

CIRCULAR DATED 8 AUGUST 2014

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

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

If you have sold or transferred all your shares in the capital of Sitra Holdings (International) Limited ("**Company**") held through The Central Depository (Pte) Limited ("**CDP**"), you need not forward this Circular with the Notice of Extraordinary General Meeting and the attached Proxy Form to the purchaser or transferee as arrangements will be made by CDP for a separate Circular with the Notice of Extraordinary General Meeting and the attached Proxy Form to be sent to the purchaser or transferee. If you have sold or transferred all your shares in the capital of the Company represented by physical share certificate(s), you should forward this Circular with the Notice of Extraordinary General Meeting and the attached Proxy Form immediately to the purchaser or transferee or to the bank, stockbroker or agent through whom you effected the sale or transfer, for onward transmission to the purchaser or transferee.

Companies listed on the Catalist board ("**Catalist**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") may carry higher investment risk when compared with larger or more established companies listed on the Main Board of the SGX-ST. In particular, companies may list on the Catalist without a track record of profitability and there is no assurance that there will be a liquid market in the shares or units of shares traded on the Catalist. You should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with your professional adviser(s).

This Circular has been prepared by the Company and its contents have been reviewed by the Company's sponsor, RHT Capital Pte. Ltd. ("**Sponsor**") for compliance with the relevant rules of the SGX-ST. The Sponsor has not independently verified the contents of this Circular. The contact person for the Sponsor is Mr Chew Kok Liang, 6 Battery Road, #10-01 Singapore 049909 Tel: (65) 6381 6757.

This Circular has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this Circular, including the correctness of any of the statements made, reports contained or opinions expressed in this Circular. The SGX-ST has not in any way considered the merits of the securities being offered for investment.



SITRA HOLDINGS (INTERNATIONAL) LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 197901237E)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO

- (A) **PROPOSED RENOUNCEABLE NON-UNDERWRITTEN RIGHTS ISSUE OF UP TO 438,200,000 NEW ORDINARY SHARES IN THE CAPITAL OF THE COMPANY ("RIGHTS SHARES") AT AN ISSUE PRICE OF S\$0.01 FOR EACH RIGHTS SHARE ON THE BASIS OF SEVEN (7) RIGHTS SHARES FOR EVERY FIVE (5) EXISTING ORDINARY SHARES IN THE CAPITAL OF THE COMPANY HELD BY ENTITLED SHAREHOLDERS AS AT THE BOOKS CLOSURE DATE, FRACTIONAL ENTITLEMENTS TO BE DISREGARDED ("RIGHTS ISSUE");**
- (B) **PROPOSED WHITEWASH RESOLUTION FOR THE WAIVER OF THE RIGHTS OF INDEPENDENT SHAREHOLDERS OF THE COMPANY IN CONNECTION WITH THE RIGHTS ISSUE ("WHITEWASH RESOLUTION");**
- (C) **POTENTIAL TRANSFER OF CONTROLLING INTEREST TO MDM TERESA TAN, MR CHEN WEIPING AND MS JOSCA WOO PURSUANT TO THE RIGHTS ISSUE; AND**
- (D) **PROPOSED INTEREST PAYMENT ON LOANS GRANTED BY DIRECTOR AND CONTROLLING SHAREHOLDER, MR CHEW AH BA GEORGE TO THE COMPANY AND ITS SUBSIDIARY ("PROPOSED IPT").**

Independent Financial Adviser in relation to the Whitewash Resolution and the Proposed IPT

ASIAN CORPORATE ADVISORS PTE. LTD.

(Incorporated in the Republic of Singapore)
(Company Registration No. 200310232R)

IMPORTANT DATES AND TIMES:-

Last date and time for lodgement of Proxy Form	:	23 August 2014 at 9.30 a.m
Date and time of Extraordinary General Meeting	:	25 August 2014 at 9.30 a.m
Place of Extraordinary General Meeting	:	15 Hillview Terrace Singapore 669226

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DEFINITIONS

In this Circular, the following words and phrases shall have the meanings set out against them unless the context otherwise requires:

“Act”	: Companies Act (Chapter 50) of Singapore, as amended, modified or supplemented from time to time
“Affected Substantial Shareholders”	: Mdm Teresa Tan, Mr Chen and Ms Josca Woo
“Applicable Interest Rate”	: Shall have the meaning ascribed to it in Section 10.2 of this Circular
“ARE”	: Application and acceptance form for Rights Shares and excess Rights Shares to be issued to Entitled Depositors in respect of their provisional allotments of Rights Shares under the Rights Issue
“ARS”	: Application and acceptance form for Rights Shares to be issued to purchasers of the provisional allotments of Rights Shares under the Rights Issue traded on Catalist through the book-entry (scripless) settlement system
“associates”	: (a) In relation to any Director, chief executive officer, Substantial Shareholder or controlling shareholder (being an individual) means: (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 other company which is its Subsidiary or holding company or is a Subsidiary of 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
“ATM”	: Automated teller machine(s) of a Participating Bank
“Authority”	: The Monetary Authority of Singapore
“Board”	: The board of Directors of the Company as at the date of this Circular or at any or the relevant time as the case may be
“Books Closure Date”	: Subject to Shareholders’ approval for the Rights Issue being obtained at the EGM, the time and date to be determined by the Directors and announced by the Company in due course, at and on which the Register of Members and share transfer books of the Company will be closed to determine the provisional allotments of Entitled Shareholders under the Rights Issue
“Catalist”	: The Catalist Board of the SGX-ST

DEFINITIONS

<i>“Catalist Rules”</i>	: The Listing Manual Section B: Rules of Catalist of the SGX-ST, as amended, modified or supplemented from time to time
<i>“CDP”</i>	: The Central Depository (Pte) Limited
<i>“Circular”</i>	: This Circular to Shareholders dated 8 August 2014 in relation to the Rights Issue, Whitewash Resolution, Potential Transfer of Controlling Interest and Proposed IPT
<i>“Closing Date”</i>	: The time and date to be determined by the Directors and announced by the Company in due course, being the last time and date for acceptance and/or excess application and payment, and renunciation and payment of, the Rights Shares under the Rights Issue
<i>“Code”</i>	: The Singapore Code on Take-overs and Mergers, as amended, modified or supplemented from time to time
<i>“Company”</i>	: Sitra Holdings (International) Limited
<i>“Concert Parties Shareholders”</i>	: Mr George Chew, Mdm Teresa Tan, Mr Steven Chew and Ms Josca Woo
<i>“controlling interest”</i>	: The interest of the controlling shareholder(s)
<i>“controlling shareholder”</i>	: A person who: (a) holds directly or indirectly 15% or more of the nominal amount of all voting shares in the company. The SGX-ST may determine that a person who satisfies this paragraph is not a controlling shareholder; or (b) in fact exercises control over a company
<i>“CPF”</i>	: The Central Provident Fund
<i>“CPF Funds”</i>	: Shall have the meaning ascribed to it in Section 2.2 of this Circular
<i>“Deed of Set-Off”</i>	: Shall have the meaning ascribed to it in Section 9 of this Circular
<i>“Deed of Undertaking”</i>	: Shall have the meaning ascribed to it in Section 5.2 of this Circular
<i>“Directors”</i>	: The directors of the Company as at the date of this Circular or at any or the relevant time as the case may be
<i>“EGM”</i>	: The extraordinary general meeting of the Company to be held on 25 August 2014 at 9.30 a.m. at 15 Hillview Terrace Singapore 669226, notice of which is set out on pages N-1 to N-3 of this Circular
<i>“Entitled Depositors”</i>	: Shareholders with Shares standing to the credit of their Securities Accounts and whose registered addresses with CDP are in Singapore as at the Books Closure Date or who have, at least three (3) Market Days prior to the Books Closure Date, provided CDP with addresses in Singapore for the services of notices and documents

