS

SMJ INTERNATIONAL HOLDINGS LTD.

(Company Registration Number: 201334844E)
(Incorporated in the Republic of Singapore)

Board of Directors

Chow Wen Kwan Marcus (Independent Non-Executive Chairman)
Ho Pei Yuen Rena (Executive Director and CEO)
Ho Wan Jing Nellie (Executive Director and Deputy CEO)
Lee Lay Choo (Executive Director and COO)
Peng Weile (Executive Director)
Ng Tiang Hwa (Independent Non-Executive Director)
Chong Soo Hoon, Sean (Independent Non-Executive Director)
Peng Fei (Non-Executive Director)

Registered Office

31 Jurong Port Road
#02-20 Jurong Logistics Hub
Singapore 619115

8 December 2017

To: The Shareholders of the Company

Dear Sir/Madam

- (1) **THE PROPOSED DISPOSAL OF THE ENTIRE 100% EQUITY INTEREST IN SMJ FURNISHINGS (S) PTE LTD AS AN INTERESTED PERSON TRANSACTION AND MAJOR TRANSACTION**
- (2) **THE PROPOSED EXPANSION OF THE GROUP'S EXISTING CORE BUSINESS TO INCLUDE THE PROPOSED NEW BUSINESS SCOPE**

1. INTRODUCTION

1.1 Background

On 20 October 2017, the Company announced that the Company had entered into a sale and purchase agreement with Rena Ho, our Executive Director and CEO, and Nellie Ho, our Executive Director and Deputy CEO for the sale of the Company's entire equity interests in SMJ Furnishings to Rena Ho and Nellie Ho in the proportion of 50% and 50%, respectively, for an aggregate cash consideration of S\$13.8 million. The Proposed Disposal will result in SMJ Furnishings ceasing to be a Subsidiary of the Company. In addition, as SMJ Furnishings will continue to hold its shareholding interests in PT Spektrum Megah Jaya following the Proposed Disposal, which is a joint venture company with principal activities of supply and distribution of carpets and other furnishings materials in Indonesia, the Company will also cease to have any interests in PT Spektrum Megah Jaya following the Proposed Disposal.

On 20 October 2017, the Company also announced that the Company is proposing to expand the scope of its existing core business to include the Proposed New Business Scope as described in Section 10.2 of this Circular, in furtherance to the approval of Shareholders' obtained on 28 June 2016 for the diversification of its then existing core business to include the Property Related Business.

LETTER TO SHAREHOLDERS

1.2 Purpose of this Circular

The purpose of this Circular is to provide Shareholders with information relating to the Proposed Expansion of Core Business and the Proposed Disposal and to seek Shareholders' approval for such proposals at the forthcoming EGM.

2. THE PROPOSED DISPOSAL AS AN INTERESTED PERSON TRANSACTION

2.1 Interested Persons and Entity at Risk

The Company is an "entity at risk" while each Purchaser is an "interested person" as defined under Chapter 9 of the Listing Manual in view of the following:

- (i) Rena Ho (sister of Nellie Ho) is an Executive Director and the Chief Executive Officer of the Company as well as a director of SMJ Furnishings and holds approximately 16.41% of the total issued share capital of the Company; and
- (ii) Nellie Ho (sister of Rena Ho) is an Executive Director and the Deputy Chief Executive Officer of the Company as well as a director of SMJ Furnishings and holds approximately 16.41% of the total issued share capital of the Company.

Accordingly, the Proposed Disposal constitutes an Interested Person Transaction pursuant to Chapter 9 of the Catalist Rules. Furthermore, as the aggregate value of the Proposed Disposal represents approximately 84.5% of the Group's latest audited NTA of S\$16.4 million as at 31 December 2016, the approval of Shareholders by way of ordinary resolution is required in order for the Company to effect the Proposed Disposal.

2.2 Other Transactions with Interested Persons

There are no other Interested Person Transactions entered with Rena Ho or Nellie Ho or any other Interested Person for the current financial year ending 31 December 2017 up to the date of this Circular.

2.3 Advice of the IFA

RHT Capital Pte. Ltd. has been appointed as the IFA to the Independent Directors in relation to the Proposed Disposal. A copy of the letter from the IFA to the Independent Directors dated 8 December 2017 ("**IFA Letter**") setting out its advice in full, is reproduced in Appendix A of this Circular. Shareholders are advised to read the IFA Letter in its entirety.

Taking into consideration the factors set out in the IFA Letter and the information available to the IFA as at the Latest Practicable Date, the IFA is of the opinion that the Proposed Disposal is on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

2.4 Statement of the Audit Committee

The Audit Committee having reviewed, *inter alia*, the rationale for, the terms and conditions and the financial effects of the Proposed Disposal and having considered the advice of the IFA in relation to the Proposed Disposal, is of the opinion that the Proposed Disposal is on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

LETTER TO SHAREHOLDERS

3. THE PROPOSED DISPOSAL AS A MAJOR TRANSACTION

3.1 Sale Price

The aggregate Sale Price for the sale of the Sales Shares is S\$13.8 million, which will be paid in cash by the Purchasers to the Company on Completion. The net proceeds from the Proposed Disposal (after deducting the transaction costs of approximately S\$125,000) is approximately S\$13.7 million.

The Sale Price of S\$13.8 million was arrived at on a willing buyer and willing seller basis between the Company and the Purchasers after taking into account, *inter alia*, the NAV of SMJ Furnishings as at 31 December 2016 and 30 June 2017, being S\$13,840,000 and S\$13,752,000, respectively. Both NAV figures of SMJ Furnishings include the book value of the Skyline Property owned by SMJF Furnishings, being S\$3,000,000 as at 31 December 2016 and S\$2,967,000 as at 30 June 2017.

The Skyline Property is currently being leased out at a rental rate of S\$5,840 per month. The Group had commissioned Knight Frank Pte Ltd to provide an independent valuation of the Skyline Property. Based on the valuation done by Knight Frank Pte Ltd, the Skyline Property with its then existing tenancy with similar rental rate was valued at S\$3,000,000 as at 27 December 2016. A desktop update valuation report was subsequently done by Knight Frank Pte Ltd on 17 October 2017, opining that the valuation of the Skyline Property on a vacant possession basis was approximately S\$2,900,000 as at 17 October 2017. The valuation certificates of the valuations of the Skyline Property as at 27 December 2016 and 17 October 2017 are set out in Appendix B of this Circular.

In accordance with the terms of the Sale Agreement, all stamp duty payable in connection with the Proposed Disposal was borne by the Purchasers. The Company will not incur any taxation liabilities in connection with the Proposed Disposal.

3.2 Conditions Precedent

The Completion is conditional upon the fulfilment of, *inter alia*, the following conditions precedent:

- (i) all necessary consents, approvals and authorisations of third parties including bankers, financial institutions, landlords of leases, government or regulatory authorities (including but not limited to the SGX-ST, if required) being obtained;
- (ii) full discharge of all corporate guarantee(s) given by the Company to secure the debts, liabilities or other payment obligations of SMJ Furnishings;
- (iii) the Company not being regarded as a cash company (as defined in the Catalist Rules) following completion of the Proposed Disposal;
- (iv) the approval of the independent shareholders of the Company for the Proposed Disposal being obtained at an EGM;
- (v) settlement of all amounts owing by SMJ Furnishings and its subsidiary to the Company or the Company's related corporations; and

LETTER TO SHAREHOLDERS

- (vi) the execution of new service agreements between the Company and each of Rena Ho, Nellie Ho, Peng Weile and Peng Fei, in connection with their resignations and/or re-designations as described in Section 9 of this Circular.

3.3 Completion

Completion will take place within 30 days from the date of the fulfilment or waiver of the conditions precedent of the Sale Agreement, where full payment of the Sale Price will be paid by the Purchasers and the Sale Shares will be transferred to the Purchasers.

3.4 Information on SMJ Furnishings

SMJ Furnishings is a company incorporated in Singapore on 12 February 1988 and has an issued and paid up capital of S\$3,500,000 divided into 3,500,000 ordinary shares. It is principally engaged in one of the Group's core business of sale and distribution of a wide range of premier carpets marketed under its proprietary "SMJ" brand through its global distribution network of carpet dealers, carpet importers and carpet installation companies both in Singapore and overseas, mainly in Asia.

SMJ Furnishings had previously acquired, and currently holds the title to the Skyline Property, a condominium unit situated at 608 Telok Blangah Road, #08-01, Singapore 109030. Please refer to Section 3.1 of this Circular for information regarding the valuation of the Skyline Property.

SMJ Furnishings currently holds 33% shareholding interests in PT Spektrum Megah Jaya, which is a joint venture company with principal activities of supply and distribution of carpets and other furnishings materials in Indonesia, and will continue to hold its shareholding interests in PT Spektrum Megah Jaya following the Proposed Disposal.

As such, the Group will cease to have any interests in the Skyline Property and PT Spektrum Megah Jaya following the Proposed Disposal.

4. RATIONALE FOR AND BENEFITS OF THE PROPOSED DISPOSAL

As announced in the Group's unaudited financial statements for the six months ended 30 June 2017 on 2 August 2017, the operating environment in the Singapore carpet industry continues to be challenging as the demand for carpet is expected to remain weak amidst uncertainties in the economic environment and a dearth of activities in the private residential and commercial sectors. The Group also anticipates that the export market conditions will remain competitive in most of its key markets in FY2017 due to the market weakness and competitive pricing pressures in the regional countries.

Pursuant to the shareholders' approval on 28 June 2016 for the diversification of the Group's then existing core business to include the Property Related Business, the Group has expanded its core business to include the Property Related Business. Following the Management's review of the financial performance of SMJ Furnishings and the current business climate for the Carpet Division that is expected to remain subdued, the Group intends to dispose of its existing carpet furnishing business in order to fully focus its resources and attention on developing the Property Related Business and the Proposed New Business Scope (as set out in Section 10.2 of this Circular).

LETTER TO SHAREHOLDERS

Given that the historical trading performance of the Shares on the Catalist Board of the SGX-ST has generally been below book value of the Group, the Sale Price of S\$13.8 million will allow the Group to immediately unlock shareholder's value and provide financial capability for the Group to grow the Property Related Business and the Proposed New Business Scope.

Taking into account, *inter alia*, the foregoing, the Directors are of the view that the Proposed Disposal will be beneficial for the Group.

5. FINANCIAL HIGHLIGHTS OF SMJ FURNISHINGS

Summary of profit and loss account and balance sheet of SMJ Furnishings

	FY2014 S\$'000	FY2015 S\$'000	FY2016 S\$'000
Summary of Profit and Loss Account			
Revenue	20,228	20,729	16,294
Profit before income tax	2,587	1,327	(23)
Profit attributable to shareholders	2,261	1,206	(40)
Summary of Balance Sheet			
Current assets	17,470	16,391	14,627
Non-current assets	1,842	3,096	4,177
Current liabilities	4,829	5,278	4,963
Non-current liabilities	9	29	1
Shareholders' equity	14,474	14,180	13,840

The net loss attributable to SMJ Furnishings for HY2017 was approximately S\$88,000.

6. USE OF PROCEEDS

The Company expects to receive net proceeds of approximately S\$13.7 million from the Proposed Disposal (after deducting transaction costs of approximately S\$125,000).

The Company intends to deploy the net proceeds in the following manner:

- (a) approximately S\$8 million to fund potential acquisitions and/or investments in assets, investments and shares or interests in entities engaged in the Property Related Business and/or the Proposed New Business Scope;
- (b) approximately S\$2 million to fund the costs, expenditure and working capital requirements of the Property Related Business; and
- (c) approximately S\$3.7 million to fund the costs, expenditure and working capital requirements of the Proposed New Business Scope.

LETTER TO SHAREHOLDERS

Pending the deployment of the unutilised proceeds for the purposes mentioned above, such proceeds may be deposited with banks and/or financial institutions, invested in short-term money markets and/or marketable securities, or used for any other purpose on a short-term basis, as the Directors may deem appropriate in the interests of the Group.

7. FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

Shareholders should note that the financial effects of the Proposed Disposal set out below are theoretical in nature and strictly for illustrative purposes only. Accordingly, they do not represent the actual financial position and/or results of the Group's operations after the Completion and are not indicative of the future financial position and earnings of the Group. The financial effects below have been prepared based on the audited consolidated financial statements of the Group for FY2016 and in accordance with the assumptions set out herein.

7.1 Share Capital

As no new Shares will be issued by the Company in connection with the Proposed Disposal, the Proposed Disposal will not have any impact on the existing issued share capital of the Company.

7.2 NTA

The effect of the Proposed Disposal on the NTA per Share of the Group for FY2016, assuming that the Proposed Disposal had been effected at the end of FY2016 is as follows:

As at 31 December 2016	Before the Proposed Disposal	After the Proposed Disposal
NTA (S\$'000)	16,378	16,338
NTA per share (S\$ cents)	21.0	20.9

7.3 EPS

The effect of the Proposed Disposal on the EPS of the Group for FY2016, assuming that the Proposed Disposal had been effected at the beginning of FY2016 is as follows:

FY2016	Before the Proposed Disposal	After the Proposed Disposal
Losses after tax and minority interests (S\$'000)	(418)	(458) ⁽¹⁾
Earnings per share (S\$ cents)	(0.54)	(0.59)

Note:

- (1) Excludes the losses of SMJ Furnishings for FY2016 and takes into account the presumed losses from the Proposed Disposal if the Proposed Disposal had been effected at the beginning of FY2016.

LETTER TO SHAREHOLDERS

7.4 Value of Sale Shares and Gain on Disposal

Based on the HY2017 Results, the NAV of SMJ Furnishings as at 30 June 2017 was S\$13,752,000. Please refer to Section 3.1 of this Circular for information regarding the indicative valuation of the Sale Shares of S\$13.8 million. Based on the NAV of SMJ Furnishings as at 30 June 2017, the gain on the Proposed Disposal is approximately S\$48,000. The net loss attributable to SMJ Furnishings for the half year ended 30 June 2017 was S\$88,000.

7.5 Gross Gearing Ratio

For illustrative purposes only, the effect of the Proposed Disposal on the gross gearing ratio of the Group for FY2016, assuming that the Proposed Disposal had been completed at the end of FY2016 is as follows:

As at 31 December 2016	Before the Proposed Disposal	After the Proposed Disposal
Total borrowings ⁽¹⁾ (S\$'000)	2,031	–
Shareholders' funds (S\$'000)	16,378	16,338
Gross gearing ratio ⁽²⁾ (times)	0.12	N.M.

Notes:

- (1) Total borrowings is defined as the aggregate amount of liabilities arising from banks and financial institutions.
- (2) Gearing means the ratio of total borrowings to equity attributable to Shareholders.
- (3) N.M. is an abbreviation for no meaningful figure.

8. RELATIVE FIGURES COMPUTED BASED ON RULE 1006 OF THE CATALIST RULES

Rule	Basis	Relative Figure
1016 (a)	NAV of the assets to be disposed of, compared with the Group's NAV	85.2% ⁽¹⁾
1006 (b)	Net losses attributable to the assets disposed of, compared with the Group's net losses	70.4% ⁽²⁾
1006 (c)	Aggregate value of the consideration received, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares	163.8% ⁽³⁾
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.
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:

- (1) Based on the NAV of SMJ Furnishings being approximately S\$13.8 million and the NAV of the Group of approximately S\$16.2 million in the HY2017 Results.
- (2) Based on the net losses attributable to SMJ Furnishings being approximately S\$88,000, and the Group's net losses of approximately S\$125,000 in the HY2017 Results.
- (3) Based on the Sale Price of S\$13.8 million and the Company's market capitalization of approximately S\$8,424,000 as at 19 October 2017 (being the last Market Day preceding the date of the Sale Agreement).

LETTER TO SHAREHOLDERS

Having regard to the above relative figures, the Proposed Disposal is a “major transaction” as defined in Rule 1014 of the Catalist Rules. Accordingly, the approval of Shareholders in an extraordinary general meeting is required for the Proposed Disposal. In addition, the approval of Shareholders in an extraordinary general meeting is also required under Section 160 of the Companies Act as the Proposed Disposal is a disposal of substantially the whole of the Company’s undertaking or property.

