FORISE INTERNATIONAL LIMITED
(Company Registration No. 200804077W)
(Incorporated in Singapore)

RESPONSE TO QUERIES FROM THE SINGAPORE STOCK EXCHANGE SECURITIES TRADING LIMITED ("SGX-ST") ON EARLIER ANNOUNCEMENT

The Board of Directors of Forise International Limited (the "**Company**"), and together with its subsidiaries, the "**Group**") refers to the Company's earlier announcement on the proposed acquisition of 7.09% of the issued and paid-up share capital of Prisma Technologies Pte. Ltd. (the "**Proposed Acquisition**") dated 20 May 2020 (the "**Earlier Announcement**").

Unless otherwise defined, all capitalised terms herein shall have the meaning ascribed to them in the Earlier Announcement.

The Board would like to respond to the queries raised by the Singapore Stock Exchange Securities Trading Limited ("**SGX-ST**") on 21 May 2020 as follows:

SGX-ST's Query 1

We refer to the proposed acquisition of 7.09% of the issued and paid-up share capital of Prisma Technologies Pte. Ltd. (the "**Target**" or "**Prisma Tech**") for $1,704,000 announced on 20 May 2020. With regards to the rationale for the proposed acquisition:-

a. Please clarify how "an enhanced stake in the Target may give potential investors and/or providers of capital to the Target more assurance, which would allow the Target to tap into such additional funding".

Company's Response

The Company currently owns 50.1% of the entire issued and paid up share capital of Prisma Tech. The Company has spoken to several potential sources of funding for Prisma Tech, most of whom have directly or indirectly noted the minimum majority held by the Company and indicated that this is a point of concern.

Assuming the completion of the Proposed Acquisition, the Company will own approximately 57.19% of the entire issued and paid up share capital of Prisma Tech. Whilst there is no certainty or assurance that financing will be obtained from the potential sources following the completion of the Proposed Acquisition, the acquisition of a larger majority in Prisma Tech would alleviate the concerns raised by these potential sources.

b. Please clarify why the Company is of the opinion that the additional investment in Prisma Tech is in the best interest of the Company given that the Company already holds 50.1% and Prisma Tech is still in the early stages of its operations. Please set out clearly what are the specific benefits of acquiring this additional investment.

Company's Response

As set out in the Earlier Announcement, since the Company's entry into the joint venture in respect of Prisma Tech on 3 October 2019, Prisma Tech has been awarded three (3) management consulting service contracts, as announced by the Company on 21 October 2019, 27 April 2020 and 18 May 2020.

On 21 October 2019, Prisma Tech was awarded a contract to provide management consulting services for visual-based security solutions for aviation and highway automation systems in the regions of Africa and Asia (the "**Afro-Asian Contract**").

On 27 April 2020, Prisma Tech was awarded a contract to provide management consulting services to enhance the security of a payment gateway owned and operated by Denmark-based cryptocurrency trading firm Capverto (the "**Capverto Contract**"). Prisma Tech will be working with NYSE-listed Pitney Bowes Inc., a global IT player.

On 18 May 2020, Prisma Tech was awarded a contract to provide consulting services to help a logistics company based in the United Arab Emirates improve the tracking of its container trucks and other vehicles (the "**UAE Contract**").

Notwithstanding that Prisma Tech was only incorporated on 3 October 2019 and despite the major disruptions to businesses worldwide as a result of the on-going global COVID-19 pandemic, Prisma Tech has been able to obtain the Capverto Contract and the UAE Contract. As set out in the Earlier Announcement, there are currently several pipeline projects being negotiated between Prisma Tech and potential customers which may crystallise in the near future.

The Group's operations in People's Republic of China (the "**PRC**") have been impacted and continue to be hampered by (i) the continuous slowdown in corporate activities in the PRC, coupled with (ii) the US-PRC trade war which has further dampened business activity and (iii) the recent deleveraging policy introduced by the PRC Government which limits credit access for businesses in the financial sector in the PRC. The Company notes that the revenue from the Group's operations in the PRC has shrunk and reported losses.

The Company is of the opinion that the artificial intelligence sector and corporate advisory and management consultancy services in this sector have strong prospects for growth and it is in the best interests of the Company and its Shareholders to increase the Company's exposure to businesses that are growing and to reduce and/or try to mitigate losses from businesses that are stagnant or in decline.