DEFINITIONS

<i>“Entitled Scripholders”</i>	: Shareholders whose (i) share certificates are not deposited with CDP, (ii) Shares are registered in their own names and (iii) registered addresses with the Company are in Singapore as at the Books Closure Date or who have, at least three (3) Market Days prior to the Books Closure Date, provided the Company with addresses in Singapore for the service of notices and documents
<i>“Entitled Shareholders”</i>	: Entitled Depositors and Entitled Scripholders
<i>“Existing Share Capital”</i>	: Shall have the meaning ascribed to it in Section 2.5 of this Circular
<i>“Foreign Purchasers”</i>	: Persons purchasing the provisional allotment of Rights Shares through the book-entry (scripless) settlement system and whose registered addresses with CDP are outside Singapore and who have not, at least three (3) Market Days prior to the Books Closure Date, provided CDP or the Company, as the case may be, with addresses in Singapore for the service of notices and documents
<i>“Foreign Shareholders”</i>	: Shareholders whose registered addresses are outside Singapore as at the Books Closure Date and who have not, at least three (3) Market Days prior to the Books Closure Date, provided CDP or the Company, as the case may be, with addresses in Singapore for service of notices and documents
<i>“FY”</i>	: The financial year ended or ending 31 December, as the case may be
<i>“Group”</i>	: The Company and its Subsidiaries
<i>“IFA”</i>	: Asian Corporate Advisors Pte. Ltd., the independent financial adviser appointed to advise the Independent Directors in relation to the Whitewash Resolution and the Proposed IPT
<i>“Independent Directors”</i>	: The Directors who are considered independent for the purposes of making the recommendation to Independent Shareholders in respect of (i) the Whitewash Resolution, being Mr Chin Sek Peng Michael, Mr Ng Boon Huan Daniels and Mr Tan Eng Kiat Dominic, or (ii) the Proposed IPT, being Mr Chin Sek Peng Michael, Mr Ng Boon Huan Daniels and Mr Tan Eng Kiat Dominic, as the case may be
<i>“Independent Shareholders”</i>	: Shareholders who are deemed to be independent for the purposes of voting on (i) the Whitewash Resolution other than (aa) the Concert Parties Shareholders; (bb) parties acting in concert with the Concert Parties Shareholders; and (cc) parties not independent of Concert Parties Shareholders; or (ii) the Proposed IPT, other than Mr George Chew and his associates, as the case may be
<i>“IPT Approvals”</i>	: Shall have the meaning ascribed to it in Section 2.1 of this Circular
<i>“Irrevocable Undertakings”</i>	: Shall have the meaning ascribed to it in Section 5.2 of this Circular
<i>“Issue Price”</i>	: The issue price of the Rights Shares, being S\$0.01 for each Rights Share
<i>“Latest Practicable Date”</i>	: 29 July 2014, being the latest practicable date prior to the printing of this Circular

DEFINITIONS

“LPS”	: Loss per Share
“Mandatory Offer”	: The requirement under Rule 14 of the Code for the Concert Parties Shareholders and/or parties acting in concert with them under the Code to make a mandatory general offer to acquire all the issued Shares (other than those already owned by them) arising from the subscription of the Rights Shares in whole or in part (as the case may be) by the Concert Parties Shareholders and/or parties acting in concert with them under the Rights Issue
“Market Day”	: A day on which the SGX-ST is open for trading in securities
“Maximum Subscription Scenario”	: Shall have the meaning ascribed to it in Section 2.5 of this Circular
“Minimum Subscription Scenario”	: Shall have the meaning ascribed to it in Section 2.5 of this Circular
“NTA”	: Net tangible assets
“Offer Information Statement”	: The offer information statement referred to in Section 277 of the SFA, together with (where the context requires) the PAL, ARE, ARS and all other accompanying documents, including any supplementary or replacement document which may be issued by the Company in connection with the Rights Issue
“Outstanding SHI Loan”	: Shall have the meaning ascribed to it in Section 9 of this Circular
“Outstanding SD Loan”	: Shall have the meaning ascribed to it in Section 10.3 of this Circular
“PAL”	: The provisional allotment letter to be issued to Entitled Scripholders, setting out the provisional allotments of the Rights Shares of such Entitled Scripholders under the Rights Issue
“Partial Loan Repayment”	: Shall have the meaning ascribed to it in Section 3.4 of this Circular
“Participating Banks”	: The banks that will be participating in the Rights Issue by making available their ATMs to Entitled Depositors for acceptances of the Rights Shares and/or applications for excess Rights Shares
“Potential Transfer of Controlling Interest”	: Shall have the meaning ascribed to it in Section 7 of this Circular
“Proposed Interest Payment”	: Shall have the meaning ascribed to it in Section 10.4 of this Circular
“Proposed IPT”	: Shall have the meaning ascribed to it in Section 10.5 of this Circular
“Proposed SD Interest Payment”	: Shall have the meaning ascribed to it in Section 10.3 of this Circular
“Proposed SHI Interest Payment”	: Shall have the meaning ascribed to it in Section 10.2 of this Circular

DEFINITIONS

“Record Date”	: In relation to any dividends, rights, allotments or other distributions, the date as at the close of the business (or such other time as may have been notified by the Company) on which Shareholders must be registered with the Company or the CDP, as the case may be, in order to participate in such dividends, rights, allotments or other distributions
“Rights Issue”	: The proposed renounceable non-underwritten rights issue by the Company of up to 438,200,000 Rights Shares at the Issue Price, on the basis of seven (7) Rights Shares for every five (5) existing Shares held by Entitled Shareholders as at the Books Closure Date, fractional entitlements to be disregarded
“Rights Shares”	: Up to 438,200,000 new Shares to be allotted and issued by the Company pursuant to the Rights Issue
“Scripholders”	: Shareholders whose Shares are registered in their own names and whose share certificates are not deposited with CDP
“SD”	: Sitra Dove Construction and Logistics Pte Ltd, a wholly-owned subsidiary of the Company
“SD Interest”	: Shall have the meaning ascribed to it in Section 10.3 of this Circular
“Securities Account”	: The securities account maintained by a Depositor with CDP but does not include a securities sub-account maintained with a Depository Agent
“SFA”	: Securities and Futures Act (Chapter 289) of Singapore, as amended, modified or supplemented from time to time
“SGX-ST”	: Singapore Exchange Securities Trading Limited
“Shareholders”	: Registered holders of the Shares in the Register of Members of the Company, except that where CDP is the registered holder, the term “Shareholders” shall, in relation to such Shares and where the context so admits, mean Depositors who have Shares entered against their names in the Depository Register. Any reference to Shares held by or shareholdings of Shareholders shall include Shares standing to the credit of their respective Securities Accounts
“Shares”	: Ordinary shares in the capital of the Company
“Share Registrar”	: Tricor Barbinder Share Registration Services, the share registrar of the Company
“SHI Interest”	: Shall have the meaning ascribed to it in Section 10.2 of this Circular
“Shortfall”	: Shall have the meaning ascribed to it in Section 2.1 of this Circular
“SIC”	: The Securities Industry Council of Singapore
“SIC Conditions”	: Shall have the meaning ascribed to it in Section 6.4 of this Circular
“Sponsor”	: RHT Capital Pte. Ltd., the continuing sponsor of the Company

DEFINITIONS

“Subsidiary”	: Has the meaning ascribed to it in Section 5 of the Act
“Substantial Shareholder”	: A person who has an interest or interests in one or more voting Shares in the Company; and the total votes attached to that Share, or those Shares, is not less than 5% of the total votes attached to all the voting Shares in the Company
“Under-subscribed Scenario”	: Shall have the meaning ascribed to it in Section 7 of this Circular
“Undertaking Shareholders”	: Mr George Chew, Mdm Teresa Tan, Mr Steven Chew, Mr Chen and Ms Josca Woo
“Whitewash Resolution”	: The resolution to be approved by way of poll by a majority of the Independent Shareholders present and voting at the EGM to waive their rights to receive a Mandatory Offer
“Whitewash Waiver”	: The waiver granted by the SIC of the obligations of the Concert Parties Shareholders and/or parties acting in concert with them to make a Mandatory Offer
“%” or “per cent.”	: Per centum or percentage
“S\$” or “cents”	: Singapore dollars and cents, respectively

Names used in this Circular

“Mr Chen”	: Mr Chen Weiping
“Mr George Chew”	: Mr Chew Ah Ba George
“Mr Steven Chew”	: Mr Chew Chiew Siang Steven
“Ms Josca Woo”	: Ms Josca Woo Kong Hwa

The terms **“Depositor”**, **“Depository Agent”** and **“Depository Register”** shall have the meanings ascribed to them respectively in Section 130A of the Act.