9. SERVICE AGREEMENT

Upon completion of the Proposed Disposal:

- (a) Lee Lay Choo will resign from the Board and will cease to be the Chief Operating Officer of the Company;
- (b) Rena Ho will cease to be the Company’s CEO and will be re-designated as Non-Executive Director on the Board;
- (c) Nellie Ho will cease to be the Company’s Deputy-CEO and will be re-designated as Non-Executive Director on the Board; and
- (d) Peng Fei will be re-designated as Executive Director and CEO of the Company.

As announced by the Company on 29 November 2017, the Company and the Purchasers will waive the condition precedent in the Sale Agreement relating to execution of a new service agreement with Peng Weile as set out in Section 3.2(vi) of this Circular, and will be executing a new service agreement with Peng Fei only.

The Company will make the relevant announcements with respect to such re-designations and resignations in due course. There are no directors proposed to be appointed to the Board in connection with the Proposed Disposal and the Proposed Expansion of Core Business. The Company will be executing the relevant new service agreements or letters of appointment (as applicable) with each of Rena Ho, Nellie Ho and Peng Fei, who are existing Directors, in connection with their re-designations as described above, which will take effect on from the Completion Date.

After Rena Ho and Nellie Ho cease to be Executive Directors upon Completion, their respective service agreements with the Company will come to an end. Thereafter, they will only receive directors’ fees in their capacity as Non-Executive Directors after such directors’ fees have been approved by Shareholders at the relevant annual general meetings.

The terms of the new service agreement to be made between the Company and Peng Fei as Executive Director and CEO to take effect on Completion will largely be in line with and not more favourable than the existing service agreements of Rena Ho and Nellie Ho.

10. THE PROPOSED EXPANSION OF THE GROUP’S EXISTING CORE BUSINESS

10.1 Existing business of the Group

The Group specialises in the sale and distribution of a wide range of premier carpets marketed under its proprietary “SMJ” brand through its global distribution network of more than 260 carpet dealers, carpet importers and carpet installation companies in Singapore and over 20 countries, mainly in Asia. In addition, the Group is the exclusive distributor for the Mohawk Industries, Inc’s (“**Mohawk Group**”) “LEES”, “Bigelow” and “Duracolor” range of carpets for Singapore, Malaysia and Indonesia. The Group is also the authorised distributor for Mohawk Group’s luxury vinyl tiles and authorised supplier for the Nox Corporation range of vinyl tiles in Singapore.

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The Company had on 28 June 2016 obtained shareholders' approval for the diversification of its then existing core business to include the Property Related Business. The Property Related Business is currently carried out by the Company's wholly-owned subsidiaries, Elite Management (Singapore) Pte. Ltd. and Beijing Zhuoyue Tiancheng Business Management Co. Ltd (北京卓越天成商业管理有限公司), and is supported by a team of experienced managers based in the PRC. As the Company develops its Property Related Business, it also managed to secure contracts relating to the provision of property-related ancillary services, such as interior design and fitting-out consultancy services, which is beyond the scope of the Property Related Business approved by Shareholders on 28 June 2016. Please refer to Section 10.3 of this Circular for further details on the consultancy agreements secured by the Group.

As at the Latest Practicable Date, the Subsidiaries of the Company which are involved in the existing business of the Group and their principal activities are as follows:

Name of Subsidiary	Date and Country of Incorporation/Registration	Effective interest held by the Group	Principal activities
<u>Held by the Company</u>			
SMJ Furnishings ⁽¹⁾	12 February 1988 Singapore	100%	General wholesale trade of carpets and furnishings materials
Elite Management (Singapore) Pte. Ltd.	20 July 2016 Singapore	100%	Property investment and management business
<u>Held by SMJ Furnishings</u>			
PT Spektrum Megah Jaya ⁽²⁾	10 November 2016 Jakarta, Indonesia	33%	Supply and distribution of carpets and other furnishings materials in Indonesia
<u>Held by Elite Management (Singapore) Pte. Ltd.</u>			
Beijing Zhuoyue Tiancheng Business Management Co. Ltd (北京卓越天成商业管理有限公司)	6 January 2017 PRC	100%	Property and hospitality management

Notes:

- (1) SMJ Furnishings, which has 33% shareholding in PT Spektrum Megah Jaya, is the subject of the Proposed Disposal. SMJ Furnishings also owns the Skyline Property. Please refer to Sections 2 and 3 of this Circular for further details.
- (2) Following Completion of the Proposed Disposal, the Company will not have any interests in PT Spektrum Megah Jaya.

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10.2 Description and Future Plans for the Proposed New Business Scope

Subject to the approval of the Shareholders for the Proposed Expansion of Core Business being obtained at the EGM, the Company intends to expand the scope of its existing core business to include the business of:

- (a) provision of interior design consultancy services (including furniture, fixtures, fittings and electromechanical equipment);
- (b) provision of consultancy services for overall planning, construction of buildings and other infrastructure (including indoor and outdoor layout and landscaping), and design and fitting-out for hotels and resorts;
- (c) provision of food and beverages management services;
- (d) provision of business management services in the Property Related Business;
- (e) provision of leisure and entertainment facilities management services;
- (f) provision of management and consultancy services in the tourism and hospitality industry, including hotels, resorts, spa services and other facilities;
- (g) to acquire and hold investments in businesses providing spa treatments and services, and holding the same for long term investment and/or provision of related management and/or consultancy services; and
- (h) provision of other related and ancillary services in connection with the tourism and hospitality industry.

(collectively, the “**Proposed New Business Scope**”).

The Group may also, as part of the Proposed New Business Scope, invest in or purchase or otherwise acquire or dispose of any such assets, investments and shares or interests in any entity that is in the Proposed New Business Scope. Any business activities as aforesaid (including those listed in (a) to (h) above) shall upon approval of the Proposed Expansion of Core Business by the Shareholders at the EGM, constitute part of the ordinary course of business of the Group.

In line with the Property Related Business, the Company does not plan to restrict the Proposed Expansion of Core Business to any specific geographical market as each project and investment will be evaluated and assessed by the Board on its merits. The Group may also explore joint ventures and/or strategic alliances with third parties who have the relevant expertise and resources to carry out the Proposed New Business Scope as and when the opportunity arises.

As at the Latest Practicable Date, the Group is in discussions with a potential target company which manages hotels and resorts under its proprietary brands. As at the Latest Practicable Date, there are no material updates on this and the Company will update Shareholders once a definitive decision has been made.

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10.3 Rationale for the Proposed Expansion of Core Business

The Company had on 28 June 2016 obtained shareholders' approval for the diversification of its then existing core business to include the Property Related Business.

In the course of carrying on its Property Related Business, the Group also managed to secure contracts relating to the provision of property-related services which are ancillary to the Property Related Business, such as interior design and fitting-out consultancy services, which is beyond the scope of the Property Related Business approved by the shareholders on 28 June 2016.

To date, the Company has secured agreements under which the Company is to provide, *inter alia*, consultancy services for overall planning (including interior design and fitting-out of furniture, fixture and equipment, operating supplies and equipment, and monitoring and evaluation equipment) and construction of buildings and other infrastructure (including indoor and outdoor layout and landscaping) of:

- (a) Huangshan Lilang Holiday Resort (黄山丽朗度假村) in Huangshan City in Anhui Province, PRC, with a value of RMB2 million (approximately S\$0.4 million), as announced on 8 June 2017;
- (b) Lijiang Lilang Holiday Resort (丽江丽朗度假村) in Lijiang City in Yunnan Province, PRC, with a value of RMB2 million (approximately S\$0.4 million), as announced on 24 July 2017; and
- (c) Huang Long Fu Hua Holiday Resort (黄龙复华度假世界) in Aba Prefecture in Sichuan Province, PRC, with a value of RMB2.5 million (approximately S\$0.5 million), as announced on 24 August 2017.

In light of this, as the Group intends to devote more resources to actively pursue and develop its Property Related Business and the Proposed New Business Scope in the future, it is the intention of the Board to seek approval from the shareholders of the Company for the Proposed Expansion of Core Business at the EGM to be convened.

10.4 Organisation of the Proposed New Business Scope

The Group intends to undertake the Proposed New Business Scope independently or in joint venture or collaboration with third parties who have the relevant expertise and resources. The decision on whether a project should be undertaken by the Group on its own or in collaboration with third parties will be made by the Board after taking into consideration various factors, such as the nature and scale of the project, amount of investment required and risks associated with such an investment, nature of expertise required, the period of time that is required to complete the project and conditions in the property market, taking into account the opportunities available.

Before undertaking any major project in the Proposed New Business Scope, and where relevant, the Management of the Company will prepare a feasibility study containing financial forecasts, risk analysis, market study, background of any main contractors or joint venture partners, funding needs, growth potential and projected returns of the project concerned to decide on the nature and extent of the Group's investment in such project. In addition, the Board will regularly review the risk exposure of the Proposed New Business Scope, at intervals of no less than twelve months.

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10.5 Management and Manpower required for the Proposed New Business Scope

The Proposed New Business Scope will be overseen by Peng Fei, our Non-Executive Director who will be re-designated to Executive Director and CEO following completion of the Proposed Disposal. He will be assisted by Peng Weile, our Executive Director who is currently spearheading the Property Related Business.

Peng Fei's role as Executive Director and CEO of the Company will be to drive its strategic direction, as well as manage the Group's corporate finance investments and overseas expansion with a focus on the Group's business operations in the PRC. In addition, the Group currently has in its employment experienced managers who are based in the PRC and who possess the necessary technical skills and competencies to assist Peng Fei in executing and managing the Proposed New Business Scope. Should the need arise in future, the Group will hire additional manpower for the Proposed New Business Scope and/or its other business operations.

The credentials and experience of Peng Fei are briefly set out below:

Name	Current Designation	Qualification	Work Experience
Peng Fei	Non-Executive Director ⁽¹⁾	Masters in Finance and Investment with Distinction from University of Durham (Ustinov College), United Kingdom	<p>Peng Fei has been involved in the management of Forise International Limited since August 2015, where he is responsible for executing the strategic directions set by the board.</p> <p>Peng Fei has over 20 years of experience in investment management, corporate and financial restructuring advisory, and strategic planning, with strong knowledge relating to capital markets in the PRC, Hong Kong, Singapore and the United Kingdom.</p> <p>Peng Fei's past experience includes being the President of Reignwood International Investment Ltd, where he was responsible for managing the group's overall investment portfolio activities, as well as Vice-President of Chinalco Overseas Holdings Ltd where he was overseeing the company's major overseas investments.</p>

Note:

- (1) Peng Fei will be re-designated to Executive Director and CEO of the Company upon completion of the Proposed Disposal.

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10.6 Funding for the Proposed New Business Scope

The Company intends to fund the initial capital requirements of the Proposed New Business Scope through part of the proceeds generated from the Proposed Disposal, if it is successful. In the event that the Proposed Disposal is not successful, the Company may fund the Proposed New Business Scope through a combination of internal sources of funds and borrowings from financial institutions. The Directors will determine the optimal mix of internal funding and bank borrowings, taking into account the Group's cash flow and prevailing bank financing costs.

As and when necessary, the Group may also explore secondary fund raising exercises by tapping the capital markets including but not limited to rights issues, share placements and/or issuance of debt instruments.

10.7 Risk Factors Relating to the Proposed New Business Scope

The Proposed New Business Scope involves a number of risks which relate to the industries and countries in which the Group may operate as well as those which may generally arise from, *inter alia*, economic, business, market, political, liquidity, operational, legal and regulatory factors. These risks could materially change the risk profile of the Company.

Any of the risks described below or additional risks and uncertainties not presently known to the Company or the Group or that the Company or the Group currently deem immaterial may also impair the Company's or the Group's business, financial condition, operations and prospects. The risks and uncertainties described below are not intended to be exhaustive and are not the only risks and uncertainties that the Group may face.

Shareholders should evaluate carefully the following considerations and the other information in this Circular before deciding on how to cast their votes at the EGM. The risks set out below are the material risks which the Group faces following the Proposed Expansion of Core Business. If any of the following considerations, risks or uncertainties develops into actual events, the business, financial condition, results of operations, cash flow and prospects of the Group may be materially and adversely affected.

Shareholders should consider the risk factors in light of your own investment objectives and financial circumstances and should seek professional advice from your accountant, stock broker, bank manager, solicitor or other professional advisers if you have any doubt about the actions you should take.

10.7.1 The Group has no established track record and operating history in the Proposed New Business Scope

The Group does not have a prior established track record in carrying out or implementing the Proposed New Business Scope. Hence, there is no assurance that the Group's foray into the Proposed New Business Scope will be commercially successful or that the Group will be able to derive sufficient revenue to offset the capital and start-up costs as well as operating costs arising from the Proposed New Business Scope. The Proposed New Business Scope may require high capital commitments and may expose the Group to unforeseen liabilities or risks associated with its entry into new markets or new businesses.

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The Group's future plans with regard to the Proposed New Business Scope may not be profitable, may not achieve profitability that justify the investments made and may take a long period of time before the Group can realise any return. Further, such future plans and new initiatives could result in potentially dilutive issuances of equity securities, the incurrence of capital commitments, debts and contingent liabilities as well as increased operating expenses, all of which may materially and adversely affect the financial performance of the Group.

The Proposed New Business Scope also involves business risks including the financial costs of setting up new operations, capital investment and maintaining working capital requirements. If the Group does not derive sufficient revenue from or does not manage the costs of the Proposed New Business Scope effectively, the overall financial position and profitability of the Group may be adversely affected.

10.7.2 The Group may not have the ability or sufficient expertise to execute and grow the Proposed New Business Scope

The Group's ability to successfully expand into the Proposed New Business Scope is dependent upon its ability to adapt its existing knowledge and expertise and to understand and navigate the Proposed New Business Scope. There is no assurance that the Group will be able to retain its existing employees or hire new employees with the relevant experience and knowledge as the Group may have to depend on the expertise of certain individuals to provide guidance and/or its investment partners to undertake the projects coming within the Proposed New Business Scope. The Group may also appoint third party professionals and/or foster partnerships with various third parties to assist in undertaking the Proposed New Business Scope more effectively and efficiently. However, there is no assurance that these third parties will be able to deliver and/or that these partnerships will be successful. Accordingly, the Group may not be able to successfully implement the Proposed New Business Scope and this may adversely affect the Group's financial performance and profitability.

10.7.3 The Group is exposed to risks associated with acquisitions, joint ventures or strategic alliances

Depending on available opportunities, feasibility and market conditions, the Group may participate in joint ventures, strategic alliances, acquisitions or other investment opportunities involving numerous risks, including the possible diversion of management attention from existing business operations and loss of capital or other investments deployed in such joint ventures, strategic alliances, acquisitions or opportunities. Furthermore, the Group may also rely on its joint venture partners at the initial stage of its foray into the Proposed New Business Scope and there is a risk that if any of its joint venture partners is unable to deliver its obligations or commitments under the joint venture (such as failure to perform according to the expertise expected of the joint venture partner or meet the financial obligations), it may result in additional costs to the Group. In such events, the Group's financial performance may be adversely affected.

Additionally, in the Group's participation in joint ventures, the Group may make investments in entities that are not the Group's subsidiary and over which the Group does not have majority control. The performance of these entities and the

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Group's share of their results are subject to the same or similar risks relating to the Proposed New Business Scope that affect the Group as described herein. There is no assurance that the Group will be able to influence the management, operation and performance of these entities through its voting rights, in a manner which would be favourable to the Group, or at all. If all or any of these entities were to perform poorly, the Group's overall business, financial condition, results of operations and prospects may be adversely affected.

10.7.4 The Group may be subject to various government regulations in the Proposed New Business Scope

The Proposed New Business Scope is exposed to the risks posed by current and potential future regulations and legislation that apply to the country or industry in which the Group operates and the countries or industries its clients operate. The Proposed New Business Scope may require certain statutory and regulatory licences, permits, consents and approvals to operate. These licences, permits, consents and approvals may be granted for fixed periods of time and may need to be renewed after expiry from time to time. The Group may not be able to apply for and obtain the relevant licences, permits, consents and approvals required for its projects or otherwise within the statutory time limits, and there can be no assurance that the relevant authorities will issue any such licences, permits, consents or approvals in time or at all. Failure by the Group to renew, maintain or obtain the required licences, permits, consents or approvals, or cancellation, suspension or revocation of any of its licences, permits, consents or approvals may result in the Group being unable to undertake the relevant segment of the Proposed New Business Scope and/or in the interruption of its operations and may have a material adverse effect on its business.