Whilst the Company has considered acquiring more than the additional interest of 7.092% in Prisma Tech in view of the above factors, the Company believes that there is a need to conserve and preserve its cash reserves in these uncertain times. On this basis, the Company intends to utilise the Company's general mandate to acquire additional interest in Prisma Tech from those shareholders who are willing to sell their shares for shares in the Company fulfilling the dual-purpose of cash preservation while concurrently raising its participation in Prisma Tech which is expected to perform better relative to its PRC operations.

SGX-ST's Query 2

With regards to the aggregate consideration of S$1,704,000 paid for 7.092% interest in Prisma Tech, we note that this would derive a valuation of approximately S$21.5 million for 100% interest in Prisma Tech.

Company's Response

The Company would like to clarify that the aggregate consideration of S$1,704,000 for 7.092% interest in Prisma Tech would derive a valuation of approximately S$24.0 million for 100% interest in Prisma Tech.

Please clarify:-

a. How this represents an arms-length transaction given that Prisma Tech has only been incorporated in October 2019 with net profit of only RMB 0.42 million (approx. S$83.7k) in FY2019.

Company's Response

Within four (4) months of the signing of the first contract by Prisma Tech, as announced by the Company on 21 October 2019, Prisma Tech generated a revenue of S$260,000 (from the Afro-Asian Contract) before management fees and other charges levied by the Company and a net profit of approximately S$83,700. If the charges levied by the Company were excluded, Prisma Tech would have reported a net profit of approximately S$233,700. Without the profit contributed by Prisma Tech, the Group would have had inconsequential revenue in the fourth quarter of FY2019 and reported a higher amount of losses for FY2019. Based on the first completed contract, the Company notes that the profit margin of Prisma Tech is relatively lucrative and rewarding.

Additionally, the Company is of the view that there are strong indications of growth in global demand for our services in the cutting-edge artificial intelligence technology sector. Since the incorporation of Prisma Tech in just a few months, the business partners and clients acquired by Prisma Tech are well-known and reputable corporations (for instance, Pitney Bowes Inc., Galaxy Enterprises, Trident Solutions FZE and Syloz International LLC).

The price was decided on the basis of an independent willing buyer and an independent willing seller. The parties did not place an emphasis on the book value and net tangible assets of Prisma Tech for the period 3 October 2019 (being the date of Prisma Tech's incorporation) to 31 December 2019 in determining the price as it would not be appropriate given that Prisma Tech is a recently incorporated company and such book value and net tangible asset figures do not present a holistic valuation of Prisma Tech. Instead, the factors considered by the Company and the Vendors in arriving at the price include the contracts awarded to Prisma Tech since its incorporation (and the value of such contracts), the potential pipeline projects, the potential future earnings of Prisma Tech, as well as Prisma Tech's know-how in the artificial intelligence technology sector. Thus, the transaction is an arm's length transaction.

Notwithstanding that Prisma Tech was only incorporated on 3 October 2019, the business, leading-edge technology and goodwill that Prisma AI Corporation Pte. Ltd. ("**Prisma AI**"), the joint venture partner of the Company in respect of Prisma Tech, has been able to provide, have been real and substantial.

Since the incorporation of Prisma Tech, a total of three (3) management consulting service contracts secured by Prisma Tech have provided or are expected to provide an aggregate contract sum of approximately S$0.8 million. As set out in the Earlier Announcement, there are several pipeline projects that are currently being negotiated between Prisma Tech and potential customers which may crystallise in the near future.

The Company also made references to the price earnings ratio ("**PER**") of other companies which provide services in the artificial intelligence technology sector including software and programming industry, which are set out in the table below.

Comparable P/E ratio of companies in similar industry:

	Company name	Stock Exchange	PE	Market capitalisation	Remarks
1)	PTC Inc.	Nasdaq-GS	215.45	US$8.076 billion	*a*
2)	Verint Systems Inc.	Nasdaq-GS	104.95	US$2.912 billion	*a*
3)	Akamai Technologies, Inc.	Nasdaq-GS	33.61	US$16.36 billion	*a*
4)	Napco Security Technologies, Inc.	Nasdaq-GS	26.9	US$404.71 million	*a*
5)	Hangzhou Hikvision Digital Technology Co., Ltd.	Shenzhen (SZSE)	22.41	RMB279.97 billion	*a*
	Software and programming industry (average PE)	*various	38.45	N/A	*b*