The term **“parties acting in concert”** shall have the meaning ascribed to it in the Code.

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

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any term defined under the Act, the SFA, the Catalist Rules or the Code or any modification thereof and used in this Circular shall, where applicable, have the same meaning ascribed to it under the Act, the SFA, the Catalist Rules or the Code or any modification thereof, as the case may be, unless otherwise provided.

Any discrepancies in the figures included in this Circular between the listed amounts and the totals thereof are due to rounding. Accordingly, figures shown as totals in certain tables in this Circular may not be an arithmetic aggregation of the figures that precede them.

Any reference to a time of day or date in this Circular shall be a reference to Singapore time and date unless otherwise stated.

LETTER TO SHAREHOLDERS

SITRA HOLDINGS (INTERNATIONAL) LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 197901237E)

Directors:

Chew Ah Ba George (*Executive Chairman and Chief Executive Officer*)
Chew Chiew Siang Steven (*Executive Director and
Deputy Chief Executive Officer*)
Chin Sek Peng Michael (*Lead Independent Director*)
Ng Boon Huan Daniels (*Independent Non-Executive Director*)
Tan Eng Kiat Dominic (*Independent Non-Executive Director*)

Registered Office:

15 Hillview Terrace
Singapore 669226

8 August 2014

TO: THE SHAREHOLDERS OF SITRA HOLDINGS (INTERNATIONAL) LIMITED

Dear Sir/Madam

- (A) **PROPOSED RENOUNCEABLE NON-UNDERWRITTEN RIGHTS ISSUE OF UP TO 438,200,000 RIGHTS SHARES AT AN ISSUE PRICE OF S\$0.01 FOR EACH RIGHTS SHARE ON THE BASIS OF SEVEN (7) RIGHTS SHARES FOR EVERY FIVE (5) EXISTING SHARES HELD BY ENTITLED SHAREHOLDERS AS AT THE BOOKS CLOSURE DATE, FRACTIONAL ENTITLEMENTS TO BE DISREGARDED;**
- (B) **PROPOSED WHITEWASH RESOLUTION FOR THE WAIVER OF THE RIGHTS OF INDEPENDENT SHAREHOLDERS OF THE COMPANY IN CONNECTION WITH THE RIGHTS ISSUE;**
- (C) **POTENTIAL TRANSFER OF CONTROLLING INTEREST TO THE AFFECTED SUBSTANTIAL SHAREHOLDERS PURSUANT TO THE RIGHTS ISSUE; AND**
- (D) **PROPOSED INTEREST PAYMENT ON LOANS GRANTED BY DIRECTOR AND CONTROLLING SHAREHOLDER, MR GEORGE CHEW TO THE COMPANY AND ITS SUBSIDIARY**

1. INTRODUCTION

- 1.1 On 23 May 2014, the Board announced that the Company was proposing to undertake the Rights Issue and the Proposed IPT. The Rights Issue is subject to the conditions set out in Section 2.3 of this Circular and the Proposed IPT is subject to the IPT Approvals as set out in Section 2.1 of this Circular.
- 1.2 On 30 July 2014, the Company obtained the listing and quotation notice from the SGX-ST for the listing and quotation of the Rights Shares on the Catalist, subject to the conditions set out in Section 2.3 of this Circular. Shareholders should note that the listing and quotation notice of the SGX-ST is not to be taken as an indication of the merits of the Company, its subsidiaries, the Shares, the Rights Issue or the Rights Shares. The SGX-ST assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Circular.
- 1.3 The Directors are convening the EGM to seek Shareholders' approval for the following:-
 - (a) the Rights Issue;
 - (b) the Whitewash Resolution;

LETTER TO SHAREHOLDERS

(c) the Potential Transfer of Controlling Interest; and

(d) the Proposed IPT.

- 1.4 The purpose of this Circular is to provide Shareholders with relevant information pertaining to the aforesaid proposals to be tabled at the EGM and to seek Shareholders' approval for the resolutions relating to the same. The notice of the EGM is set out on pages N-1 to N-3 of this Circular.

2. THE RIGHTS ISSUE

2.1 Basis of the Rights Issue

The Rights Issue is proposed to be made on a renounceable non-underwritten basis to Entitled Shareholders at the Issue Price on the basis of seven (7) Rights Shares for every five (5) existing Shares held by Entitled Shareholders as at the Books Closure Date, fractional entitlements to be disregarded.

The Issue Price of S\$0.01 per Rights Share represents (i) a discount of approximately 68.75% to the closing price of S\$0.032 for Shares traded on the Catalist on 27 February 2014, being the last Market Day on which Shares were traded on the Catalist immediately preceding the date of the announcement of the Rights Issue; (ii) a discount of approximately 68.75% to the closing price of S\$0.032 for Shares traded on the Catalist on 25 July 2014, being the last Market Day on which Shares were traded on the Catalist immediately preceding the Latest Practicable Date; and (iii) a discount of approximately 47.8% to the theoretical ex-rights price of the Shares of S\$0.0192 based on the closing price of the Shares traded on the Catalist on 27 February 2014.

Entitled Shareholders will be provisionally allotted the Rights Shares on the basis of their shareholdings as at the Books Closure Date. Entitled Shareholders will be at liberty to accept (in full or in part), decline, or otherwise renounce or trade during the rights trading period prescribed by the SGX-ST their provisional allotments of Rights Shares and will be eligible to apply for additional Rights Shares in excess of their provisional allotments under the Rights Issue.

Fractional entitlements to the Rights Shares, if any, will be disregarded in arriving at Entitled Shareholder's provisional allotments of Rights Shares and will, together with provisional allotments of Rights Shares which are not taken up or allotted for any reason, be aggregated and issued to satisfy excess applications for Rights Shares (if any), or disposed of or otherwise dealt with in such manner as the Directors may, in their absolute discretion, deem fit in the interest of the Company.

In the allotment of excess Rights Shares, preference will be given to the rounding of odd lots, and Directors and Substantial Shareholders who have control or influence over the Company in connection with the day-to-day affairs of the Company or the terms of the Rights Issue, or have representation (direct or through a nominee) on the Board, will rank last in priority for rounding of odd lots and allotment of excess Rights Shares. The Company will also not make any allotment and issue of any excess Rights Shares that will result in a transfer of controlling interest in the Company unless otherwise specifically approved by Shareholders in a general meeting.

The Rights Shares are payable in full upon acceptance and/or application by Entitled Shareholders.

In relation to the subscriptions by the Director and controlling shareholder, Mr George Chew and his wife, Mdm Teresa Tan for their pro rata entitlements of the Rights Shares, pursuant to the Deed of Set-Off, the payment for Mr George Chew's and Mdm Teresa Tan's subscriptions of their Rights Shares entitlements will be set-off against the Outstanding SHI Loan owing by the Company to Mr George Chew. Subject to the Company obtaining the approval of Independent Directors and Independent Shareholders for the Proposed SHI Interest Payment (collectively, "**IPT Approvals**") and to the extent that the amount of the Outstanding SHI Loan is insufficient to satisfy payment for Mr George Chew's subscription for his Rights Shares entitlement ("**Shortfall**"), the payment for the Shortfall shall be set-off against the SHI Interest payable to Mr George Chew. If any of the IPT Approvals is not obtained for the Proposed SHI Interest Payment, Mr George Chew will make payment of the Shortfall in cash. Please refer to Sections 9 and 10 for more details.