The Group must also comply with the applicable laws and regulations in the Proposed New Business Scope, failing which the Group may be subject to penalties, have its licences or approvals revoked, or lose its right to own or manage its projects under the Proposed New Business Scope which may have a material and adverse impact on the Group's business, financial condition, results of operations and prospects. Further, any changes in applicable laws and regulations could result in higher compliance costs and adversely affect the operations of the Group and the financial performance of the Group.

10.7.5 The Group may face intense competition from existing competitors and new market entrants in the Proposed New Business Scope

The Proposed New Business Scope is highly competitive, with strong competition from established industry participants who may have larger financial resources or stronger track records. The Group may not be able to provide comparable services at lower prices or respond more quickly to market trends than potential or existing competitors who may have larger financial resources and/or stronger track records.

There is no assurance that the Group will be able to compete effectively with its existing and future competitors and adapt quickly to changing market conditions and trends. In the event that the Group is not able to compete successfully against its competitors or adapt to market conditions, its business operations, financial performance and financial condition may be adversely affected.

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10.7.6 **The Group may not be able to provide the capital investments needed to undertake the Proposed New Business Scope**

The Proposed New Business Scope may require substantial capital investments or cash outlay. There is no assurance that financing, either on a short term or a long term basis, will be made available or, if available, that such financing can be obtained on commercially reasonable terms, in which event the Group's future plans and growth prospects will be adversely affected.

Additional debt funding is subject to interest payments and interest rate fluctuations and may also be subject to conditions that restrict or require consent for corporate restructuring, additional financing or fund raising, requirements on the maintenance of certain financial ratios. These conditions may reduce the availability of the Group's cash flow for capital expenditures, working capital and other general corporate purposes. In addition, these conditions may limit the flexibility of the Group in planning for, or reacting to, changes in the business or industry and increase the Group's vulnerability to general adverse economic and industry conditions.

Additional equity financing may result in a dilution to Shareholders' equity interests and may, in the case of a rights issue, require additional investments by Shareholders. Further, an issue of Shares below the then prevailing market price will also affect the value of Shares then held by investors. Dilution in Shareholders' equity interests may occur even if the issue of Shares is at a premium to the market price.

10.7.7 **The Group may be exposed to risk of loss and potential liabilities that may not be covered by insurance**

While the Group will, where appropriate, obtain insurance policies to cover losses with respect to its properties and business operations, the insurance obtained may not be sufficient to cover all potential losses. Examples of such potential losses include losses arising out of extraordinary events such as natural disasters like earthquakes or floods. Losses arising out of damage to the Group's assets, including materials required for the Proposed New Business Scope, which are not covered by insurance policies in excess of the amount it is insured would affect the Group's profitability. The Group may also have to commit additional resources, other than to meet the uninsured losses, to complete a project, which would also adversely affect the financial performance of the Group.

10.7.8 **The Group will be subject to changes in economic situations, government regulations and the tourism and hospitality, property and construction, food and beverages, leisure and entertainment, and spa and wellness industries for the Proposed New Business Scope**

The performance of the Proposed New Business Scope depends largely on the economic situation and the performance of the tourism and hospitality, property and construction industries and there is no assurance that these sectors in countries in which the Group undertakes the Proposed New Business Scope will continue to grow. Should the economy or the tourism and hospitality, property and construction market experience a downturn, whether globally or in any country in

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which the Group undertakes the Proposed New Business Scope, the performance of the new business segments may be adversely affected.

Additionally, many social, economic, political and other factors may affect the development of the property and construction market. The property market in the countries in which the Group operates may be volatile and experience oversupply and property price fluctuations. Changes in government policies in the countries in which the Group operates may result in a change in market conditions, including price instability and imbalance of supply and demand, which may materially and adversely affect the business and financial condition and the results of operations of the Group.

10.7.9 The Proposed New Business Scope is subject to general risks associated with operating businesses outside Singapore

The Company does not plan to restrict the Proposed New Business Scope to any specific geographical market. There are risks inherent in operating businesses overseas, which include unexpected changes in regulatory requirements, difficulties in staffing and managing foreign operations, social and political instability, fluctuations in currency exchange rates, potentially adverse tax consequences, legal uncertainties regarding the Group's liability and enforcement, changes in local laws and controls on the repatriation of capital or profits. Any of these risks could adversely affect the Group's overseas operations and consequently, its business, financial performance, financial condition and operating cash flow.

In addition, if the governments of countries in which the Group operates tightens or otherwise adversely changes their laws and regulations relating to the repatriation of their local currencies, it may affect the ability of the Group's overseas operations to repatriate profits to the Group and, accordingly, the cash flow of the Group will be adversely affected.

10.7.10 The Proposed New Business Scope may be subject to disputes, claims, variation orders and may incur additional costs of liquidated damages

In the course of carrying out the Proposed New Business Scope, disputes may arise and claims may be made against the Group on grounds such as defective workmanship, non-adherence to contract specifications and/or defects in the quality or condition of materials used or supplied. These disputes and claims may result in legal proceedings which may result in substantial costs and require the Management to divert its resources and attention to these legal proceedings. Additionally, if these disputes or claims are not concluded in the Group's favour, the Group will be liable to pay for the claims and/or damages in addition to any legal or other professional fees incurred and its business reputation and results of operations will be adversely affected.

As it is customary for interior design and fitting-out agreements to provide for a defects liability period, we will be required to perform any defect rectification at no additional cost to our customers during the defects liability period. As such, we may incur additional costs not budgeted for to make good the defective work under dispute. Such events would result in an erosion of our profit margin or losses for the project. There can be no assurance that there will not be any material disputes

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or claims or additional costs not budgeted for that may adversely affect our business, results of operations, financial condition and prospects.

We may also experience delays in the completion of a project due to unforeseen circumstances including labour or raw material shortage, a delay in the delivery of supplies on the part of our suppliers, a delay in the completion of works on the part of our sub-contractors, social unrests and work stoppages due to industrial accidents. In the event of any delay in the completion of a project due to factors within our control, we could be liable to pay liquidated damages under the contract and incur additional costs that will adversely affect our results of operations and erode or reduce our profit margin. If the delay is due mainly to factors beyond our control, we may not be liable to pay for liquidated damages and the stipulated project time may be extended with the mutual agreement between our customer and us to take into consideration such inadvertent factors. Notwithstanding, regardless of whether the delay was due to factors beyond or within our control, our customers may still be able to claim for liquidated damages and other losses suffered by them by off-setting the same from the retention monies or enforcing the performance bond taken out in favour of our customers with the relevant financial institution or seeking legal redress for any other breach of contract, and may be able to enforce their rights to the stipulated date of completion of the project. If the performance bond is called upon by our customers, we will be required to indemnify the relevant financial institution for such payment. Any of the above events will have an adverse effect on our business, reputation, results of operations, financial condition and prospects.

10.7.11 Our ability to secure new projects under the Proposed New Business Scope may depend on us being able to secure performance bonds

In line with industry practice, certain of our projects may require a performance bond to be furnished by an acceptable financial institution to guarantee our contractual performance of the project. In the event that we default on our contractual obligations, our customer would be entitled to call on the bond with the financial institution. If the performance bond is called upon, we will be required to indemnify the relevant financial institution for such payment, and our liquidity, business, reputation, results of operations, financial position and prospects may be adversely affected. There is no assurance that any performance bonds that we may furnish for our projects will not be called on or that we can continue to secure performance bonds for our new projects in the future or that the performance bonds may be secured on terms that are acceptable to us or on terms as favourable as those previously obtained. If the performance bonds for our projects are called on or we are unable to secure performance bonds from acceptable financial institutions such that we are unable to secure new projects, this would adversely affect our business, results of operations and prospects.

10.7.12 The Group is subject to risks inherent in entities which it does not control and the manner in which it holds its investment interests

The Group may hold investments through or make investments in entities that are not the Group's subsidiary and over which the Group does not have majority control. The performance of these entities and the Group's share of their results are subject to the same or similar risks relating to the Proposed New Business Scope that affect the Group as described herein. There is no assurance that the

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Group will be able to influence the management, operation and performance of these entities through its voting rights, in a manner which would be favourable to the Group, or at all. If all or any of these entities were to perform poorly, the Group's overall business, financial condition, results of operations and prospects may be adversely affected.

10.8 Requirements under the Catalist Rules

Pursuant to Practice Note 10A of the Catalist Rules, Shareholders' approval is not required if a transaction will result in an expansion of an issuer's existing core business, unless such transaction changes the issuer's risk profile.

As the Proposed New Business Scope will involve a new business area which is different from the Group's existing core business, it is envisaged that the Proposed New Business Scope will change the existing risk profile of the Group. Accordingly, the EGM will be convened by the Company to seek Shareholders' approval for the Proposed Expansion of Core Business.

Pursuant to Rule 1014 of the Catalist Rules, a major transaction is a transaction where any of the relative figures as computed on the bases set out in Rule 1006 of the Catalist Rules exceeds (i) for an acquisition, 75% but less than 100%, or (ii) for a disposal, 50% ("**Major Transaction**"). A Major Transaction must be made conditional upon approval by Shareholders. For further details on Rules 1006 and 1014, please refer to the Catalist Rules.

A Major Transaction does not include an acquisition or disposal which is, or in connection with, the ordinary course of an issuer's business or of a revenue nature. In addition, pursuant to Practice Note 10A of the Catalist Rules, save where the acquisition changes the risk profile of the issuer, shareholders' approval is not required for a Major Transaction if the acquisition will result in an expansion of the issuer's existing core business. Practice Note 10A of the Catalist Rules further states that the SGX-ST takes the view that it should not in normal circumstances require an issuer to seek shareholders' approval if the expansion is by way of an acquisition of a similar business, when other means to expand its business that are open to the issuer would not require shareholders' approval.

Thus, upon approval by Shareholders for the Proposed Expansion of Core Business, any acquisition or disposal which is in, or in connection with, the Proposed New Business Scope, may be deemed to be in the Group's ordinary course of business and therefore not fall under the definition of a "transaction" under Chapter 10 of the Catalist Rules. Accordingly, the Group may, in its ordinary course of business, enter into transactions relating to the Proposed New Business Scope which will not change the risk profile of the Group, in an efficient and timely manner without the need to convene separate general meetings from time to time to seek for Shareholders' approval as and when potential transactions relating to the Proposed New Business Scope arise, even where they cross the thresholds of a "Major Transaction". This will reduce substantially the administrative time and expenses in convening such meetings, without compromising the corporate objectives and adversely affecting the business opportunities available to the Company.

The Company will be required to comply with any applicable and prevailing Catalist Rules as amended or modified from time to time.

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11. INTEREST OF DIRECTORS AND/OR SUBSTANTIAL SHAREHOLDERS

11.1 The interests of the Directors and Substantial Shareholders in the capital of the Company as at the Latest Practicable Date are as follows:

	Direct Interest		Deemed Interest	
	Number of Shares	%	Number of Shares	%
Directors				
Chow Wen Kwan Marcus	—	—	—	—
Rena Ho ⁽¹⁾	12,800,000	16.41	—	—
Nellie Ho ⁽¹⁾	12,800,000	16.41	—	—
Lee Lay Choo	3,200,000	4.10	—	—
Peng Weile	—	—	—	—
Ng Tiang Hwa	—	—	—	—
Chong Soo Hoon, Sean	—	—	—	—
Peng Fei	—	—	—	—
Substantial Shareholders				
Zhang Tianbao	23,361,000	29.95	—	—
Yang Wei	5,599,000	7.18	—	—

Note:

(1) Rena Ho and Nellie Ho are sisters.

11.2 Save for:

- (i) Rena Ho and Nellie Ho who are interested in the Proposed Disposal which is an Interested Person Transaction; and
- (ii) Lee Lay Choo who is also a director of SMJ Furnishings,

none of the Directors and Substantial Shareholders (other than in his capacity as a Director or Shareholder) has any interest, direct or indirect, in the Proposed Disposal.

Each of Rena Ho, Nellie Ho and Lee Lay Choo, who are Directors, has abstained from making any recommendation in respect of the Proposed Disposal for the aforesaid reasons.

In view of the aforesaid, the Directors who are considered independent for the purposes of the Proposed Disposal and have made recommendations on the Proposed Disposal according to Section 13 of this Circular are Chow Wen Kwan Marcus (Independent Non-Executive Chairman), Peng Weile (Executive Director), Ng Tiang Hwa (Independent Non-Executive Director), Chong Soo Hoon, Sean (Independent Non-Executive Director) and Peng Fei (Non-Executive Director) (collectively known as the “**Independent Directors**”).

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12. EXTRAORDINARY GENERAL MEETING

The EGM, notice of which is set out on page 61 of this Circular, will be held at 31 Jurong Port Road, #02-20 Jurong Logistics Hub (South Wing), Singapore 619115 on 26 December 2017 at 2.10 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the ordinary resolutions set out in the notice of EGM.

13. DIRECTORS' RECOMMENDATIONS

- (a) The Directors are of the opinion that the Proposed Expansion of Core Business is in the best interests of the Company. Accordingly, they recommend that Shareholders vote in favour of the Proposed Expansion of Core Business at the EGM.
- (a) The Independent Directors have considered and reviewed, *inter alia*, the terms of the Sale Agreement, the rationale for, and the financial effects of the Proposed Disposal and all other relevant facts set out in this Circular. Save for Rena Ho, Nellie Ho and Lee Lay Choo who have refrained from making any recommendation, the Independent Directors are collectively of the view that the Proposed Disposal is in the best interests of the Company. The Independent Directors therefore recommend that Shareholders vote in favour of the Proposed Disposal at the EGM.

Shareholders are advised to read this Circular in its entirety, in particular the rationale for and the financial effects of the Proposed Disposal and the risk factors relating to the Proposed Expansion of Core Business and for those who may require advice in the context of his specific investment, to consult his stockbroker, bank manager, solicitor, accountant or other professional adviser.

Shareholders should note that the passing of ordinary resolution 2 as set out in the notice of EGM is not contingent upon the passing of ordinary resolution 1, as both resolutions are separate and independent from each other.

14. SHAREHOLDERS WHO WILL ABSTAIN FROM VOTING ON THE PROPOSED DISPOSAL

Each of Rena Ho and Nellie Ho, who are the Directors named in Section 11.2 of this Circular, and their respective Associates will also abstain from voting in respect of their respective shareholding in the Company relating to the ordinary resolution on the Proposed Disposal. Lee Lay Choo will also be abstaining from voting in respect of her shareholding in the Company relating to the ordinary resolution on the Proposed Disposal.

15. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who are unable to attend the EGM and wish to appoint a proxy to attend and vote at the EGM on their behalf will find a Proxy Form attached to this Circular which they should complete, sign and return in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the registered office of the Company not less than 48 hours before the time fixed for the EGM. The sending of a Proxy Form by a Shareholder does not preclude him from attending and voting in person at the EGM in place of his proxy if he finds that he is able to do so, although the appointment of the proxy shall be deemed to be revoked by such attendance.

LETTER TO SHAREHOLDERS

A Depositor shall not be regarded as a member of the Company entitled to attend the EGM to speak and vote thereat unless his name appears in the Depository Register as at 72 hours before the EGM.

16. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries, that to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Disposal and the Proposed Expansion of Core Business, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading. Where information in this Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Circular in its proper form and context.

17. CONSENTS

The IFA, RHT Capital Pte. Ltd., has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and its letter to the Independent Directors of the Company set out in Appendix A of this Circular and all references thereto in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

Knight Frank Pte Ltd has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and the documents set out in Appendix B of this Circular and all references thereto in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

18. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection by Shareholders at the registered office of the Company at 31 Jurong Port Road, #02-20 Jurong Logistics Hub (South Wing), Singapore 619115, during normal business hours for a period of three months from the date of this Circular:

- (a) the constitution of the Company;
- (b) the Annual Report of the Company for FY2016;
- (c) the Sale Agreement;
- (d) the IFA letter dated 8 December 2017;
- (e) the IFA's letter of consent;
- (f) the valuation report on the Skyline Property by Knight Frank Pte Ltd dated 27 December 2016;

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- (g) the desktop update valuation report on the Skyline Property by Knight Frank Pte Ltd dated 17 October 2017;
- (h) the valuation certificates set out in Appendix B of this Circular; and
- (i) Knight Frank Pte Ltd's letter of consent.

Yours faithfully

For and on behalf of the Board of Directors

CHOW WEN KWAN MARCUS

Independent Non-Executive Chairman

APPENDIX A: LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RHT CAPITAL PTE. LTD.