Sources

a *finance.yahoo.com*

b *https://csimarket.com/Industry/Industry_Valuation.php?ind=1011*

The valuation of Prisma Tech was derived by multiplying the projected net profit after tax ("**NPAT**") by PER. The projected NPAT used is based on pipeline projects on hand (which comprise a revenue of more than S$2.5 million for the next 12 months), and it is expected to increase over time as there are strong prospects for growth in the artificial intelligence industry. Given that Prisma Tech is a relatively new company in the market, for prudence, a substantially lower PER was used in arriving at the valuation, at more than a 70% discount to the software and programming industry average PER of 38.45.

Accordingly, the aggregate Consideration of $1,704,000 for the Proposed Acquisition of 7.092% additional interest in Prisma Tech was based on the valuation of approximately S$24 million.

b. What is the basis for the $1.7 million valuation that is payable for an interest of only 7.092% given that the Company had only paid-up $501 for the initial 50.1% interest during incorporation. Please substantiate and quantify the factors taken into account.

Company's Response

As the joint venture between the Company and Prisma AI was new and the Company intended to monitor the progress of Prisma Tech before committing any further resources, the paid-up share capital contributed by the Company on the incorporation of Prisma Tech was nominal and is not indicative of the current value of Prisma Tech.

Under the arrangement with Prisma AI, Prisma AI would assign to Prisma Tech the management of its visual-based contracts for airport, metro railways, highways and infrastructure projects, and the Company agreed to seek funding for, or to provide advances for, the ongoing projects. Thus, the Company is of the opinion that the value of Prisma Tech is, as at the date of the Earlier Announcement, far higher than the paid-up share capital on its incorporation.

In addition to the factors and rationale as set out in Section 4 of the Earlier Announcement [and the potential PER of Prisma Tech set out in the response to Query 2(a) above], the Board took into consideration, *inter alia*, the following factors in arriving at the consideration:

A. the Proposed Acquisition would allow the Company to acquire additional interest in an existing subsidiary with significant long-term prospects in corporate advisory and management consultancy business in the artificial intelligence sector; and

B. the current pipeline projects of Prisma Tech comprise a revenue of more than $2.5 million, and Prisma Tech will continuously build up its customer base.

The Company believes that an acquisition via the issue of Consideration Shares is favourable to the Company as vendors usually prefer cash consideration instead of shares. Under the terms of the SPAs, the Issue Price of the Consideration Shares is $0.004 per share which translates to 30.4x PER based on the Company's results for the financial year ended 31 December 2018. (As the Company was loss-making for FY2019, a PER computation is not applicable.)

The Issue Price represents a discount of approximately 7% to the average VWAP of S$0.0043 of the Company's shares for the 30 market days prior to 20 May 2020, and a premium of approximately 5% to the average VWAP of S$0.0038 of the Company's shares for the 60 market days prior to 20 May 2020.

On the other hand, the Company believes that the Consideration for the Sale Shares is at a significant discount to the industry average PER (please refer to the table set out in the Company's response to Query 2(a)).

c. Whether there was a valuation performed by a qualified valuer.

i. If yes, please disclose the date and identity of the valuer and the key assumptions of the valuation.

ii. If no, please explain why no valuation was performed.

Company's Response

There was no valuation performed on the Sale Shares, as Prisma Tech was only incorporated on 3 October 2019 and Prisma Tech is an existing subsidiary of the Company.

As set out in the Company's response to Query 2(a) above, the valuation used for arriving at the Consideration, in line with common market practice, adopts the PER multiple methodology which references the PER of comparable companies in similar industries.

With respect to the Proposed Acquisition, the management prepared an investment paper which sets out the justification for the valuation, which was reviewed and approved by the Board of Directors of the Company. Such justification for the valuation has been set out in the Company's response to Query 2(a) above.

Given the size of the transaction, the value arising from the PER arbitrage (as explained in the Company's response to Query 2(b) above), the experience of the Board and the cost and time required to get a valuation, the Company does not believe that it is in the best interests of Shareholders to commission a valuation.