LETTER TO SHAREHOLDERS

The Rights Shares will, upon allotment and issue, rank *pari passu* in all respects with the then existing Shares, save for any dividends, rights, allotments or other distributions, the Record Date for which falls before the date of issue of the Rights Shares.

The Rights Issue will not be underwritten. The Company believes that the Issue Price of S\$0.01 for each Rights Share, which represents a discount of approximately 68.75% to the closing price of S\$0.032 for Shares traded on the Catalist on 27 February 2014, being the last Market Day on which Shares were traded on the Catalist immediately preceding the date of the announcement of the Rights Issue, is attractive and should encourage subscriptions for the Rights Shares by Shareholders. In view of the foregoing and taking into consideration the Irrevocable Undertakings as well as cost considerations, the Company has decided to proceed with the Rights Issue on a non-underwritten basis.

The Rights Issue will not be withdrawn after commencement of the ex-rights trading.

2.2 Principal Terms of the Rights Issue

The salient terms of the Rights Issue are as follows:

Number of Rights Shares	:	Up to 438,200,000 Rights Shares.
Issue Price	:	S\$0.01 for each Rights Share, payable in full on acceptance and/or application.
Basis of Allotment	:	Seven (7) Rights Shares for every five (5) existing Shares held by, or, as the case may be, standing to the credit of the Securities Accounts of, Entitled Shareholders as at the Books Closure Date, fractional entitlements being disregarded.
Acceptance, excess application and payment procedures	:	Entitled Shareholders will be at liberty to accept (in full or in part), decline, or otherwise renounce or trade during the rights trading period prescribed by the SGX-ST their provisional allotments of Rights Shares and will be eligible to apply for additional Rights Shares in excess of their provisional allotments under the Rights Issue.

Fractional entitlements to the Rights Shares, if any, will be disregarded in arriving at Entitled Shareholder's provisional allotments of Rights Shares and will, together with provisional allotments of Rights Shares which are not taken up or allotted for any reason, be aggregated and allotted to satisfy excess applications for Rights Shares (if any), or disposed of or otherwise dealt with in such manner as the Directors may, in their absolute discretion, deem fit in the interest of the Company.

In the allotment of excess Rights Shares, preference will be given to the rounding of odd lots, and Directors and Substantial Shareholders who have control or influence over the Company in connection with the day-to-day affairs of the Company or the terms of the Rights Issue, or have representation (direct or through a nominee) on the Board, will rank last in priority for rounding of odd lots and allotment of excess Rights Shares. The Company will also not make any allotment and issue of any excess Rights Shares that will result in a transfer of controlling interest in the Company unless otherwise specifically approved by Shareholders in a general meeting.

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The detailed procedures for, and the terms and conditions applicable to, the acceptance, renunciation and/or the sale of the provisional allotments of Rights Shares and the application for excess Rights Shares, including the different modes of acceptance or application and payment would be contained in the Offer Information Statement and its accompanying documents (if applicable).

Status of the Rights Shares : The Rights Shares will, upon allotment and issue, rank *pari passu* in all respects with the then existing Shares, save for any dividends, rights, allotments or other distributions, the Record Date for which falls before the date of issue of the Rights Shares.

Non-underwritten : The Rights Issue is not underwritten.

Eligibility to participate in the Rights Issue : Please refer to Section 2.8 of this Circular.

Listing and Trading : The SGX-ST has issued listing and quotation notice for the listing and quotation of the Rights Shares on the Catalist (subject to certain conditions as described in Section 2.3 of this Circular). The listing and quotation notice of the SGX-ST is not to be taken as an indication of the merits of the Company, its subsidiaries, the Shares, the Rights Issue or the Rights Shares.

Upon the listing of and quotation for the Rights Shares on the Catalist, the Rights Shares will be traded under the book-entry (scripless) settlement system. For the purposes of trading on the SGX-ST, each board lot of Shares will comprise 1,000 Shares or such number as may be notified by the Company.

Use of CPF Funds : Persons who bought their Shares previously using their CPF account savings ("**CPF Funds**") may only use the same for the payment of the Issue Price to accept their provisional allotments of Rights Shares and (if applicable) apply for excess Rights Shares, subject to the applicable rules and regulations of the CPF. Such persons who wish to accept their provisional allotments of Rights Shares will need to instruct the respective approved banks where they hold their CPF investment accounts, to accept their provisional allotment of Rights Shares and (if applicable) apply for the excess Rights Shares on their behalf in accordance with the Offer Information Statement. CPF Funds may not, however, be used for the purchase of the provisional allotments of the Rights Shares directly from the market.

Governing Law : Laws of the Republic of Singapore

The terms and conditions of the Rights Issue are subject to such changes as the Directors may deem fit. The full details and final terms and conditions of the Rights Issue will be set out in the Offer Information Statement to be despatched to Entitled Shareholders in due course, subject to, *inter alia*, the approval of the Shareholders being obtained for the Rights Issue at the EGM.

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2.3 Conditions Precedent

The Rights Issue is subject to, *inter alia*, the following:

- (a) the receipt of the listing and quotation notice from the SGX-ST for the listing and quotation of the Rights Shares on the Catalist;
- (b) the approval of Shareholders having been obtained at the EGM for the Company to allot and issue the Rights Shares pursuant to the Rights Issue;
- (c) the approval of Shareholders having been obtained at the EGM for the Whitewash Resolution; and
- (d) lodgement of the Offer Information Statement with the SGX-ST (acting as agent on behalf of the Authority).

On 30 July 2014, the SGX-ST issued the listing and quotation notice for the listing and quotation of the Rights Shares on the Catalist subject to the following conditions:

- (a) Compliance with the SGX's listing requirements; and
- (b) Shareholders' approval being obtained for the Rights Issue at an extraordinary general meeting to be convened.

Shareholders should note that the listing and quotation notice of the SGX-ST is not to be taken as an indication of the merits of the Company, its subsidiaries, the Shares, the Rights Issue or the Rights Shares. The SGX-ST assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Circular.

2.4 Option to Scale Down

Depending on the level of subscription for the Rights Shares, the Company will, if necessary, and upon the approval of the Sponsor and/or the SGX-ST, scale down the subscription and/or excess applications for the Rights Shares by any of the Substantial Shareholders (if such Substantial Shareholder chooses to subscribe for its pro rata Rights Shares entitlement and/or apply for excess Rights Shares) to avoid placing the relevant Substantial Shareholder and parties acting in concert with it in the position of incurring a mandatory general offer obligation under the Code as a result of other Shareholders not taking up their Rights Shares entitlement in full.

2.5 Size of Rights Issue

As at the Latest Practicable Date, the issued share capital of the Company comprised 313,000,000 Shares ("**Existing Share Capital**"), and the Company does not have any outstanding convertible securities.

Based on the Existing Share Capital and assuming that all of the Entitled Shareholders subscribe and pay for their pro rata entitlements of Rights Shares ("**Maximum Subscription Scenario**"), 438,200,000 Rights Shares will be issued pursuant to the Rights Issue.

Based on the Existing Share Capital and assuming that other than the Undertaking Shareholders, none of the other Entitled Shareholders subscribe for their pro rata entitlements of Rights Shares ("**Minimum Subscription Scenario**"), 236,895,400 Rights Shares will be issued pursuant to the Rights Issue.