(Company Registration Number: 201109968H)
(Incorporated in the Republic of Singapore)
9 Raffles Place, #29-01
Republic Plaza Tower 1
Singapore 048619

8 December 2017

To: The Independent Directors of SMJ International Holdings Ltd.
(deemed to be independent in respect of the Proposed Disposal)

Chow Wen Kwan Marcus	(Independent Non-Executive Chairman)
Peng Weile	(Executive Director)
Ng Tiang Hwa	(Independent Non-Executive Director)
Chong Soo Hoon, Sean	(Independent Non-Executive Director)
Peng Fei	(Non-Executive Director)

Dear Sirs,

INDEPENDENT FINANCIAL ADVICE IN RELATION TO THE PROPOSED DISPOSAL OF THE ENTIRE 100% EQUITY INTEREST IN SMJ FURNISHINGS (S) PTE LTD BY SMJ INTERNATIONAL HOLDINGS LTD. AS AN INTERESTED PERSON TRANSACTION

*Unless otherwise defined or the context otherwise requires, all terms defined in the circular dated 8 December 2017 issued by the Company to the Shareholders ("**Circular**") shall have the same meaning herein.*

1. INTRODUCTION

On 20 October 2017, the board of directors ("**Directors**") of SMJ International Holdings Ltd. ("**SMJ**" or "**Company**", together with its subsidiaries, "**Group**") announced that the Company had entered into a sale and purchase agreement ("**SPA**") with Ho Yuen Pei Rena ("**Rena Ho**"), the Company's Executive Director and Chief Executive Officer ("**CEO**"), and Ho Wan Jing Nellie ("**Nellie Ho**"), the Company's Executive Director and Deputy CEO, pursuant to which the Company will dispose ("**Proposed Disposal**") of its entire 100% equity interests ("**Sale Shares**") in SMJ Furnishings (S) Pte Ltd ("**SMJ Furnishings**") to Rena Ho and Nellie Ho (collectively, "**Purchasers**") in the proportion of 50% and 50%, respectively, for an aggregate cash consideration of S\$13,800,000 ("**Sale Price**"). Rena Ho and Nellie Ho are sisters. The Sale Price was arrived at on a willing buyer and willing seller basis between the Company and the Purchasers after taking into account, *inter alia*, the net asset value ("**NAV**") of SMJ Furnishings as at 31 December 2016 and 30 June 2017, being approximately S\$13,840,000 and S\$13,752,000 respectively.

The Proposed Disposal will result in SMJ Furnishings ceasing to be a subsidiary of the Company. SMJ Furnishings will continue to hold its shareholding interests in PT Spektrum Megah Jaya following the Proposed Disposal, which is a joint venture company with principal activities of supply and distribution of carpets and other furnishings materials in Indonesia. Accordingly, the Company will also cease to have any interests in PT Spektrum Megah Jaya following the completion of Proposed Disposal.

APPENDIX A: LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Rena Ho is an Executive Director and the CEO of the Company as well as a director of SMJ Furnishings and holds a direct interest in 12,800,000 shares of the Company ("**Shares**"), representing approximately 16.41% of the total issued share capital of the Company. Nellie Ho is an Executive Director and the Deputy CEO of the Company as well as a director of SMJ Furnishings and holds a direct interest in 12,800,000 Shares of the Company, representing approximately 16.41% of the total issued share capital of the Company. Accordingly, each Purchaser is deemed an interested person ("**Interested Person**") within the meaning of Chapter 9 of Section B of the Listing Manual of the SGX-ST ("**Catalist Rules**") and the Proposed Disposal constitutes an interested person transaction ("**Interested Person Transaction**") as defined in Rule 904(5) of the Catalist Rules.

Based on the Company's latest audited consolidated accounts for the financial year ended 31 December 2016, the Group's audited net tangible assets attributable to owners of the Company ("**NTA**") amounted to approximately S\$16.4 million. The Sale Price of the Proposed Disposal amounts to S\$13.8 million, which is more than 5.0% of the Group's latest audited NTA. Additionally, the Proposed Disposal is a "major transaction" as defined in Rule 1014(1) of the Catalist Rules. Accordingly, pursuant to Rules 906 and 1014(2) of the Catalist Rules, the Proposed Disposal will be subject to the approval of the shareholders of the Company ("**Shareholders**") at an extraordinary general meeting ("**EGM**") to be convened.

In relation to the ordinary resolution to be tabled at the EGM in connection with the Proposed Disposal, Rena Ho and Nellie Ho will abstain, and will procure that their associates and nominees abstain from voting in respect of their shareholdings in the Company on voting on the resolution. Rena Ho and Nellie Ho would also not accept any nomination as a proxy or otherwise for voting on the resolution unless they were given specific instructions as to voting. Also, Lee Lay Choo will voluntarily abstain from voting in respect of her shareholding in the Company relating to the ordinary resolution on the Proposed Disposal.

In addition, Rena Ho, Nellie Ho and Lee Lay Choo will also abstain from making any recommendation on the Proposed Disposal as the Directors. The remaining Directors, namely: Chow Wen Kwan Marcus, Peng Weile, Ng Tiang Hwa, Chong Soo Hoon, Sean and Peng Fei are deemed to be independent for the purpose of the Proposed Disposal ("**Independent Directors**").

Pursuant to Rule 921(4)(a) of the Catalist Rules, the Company is required to appoint an independent financial adviser ("**IFA**") to advise the Independent Directors with respect to the Proposed Disposal as to whether the Proposed Disposal is on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders. Accordingly, RHT Capital Pte. Ltd. ("**RHTC**") has been appointed by the Company as the IFA to the Independent Directors.

This letter ("**Letter**") is addressed to the Independent Directors and sets out, *inter alia*, our evaluation and recommendation on the Proposed Disposal. This Letter forms part of the Circular to the Shareholders which provides, *inter alia*, the details of the Proposed Disposal and the recommendation of the Independent Directors thereon.

2. TERMS OF REFERENCE

The purpose of this Letter is to provide an independent opinion, for the purpose of Chapter 9 of the Catalist Rules, on whether the Proposed Disposal is on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

We were neither a party to the negotiations entered into by the Company in relation to the Proposed Disposal nor involved in the deliberations leading up to the decision on the part of the Directors to enter into the Proposed Disposal. We do not, by this Letter, warrant the merits of the Proposed Disposal other than to form an opinion for the purposes of Chapter 9 of the Catalist Rules.

APPENDIX A: LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In the course of our evaluation, we have relied on, and assumed without independent verification, the accuracy and completeness of published information relating to the Company. We have also relied on information provided and representations made by the Directors, the management of the Company ("**Management**") and the Company's advisers. We have not independently verified such information or any representation or assurance made by them, whether written or verbal, and accordingly cannot and do not make any representation or warranty, expressed or implied, in respect of, and do not accept any responsibility for, the accuracy, completeness and adequacy of such information. We have nevertheless made such enquiries and exercised our judgement as we deemed necessary and have found no reason to doubt the reliability of the information.

We have relied upon the assurance of the Directors (including those who may have delegated detailed supervision of the Circular) that, upon making all reasonable inquiries and to the best of their respective knowledge and belief, all facts stated and opinions expressed in the Circular which relate to the Proposed Disposal and the Company are fair and accurate and that there are no material facts or omissions of which would make any statement in the Circular misleading in any material respect. The Directors collectively and individually accept responsibility accordingly.

For the purposes of assessing the terms of the Proposed Disposal and reaching our conclusions thereon, we have not relied upon any financial projections or forecasts in respect of SMJ Furnishings, the Company and/or the Group. We will not be required to express, and we do not express, any view on the growth prospects and earnings potential of SMJ Furnishings, the Company and/or the Group in connection with our opinion in this Letter.

We have not made an independent evaluation or appraisal of the assets and liabilities of SMJ Furnishings, the Company and/or the Group (including without limitation, property, plant and equipment). In connection with the Proposed Disposal, the Group has commissioned the independent valuer, Knight Frank Pte Ltd ("**Valuer**") to value its property at 608 Telok Blangah Road ("**Property**") in December 2016. In October 2017, the Group commissioned the Valuer to carry out an update to the valuation conducted in December 2016. The valuation certificates of both the valuation exercises are attached as Appendix B to the Circular.

We have been furnished with the valuation report dated 27 December 2016 ("**Valuation Report**") and the "desk-top" update report dated 17 October 2017 ("**Update Valuation Report**") in relation to the valuations of the Property. As stated in the Circular, the Valuation Report and Update Valuation Report are available for inspection by Shareholders at the registered office of the Company at 31 Jurong Port Road, #02-20 Jurong Logistics Hub (South Wing), Singapore 619115, during normal business hours for a period of three months from the date of the Circular.

We are not experts in the evaluation or appraisal of the assets or business concerned and we have placed sole reliance on the Valuation Report and Update Valuation Report for such appraisals and have not made independent verification on the contents thereof. In particular, we do not assume any responsibility to enquire about the basis of the valuation contained in the Valuation Report and Update Valuation Report or if the contents thereof have been prepared and/or included in the Circular in accordance with all applicable regulatory requirements.

As such, we will be relying on the disclosures and representations made by the Company on the value of the assets and liabilities and profitability of SMJ Furnishings, the Company and/or the Group. We have not relied on any financial projections or forecasts in respect of SMJ Furnishings, the Company and/or the Group for the purpose of our evaluation of the Proposed Disposal.

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Our opinion as set out in this Letter is based upon the market, economic, industry, monetary and other conditions in effect on, and the information provided to us as of 29 November 2017 (“**Latest Practicable Date**”). Such conditions may change significantly over a relatively short period of time. **We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date that may affect our opinion contained herein.** Shareholders should further take note of any announcements relevant to their consideration of the Proposed Disposal which may be released by the Company after the Latest Practicable Date.

In rendering our opinion, we did not have regard to the specific investment objectives, financial situation, tax status, risk profiles or unique needs and constraints of any individual Shareholder. As each Shareholder would have different investment objectives and profiles, we advise the Independent Directors to recommend that any individual Shareholder who may require specific advice in relation to his investment objectives or portfolio should consult his stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

The Company has been separately advised by its own advisers in the preparation of the Circular (other than this Letter set out in the Circular). Accordingly, we take no responsibility for and express no views, expressed or implied, on the contents of the Circular (other than this Letter set out in the Circular).

This Letter sets out, *inter alia*, our opinion on whether the Proposed Disposal is on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders, and should be considered in the context of the entirety of this Letter and the Circular.

3. INFORMATION ON SMJ FURNISHINGS

The details on SMJ Furnishings which have been set out in Section 3.4 of the Circular are extracted and reproduced in italics below:

“3.4 Information on SMJ Furnishings

SMJ Furnishings is a company incorporated in Singapore on 12 February 1988 and has an issued and paid up capital of S\$3,500,000 divided into 3,500,000 ordinary shares. It is principally engaged in one of the Group’s core business of sale and distribution of a wide range of premier carpets marketed under its proprietary “SMJ” brand through its global distribution network of carpet dealers, carpet importers and carpet installation companies both in Singapore and overseas, mainly in Asia.

SMJ Furnishings had previously acquired, and currently holds the title to the Skyline Property, a condominium unit situated at 608 Telok Blangah Road, #08-01, Singapore 109030. Please refer to Section 3.1 of this Circular for information regarding the valuation of the Skyline Property.

SMJ Furnishings currently holds 33% shareholding interests in PT Spektrum Megah Jaya, which is a joint venture company with principal activities of supply and distribution of carpets and other furnishings materials in Indonesia, and will continue to hold its shareholding interests in PT Spektrum Megah Jaya following the Proposed Disposal.

As such, the Group will cease to have any interests in the Skyline Property and PT Spektrum Megah Jaya following the Proposed Disposal.”

4. SALIENT TERMS OF THE PROPOSED DISPOSAL

The details of the Proposed Disposal are set out in Section 3 of the Circular. A summary of the salient terms of the Proposed Disposal is set out below for your reference.

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4.1 Sale Price

The Sale Price for the Proposed Disposal which has been set out in Section 3.1 of the Circular are extracted and reproduced in italics below:

“3.1 Sale Price

The aggregate Sale Price for the sale of the Sales Shares is S\$13.8 million, which will be paid in cash by the Purchasers to the Company on Completion. The net proceeds from the Proposed Disposal (after deducting the transaction costs of approximately S\$125,000) is approximately S\$13.7 million.

The Sale Price of S\$13.8 million was arrived at on a willing buyer and willing seller basis between the Company and the Purchasers after taking into account, inter alia, the NAV of SMJ Furnishings as at 31 December 2016 and 30 June 2017, being S\$13,840,000 and S\$13,752,000, respectively. Both NAV figures of SMJ Furnishings include the book value of the Skyline Property owned by SMJF Furnishings, being S\$3,000,000 as at 31 December 2016 and S\$2,967,000 as at 30 June 2017.

The Skyline Property is currently being leased out at a rental rate of S\$5,840 per month. The Group had commissioned Knight Frank Pte Ltd to provide an independent valuation of the Skyline Property. Based on the valuation done by Knight Frank Pte Ltd, the Skyline Property with its then existing tenancy with similar rental rate was valued at S\$3,000,000 as at 27 December 2016. A desktop update valuation report was subsequently done by Knight Frank Pte Ltd on 17 October 2017, opining that the valuation of the Skyline Property on a vacant possession basis was approximately S\$2,900,000 as at 17 October 2017. The valuation certificates of the valuations of the Skyline Property as at 27 December 2016 and 17 October 2017 are set out in Appendix B of this Circular.

In accordance with the terms of the Sale Agreement, all stamp duty payable in connection with the Proposed Disposal was borne by the Purchasers. The Company will not incur any taxation liabilities in connection with the Proposed Disposal.”

4.2 Conditions Precedent

The conditions precedent for the Proposed Disposal which have been set out in Section 3.2 of the Circular are extracted and reproduced in italics below:

“3.2 Conditions Precedent

The Completion is conditional upon the fulfilment of, inter alia, the following conditions precedent:

- (i) all necessary consents, approvals and authorisations of third parties including bankers, financial institutions, landlords of leases, government or regulatory authorities (including but not limited to the SGX-ST, if required) being obtained;*
- (ii) full discharge of all corporate guarantee(s) given by the Company to secure the debts, liabilities or other payment obligations of SMJ Furnishings;*
- (iii) the Company not being regarded as a cash company (as defined in the Catalist Rules) following completion of the Proposed Disposal;*
- (iv) the approval of the independent shareholders of the Company for the Proposed Disposal being obtained at an EGM;*
- (v) settlement of all amounts owing by SMJ Furnishings and its subsidiary to the Company or the Company’s related corporations; and*

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- (vi) *the execution of new service agreements between the Company and each of Rena Ho, Nellie Ho, Peng Weile and Peng Fei, in connection with their resignations and/or re-designations as described in Section 9 of this Circular.”*

4.3 Completion

The conditions for the completion of the Proposed Disposal which have been set out in Section 3.3 of the Circular are extracted and reproduced in italics below:

“3.3 Completion

Completion will take place within 30 days from the date of the fulfilment or waiver of the conditions precedent of the Sale Agreement, where full payment of the Sale Price will be paid by the Purchasers and the Sale Shares will be transferred to the Purchasers.”

APPENDIX A: LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. EVALUATION OF THE PROPOSED DISPOSAL

In our evaluation of the Proposed Disposal, we have given due consideration to, *inter alia*, the following key factors:

- (a) Rationale for the Proposed Disposal;
- (b) Financial performance and position of SMJ Furnishings;
- (c) Comparison of valuation ratios of selected companies which are broadly comparable with SMJ Furnishings;
- (d) P/NAV (as defined below) ratio of SMJ Furnishings as ascribed by the market;
- (e) Financial effects of the Proposed Disposal; and
- (f) Other relevant considerations in relation to the Proposed Disposal.

5.1 Rationale for the Proposed Disposal

The rationale for the Proposed Disposal which has been set out in Section 4 of the Circular are extracted and reproduced in italics below:

"4 RATIONALE FOR AND BENEFITS OF THE PROPOSED DISPOSAL

As announced in the Group's unaudited financial statements for the six months ended 30 June 2017 on 2 August 2017, the operating environment in the Singapore carpet industry continues to be challenging as the demand for carpet is expected to remain weak amidst uncertainties in the economic environment and a dearth of activities in the private residential and commercial sectors. The Group also anticipates that the export market conditions will remain competitive in most of its key markets in FY2017 due to the market weakness and competitive pricing pressures in the regional countries.