SGX-ST's Query 3

With regards to the relative figures under Listing Rule 1006 computed by the Company, we noted that the Company disclosed that the proposed acquisition is in the ordinary course of the Group's Existing Business. We wish to inform the Company that the Group's Existing Business does not include the acquisition and disposal of equity interests of companies. Accordingly, Chapter 10 of the Listing Manual applies to this transaction. We further noted that the initial 50.1% of Prisma Tech was acquired in October 2019 during its incorporation. Listing Rule 1005 allows the Exchange to "aggregate separate transactions completed within the last 12 months and treat them as if they were one transaction." Given that the current value for 7.092% of the shares has been disclosed to be S$1,704,000, the 2 separate transactions of acquiring a total of 57.192% of interest in Prisma Tech would result in an aggregate value of S$13,742,000 and the relative figure computed under Listing Rule 1006(c) would be 62.6%. In addition, we further noted financial assistance made to Prisma AI noted in question 4 and 5 below, which would be required to be aggregated and treated as if they were one transaction. This would minimally be classified as a Major Transaction and shareholders' approval will be required. Please comply with the requirements under Listing Rule 1014.

Company's Response

Pursuant to Practice Note 10.1 of the Listing Rules, an acquisition that is regarded to be in, or in connection with, the ordinary course of an issuer's business, is not subject to the requirements under Chapter 10 and an acquisition can be regarded to be in, or in connection with, the ordinary course of an issuer's business, if (a) the asset to be acquired is part of the issuer's existing principal business; and (b) the acquisition does not change the issuer's risk profile.

Pursuant to paragraph 2.4 of Practice Note 10.1, an asset is part of the issuer's existing principal business if the acquisition of the asset is required to be reported under the applicable accounting standards within a specific reportable operating segment (excluding any miscellaneous "any other segment" category) that (a) contributes more than 20% of the issuer's net profits or total assets; and (b) has been reported in the issuer's latest audited financial statements.

The Company confirms that both the initial acquisition of shares in Prisma Tech on 3 October 2019 and the acquisition of the Sale Shares is required to be reported within the "corporate advisory segment", which (a) contributes more than 20% of the Company's net profits or total assets; and (b) has been reported in the Company's latest audited financial statements.

The Company also confirms that none of the indications set out in paragraphs 2.5(a) to (e) of Practice Note 10.1 in respect of a change in the risk profile of an issuer are applicable in respect of both the initial acquisition of shares in Prisma Tech on 3 October 2019 and the Proposed Acquisition, and the Company is of the view that there are no other indications that either the initial acquisition of shares in Prisma Tech on 3 October 2019 or the Proposed Acquisition changed or would change the risk profile of the Company.

In this regard, both the initial acquisition of shares in Prisma Tech on 3 October 2019 and the Proposed Acquisition are in, or in connection with, the ordinary course of the Group's Existing Business and the Company takes the view that the 2 transactions are not subject to the requirements under Chapter 10.

In respect of the SGX-ST's statement that "the aggregate value of S$13,742,000 and the relative figure computed under Listing Rule 1006(c) would be 62.6%", the Company would like to clarify that as Prisma Tech was incorporated on 3 October 2019 and had no revenue, profits or assets save for the paid-up share capital as at incorporation, the value of the acquisition of 50.1% of the shares of Prisma Tech on 3 October 2019 would be S$501, being the amount paid by the Company for such shares. In this regard, for illustrative purposes only, the aggregate consideration paid and payable for the initial acquisition of shares in Prisma Tech and the Proposed Acquisition would be S$1,704,501, and when compared with the Company's market capitalisation of approximately S$21,939,000 based on the total number of issued shares excluding treasury shares (as at 19 May 2020, being the last trading day before 20 May 2020, the day the SPAs were signed), the relative figure computed under Listing Rule 1006(c) would be approximately 7.8%.

In this regard, if the 2 transactions were subject to the requirements under Chapter 10, as the relative figure computed under Listing Rule 1006(c) exceeds 5% but does not exceed 20%, the 2 aggregated transactions would be classified only as a Discloseable Transaction and not a Major Transaction and shareholders' approval would not be required.

SGX-ST's Query 4

We refer to the response to SGX queries announced on 10 March 2020 and 17 March 2020.

a. Please provide an update on the recovery of both the trade receivables from as well as the short term advance to Prisma AI Corporation Pte. Ltd. ("**Prisma AI**"). Please include details such as inter alia the total amount, total cash received to date and the total amount outstanding to date.