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2.6 Amount of Proceeds to be Raised

The amount of gross proceeds to be raised based on a Maximum Subscription Scenario is S\$4,382,000.00, and on a Minimum Subscription Scenario is S\$2,368,954.00, out of which part of the proceeds will be raised in cash and the balance through the set-off of the Outstanding SHI Loan and subject to the Company obtaining the IPT Approvals for the Proposed SHI Interest Payment, the amount of SHI Interest payable to Mr George Chew. Depending on whether the Proposed SHI Interest Payment is approved by the Independent Directors and Independent Shareholders, details of the amount to be raised in a Maximum Subscription Scenario and a Minimum Subscription Scenario are as follows:-

	Maximum Subscription Scenario		Minimum Subscription Scenario	
	Cash (\$)	Set-Off ⁽¹⁾ (\$)	Cash (\$)	Set-Off ⁽¹⁾ (\$)
Proposed SHI Interest Payment approved by Independent Directors and Independent Shareholders	3,191,846.00	1,190,154.00	1,178,800.00	1,190,154.00
Proposed SHI Interest Payment not approved by Independent Directors and Independent Shareholders	3,376,496.00	1,005,504.00	1,363,450.00	1,005,504.00

Note:

- (1) Set-Off refers to the setting-off of the Outstanding SHI Loan of S\$1,005,504.00 and, if applicable and subject to the IPT Approvals being obtained for the Proposed SHI Interest Payment, part of the SHI Interest amount of S\$184,650.00 for the subscription in full of Mr George Chew's and Mdm Teresa Tan's Rights Shares entitlements. This assumes that the balance SHI Interest amount payable up to the date of subscription for the Rights Shares is not utilised to set off any excess Rights Shares application by Mr George Chew. Please refer to Section 9 of this Circular for more details.

2.7 Rationale and Use of Proceeds

The Company is undertaking the Rights Issue to strengthen the financial position and capital base of the Company and to provide additional working capital for the operations of the Group. The Rights Issue will also provide Shareholders with an opportunity to further participate in the equity of the Company, and allow the Group to be less reliant on external sources of funding as well as to repay the Outstanding SHI Loan by way of the set-off described in Section 9 of this Circular.

There is no minimum amount to be raised from the Rights Issue. For the purposes of Rule 814(1) (e) of the Catalist Rules, the Directors are of the opinion that:

- (i) after taking into consideration the present bank facilities, the working capital available to the Group is not sufficient to meet its present requirements; and
- (ii) after taking into consideration the present bank facilities and the net proceeds of the Rights Issue based on a Minimum Subscription Scenario, the working capital available to the Group will be sufficient to meet its present requirements.

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The proceeds arising from the Rights Issue is (a) S\$2,368,954.00 in the Minimum Subscription Scenario, and (b) S\$4,382,000.00 in the Maximum Subscription Scenario. The Company intends to use such proceeds (in the following order of priority) in the manner set out below:

Use of Proceeds	Maximum Subscription Scenario (S\$)	Minimum Subscription Scenario (S\$)
1. Estimated costs and expenses relating to Rights Issue	175,000.00	175,000.00
2. Repayment of Outstanding SHI Loan ⁽¹⁾	1,005,504.00	1,005,504.00
3. Proposed SHI Interest Payment (partial) ⁽²⁾	184,650.00	184,650.00
4. Working capital purposes	3,016,846.00 ⁽³⁾	1,003,800.00
Gross Proceeds from Rights Issue	4,382,000.00	2,368,954.00

Notes:

- (1) The payment of the Outstanding SHI Loan will be set-off against the subscription monies payable by Mdm Teresa Tan for her Rights Shares entitlement and part of the subscription monies payable by Mr George Chew for his Rights Shares entitlement.
- (2) The Proposed SHI Interest Payment is subject to the IPT Approvals being obtained. If the Proposed SHI Interest Payment is approved, part of the SHI Interest of S\$184,650.00 will be set-off against the balance subscription monies payable for the subscription of the Rights Shares entitlement by Mr George Chew. If the Proposed SHI Interest Payment is not approved, the proceeds of S\$184,650.00 which would otherwise be reserved for part payment of the SHI Interest amount will be utilised towards working capital of the Group.
- (3) If Mr George Chew applies for and is allocated excess Rights Shares, he may utilise any balance SHI Interest payable to him to set-off against the subscription monies for his excess Rights Shares application. In such an event, the amount reserved for working capital purposes will be reduced by the amount of the balance SHI Interest utilised for the set-off.
- (4) The Company does not intend to utilise the net proceeds of the Rights Issue for the repayment of any balance unpaid SHI Interest not utilised to set-off Mr George Chew's subscription for his Rights Shares entitlements and any excess Rights Shares application, the Outstanding SD Loan and/or the SD Interest.

Pending the deployment of the net proceeds raised from the Rights Issue, such proceeds may be deposited with banks and/or financial institutions, used for investment in short-term money markets instruments and/or marketable securities, as the Directors may deem appropriate in the interests of the Company.

The Company will make periodic announcements on the use of the proceeds from the Rights Issue as and when such proceeds are materially disbursed and will provide a status report on the use of proceeds from the Rights Issue in the annual report(s) of the Company, until such time the proceeds have been fully utilised. Where the proceeds have been used for working capital purposes, the Company will provide a breakdown with specific details on how the proceeds have been applied in the announcements and status report.

In the event that any part of the Company's proposed uses of the net proceeds does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the proceeds to other purposes and/or hold such funds on short-term deposits for as long as the Directors deem it to be in the interest of the Company and the Shareholders. Any change in the use of the net proceeds will be subject to the Catalist Rules and appropriate announcements will be made by the Company.

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2.8 Eligibility of Shareholders to Participate in the Rights Issue

2.8.1 Entitled Shareholders

Entitled Shareholders will be entitled to participate in the Rights Issue and to receive the Offer Information Statement together with the PALs or the AREs, as the case may be, and its accompanying documents (if applicable) at their respective Singapore addresses. Entitled Depositors who do not receive the Offer Information Statement and the AREs may obtain them from CDP during the period up to the Closing Date. Entitled Scripholders who do not receive the Offer Information Statement and the PALs may obtain them from the Share Registrar during the period up to the Closing Date.

Entitled Shareholders will be provisionally allotted the Rights Shares under the Rights Issue on the basis of their shareholdings as at the Books Closure Date. They are at liberty to accept (in full or in part), decline, or otherwise renounce or in the case of Entitled Depositors, trade their provisional allotments of Rights Shares on the Catalist during the rights trading period prescribed by the SGX-ST their provisional allotments of the Rights Shares and will be eligible to apply for additional Rights Shares in excess of their provisional allotments under the Rights Issue.

Full details of the Rights Issue including an indicative timetable of key events will be set out in the Offer Information Statement which will be despatched to Entitled Shareholders in due course.

All dealings in and transactions of the provisional allotments of Rights Shares through the Catalist will be effected under the book-entry (scripless) settlement system. Accordingly, the PALs to be issued to Entitled Scripholders will not be valid for delivery pursuant to trades done on the Catalist.

Entitled Depositors should note that all correspondences and notices will be sent to their last registered addresses with CDP. Entitled Depositors are reminded that any request to effect any change in address must reach CDP no later than three (3) Market Days before the Books Closure Date.

Entitled Scripholders are encouraged to open Securities Accounts if they have not already done so and to deposit their share certificates with CDP prior to the Books Closure Date so that their Securities Accounts may be credited by CDP with their Shares and the provisional allotments of Rights Shares. Entitled Scripholders should note that their Securities Accounts will only be credited with the Rights Shares on the twelfth (12th) Market Day from the date of lodgement of the share certificates with CDP or such other date as CDP may determine.

2.8.2 Foreign Shareholders

The Offer Information Statement and its accompanying documents relating to the Rights Issue will be lodged with SGX-ST acting as agent on behalf of the Authority in Singapore. Save as disclosed above, the Offer Information Statement and its accompanying documents have not been and will not be lodged, registered or filed in any jurisdiction other than in Singapore. The distribution of the Offer Information Statement and its accompanying documents may be prohibited or restricted (either absolutely or subject to various relevant securities requirements, whether legal or administrative, being complied with) in certain jurisdictions under the relevant securities laws of those jurisdictions.

For practical reasons and in order to avoid any violation of the securities legislation applicable in countries other than Singapore, the Offer Information Statement and its accompanying documents will not be despatched to Foreign Shareholders. **Accordingly, Foreign Shareholders will not be entitled to participate in the Rights Issue. No provisional allotment of the Rights Shares will be made to Foreign Shareholders and no purported acceptance thereof or application therefor by Foreign Shareholders will be valid.**

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The Offer Information Statement and its accompanying documents will also not be despatched to Foreign Purchasers. Foreign Purchasers who wish to accept the provisional allotments of the Rights Shares credited to their Securities Account should make the necessary arrangements with their Depository Agents or stockbrokers in Singapore.