Pursuant to the shareholders' approval on 28 June 2016 for the diversification of the Group's then existing core business to include the Property Related Business, the Group has expanded its core business to include the Property Related Business. Following the Management's review of the financial performance of SMJ Furnishings and the current business climate for the Carpet Division that is expected to remain subdued, the Group intends to dispose of its existing carpet furnishing business in order to fully focus its resources and attention on developing the Property Related Business and the Proposed New Business Scope (as set out in Section 10.2 of this Circular).

Given that the historical trading performance of the Shares on the Catalist Board of the SGX-ST has generally been below book value of the Group, the Sale Price of S\$13.8 million will allow the Group to immediately unlock shareholder's value and provide financial capability for the Group to grow the Property Related Business and the Proposed New Business Scope.

Taking into account, inter alia, the foregoing, the Directors are of the view that the Proposed Disposal will be beneficial for the Group."

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5.2 Financial performance and position of SMJ Furnishings

Financial performance of SMJ Furnishings

For the purpose of evaluating the financial terms of the Proposed Disposal, we have considered the audited results of SMJ Furnishings for the financial years ended 31 December ("FY") 2014, 2015 and 2016 and unaudited financial statements for the six-month period ended 30 June ("6M") 2017 and 2016.

(S\$'000)	Audited			Unaudited	
	FY2014	FY2015	FY2016	6M2016	6M2017
Revenue	20,228	20,729	16,294	7,629	6,651
Other income	95	131	231	112	101
Other gains/(losses) - net	(2)	84	177	132	45
Expenses					
Cost of inventories	(11,799)	(13,219)	(9,814)	(4,739)	(3,945)
Depreciation expense	(50)	(101)	(269)	(112)	(160)
Employee compensation	(2,562)	(2,809)	(2,641)	(1,217)	(1,270)
Finance expense	(64)	(64)	(76)	(39)	(32)
Freight and transportation expense	(524)	(576)	(426)	(220)	(201)
Installation expense	(749)	(886)	(655)	(204)	(247)
Other operating expenses	(1,986)	(1,962)	(2,844)	(1,220)	(1,030)
Profit before tax	2,587	1,327	(23)	122	(88)
Income tax expense	(326)	(121)	(17)	(19)	-
Profit after tax	2,261	1,206	(40)	103	(88)

Sources: SMJ Furnishings' audited financial statements for FY2014, FY2015 and FY2016, and unaudited financial statements for 6M2016 and 6M2017.

The Management has confirmed that its joint venture company, PT Spektrum Megah Jaya is presently not operational and as such, there is no contribution to the results of SMJ Furnishings in the relevant financial years or periods.

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Review of operating results

FY2014 vs FY2015

For FY2014, FY2015 and FY2016, SMJ Furnishings only had one business segment, which was sale and distribution of wide range of carpets. SMJ Furnishings' revenue was generated from two streams namely, (i) wholesale of carpets to dealers, carpet importers and carpet installation companies ("**Distribution Sales**"); and (ii) supply and delivery of carpets which include project management work, including the installation of these carpets on site for its customers ("**Contract Sales**").

Revenue increased by S\$0.50 million or 2.5% from S\$20.23 million in FY2014 to S\$20.73 million in FY2015. The increase was mainly due to an increase in Distribution Sales.

Other income increased by S\$0.03 million or 30.0% from S\$0.10 million in FY2014 to S\$0.13 million in FY2015. The increase was mainly due to the interest earned from the fixed deposit placed with financial institutions.

Cost of inventories increased by S\$1.42 million or 12.0% from S\$11.80 million in FY2014 to S\$13.22 million in FY2015. This was mainly due to higher orders from the customers.

Depreciation expense increased by S\$0.05 million or 100.0% from S\$0.05 million in FY2014 to S\$0.10 million in FY2015. This was due to the commencement of depreciation of the SAP enterprise resource planning system during FY2015.

Employee compensation increased by S\$0.25 million or 9.8% from S\$2.56 million in FY2014 to S\$2.81 million in FY2015. This was due to the revision of pay scale as well as the increase in the Central Provident Fund contribution rates effective beginning of FY2015.

Freight and transportation expense increased by S\$0.06 million or 11.5% from S\$0.52 million in FY2014 to S\$0.58 million in FY2015. This was mainly due to the increased level of purchases.

Installation expense increased by S\$0.14 million or 18.7% from S\$0.75 million in FY2014 to S\$0.89 million in FY2015. This was mainly due to higher cost in relation to installation works performed after regular working hours.

Decrease in the income tax expense of S\$0.21 million or 63.6% from S\$0.33 million in FY2014 to S\$0.12 million in FY2015 was in line with the decrease in the profit before tax in FY2015 as compared to FY2014. Further, the income tax expense in FY2015 included a tax expense of \$0.04 million, which was due to an under provision for the prior year tax expense.

Profit after tax reduced by S\$1.05 million or 46.5% from S\$2.26 million in FY2014 to S\$1.21 million in FY2015. This was mainly due to the increase in revenue due to higher export Distribution Sales which yielded lower margin as compared to the local Distribution Sales. In addition, SMJ Furnishings had secured more Contract Sales projects from government, whereby the selling price was more competitive and hence less lucrative.

FY2015 vs FY2016

Revenue decreased by S\$4.44 million or 21.4% from S\$20.73 million in FY2015 to S\$16.29 million in FY2016. The decrease was mainly attributable to a slowdown in Singapore's private sector construction activities and uncertainty in the global economy which resulted in lower demand for carpets from distributors.

Other income increased by S\$0.10 million or 76.9% from S\$0.13 million in FY2015 to S\$0.23 million in FY2016. The increase mainly resulted from increase in rental income from investment property and sundry income.

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Cost of inventories decreased by S\$3.41 million or 25.8%, from S\$13.22 million in FY2015 to S\$9.81 million in FY2016. This was mainly due to fewer orders from customers.

Depreciation expense increased by S\$0.17 million or 170.0% from S\$0.10 million in FY2015 to S\$0.27 million in FY2016. This was due to the commencement of depreciation for motor vehicles, office renovation and investment property during the year.

Employee compensation decreased by S\$0.17 million or 6.0% from S\$2.81 million in FY2015 to S\$2.64 million in FY2016. This was mainly due to the reduction in bonus and annual wage supplement during FY2016.

Finance expense increased by S\$0.02 million or 33.3% from S\$0.06 million in FY2015 to S\$0.08 million in FY2016. This was mainly because in FY2015, SMJ Furnishings incurred lesser interest as most of the trust receipts were paid before the due date.

Freight and transportation expense decreased by S\$0.15 million or 25.9% from S\$0.58 million in FY2015 to S\$0.43 million in FY2016. This was in line with the reduction in revenue.

Reduction in installation expense by S\$0.23 million or 25.8% from S\$0.89 million in FY2015 to S\$0.66 million in FY2016 was in line with the reduction in Contract Sales.

Increase in other operating expenses of S\$0.88 million or 44.9% from S\$1.96 million in FY2015 to S\$2.84 million in FY2016 was mainly due to the following:

- (i) allowance for impairment of trade receivables of S\$0.16 million;
- (ii) inventories written off of S\$0.20 million for loose items that were discontinued for selling;
- (iii) inventories written down of S\$0.12 million for items that were identified as slow moving;
- (iv) impairment loss on investment property of S\$0.22 million; and
- (v) increased in office and warehouse rental expenses by S\$0.06 million due to an increase in rental rate.

Tax expenses reduced by S\$0.10 million due to the lower taxable income generated in FY2016.

Due to reduction in revenue and higher other operating expenses, SMJ Furnishings' performance deteriorated from profit after tax of S\$1.21 million in FY2015 to loss after tax of S\$0.04 million in FY2016.

6M2016 vs 6M2017

Revenue decreased by S\$0.98 million or 12.8% from S\$7.63 million in 6M2016 to S\$6.65 million in 6M2017. This was mainly due to the slowdown in Singapore's private sector construction activities and uncertainty in global economy which resulted in lower demand for carpets from distributors.

Other income decreased by S\$0.01 million or 9.1% from S\$0.11 million in 6M2016 to S\$0.10 million in 6M2017. This mainly resulted from decrease in finance income and sundry income.

Cost of inventories decreased by S\$0.79 million or 16.7% from S\$4.74 million in 6M2016 to S\$3.95 million in 6M2017. This was mainly due to fewer orders from customers.

Depreciation expense increased by S\$0.05 million or 45.5% from S\$0.11 million in 6M2016 to S\$0.16 million in 6M2017. This was due to the depreciation of the newly acquired computer, forklift and CCTV system during the period.

Finance expense decreased by S\$0.01 million or 25.0% from S\$0.04 million in 6M2016 to S\$0.03 million in 6M2017 mainly due to lesser utilisation of trust receipts facility.

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Freight and transportation expense decreased by S\$0.02 million or 9.1% from S\$0.22 million in 6M2016 to S\$0.20 million in 6M2017. This was mainly due to the reduction in revenue.

Installation expense increased by S\$0.05 million or 25.0% from S\$0.20 million in 6M2016 to S\$0.25 million in 6M2017. This was due to higher installation charges for the new product, namely, Luxury Vinyl Tiles.

Decrease in other operating expenses of S\$0.19 million or 15.6% from S\$1.22 million in 6M2016 to S\$1.03 million in 6M2017 was mainly due to the following:

- (i) additional Goods and Services Tax in relation to FY2013 and FY2014 amounted to S\$0.07 million paid to Inland Revenue Authority of Singapore after assessment in 6M2016;
- (ii) allowance for impairment of trade receivables of S\$0.09 million in 6M2016 while 6M2017 recorded a net recovery of allowance for impairment of trade receivables of S\$0.01 million;
- (iii) printing, stationery and postage charges reduced by S\$0.03 million mainly due to fewer carpet folder printed during 6M2017 as compared to 6M2016;
- (iv) repair and maintenance reduced by S\$0.03 million mainly due to designer's fee for office renovation and cabling work at temporary office during renovation in 6M2016; and
- (v) job compensation penalty of S\$0.03 million in 6M2016.

Decrease in other operating expenses in 6M2017 had been off-set with the increase in the following:

- (i) inventories written off of S\$0.08 million for loose items that were discontinued for selling; and
- (ii) bad debts written off of S\$0.02 million for 6M2017 while 6M2016 recorded a bad debts recovery of S\$0.02 million.

SMJ Furnishings did not incur any tax expenses for 6M2017 as it reported a loss before tax of S\$0.09 million.

Due to reduction in revenue, SMJ Furnishings' performance deteriorated from profit after tax of S\$0.10 million in 6M2016 to loss after tax of S\$0.09 million in 6M2017.

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Financial position of SMJ Furnishings

The unaudited financial position of SMJ Furnishings as at 30 June 2017 is as follows:

(S\$'000)	Unaudited As at 30 June 2017
<u>Current assets</u>	
Cash and bank balances	4,321
Trade and other receivables	4,928
Inventories	5,018
<u>Non-current assets</u>	
Investment property	2,967
Property, plant and equipment	810
Investment in joint venture	359
Total assets	18,403
<u>Current liabilities</u>	
Trade and other payables	2,642
Current income tax liabilities	1
Borrowings	1,994
Deferred income	14
Total liabilities	4,651
Total equity	13,752
Equity attributable to owners / NAV	13,752
Sale Price	13,800
Price-to-NAV ("P/NAV") ratio as implied by the Sale Price	1.00

Source: SMJ Furnishings' unaudited financial statements for 6M2017.

The assets of SMJ Furnishings as at 30 June 2017 comprised mainly: (i) inventories of S\$5.02 million; (ii) trade and other receivables of S\$4.93 million; (iii) cash and bank balances of S\$4.32 million; and (iv) investment property of S\$2.97 million; representing 27.3%, 26.8%, 23.5% and 16.1% of SMJ Furnishings' total assets respectively.

The liabilities of SMJ Furnishings as at 30 June 2017 comprised mainly: (i) trade and other payables of S\$2.64 million and (ii) borrowings of S\$1.99 million, representing 56.8% and 42.9% of SMJ Furnishings' total liabilities respectively.

NAV of SMJ Furnishings

The NAV of SMJ Furnishings as at 30 June 2017 amounted to S\$13.75 million. The Sale Price for the Proposed Disposal of S\$13.80 million represents a premium of 0.3% above the NAV of SMJ Furnishings or a P/NAV ratio of 1.0 times.

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Further, we note that although SMJ Furnishings' NAV represents 85.0% of the NAV of the Group as at 30 June 2017, the Sale Price is 40.4% above the market capitalisation of the Company as at the Latest Practicable Date. In relation to the Proposed Disposal, the Company is disposing its subsidiary at a consideration which is higher than the market capitalisation of the Company. After the completion of the Proposed Disposal, the Shareholders would still retain their equity interest in the Company.

In our evaluation of the financial terms of the Proposed Disposal, we have also considered whether there are any other assets which should be valued at an amount that is materially different from that which was recorded in the statement of financial position of SMJ Furnishings as at 30 June 2017 and whether there are any factors which have not been otherwise disclosed in the financial statements of SMJ Furnishings that are likely to impact the NAV of SMJ Furnishings as at 30 June 2017.

Independent valuation of the Property

In connection with the Proposed Disposal, the Group had commissioned the Valuer to carry out a "desk-top" update to the Valuation Report dated 27 December 2016 in relation to the Property as at 17 October 2017.

Based on the Valuation Report dated 27 December 2016, the valuation has been carried out in accordance with the Valuation Standards and Guidelines of the Singapore Institute of Surveyors and Valuers. In arriving at the assessed market value of the Property, the valuer had relied on the "Comparative" method. "Market value" is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

The update of the valuation of the Property was carried out without the benefit of further inspection and was premised on the assumption that such relevant information can be found in the Valuation Report. The Valuer had considered the present property market conditions and other relevant factors and valued on a vacant possession basis.

We wish to highlight that the Valuation Report and Updated Valuation Report will be available for inspection at the registered office of the Company during normal business hours for a period of three months from the date of the Circular. Shareholders are advised to read the full text of the Valuation Report and Updated Valuation Report. A summary of the book value and market value as assessed by the Valuer is also set out in the table below.

	Book value as at 30 June 2017 (S\$'000)	Revalued amount based on the Updated Valuation Report (S\$'000)	Differences (S\$'000)
Property	2,967	2,900	(67)

Based on the above, we set out below the adjustments which are made to determine the revalued net asset value ("**RNAV**") of SMJ Furnishings:

	(S\$'000)
NAV of SMJ Furnishings as at 30 June 2017	13,752
Add: Differences arising from the revalued Property	(67)
RNAV of SMJ Furnishings as at 30 June 2017	13,685
Price-to-RNAV (" P/RNAV ") ratio as implied by the Sale Price	1.01

Based on our discussion with the Management, as the market value of the Property is below its book value, SMJ Furnishings would not incur any tax liabilities on the hypothetical disposal of the Property.

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Based on the above, we note that the Sale Price represents a premium of 0.8% above the RNAV of SMJ Furnishings, or a P/RNAV ratio of 1.01 times.

In respect of the above, we have sought the following confirmations from the Directors and Management, and they confirmed to us that as at the Latest Practicable Date, to the best of their knowledge and belief that, save as disclosed in the IFA Letter:

- (i) Other than the Property, there are no material differences between realisable values of SMJ Furnishings' assets and the respective book value as at 30 June 2017 which would have material impact on the NAV of SMJ Furnishings.
- (ii) There are no other contingent liabilities, bad or doubtful debts or material events which would likely have a material impact on the NAV of SMJ Furnishings as at the Latest Practicable Date.
- (iii) There are no litigation, claims or proceedings pending or threatened against SMJ Furnishings or of any fact which would likely give rise to any proceedings which might materially and adversely affect the financial position of SMJ Furnishings.
- (iv) There are no other intangible assets which ought to be disclosed in the statement of financial position of SMJ Furnishings in accordance with the Singapore Financial Reporting Standards and which have not been so disclosed and where such intangible assets would have had a material impact on the overall financial position of SMJ Furnishings.
- (v) There are no material acquisitions or disposals of assets by SMJ Furnishings between 30 June 2017 and the Latest Practicable Date, and SMJ Furnishings does not have any plans for any such impending material acquisition or disposal of assets, conversion of the use of SMJ Furnishings' material assets or material change in the nature of SMJ Furnishings' business.