Company's Response

As disclosed in the Company's response to SGX-ST's query 3(a) in the Company's announcement dated 17 March 2020, it should be noted that payments in significant infrastructure projects can be long and 6 months is not unusual. There was no collection from 17 March 2020 to the date of this announcement, as the management team of Prisma AI is currently under the nationwide lockdown and curfew imposed by the Indian Government to curb the impact of the COVID-19 pandemic. The Group has been in close communication with Prisma AI and barring any other unforeseen circumstances, the Group anticipates another collection to be received when the lockdown is lifted by the Indian Government.

A summary of the total amount as at 31 December 2019, the total amount received up to the date of this announcement and the balance as at the date of this announcement is set out below.

	Trade receivables – related party (in RMB'000)	**Non-trade receivables-related party (in RMB'000)**
Balance as at 31 Dec 2019	1,346	10,354
Collection to date	(545)	-
Balance to date	801	10,354

b. In relation to the short term advance to Prisma AI of RMB 10.4 million, we wish to inform the Company that Chapter 10 of the Listing Manual applies to this transaction as it is not in, or in connection with, the ordinary course of the Group's Existing Business and relates to the provision of financial assistance. Accordingly, please compute and disclose the relative figures under Listing Rule 1006 in aggregate with the acquisitions referred to in question 3 above.

Company's Response

The Company takes the view that both the initial acquisition of shares in Prisma Tech on 3 October 2019 and the Proposed Acquisition should be regarded as in, or in connection with, the ordinary course of the Group's existing business (please refer to the Company's response to Query 3 above). The Company had extended the amount of RMB 10.4 million as a shareholder's advance to Prisma Tech to fund its working capital needs. Prisma Tech had then made the advance to Prisma AI to provide the necessary working capital for the contracts that Prisma Tech managed for Prisma AI. As the advance was made in connection with the working capital and business needs of Prisma Tech for the contracts it manages for Prisma AI, it is the Company's view that the advance of RMB 10.4 million should be regarded as in, or in connection with, the ordinary course of the Group's existing business.

For illustrative purposes only, the value of the advance to Prisma AI of RMB 10.4 million extended on 10 October 2019 would be equivalent to approximately S$2,000,000, and when compared with the Company's market capitalisation of approximately S$21,939,000 based on the total number of issued shares excluding treasury shares (as at 19 May 2020, being the last trading day before 20 May 2020, the day the SPAs were signed), the relative figure computed under Listing Rule 1006(c) would be 9.1%.

Should the value of the advance be aggregated with the consideration paid for the Proposed Acquisition and the initial acquisition of shares in Prisma Tech on 3 October 2019, the relative figure computed under Listing Rule 1006(c) would be 16.9%. In this regard, if the 3 transactions were subject to the requirements under Chapter 10, as the relative figure computed under Listing Rule 1006(c) exceeds 5% but does not exceed 20%, the 3 aggregated transactions would be

classified only as a Discloseable Transaction and not a Major Transaction and shareholders' approval would not be required.

SGX-ST's Query 5

We refer to the 2 management consulting contracts announced by the Company on 27 April 2020 and 18 May 2020. Please disclose:-

a. The specific scope of work;

Company's Response

The nature of the management services rendered includes strategic planning, corporate advisory, financial structuring and management consulting services.

b. Whether any financial assistance was provided by the Company to the Prisma Group or their clients in relation to these contracts;

Company's Response

Save for the abovementioned RMB10.4 million advance, the Company has not provided any financial assistance to the Prisma Group or their clients in relation to these contracts.

c. The basis how revenue would be recognized by the Company and the completion date of the projects; and

Company's Response

Revenue from management consulting services is recognised in the accounting period at a point in time upon services rendered. The completion date for each of the Capverto Contract and the UAE Contract is expected to be at the end of the third quarter of the financial year ending 31 December 2020, due to the impact of the current global COVID-19 pandemic on the delivery schedule.

d. Whether there are any arrangement for the distribution of income to the Company for profits earned from this investment. If not, why is the Company interested in notional profits that does have any monetary returns on its capital to the Company.

Company's Response

The Company has always intended to have profits distributed from Prisma Tech to the Company. The Group will assess the performance of Prisma Tech in deciding on the timing and the quantum of dividend payments.

BY ORDER OF THE BOARD
Peng Weile
Executive Director
24 May 2020