The Company reserves the right to reject any acceptances of Rights Shares and/or applications for excess Rights Shares where it believes, or has reason to believe, that such acceptances and/or applications may violate the applicable legislation of any jurisdiction. The Company further reserves the right to treat as invalid any ARE, ARS or PAL or decline to register such application or purported application which (a) appears to the Company or its agents to have been executed in any jurisdiction outside Singapore which may violate the applicable legislation of such jurisdiction, (b) provides an address outside Singapore for the receipt of the share certificate(s) or which requires the Company to despatch the share certificate(s) to an address in any jurisdiction outside Singapore or (c) purports to exclude any deemed representation or warranty.

If it is practicable to do so, arrangements may, at the discretion of the Company, be made for the provisional allotments of Rights Shares which would otherwise have been provisionally allotted to Foreign Shareholders, to be sold “nil-paid” on the Catalist as soon as practicable after dealings in the provisional allotments of Rights Shares commence. Such sales may, however, only be effected if the Company in its absolute discretion, determines that a premium could be obtained from such sales, after taking into account expenses to be incurred in relation thereto.

The net proceeds arising from such sales after deducting all expenses will be pooled and thereafter distributed to Foreign Shareholders in proportion to their respective shareholdings or, as the case may be, the number of Shares entered against their names in the Depository Register as at the Books Closure Date and sent to them by means of a crossed cheque drawn on a bank in Singapore sent by ordinary post to their mailing address as recorded with CDP or in such other manner as they may have agreed with CDP for the payment of any cash distributions at their own risk, provided that where the amount of net proceeds to be distributed to any single Foreign Shareholder is less than S\$10.00, the Company shall be entitled to retain or deal with such net proceeds as the Directors may, in their absolute discretion, deem fit in the interests of the Company and no Foreign Shareholder shall have any claim whatsoever against the Company in connection therewith.

Where such provisional allotments of Rights Shares are sold “nil-paid” on the Catalist, they will be sold at such price or prices as the Company may, in its absolute discretion, decide and no Foreign Shareholder shall have any claim whatsoever against the Company or CDP in respect of such sales or the proceeds thereof, the provisional allotment of Rights Shares or the Rights Shares represented by such provisional allotments.

If such provisional allotments of Rights Shares cannot be or are not sold on the Catalist as aforesaid for any reason by such time as the SGX-ST shall have declared to be the last day for trading in the provisional allotments of Rights Shares, the Rights Shares represented by such provisional allotments will be dealt with in such manner as the Directors may, in their absolute discretion, deem fit in the interests of the Company and no Foreign Shareholder shall have any claim whatsoever against the Company in connection therewith.

Shareholders should note that the special arrangements described above will apply only to Foreign Shareholders.

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Notwithstanding the above, Entitled Shareholders and any other person having possession of the Offer Information Statement and its accompanying documents are advised to inform themselves of and to observe any legal requirements applicable thereto. No person in any territory outside Singapore receiving the Offer Information Statement and/or its accompanying documents may treat the same as an offer, invitation or solicitation to subscribe for any Rights Shares unless such offer, invitation or solicitation could lawfully be made without violating any regulatory or legal requirements in those territories.

The procedures for, and the terms and conditions applicable to, acceptances, renunciation and/or sale of the provisional allotment of the Rights Shares and for excess application for the Rights Shares pursuant to the Rights Issue will be set out in the Offer Information Statement and its accompanying documents to be despatched by the Company to the Entitled Shareholders in due course.

3. FINANCIAL EFFECTS OF THE RIGHTS ISSUE

The financial effects of the Rights Issue under the Minimum Subscription Scenario and the Maximum Subscription Scenario as presented herein:

- (a) are for illustrative purposes only and are not a projection of the actual future financial performance or financial position of the Group immediately after the completion of the Rights Issue;
- (b) are based on the audited consolidated financial statements of the Group for FY2013;
- (c) assume that the Rights Issue was completed on 31 December 2013 for the purposes of computing the financial effects on the share capital, NTA and gearing; and
- (d) assume that the Rights Issue was completed on 1 January 2013 for the purposes of computing the financial effects on the LPS.

3.1 Share Capital

The effects of the Rights Issue on the share capital of the Company are follows:

	Assuming Minimum Subscription Scenario		Assuming Maximum Subscription Scenario	
	No. of Shares	S\$	No. of Shares	S\$
Existing Share Capital as at the Latest Practicable Date	313,000,000	13,633,037	313,000,000	13,633,037
Add:				
Rights Shares to be issued pursuant to the Rights Issue	236,895,400	2,193,954	438,200,000	4,207,000
Enlarged issued and paid-up share capital after the Rights Issue	549,895,400	15,826,991	751,200,000	17,840,037

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3.2 NTA per Share

The effects of the Rights Issue on the NTA per Share of the Group based on the audited consolidated balance sheet of the Group as at 31 December 2013 are as follows:

S\$'000	Assuming Minimum Subscription Scenario	Assuming Maximum Subscription Scenario
NTA as at 31 December 2013	1,384	1,384
Add: Net proceeds from the Rights Issue	2,194	4,207
Adjusted NTA after the Rights Issue	3,578	5,591
Before the Rights Issue		
Total number of issued and paid-up Shares	313,000,000 ⁽¹⁾	313,000,000 ⁽¹⁾
NTA per Share (cents)	0.44	0.44
Immediately after the Rights Issue		
Total number of issued Shares	549,895,400 ⁽²⁾	751,200,000 ⁽³⁾
Adjusted NTA per Share (cents)	0.65	0.74

Notes:

- (1) Based on the Existing Share Capital.
- (2) Based on enlarged total number of issued Shares after the Rights Issue under the Minimum Subscription Scenario of 549,895,400 Rights Shares.
- (3) Based on enlarged total number of issued Shares after the Rights Issue under the Maximum Subscription Scenario of 751,200,000 Rights Shares.

3.3 Loss and LPS

The effects of the Rights Issue on the LPS of the Group based on the audited consolidated income statement of the Group for FY2013 are as follows:

	Assuming Minimum Subscription Scenario	Assuming Maximum Subscription Scenario
Loss attributable to Shareholders for FY2013 (S\$)	6,031,816	6,031,816
LPS before the Rights Issue (cents) ⁽¹⁾	2.10	2.10
LPS after the Rights Issue (cents)	1.10 ⁽²⁾	0.80 ⁽³⁾

Notes:

- (1) Based on the adjusted weighted average number of Shares of 287,370,000 Shares.
- (2) Based on enlarged total number of issued Shares after the Rights Issue under the Minimum Subscription Scenario of 549,895,400 Rights Shares.
- (3) Based on enlarged total number of issued Shares after the Rights Issue under the Maximum Subscription Scenario of 751,200,000 Rights Shares.

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3.4 Gearing

In April 2014, the Company completed the disposal of the property at 18 Sungei Kadut Street 2, Singapore 729236. Pursuant to the disposal, approximately S\$8.14 million was paid to the bank to reduce the outstanding bank borrowing of the Group ("**Partial Loan Repayment**").

The effects of the Rights Issue on the gearing of the Group based on the audited consolidated balance sheet of the Group as at 31 December 2013, after adjusting for the Partial Loan Repayment, are as follows:

S\$'000	Assuming Minimum Subscription Scenario	Assuming Maximum Subscription Scenario
Total Borrowings as at 31 December 2013	11,688	11,688
Less: Partial Loan Repayment in April 2014	8,142	8,142
Repayment of Outstanding SHI Loan	1,005	1,005
Adjusted Borrowings	2,541	2,541
Shareholders' Funds as at 31 December 2013	13,633	13,633
Add : Net proceeds of the Rights Issue	2,194	4,207
Adjusted Shareholders' Funds	15,827	17,840
Gearing (times)		
Before the Rights Issue	0.86	0.86
Immediately after the Rights Issue	0.22	0.20
Immediately after the Rights Issue and the repayment of Outstanding SHI Loan	0.16	0.14

Note:

- (1) If the Proposed SHI Interest Payment and Proposed SD Interest Payment are approved, total borrowing will be increased by S\$347,080.