We wish to highlight to the Independent Directors that the above analysis is only for illustrative purposes and is not meant to be an indication of, or to comment on the SMJ Furnishings' future profitability, growth prospects, financial positions and working capital sufficiency.

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5.3 Comparison of valuation ratios of selected companies which are broadly comparable with SMJ Furnishings

For the purpose of assessing the Proposed Disposal, we have attempted to compare various valuation ratios of SMJ Furnishings implied by the Sale Price with those companies which are listed on the SGX-ST and are engaged in the trade and distribution of carpets. However, save for the Group, we have not been able to find such companies listed on the SGX-ST. In view of the foregoing, we have expanded our comparison to include companies which are listed on the SGX-ST and in the business of wholesale and retail of furniture and/or furnishings. There are four (4) such companies which can be considered as broad proxies to SMJ Furnishings (**“Comparable SGX-ST Companies”**).

For a more direct comparison of the valuation ratios of peer comparables with SMJ Furnishings, we have also expanded the peer comparables to include companies listed on various exchanges in Asia such as the Tokyo Stock Exchange (**“TSE”**), the Hong Kong Stock Exchange (**“SEHK”**), Korean Securities Dealers Automated Quotations (**“KOSDAQ”**) and the Kuala Lumpur Stock Exchange (**“KLSE”**) (as sourced from S&P Capital IQ) that are involved in the distribution and retail of carpets. There are four (4) such companies which can be considered as broad proxies to SMJ Furnishings (**“Comparable Carpet Companies”**).

We have had discussions with the Management of the Company about the suitability and reasonableness of the selected Comparable SGX-ST Companies and Comparable Carpet Companies as comparisons with SMJ Furnishings. Relevant information has been extracted from S&P Capital IQ, publicly available annual reports and/or public announcements of the selected listed companies. We make no representations or warranties, expressed or implied, as to the accuracy or completeness of such information. The accounting policies of the Comparable SGX-ST Companies and Comparable Carpet Companies with respect to the values for which the assets or the revenue and cost are recorded may differ from that of SMJ Furnishings.

We wish to highlight that the Comparable SGX-ST Companies and Comparable Carpet Companies are not exhaustive and we recognise that there are no companies listed on the SGX-ST or other stock exchanges in Asia, which we may consider to be identical to SMJ Furnishings in terms of, *inter alia*, market capitalisation, geographical markets, composition of business activities, scale of business operations, risk profile, asset base, accounting policies, track record, future prospects, market / industry size, political risk, competitive and regulatory environment, financial positions and other relevant criteria. Therefore, the comparison made with respect to the selected listed companies merely serves as an illustrative market valuation of SMJ Furnishings as at the Latest Practicable Date.

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In our evaluation, we have considered the following widely used valuation measures:

Valuation Ratio	Description
Price-to-revenue ("P/Revenue") ratio	<p>P/Revenue ratio or sales multiple is the ratio of a company's market capitalisation divided by the total sales over a 12-month period.</p> <p>The P/Revenue ratio illustrates the ratio of the market capitalisation of an entity in relation to its revenue.</p>
Price-to-Earnings ("PE") ratio	<p>PE ratio or earnings multiple is the ratio of a company's market capitalisation divided by the historical consolidated net profit attributable to shareholders.</p> <p>The PE ratio is an earnings-based valuation methodology and is calculated based on the net earnings attributable to shareholders after interest, taxation, depreciation and amortisation expenses.</p> <p>The PE ratio illustrates the ratio of the market capitalisation of an entity in relation to the historical net profit attributable to its shareholders.</p> <p>As such, it is affected by the capital structure of a company, its tax position as well as its accounting policies relating to depreciation and amortisation charges.</p> <p>SMJ Furnishings is loss-making for FY2016 and T12M (as defined below), it is not meaningful to compare PE ratio of SMJ Furnishings implied by the Sale Price with the PE ratios of the Comparable SGX-ST Companies and Comparable Carpet Companies.</p>
Enterprise Value-to-Earnings before Interests, Taxes, Depreciation and Amortisation ("EV/EBITDA") ratio	<p>EV refers to enterprise value which is the sum of a company's market capitalisation, preferred equity, minority interests, short-term and long-term debts (inclusive of finance leases), less its cash and cash equivalents.</p> <p>EBITDA refers to the historical consolidated earnings before interest, taxes, depreciation and amortisation.</p> <p>The EV/EBITDA ratio illustrates the ratio of the market value of an entity's business in relation to its historical pre-tax operating cash flow performance. The EV/EBITDA multiple is an earnings-based valuation methodology. The difference between EV/EBITDA and the PE ratio (described above) is that it does not take into account the capital structure of a company as well as its interest, taxation, depreciation and amortisation charges.</p>
P/NAV ratio and P/RNAV ratio	<p>NAV refers to consolidated net asset value, which are the total assets of a company less total liabilities.</p> <p>RNAV refers to the consolidated net asset value, plus revaluation surplus of assets, which are measured based on fair market value.</p> <p>P/NAV and P/RNAV refer to the ratios of a company's share price divided by NAV per share and RNAV per share respectively.</p> <p>The P/NAV and P/RNAV ratios represent asset-based relative valuation which takes into consideration the NAV and RNAV backing of a company respectively.</p> <p>The NAV and RNAV of a company provide an estimate of its value assuming a hypothetical sale of all its assets and repayment of its liabilities and obligations, with the balance being available for distribution to its shareholders. It is an asset-based valuation methodology and this approach is meaningful to the extent that it measures the value of each share that is attached to the net assets of the company.</p>

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P/Revenue ratio implied by the Sale Price

For our analysis, we have evaluated the P/Revenue ratio of SMJ Furnishings as implied by the Sale Price based on SMJ Furnishings' trailing twelve months ("T12M") and FY2016 revenue.

SMJ Furnishings' T12M and FY2016 revenue were S\$15.32 million and S\$16.29 million respectively. Based on the Sale Price of S\$13.80 million, the P/Revenue ratios of SMJ Furnishings as implied by the Sale Price are approximately **0.90 times** and **0.85 times**, based on T12M and FY2016 revenue respectively.

EV/EBITDA ratio implied by the Sale Price

In respect of SMJ Furnishings, the EV/EBITDA ratios are calculated based on its T12M EBITDA of S\$0.15 million and FY2016 EBITDA of S\$0.32 million.

SMJ Furnishings' EV of S\$11.47 million is calculated as follows: the Sale Price of S\$13.80 million, add debt of S\$1.99 million and less cash and cash equivalents of S\$4.32 million as at 30 June 2017.

The Sale Price thus values SMJ Furnishings at EV/EBITDA ratios of approximately of **75.44 times** and **35.63 times** based on T12M and FY2016 EBITDA respectively.

We note that due to SMJ Furnishings' low level of EBITDA, the EV/EBITDA ratios calculated above are high and may not be meaningful as compared to the Comparable SGX-ST Companies and Comparable Carpet Companies. We have nevertheless made such comparisons for illustrative purposes only.

P/NAV and P/RNAV ratios implied by the Sale Price

The unaudited NAV of SMJ Furnishings as at 30 June 2017 was S\$13.75 million. The Sale Price represents a premium of 0.3% above the NAV of SMJ Furnishings as at 30 June 2017 or a P/NAV ratio of **1.00 times**.

After taking into consideration the market value of the Property, the RNAV of SMJ Furnishings as at 30 June 2017 is S\$13.69 million. The Sale Price represents a premium of 0.8% above the RNAV of SMJ Furnishings as at 30 June 2017 or a P/RNAV ratio of **1.01 times**.

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5.3.1 Comparison with the Comparable SGX-ST Companies

A brief description of the Comparable SGX-ST Companies is set out as follows:

Comparable SGX-ST Companies	Business Description	Financial Year End
Design Studio Group Ltd. ("Design Studio")	Design Studio, together with its subsidiaries, manufactures, supplies, and installs paneling products in Singapore, Malaysia, the People's Republic of China, the United Arab Emirates, the United States, and internationally. The company operates in three segments: residential property projects, hospitality and commercial projects, and distribution projects. The residential property projects segment offers paneling products, such as kitchen and vanity cabinets, wardrobes, doors and door frames, and furniture components. The hospitality and commercial projects segment provides interior fitting-out services to hotels, resorts, office, shops, and bank branches. The distribution projects segment is involved in the distribution of furniture products of overseas brands. The company offers its products and services under the in-house brand name of PANELZ; and imported brand name of SieMatic. The company was formerly known as Design Studio Furniture Manufacturer Ltd. and changed its name to Design Studio Group Ltd. in January 2014. The company was founded in 1992 and is headquartered in Singapore. Design Studio is a subsidiary of Depa Interiors LLC.	31 December 2016
Hafary Holdings Limited ("Hafary")	Hafary imports, deals, distributes, and wholesales building materials in Singapore, the People's Republic of China, Vietnam, the Republic of the Union of Myanmar, Indonesia, and internationally. The company operates in three segments: general, project, and others. It offers ceramic and porcelain tiles; stone tiles, such as granite, limestone, marble, quartz, composite quartz, and marble tiles; wood flooring materials, including engineered timber, solid hardwood, laminates, vinyl, and outdoor decking products; and sanitary ware and fittings comprising accessories, basins, bathtubs, faucets, showers, water closets, pools, and sinks. The company serves architecture, interior design, and renovation firms, as well as property developers and construction companies. It also engages in dealing stones and wood for home furnishings; and property development activities. The company was founded in 1980 and is headquartered in Singapore. Hafary is a subsidiary of Hap Seng Consolidated Berhad.	31 December 2016
Versalink Holdings Limited ("Versalink")	Versalink designs, develops, manufactures, supplies, and exports system furniture products under the Versalink brand name. The company offers reception products; architectural products, such as high wall systems; panel, desking, and modular systems; filing and storage products; metal and panel leg meeting, and flip tables; executive series products, including veneer, MFC, and metal leg products; and auditorium, sofa and lounge, executive, task and work, and institutional seating products. It also provides acoustic panels; worktools comprising CPU holders, keyboard trays, monitor arms, wire trays, and stationary trays and holders; power options, such as cable boxes and accessories, and cable channels; and presentation products consisting of whiteboards. In addition, the company offers workspace planning and consulting services. It serves architects, contractors, corporate customers, dealers, designers, and OEM customers in approximately 40 countries in Africa, Australasia, Asia, the Middle East, and North America. The company was founded in 1991 and is based in Klang, Malaysia.	28 February 2017

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Comparable SGX-ST Companies	Business Description	Financial Year End
Sitra Holdings (International) Limited ("Sitra")	Sitra engages in the import and export of wood-based, lifestyle outdoor furniture, and other related products. It offers wood-based products, such as decking, flooring, fencing, door and window components, and other molded products in various designs, specifications, and dimensions under the Comcia and deckING brands; and lifestyle furniture products, such as outdoor garden furniture, garden accessories, and contract furnishings under the Pacific brand. The company also engages in the importing, exporting, trading, and brokerage of various kinds of wood; and manufactures, supplies, and distributes wood-based and other related products. It has operations in North America, Europe, Australia, New Zealand, Asia, and internationally. Sitra was founded in 1979 and is headquartered in Singapore.	31 December 2016

Source: S&P Capital IQ

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The valuation ratios of the Comparable SGX-ST Companies are based on their respective last traded share prices as at the Latest Practicable Date are set out as follows:

Comparable SGX-ST Companies	Market Capitalisation (S\$'million)	P/Revenue Ratio ⁽¹⁾ (times)	EV/EBITDA Ratio ⁽²⁾ (times)	P/NAV Ratio ⁽³⁾ (times)
Design Studio	139.24	0.82	5.10	1.44
Hafary	73.19	0.63	11.47	1.28
Versalink ⁽⁴⁾	15.80	0.91	n.m. ⁽⁵⁾	0.76
Sitra	9.77	0.55	n.m. ⁽⁵⁾	0.67
Max		0.91	11.47	1.44
Min		0.55	5.10	0.67
Mean		0.73	8.28	1.03
Median		0.73	8.28	1.02

SMJ Furnishings (implied by the Sale Price)	13.80	0.90 (based on T12M revenue)	75.44 (based on T12M EBITDA)	1.00 (based on NAV of SMJ Furnishings as at 30 June 2017)
		0.85 (based on FY2016 revenue)	35.63 (based on FY2016 EBITDA)	1.01 (based on RNAV of SMJ Furnishings as at 30 June 2017)

Sources: S&P Capital IQ, annual reports and announcements of the Comparable SGX-ST Companies, audited financial statements and unaudited management accounts of SMJ Furnishings and RHTC calculations

Notes:

- (1) P/Revenue ratios of the Comparable SGX-ST Companies are calculated based on their respective T12M revenue as set out in their latest available published interim results or latest full year results, whichever is applicable.
- (2) The EV of the Comparable SGX-ST Companies are calculated based on (i) their market capitalisation; and (ii) their preferred equity, minority interests and net debt (if any), as set out in their respective latest available financial results. The EBITDAs are calculated based on the T12M results of the respective Comparable SGX-ST Companies.
- (3) The P/NAV ratios of the Comparable SGX-ST Companies are calculated based on their respective NAV values as set out in their latest available published interim results or latest full year results, whichever is applicable.
- (4) The reporting currency of Versalink's financial statement is Malaysian Ringgit ("RM"). The exchange rate used for conversion to SGD is RM1:SGD0.3278 as at Latest Practicable Date.
- (5) n.m. denotes not meaningful due to losses.

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Based on the above, we observe that:

- (i) The P/Revenue ratios of SMJ Furnishings implied by the Sale Price of 0.90 times and 0.85 times, based on the T12M and FY2016 revenue, are within the range of the P/Revenue ratios of the Comparable SGX-ST Companies, and above the mean and median P/Revenue ratios of the Comparable SGX-ST Companies of 0.73 times and 0.73 times respectively.
- (ii) The EV/EBITDA ratios of SMJ Furnishings implied by the Sale Price of 75.44 times and 35.63 times, based on the T12M and FY2016 EBITDA, are above the range of the EV/EBITDA ratios of the Comparable SGX-ST Companies, and above the mean and median EV/EBITDA ratios of the Comparable SGX-ST Companies of 8.28 times and 8.28 times respectively.
- (iii) The P/NAV ratio of SMJ Furnishings implied by the Sale Price of 1.00 times is within the range of the P/NAV ratios of the Comparable SGX-ST Companies, and is slightly below the mean and median P/NAV ratios of the Comparable SGX-ST Companies of 1.03 times and 1.02 times respectively.
- (iv) The P/RNAV ratio of SMJ Furnishings implied by the Sale Price of 1.01 times is within the range of the P/NAV ratios of the Comparable SGX-ST Companies, and is slightly below the mean and median P/NAV ratios of the Comparable SGX-ST Companies of 1.03 times and 1.02 times respectively.

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5.3.2 Comparison with the Comparable Carpet Companies

A brief description of the Comparable Carpet Companies is set out as follows:

Comparable Carpet Companies	Stock Exchange	Business Description	Financial Year End
TOLI Corporation ("TOLI")	TSE	TOLI manufactures and sells floor coverings, wallpapers, drapes, and related installation accessories in Japan and internationally. It offers carpet tiles, vinyl tiles, vinyl sheets, carpets, curtains, wall coverings, and other products. The company was formerly known as TOYO LINOLEUM and changed its name to TOLI Corporation in October 1991. TOLI was founded in 1919 and is headquartered in Itami, Japan.	31 March 2017
Tai Ping Carpets International Limited ("Tai Ping")	SEHK	Tai Ping manufactures, imports, exports, and sells carpets for commercial and residential environments worldwide. The company primarily offers hand tufted, machine woven, and tufted carpets. It is also involved in the manufacture and sale of yarns; sale of leather; and yarn dyeing activities. The company was founded in 1956 and is headquartered in Wong Chuk Hang, Hong Kong.	31 December 2016
DUAL Industrial Co., Ltd. ("DUAL")	KOSDAQ	DUAL manufactures and sells car carpets. The company supplies car interior materials for the core car models of Hyundai Motor Co. (HMC), Avante XD, Santafe, and Trajet XG. DUAL was founded in 1992 and is based in Seoul, South Korea.	31 December 2016
Paragon Union Berhad ("Paragon Union")	KLSE	Paragon Union, an investment holding company, manufactures, sells, and trades in car and commercial carpets, and automotive components. It operates through automotive and commercial segments. The company's products include axminster carpets, machine tufted carpets, hand tufted carpets, carpet tiles, and carpet rugs; and carpet floor assy products, car mats, rear shelf trims, pad dash panels, trunk floor boards, insulators, silencers, and NVH interior and insulator trims. It is also involved in the property development related activities. The company offers its carpets for use in five star hotels, commercial buildings, offices, mosques, and government projects. It has operations in Malaysia, Singapore, Brunei, the Maldives, and internationally. The company is based in Cheras, Malaysia. Paragon Union is a subsidiary of Asia Avenue Sdn. Bhd.	31 December 2016

Source: S&P Capital IQ

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The valuation ratios of the Comparable Carpet Companies are based on their respective last traded share prices as at the Latest Practicable Date are set out as follows:

Comparable Carpet Companies	Market Capitalisation (S\$'million)	P/Revenue Ratio ⁽¹⁾ (times)	EV/EBITDA Ratio ⁽¹⁾ (times)	P/NAV Ratio ⁽¹⁾ (times)
TOLI	305.62	0.28	3.44	0.75
Tai Ping	58.52	0.26	362.98 ⁽²⁾	0.57
DUAL	31.37	0.63	4.10	1.55
Paragon Union	8.47	0.44	10.64	0.65
Max		0.63	362.98	1.55
Min		0.26	3.44	0.57
Mean		0.40	6.06	0.88
Median		0.36	4.10	0.70

SMJ Furnishings (implied by the Sale Price)	13.80	0.90 (based on T12M revenue)	75.44 (based on T12M EBITDA)	1.00 (based on NAV of SMJ Furnishings as at 30 June 2017)
		0.85 (based on FY2016 revenue)	35.63 (based on FY2016 EBITDA)	1.01 (based on RNAV of SMJ Furnishings as at 30 June 2017)

Sources: S&P Capital IQ, audited financial statements and unaudited management accounts of SMJ Furnishings and RHTC calculations

Notes:

- (1) Some of the Comparable Carpet Companies' financial statements are not available in English, the relevant ratios for the Comparable Carpet Companies are extracted from Capital IQ as of the Latest Practicable Date.
- (2) Excluded as statistical outlier.

Based on the above, we observe that:

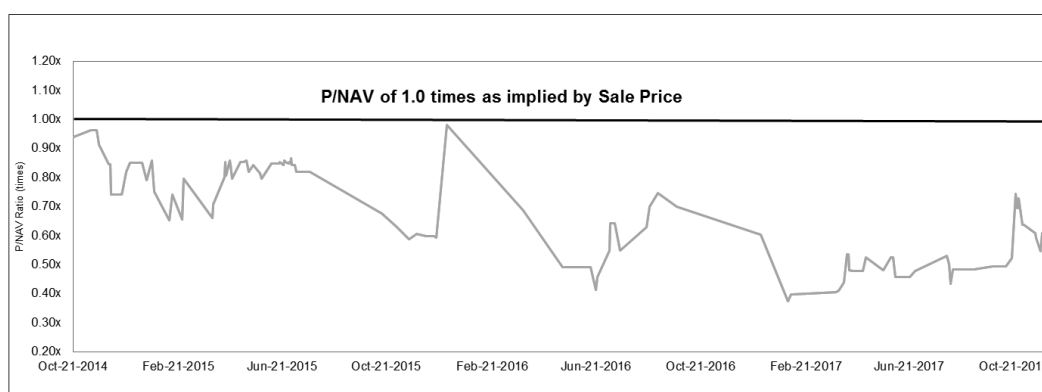
- (i) The P/Revenue ratios of SMJ Furnishings implied by the Sale Price of 0.90 times and 0.85 times, based on the T12M and FY2016 revenue, are above the range of the P/Revenue ratios of the Comparable Carpet Companies, and above the mean and median P/Revenue ratios of the Comparable Carpet Companies of 0.40 times and 0.36 times respectively.
- (ii) The EV/EBITDA ratios of SMJ Furnishings implied by the Sale Price of 75.44 times and 35.63 times, based on the T12M and FY2016 EBITDA, are within the range of the EV/EBITDA ratios of the Comparable Carpet Companies, and above the mean and median EV/EBITDA ratios of the Comparable Carpet Companies of 6.06 times and 4.10 times respectively.
- (iii) The P/NAV ratio of SMJ Furnishings implied by the Sale Price of 1.00 times is within the range of the P/NAV ratios of the Comparable Carpet Companies, and is above the mean and median P/NAV ratios of the Comparable Carpet Companies of 0.88 times and 0.70 times respectively.

APPENDIX A: LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iv) The P/RNAV ratio of SMJ Furnishings implied by the Sale Price of 1.01 times is within the range of the P/NAV ratios of the Comparable Carpet Companies, and is above the mean and median P/NAV ratios of the Comparable Carpet Companies 0.88 times and 0.70 times respectively.

5.4 P/NAV ratio of SMJ Furnishings as ascribed by the market

We have compared the P/NAV ratio of SMJ Furnishings as implied by the Sale Price against the P/NAV ratio of the Group as implied by the historical trading prices of the Company from 21 October 2014 (being the 3-year period prior to the announcement of the Proposed Disposal) to the Latest Practicable Date (“**Period Under Review**”).



Source: S&P Capital IQ

Based on the above chart, we note that the P/NAV ratio of the Group as implied by historical trading prices of the Company ranged from 0.37 times to 0.98 times and has not exceeded the P/NAV ratio of SMJ Furnishings as implied by the Sale Price during the Period Under Review. We note that during the Period Under Review, SMJ Furnishings has been the core business of the Company and contributed more than 80% of the NAV of the Group. Accordingly, based on the Sale Price, the Purchasers have ascribed a higher valuation (in terms of NAV) to SMJ Furnishings as compared to the market historically.

5.5 Financial effects of the Proposed Disposal

The financial effects of the Proposed Disposal are set out in Section 7 of the Circular. We recommend the Independent Directors to advise the Shareholders to read Section 7 of the Circular carefully, in particular the assumptions relating to the preparation of the financial effects. The financial effect of the Proposed Disposal are extracted and reproduced in italics below:

“7. FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

Shareholders should note that the financial effects of the Proposed Disposal set out below are theoretical in nature and strictly for illustrative purposes only. Accordingly, they do not represent the actual financial position and/or results of the Group's operations after the Completion and are not indicative of the future financial position and earnings of the Group. The financial effects below have been prepared based on the audited consolidated financial statements of the Group for FY2016 and in accordance with the assumptions set out herein.

7.1 Share Capital

As no new Shares will be issued by the Company in connection with the Proposed Disposal, the Proposed Disposal will not have any impact on the existing issued share capital of the Company.

APPENDIX A: LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

7.2 NTA

The effect of the Proposed Disposal on the NTA per Share of the Group for FY2016, assuming that the Proposed Disposal had been effected at the end of FY2016 is as follows:

As at 31 December 2016	Before the Proposed Disposal	After the Proposed Disposal
NTA (S\$'000)	16,378	16,338
NTA per share (S\$ cents)	21.0	20.9

7.3 EPS

The effect of the Proposed Disposal on the EPS of the Group for FY2016, assuming that the Proposed Disposal had been effected at the beginning of FY2016 is as follows:

FY2016	Before Disposal	After Disposal
Losses after tax and minority interests (S\$'000)	(418)	(458) ⁽¹⁾
Earnings per share (S\$ cents)	(0.54)	(0.59)

Note:

(1) Excludes the losses of SMJ Furnishings for FY2016 and takes into account the presumed losses from the Proposed Disposal had been effected at the beginning of FY2016.

7.4 Value of Sale Shares and Gain on Disposal

Based on the HY2017 Results, the NAV of SMJ Furnishings as at 30 June 2017 was S\$13,752,000. Please refer to Section 3.1 of this Circular for information regarding the indicative valuation of the Sale Shares of S\$13.8 million. Based on the NAV of SMJ Furnishings as at 30 June 2017, the gain on the Proposed Disposal is approximately S\$48,000. The net loss attributable to SMJ Furnishings for the half year ended 30 June 2017 was S\$88,000.

7.5 Gross Gearing Ratio

For illustrative purposes only, the effect of the Proposed Disposal on the gross gearing ratio of the Group for FY2016, assuming that the Proposed Disposal had been completed at the end of FY2016 is as follows:

As at 31 December 2016	Before the Proposed Disposal	After the Proposed Disposal
Total borrowings ⁽¹⁾ (S\$'000)	2,031	-
Shareholders' funds (S\$'000)	16,378	16,338
Gross gearing ratio ⁽²⁾ (times)	0.12	N.M. ⁽³⁾

Notes:

(1) Total borrowings is defined as the aggregate amount of liabilities arising from banks and financial institutions.

(2) Gearing means the ratio of total borrowings to equity attributable to Shareholders.

(3) N.M. is an abbreviation for no meaningful figure."

APPENDIX A: LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5.6 Other relevant considerations in relation to the Proposed Disposal

- (i) Negative outlook of SMJ Furnishings;
- (ii) Use of proceeds; and
- (iii) Business of the Group after the completion of the Proposed Disposal.

5.6.1 Negative outlook of SMJ Furnishings

We note that based on the rationale of the Proposed Disposal and the Group's 6M2017's results announcement released on 2 August 2017, the Group had provided its views on the industry it is operating. We have reproduced the extracts of its views from the Group's 6M2017's result announcement in italics below:

"The Group continues to adopt a cautious view on the outlook of Singapore's private sector construction industry. Operating environment in the Singapore carpet industry continues to be challenging as the demand for carpet is expected to remain weak amidst uncertainties in the economic environment and a dearth of activities in the private residential and commercial sectors. While we have expanded our dealer team in the Export Market, the Group anticipates that Export Market conditions will remain competitive in most of our key markets in FY2017 due to the market weakness and competitive pricing pressures in the regional countries."

5.6.2 Use of proceeds

The use of proceeds for the Proposed Disposal which have been set out in Section 6 of the Circular are extracted and reproduced in italics below:

"The Company expects to receive net proceeds of approximately S\$13.7 million from the Proposed Disposal (after deducting transaction costs of approximately S\$125,000).

The Company intends to deploy the net proceeds in the following manner:

- (a) *approximately S\$8 million to fund potential acquisitions and/or investments in assets, investments and shares or interests in entities engaged in the Property Related Business and/or the Proposed New Business Scope;*
- (b) *approximately S\$2 million to fund the costs, expenditure and working capital requirements of the Property Related Business; and*
- (c) *approximately S\$3.7 million to fund the costs, expenditure and working capital requirements of the Proposed New Business Scope.*

Pending the deployment of the unutilised proceeds for the purposes mentioned above, such proceeds may be deposited with banks and/or financial institutions, invested in short-term money markets and/or marketable securities, or used for any other purpose on a short-term basis, as the Directors may deem appropriate in the interests of the Group."

5.6.3 Business of the Group after the completion of the Proposed Disposal

In addition to the Proposed Disposal, the Company will also be seeking approval of the Shareholders at the EGM for the Proposed Expansion of Core Business. The Company intends to expand the scope of its existing core business to include the business of:

- (a) provision of interior design consultancy services (including furniture, fixtures, fittings and electromechanical equipment);
- (b) provision of consultancy services for overall planning, construction of buildings and other infrastructure (including indoor and outdoor layout and landscaping), and design and fitting-out for hotels and resorts;

APPENDIX A: LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (c) provision of food and beverages management services;
- (d) provision of business management services in the property related business;
- (e) provision of leisure and entertainment facilities management services;
- (f) provision of management and consultancy services in the tourism and hospitality industry, including hotels, resorts, spa services and other facilities;
- (g) to acquire and hold investments in businesses providing spa treatments and services, and holding the same for long term investment and/or provision of related management and/or consultancy services; and
- (h) provision of other related and ancillary services in connection with the tourism and hospitality industry.

(collectively, “**Proposed New Business Scope**”)

The Group may also, as part of the Proposed New Business Scope, invest in or purchase or otherwise acquire or dispose of any such assets, investments and shares or interests in any entity that is in the Proposed New Business Scope. Any business activities as aforesaid (including those listed in (a) to (h) above) shall upon approval of the Proposed Expansion of Core Business by the Shareholders at the EGM, constitute part of the ordinary course of business of the Group. We note that the use of proceeds in relation to the Proposed Disposal as mentioned in Section 6 of the Circular is consistent to the Proposed New Business Scope.

6. OUR OPINION

In arriving at our recommendation in respect of the Proposed Disposal, we have taken into consideration, *inter alia*, the following factors summarised below as well as elaborated elsewhere in this Letter. The following should be read in conjunction with, and in the context of, the full text of this Letter.

- (a) Rationale for the Proposed Disposal;
- (b) Financial performance and position of SMJ Furnishings;
- (c) Comparison of valuation ratios of selected companies which are broadly comparable with SMJ Furnishings;

Comparison with the Comparable SGX-ST Companies

- (i) The P/Revenue ratios of SMJ Furnishings implied by the Sale Price of 0.90 times and 0.85 times, based on the T12M and FY2016 revenue, are within the range of the P/Revenue ratios of the Comparable SGX-ST Companies, and above the mean and median P/Revenue ratios of the Comparable SGX-ST Companies of 0.73 times and 0.73 times respectively.
- (ii) The EV/EBITDA ratios of SMJ Furnishings implied by the Sale Price of 75.44 times and 35.63 times, based on the T12M and FY2016 EBITDA, are above the range of the EV/EBITDA ratios of the Comparable SGX-ST Companies, and above the mean and median EV/EBITDA ratios of the Comparable SGX-ST Companies of 8.28 times and 8.28 times respectively.
- (iii) The P/NAV ratio of SMJ Furnishings implied by the Sale Price of 1.00 times is within the range of the P/NAV ratios of the Comparable SGX-ST Companies, and is slightly below the mean and median P/NAV ratios of the Comparable SGX-ST Companies of 1.03 times and 1.02 times respectively.

APPENDIX A: LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iv) The P/RNAV ratio of SMJ Furnishings implied by the Sale Price of 1.01 times is within the range of the P/NAV ratios of the Comparable SGX-ST Companies, and is slightly below the mean and median P/NAV ratios of the Comparable SGX-ST Companies of 1.03 times and 1.02 times respectively.

Comparison with the Comparable Carpet Companies

- (i) The P/Revenue ratios of SMJ Furnishings implied by the Sale Price of 0.90 times and 0.85 times, based on the T12M and FY2016 revenue, are above the range of the P/Revenue ratios of the Comparable Carpet Companies, and above the mean and median P/Revenue ratios of the Comparable Carpet Companies of 0.40 times and 0.36 times respectively.
- (ii) The EV/EBITDA ratios of SMJ Furnishings implied by the Sale Price of 75.44 times and 35.63 times, based on the T12M and FY2016 EBITDA, are within the range of the EV/EBITDA ratios of the Comparable Carpet Companies, and above the mean and median EV/EBITDA ratios of the Comparable Carpet Companies of 6.06 times and 4.10 times respectively.
- (iii) The P/NAV ratio of SMJ Furnishings implied by the Sale Price of 1.00 times is within the range of the P/NAV ratios of the Comparable Carpet Companies, and is above the mean and median P/NAV ratios of the Comparable Carpet Companies of 0.88 times and 0.70 times respectively.
- (iv) The P/RNAV ratio of SMJ Furnishings implied by the Sale Price of 1.01 times is within the range of the P/NAV ratios of the Comparable Carpet Companies, and is above the mean and median P/NAV ratios of the Comparable Carpet Companies 0.88 times and 0.70 times respectively.

- (d) P/NAV ratio of SMJ Furnishings as ascribed by the market;

We note that the P/NAV ratio of the Group as implied by historical trading prices of the Company ranged from 0.37 times to 0.98 times and has not exceeded the P/NAV ratio of SMJ Furnishings as implied by the Sale Price during the Period Under Review.

- (e) Financial effects of the Proposed Disposal; and
- (f) Other relevant considerations in relation to the Proposed Disposal.
 - (i) Negative outlook of SMJ Furnishings;
 - (ii) Use of proceeds; and
 - (iii) Business of the Group after the completion of the Proposed Disposal;

Having regards to the considerations as set out above and the information available to us as at the Latest Practicable Date, we are of the opinion that the Proposed Disposal is on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

We wish to highlight that we were neither a party to the negotiations entered into by the Company in relation to the Proposed Disposal, nor were we involved in the deliberations leading up to the decision on the part of the Directors to enter into the Sale Agreement, and we do not warrant the merits of the Proposed Disposal. Furthermore, we were not involved in the legal and financial due diligence that were conducted by the Company and its advisers on SMJ Furnishings.