For purpose of the above calculations, the expression "**gearing**" means the ratio of Total Borrowings to Shareholders' Funds. The expression "**Total Borrowings**" means the amount of liabilities arising from all the borrowings (including hire purchase facilities) from banks and other financial institutions. The expression "**Shareholders' Funds**" means the aggregate of the issued and paid-up share capital, and reserves of the Group.

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4. FINANCIAL INFORMATION OF THE GROUP

4.1 Income Statement

The audited consolidated income statements of the Group for FY2011, FY2012 and FY2013 are set out below:

	Audited FY2011 S\$'000	Audited FY2012 S\$'000	Audited FY2013 S\$'000
Revenue	32,711	23,407	18,687
Cost of sales	(28,446)	(20,461)	(17,624)
Gross profit	4,265	2,946	1,063
Other income/(losses) - net	442	(220)	(1,483)
Selling and marketing expenses	(3,303)	(2,265)	(1,317)
Administrative expenses	(5,150)	(5,072)	(3,211)
Other operating expenses	(2,426)	(1,975)	(727)
Finance costs	(522)	(426)	(418)
Share of losses of associated company	(91)	—	—
Loss before income tax	(6,785)	(7,012)	(6,093)
Income tax credit/(expense)	7	(8)	(76)
Net loss	(6,778)	(7,020)	(6,169)
Attributable to:			
Equity holders of the Company	(6,544)	(6,830)	(6,032)
Non-controlling interests	(234)	(190)	(137)
	(6,778)	(7,020)	(6,169)

A review of the operations, business and financial performance of the Group are set out below:

FY2013 versus FY2012

Revenue

The Group's revenue posted a decline of 20.2% from S\$23.4 million in FY2012 to S\$18.7 million in FY2013.

Revenue of wood-based products declined by S\$5.4 million or 29.5% from S\$18.3 million in FY2012 to S\$12.9 million and revenue of lifestyle outdoor furniture products declined by S\$1.2 million or 59.9% from S\$2.0 million to S\$0.8 million. The Total Design & Build Solutions business unit registered an increase in revenue of S\$1.9 million or 60.7% from S\$3.1 million in FY2012 to S\$5.0 million in FY2013.

Revenue contribution from the Europe market decreased by S\$3.2 million or 33.3% from S\$9.5 million in FY2012 to S\$6.4 million in FY2013 and revenue contribution from the Australia/New Zealand markets declined by S\$3.9 million from S\$9.7 million in FY2012 to S\$5.7 million in FY2013. The Asia/Others markets registered an increase of S\$2.4 million or 56.2% from S\$4.2 million in FY2012 to S\$6.6 million in FY2013.

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Cost of sales and gross profit margin

The cost of sales decreased by S\$2.9 million or 13.9% to S\$17.6 million in FY2013. The cost of sales as a percentage of revenue increased from 87.4% in FY2012 to 94.3% in FY2013; thus resulting in a decline in gross profit margin from 12.6% in FY2012 to 5.7% in FY2013. The increase in cost of sales was due to higher project costs incurred by the Total Design & Build Solutions business unit.

Other income/(losses) – net

Other losses – net increased by S\$1.3 million to S\$1.5 million in FY2013. This was mainly due to higher losses in foreign exchange translation of S\$1.1 million and less gain on disposal of plant, property and equipment of S\$0.2 million in FY2013 compared to FY2012.

Selling and distribution expenses

Selling and distribution expenses decreased by S\$1.0 million to S\$1.3 million in FY2013. The decrease was mainly due to lower staff salaries, lower office rental and other selling & distribution expenses incurred following the efforts to contain cost by downsizing and closing down unprofitable overseas subsidiaries.

Administrative expenses

Administrative expenses decreased by S\$1.9 million to S\$3.2 million in FY2013, mainly due to lower staff salaries and office rental arising mainly from the positive cost effects of downsizing and closing down of overseas subsidiaries as well as less headcount in Singapore operations and voluntary salaries reduction by the executive directors and senior management staff.

Other operating expenses

Other operating expenses decreased by S\$1.3 million to S\$0.7 million in FY2013. This was mainly due to lower inventory write-down, less allowance for doubtful debt provision and less advance to supplier written off for the year.

Finance expenses

Finance cost remained almost the same at S\$0.4 million in FY2013.

FY2012 versus FY2011

Revenue

The weakening economic outlook in Europe has led to a slow down in customers' orders of the Group's wood-based and lifestyle outdoor furniture products. As a result, the Group posted a decline of 28.4% in revenue from S\$32.7 million in FY2011 to S\$23.4 million in FY2012.

Revenue of wood-based products declined by S\$8.6 million or 32.1% from S\$26.9 million in FY2011 to S\$18.3 million and revenue of lifestyle outdoor furniture products declined by S\$1.2 million or 37.5% from S\$3.3 million to S\$2.0 million. The Total Design & Build Solutions business unit registered an increase in revenue of S\$0.5 million or 19.2% from S\$2.6 million in FY2011 to S\$3.1 million in FY2012.

Revenue contribution from the Europe market decreased by S\$8.7 million or 47.6% from S\$18.2 million in FY2011 to S\$9.5 million in FY2012 and revenue contribution from the Australia/New Zealand markets declined by S\$1.2 million from S\$10.9 million to S\$9.7 million. The Asia/Others markets registered an increase of S\$0.5 million or 16.2% from S\$3.2 million in FY2011 to S\$3.7 million in FY2012.

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Cost of sales and gross profit margin

In line with the decrease in revenue, the cost of sales decreased by S\$7.9 million or 28.1% to S\$20.5 million in FY2012. Cost of sales as a percentage of revenue increased from 87.0% in FY2011 to 87.4% in FY2012, thus resulting in a decline in gross profit margin from 13.0% in FY2011 to 12.6% in FY2012. The increase in cost of sales was due to higher cost of products.

Other (losses)/income – net

Other losses increased by S\$0.6 million from other income of S\$0.4 million in FY2011 to other losses of S\$0.2 million in FY2012. This was mainly due to higher losses in foreign exchange translation of S\$1.3 million offset by higher rental income of S\$0.3 million and a gain of S\$0.2 million on disposal of property by the Group's Indonesian subsidiary.

Selling and marketing expenses

Selling and marketing expenses decreased by S\$1.0 million to S\$2.3 million in FY2012. The decrease was mainly due to lower staff salaries and other selling & distribution expenses incurred for the Indonesian factory due to the downsize in production and a write back of certification fees of S\$0.4 million due to the termination of the Tropical Trust Fund (TFT) membership.

Administrative expenses

Administrative expenses remained consistent at S\$5.7 million in FY2012 compared to S\$5.15 million in FY2011.

Other operating expenses

Other operating expenses decreased by S\$0.5 million to S\$2.0 million in FY2012. This was mainly due to lower provision of S\$0.4 million for doubtful debts for the Group's associated company and no write off of advances to suppliers of S\$0.6 million as compared to prior year, offset by a higher write down of S\$0.4 million.

Finance expenses

Finance cost decreased by S\$0.1 million from S\$0.5 million to S\$0.4 million mainly due to lower trust receipt interest and finance lease interest that were incurred during FY2012.