APPENDIX A: LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have prepared this Letter for the use of the Independent Directors in connection with and for the purposes of their consideration of the Proposed Disposal. The recommendation made by them to the Shareholders in relation to the Proposed Disposal shall remain the sole responsibility of the Independent Directors. Whilst a copy of this Letter may be reproduced in the Circular, neither the Company nor the Directors may reproduce, disseminate or quote this Letter (or any part thereof) for any other purpose other than for the purpose of the EGM at any time and in any manner without prior written consent of RHTC in each specific case.

This Letter is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours sincerely
For and on behalf of
RHT CAPITAL PTE. LTD.

Khong Choun Mun
Chief Executive Officer

Mah How Soon
Managing Director

APPENDIX B: VALUATION CERTIFICATES ON THE SKYLINE PROPERTY



Valuation certificate

Property	: 608 Telok Blangah Road #08-01 "Skyline Residences" Singapore 109030
Client	: SMJ International Holdings Ltd
Purpose	: For audit
Legal description	: Strata Lot No. U71297L Mukim 1
Tenure	: Estate in Fee Simple (Grant in Fee Simple 3015)
Basis of valuation	: Market Value subject to existing tenancy
Registered owner	: SMJ Furnishings (S) Pte Ltd
Master plan 2014	: "Residential" with a gross plot ratio of 2.1
Brief description	: "Skyline Residences" is located on the northern side of Telok Blangah Road, some 6.0 km from the City Centre. The Ayer Rajah Expressway and West Coast Highway are within a few minutes' drive away. The Telok Blangah MRT station is within walking distance. It is a condominium development which comprises three 24-storey blocks housing a total of 283 units of apartments and penthouses. Recreational facilities provided within the development include swimming pool with hydro massage bed and seat, 50-metre lap pool, children's pool, children's playground, massage pavilion, relaxation pavilion, lounge deck, fitness station, barbecue deck, pebble stream, aquatic pond, clubhouse comprising entertainment suite, gymnasium, hydro massage lounge pool and male/female changing rooms, tennis court, tea pavilion, relaxing lounge and sky gardens. Other facilities provided include basement car park and security guard service. The subject property is a 4-bedroom apartment (Type D1).
Strata floor area	: 160.0 sm
Valuation approach	: Comparable Sales Method
Date of valuation	: 27 December 2016
Market Value	: S\$3,000,000/- (Singapore Dollars Three Million Only) This valuation is exclusive of GST.
Assumptions, disclaimers, limitations & qualifications	: <i>This valuation certificate is provided subject to the assumptions, disclaimers, limitations and qualifications detailed throughout this certificate which are made in conjunction with those included within the General Terms of Business for Valuations located at the end of this certificate. Reliance on this certificate and extension of our liability is conditional upon the reader's acknowledgement and understanding of these statements. Use by, or reliance upon this document for any other purpose if not authorised, Knight Frank Pte Ltd is not liable for any loss arising from such unauthorised use or reliance. The document should not be reproduced without our written authority. The valuers have no pecuniary interest that would conflict with the proper valuation of the Property.</i>
Prepared by	: Knight Frank Pte Ltd  Chiam Tok Ling B.Sc.(Estate Management) MSISV (Appraiser's Licence No: AD 041-2004449G) For and on behalf of Knight Frank Pte Ltd

Knight Frank Pte Ltd 10 Collyer Quay #08-01 Ocean Financial Centre Singapore 049315
Tel: (65) 6222 1333 Fax: (65) 6224 5843 Reg.No: 198205243Z CEA Licence No: L3005536J
KnightFrank.com.sg

Other Offices:

Knight Frank Property Asset Management Pte Ltd 160 Paya Lebar Road #05-05 Orion@Paya Lebar Singapore 409022
KF Property Network Pte Ltd 491B River Valley Road #07-02 Valley Point Singapore 248373



APPENDIX B: VALUATION CERTIFICATES ON THE SKYLINE PROPERTY



Valuation certificate

Property	: 608 Telok Blangah Road #08-01 "Skyline Residences" Singapore 109030
Client	: SMJ International Holdings Ltd
Purpose	: For transfer
Legal description	: Strata Lot No. U71297L Mukim 1
Tenure	: Estate in Fee Simple (Grant in Fee Simple 3015)
Basis of valuation	: Market Value with vacant possession
Registered owner	: SMJ Furnishings (S) Pte Ltd
Master plan 2014	: "Residential" with a gross plot ratio of 2.1
Brief description	: "Skyline Residences" is located on the northern side of Telok Blangah Road, some 6.0 km from the City Centre. The Ayer Rajah Expressway and West Coast Highway are within a few minutes' drive away. The Telok Blangah MRT station is within walking distance. It is a condominium development which comprises three 24-storey blocks housing a total of 283 units of apartments and penthouses. Recreational facilities provided within the development include swimming pool with hydro massage bed and seat, 50-metre lap pool, children's pool, children's playground, massage pavilion, relaxation pavilion, lounge deck, fitness station, barbecue deck, pebble stream, aquatic pond, clubhouse comprising entertainment suite, gymnasium, hydro massage lounge pool and male/female changing rooms, tennis court, tea pavilion, relaxing lounge and sky gardens. Other facilities provided include basement car park and security guard service. The subject property is a 4-bedroom apartment (Type D1).
Strata floor area	: 160.0 sm
Valuation approach	: Comparable Sales Method
Date of valuation	: 17 October 2017
Market Value	: S\$2,900,000/- (Singapore Dollars Two Million And Nine Hundred Thousand Only) This valuation is exclusive of GST.
Assumptions, disclaimers, limitations & qualifications	: <i>This valuation certificate is provided subject to the assumptions, disclaimers, limitations and qualifications detailed throughout this certificate which are made in conjunction with those included within the General Terms of Business for Valuations located at the end of this certificate. Reliance on this certificate and extension of our liability is conditional upon the reader's acknowledgement and understanding of these statements. Use by, or reliance upon this document for any other purpose if not authorised, Knight Frank Pte Ltd is not liable for any loss arising from such unauthorised use or reliance. The document should not be reproduced without our written authority. The valuers have no pecuniary interest that would conflict with the proper valuation of the Property.</i>
Prepared by	: Knight Frank Pte Ltd  Chiam Tok Ling B.Sc.(Estate Management) MSISV (Appraiser's Licence No: AD 041-2004449G) For and on behalf of Knight Frank Pte Ltd

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NOTICE OF EXTRAORDINARY GENERAL MEETING

SMJ INTERNATIONAL HOLDINGS LTD.

(Incorporated in the Republic of Singapore)
(Company Registration Number 201334844E)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of **SMJ INTERNATIONAL HOLDINGS LTD.** (the “**Company**”) will be held at 31 Jurong Port Road #02-20 Jurong Logistics Hub Singapore 619115 on 26 December 2017 at 2.10 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the resolutions as set out below:

All capitalised terms used in this notice which are not otherwise defined shall have the same meanings as ascribed to them in the Company’s circular to its shareholders dated 8 December 2017.

ORDINARY RESOLUTIONS

RESOLUTION 1: THE PROPOSED DISPOSAL OF THE ENTIRE 100% EQUITY INTEREST IN SMJ FURNISHINGS (S) PTE LTD AS AN INTERESTED PERSON TRANSACTION AND MAJOR TRANSACTION

That:

- (a) approval be and is hereby given to the Company to dispose of its entire equity interests in SMJ Furnishings to Rena Ho and Nellie Ho (collectively the “**Purchasers**”) for an aggregate consideration of S\$13.8 million and on the terms and subject to the conditions of the sale and purchase agreement dated 20 October 2017 entered into between the Company and the Purchasers (the “**Proposed Disposal**”), and pursuant to Chapter 9 of the Catalist Rules, approval be and is hereby given for the Proposed Disposal being an interested person transaction;
- (b) pursuant to Section 160 of the Companies Act, approval be and is hereby given for the Proposed Disposal, being a disposal of substantially the whole of the Company’s undertaking or property; and
- (c) the Directors or any of them be and are hereby authorised to exercise such discretion to complete and do all such acts and things, including without limitation, to sign, seal, execute and deliver all such documents and deeds, and to approve any amendment, alteration or modification to any document, as they or he may consider necessary, desirable or expedient or in the interest of the Company to give effect to this Ordinary Resolution as they or he may think fit.

RESOLUTION 2: THE PROPOSED EXPANSION OF THE GROUP’S EXISTING CORE BUSINESS TO INCLUDE THE PROPOSED NEW BUSINESS SCOPE

That:

- (a) approval be and is hereby given for the expansion by the Group of its existing core business to carry out the following activities:
 - (i) provision of interior design consultancy services (including furniture, fixtures, fittings and electromechanical equipment);

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (ii) provision of consultancy services for overall planning, construction of buildings and other infrastructure (including indoor and outdoor layout and landscaping), and design and fitting-out for hotels and resorts;
- (iii) provision of food and beverages management services;
- (iv) provision of business management services in the Property Related Business;
- (v) provision of leisure and entertainment facilities management services;
- (vi) provision of management and consultancy services in the tourism and hospitality industry, including hotels, resorts, spa services and other facilities;
- (vii) to acquire and hold investments in businesses providing spa treatments and services, and holding the same for long term investment and/or provision of related management and/or consultancy services; and
- (viii) provision of other related and ancillary services in connection with the tourism and hospitality industry.

(collectively, the “**Proposed New Business Scope**”).

- (b) the Company be and is hereby authorised to invest in, purchase or otherwise acquire or dispose of, from time to time any such assets, investments and shares or interests in any entity that is in the Proposed New Business Scope on such terms and conditions as the Directors deem fit, and such Directors be and are hereby authorised to take such steps and exercise such discretion and do all such acts or things as they deem desirable, necessary or expedient or give effect to such investment, purchase, acquisition or disposal; and
- (c) the Directors or any of them be and are hereby authorised to exercise such discretion to complete and do all such acts and things, including without limitation, to sign, seal, execute and deliver all such documents and deeds, and to approve any amendment, alteration or modification to any document, as they or he may consider necessary, desirable or expedient or in the interest of the Company to give effect to this Ordinary Resolution as they or he may think fit.

By Order of the Board
SMJ INTERNATIONAL HOLDINGS LTD.

CHOW WEN KWAN MARCUS
Independent Non-Executive Chairman
8 December 2017

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (1) (a) A shareholder of the Company entitled to attend and vote at the EGM and who is not a relevant intermediary may appoint not more than two proxies to attend and vote in his/her stead.
- (b) A shareholder of the Company entitled to attend and vote at the EGM and who is a relevant intermediary may appoint more than two proxies provided that each proxy is appointed to exercise the rights attached to different shares held by the member.

“Relevant intermediary” has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50.

- (2) A proxy need not be a shareholder of the Company.
- (3) If a proxy is to be appointed, the instrument appointing a proxy must be duly deposited at the registered office of the Company at 31 Jurong Port Road, #02-20 Jurong Logistics Hub (South Wing), Singapore 619115 not later than 48 hours before the time appointed for the holding of the EGM.
- (4) The instrument appointing a proxy must be signed by the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy is executed by a corporation, it must be executed either under its common seal or under the hand of any officer or attorney duly authorised.
- (5) A Depositor’s name must appear on the Depository Register maintained by the Central Depository (Pte) Limited as at 72 hours before the time fixed for holding the EGM in order for the Depositor to be entitled to attend and vote at the EGM.

Personal Data Privacy:

“Personal data” in this notice of EGM has the same meaning as “personal data” in the Personal Data Protection Act 2012, which includes your name and your proxy’s and/or representative’s name, address and NRIC/Passport number. By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member’s and its proxy(ies)’s or representative(s)’s personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the “**Purposes**”); (ii) warrants that where the member discloses the personal data of the member’s proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior express consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes; (iii) undertakes that the member will only use the personal data of such proxy(ies) and/or representative(s) for the Purposes; and (iv) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member’s breach of warranty. Your personal data and your proxy’s and/or representative’s personal data may be disclosed or transferred by the Company to its subsidiaries, its share registrar and/or other agents or bodies for any of the Purposes, and retained for such period as may be necessary for the Company’s verification and record purposes.

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PROXY FORM

SMJ INTERNATIONAL HOLDINGS LTD.

(Company Registration Number: 201334844E)

(Incorporated in the Republic of Singapore)

EXTRAORDINARY GENERAL MEETING

I/We* _____ (Name) NRIC/Passport number* _____

of _____ (Address) being a shareholder/shareholders* of SMJ International Holdings Ltd. (the “**Company**”), hereby appoint:

Name	NRIC/Passport Number	Proportion of Shareholdings	
		Number of Shares	%
Address			

and/or* (delete as appropriate)

Name	NRIC/Passport Number	Proportion of Shareholdings	
		Number of Shares	%
Address			

or failing him/her, the Chairman of the Extraordinary General Meeting (the “**EGM**”) of the Company as my/our* proxy/proxies* to attend and to vote for me/us* on my/our* behalf at the EGM of the Company to be held at 31 Jurong Port Road, #02-20 Jurong Logistics Hub (South Wing), Singapore 619115 on 26 December 2017 at 2.10 p.m., and at any adjournment thereof.

Ordinary Resolution	Number of Votes For	Number of Votes Against
To approve the Proposed Disposal		
To approve the Proposed Expansion of Core Business		

(Please indicate your vote “For” or “Against” with a tick [✓] within the box provided. Alternatively, please indicate the number of votes as appropriate. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit, as he/they will on any other matter arising at the EGM.)

Dated this _____ day of _____ 2017

Total number of Shares in	Number of Shares
(a) CDP Register	
(b) Register of Members	

Signature(s) of Shareholder(s)
or Common Seal of Corporate Shareholder

* Delete where inapplicable

IMPORTANT: PLEASE READ THE NOTES OVERLEAF

PROXY FORM

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members of the Company, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and registered in your name in the Register of Members of the Company, you should insert the aggregate number of Shares. If no number is inserted, this form of proxy will be deemed to relate to all the Shares held by you.
2. A shareholder of the Company who is not a relevant intermediary (as defined below) is entitled to appoint not more than two proxies to attend and vote at the EGM of the Company. Where such shareholder appoints more than one proxy, he/she shall specify the proportion of his/her shareholding to be represented by each proxy. If no percentage is specified, the first named proxy shall be deemed to represent 100% of the shareholding and the second named proxy shall be deemed to be an alternate to the first named.
3. A shareholder of the Company who is a relevant intermediary is entitled to appoint more than two proxies to attend and vote at the EGM of the Company, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such shareholder. Where such shareholder appoints more than one proxy, the number of shares in relation to which each proxy has been appointed shall be specified in the proxy form. In such event, the relevant intermediary shall submit a list of its proxies together with the information required in this proxy form to the Company.

“relevant intermediary” means:

- (i) a banking corporation licensed under the Banking Act, Chapter 19, or a wholly owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;
 - (ii) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act, Chapter 289, and who holds shares in that capacity; or
 - (iii) the Central Provident Fund Board (“**CPF Board**”) established by the Central Provident Fund Act, Chapter 36, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the CPF Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.
4. A proxy need not be a shareholder of the Company.
 5. The instrument appointing a proxy or proxies, duly executed, must be deposited at the registered office of the Company at 31 Jurong Port Road, #02-20 Jurong Logistics Hub (South Wing), Singapore 619115 not less than 48 hours before the time appointed for the EGM.
 6. The instrument appointing a proxy or proxies must be executed under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its attorney or by an officer on behalf of the corporation.
 7. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney or other authority, the power of attorney or authority or a notarially certified copy thereof must be lodged with the instrument of proxy, failing which the instrument of proxy may be treated as invalid.
 8. A corporation which is a member may authorise by a resolution of its directors or other governing body such person as it thinks fit to act as its representative at the EGM, in accordance with Section 179 of the Companies Act, Chapter 50.
 9. The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject an instrument of proxy if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the EGM, as certified by the Central Depository (Pte) Limited to the Company.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the shareholder is deemed to have accepted and agreed to the personal data privacy terms set out in the notice of EGM of the Company dated 8 December 2017.