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4.2 Balance Sheet

The audited balance sheets of the Group as at 31 December 2011, 31 December 2012 and 31 December 2013 are set out below:

	Audited As at 31 December 2011 S\$'000	Audited As at 31 December 2012 S\$'000	Audited As at 31 December 2013 S\$'000
Non-current assets			
Property, plant and equipment	10,521	4,179	3,233
	10,521	4,179	3,233
Current assets			
Cash and cash equivalents	156	331	456
Trade and other receivables	3,726	3,265	3,014
Inventories	7,520	4,658	2,683
Other current assets	708	693	472
	12,110	8,947	6,625
Non-current asset held-for-sale	–	7,192	7,192
	12,110	16,139	13,817
Total assets	22,631	20,318	17,050
Share Capital	5,716	8,037	13,633
Share application monies	2,400	–	–
Other reserves	2,421	5,329	7,158
Accumulated losses	(6,504)	(13,179)	(19,211)
Equity attributable to equity holders of the Company	4,033	187	1,580
Non-controlling interests	(383)	(104)	(197)
Total equity	3,650	83	1,383
Non-current liabilities			
Borrowings	2,598	32	21
Deferred income tax liabilities	71	61	55
	2,669	93	76
Current liabilities			
Trade and other payables	5,880	9,052	5,488
Current income tax liabilities	–	–	12
Borrowings	10,432	11,090	10,091
	16,312	20,142	15,591
Total liabilities	18,981	20,235	15,667
Total equity and liabilities	22,631	20,318	17,050

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A review of the financial positions of the Group for the relevant periods is set out below:

FY2013 versus FY2012

Non-current assets

Non-current assets decreased by S\$1.0 million to S\$3.2 million arising mainly from the disposal of the Dubai property and partly from the depreciation of property, plant and equipment for the year.

Current assets

Current assets decreased by S\$2.3 million to S\$6.6 million, accounting for 43.4% of the total assets. The decrease was mainly due to less inventory held by the Group and impairment loss recognised on the inventory write-down at year end.

Non-current asset held for sale refers to the property at 18 Sungei Kadut, which remained the same at S\$7.2 million in FY2013.

Capital and reserves

Share capital and reserves increased by S\$1.3 million mainly due to the new shares issued and the currency translation gain, offset by loss attributable to shareholders incurred for FY2013.

Non-current liabilities

Non-current liabilities remained almost the same at S\$0.1 million in FY2013.

Current liabilities

Current liabilities decreased by S\$4.4 million to S\$15.6 million mainly due to the repayment of the bank borrowings and repayment of loan from directors and the immediate family member in FY2013.

FY2012 versus FY2011

Non-current assets

Non-current assets decreased by S\$6.3 million to S\$4.2 million, arising from the reclassification of the Sungei Kadut property from property, plant and equipment to non-current asset held for sale.

Current assets

Current assets decreased by S\$3.2 million from S\$12.1 million to S\$8.9 million, accounting for 26% of the total assets. The decrease was due to less inventories held by subsidiaries and impact of inventories write down by the Indonesian and New Zealand subsidiaries.

The increase in non-current asset held-for-sale of S\$7.2 million was a result of reclassification of the Sungei Kadut property from property, plant and equipment.

Capital and reserves

Share capital and reserves decreased by S\$3.8 million mainly due to the loss attributable to shareholders, partially offset by the gain on property revaluation.

Non-current liabilities

Non-current liabilities decreased by S\$2.6 million to S\$0.1 million due mainly to the reclassification of long term bank loan borrowing to short term bank borrowing.

Current liabilities

Current liabilities increased by S\$3.8 million to S\$20.1 million due mainly to the increase in other payables mainly arising from the loan from a director and his immediate family member and increase in short term borrowings, arising from the reclassification of the Sungei Kadut property from property, plant and equipment to non-current asset held for sale in current assets.

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4.3 Cash Flow

The summary of the audited consolidated cash flow statements for the Group for FY2011, FY2012 and FY2013 are set out below:

	Audited FY2011 S\$'000	Audited FY2012 S\$'000	Audited FY2013 S\$'000
Cash flows from operating activities			
Net loss	(6,778)	(7,020)	(6,169)
Adjustments for:			
-Income tax expenses/(credit)	(7)	8	76
-Depreciation of property, plant and equipment	783	846	341
-Interest expense	522	426	418
-Impairment of on property, plant and equipment	118	–	–
-Allowance for/(reversal of) impairment on trade and other receivables	361	(20)	102
-Advance to suppliers written off	604	–	173
-Bad debt written off	–	50	2
-Inventory write down	1,311	1,781	548
-Gain on disposal of property, plant and equipment	–	(209)	(34)
-Share of losses of associated company	91	–	–
-Interest income	(2)	(2)	(3)
-Currency translation (gains)/losses	(58)	1,378	2,110
	(3,055)	(2,762)	(2,436)
Changes in working capital:			
-Trade and other receivables	3,614	430	(26)
-Inventories	2,459	1,081	1,426
-Other current assets	(29)	15	221
-Trade and other payables	(1,840)	1,215	(1,946)
Cash generated from/(used in) operations	1,149	(21)	(2,761)
Interest received	2	1	3
Interest paid	(33)	(31)	(38)
Income tax paid	(93)	(9)	(8)
Net cash provided by/(used in) operating activities	1,025	(60)	(2,804)
Cash flows from investing activities			
Share application monies	2,400	–	–
Issue of new shares	–	–	5,610
Share issue expense	–	(80)	(14)
Interest received	–	1	–
Acquisition of non-controlling interests	(60)	–	–
Purchase of property, plant and equipment	(189)	(82)	(3)
Disposal of property, plant and equipment	92	747	327
Net cash provided by investing activities	2,243	586	5,920

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	Audited FY2011 S\$'000	Audited FY2012 S\$'000	Audited FY2013 S\$'000
Cash flows from financing activities			
Proceed from bank borrowings	–	2,460	–
Loan from directors and the immediate family members	1,078	1,957	(1,618)
Repayment of bank borrowings	(4,355)	(4,273)	(596)
Repayment of finance lease liabilities	(103)	(32)	(12)
Dividend paid to equity holders of the subsidiaries	(22)	–	–
Interest paid	(489)	(395)	(380)
Net cash used in financing activities	(3,891)	(283)	(2,606)
Net (decrease)/increase in cash and cash equivalents	(623)	243	510
Effect of currency translation on cash and cash equivalents	–	(6)	18
Cash and cash equivalents at the beginning of the financial year	(481)	(1,104)	(867)
Cash and cash equivalents at the end of the financial year	(1,104)	(867)	(339)

A review of the cash flow position for the following financial years is set out below:

FY2013

Net cash used in operating activities before working capital changes was S\$2.4 million. Net cash utilised for working capital was S\$0.4 million coming from an increase in trade and other payables of S\$1.9 million, offset by the decrease in inventories of S\$1.4 million and other current assets of S\$0.2 million. Net cash used in operating activities stood at S\$2.8 million after interest received and payment of interest and income tax.

The net cash provided by investing activities of S\$5.9 million was mainly from the net proceeds arising from the issue of new shares and proceeds from the disposal of the Dubai property.

Net cash used in financing activities was S\$2.6 million, which was mainly used to repay the short term bank borrowings and the loan owed to the directors and the immediate family member, as well as payment of the interest to the bank.

FY2012

The Group incurred a small net cash outflow used in operating activities of S\$0.1 million.

The net cash inflow provided by investing activities of S\$0.6 million was mainly due to the proceeds from disposal of the Indonesia property less the amount used for the purchase of property, plant and equipment and share issue expense.

Net cash used in financing activities was S\$0.3 million due mainly to the repayment of trust receipts and term loan offset by the proceeds from bank borrowings of S\$2.5 million and additional loan of S\$2.0 million from a director and his immediate family member.

FY2011

The Group continued to generate net cash inflow from operating activities of S\$1.0 million, due mainly to the reduction in the inventory and the trade and other receivables, offset by an increase in the trade and other payables at year-end.

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The net cash provided by investing activities was S\$2.2 million due mainly to the share application money of S\$2.4 million received in advance less the amount used for the purchase of property, plant and equipment and also for acquisition of non-controlling interest in the Indonesian and New Zealand subsidiaries.

Net cash used in financing activities was S\$3.9 million due mainly to the repayment of term loans and trust receipts offset by the loan of S\$1.0 million from the directors and the immediate family members.

4.4 Working Capital

The total current assets, total current liabilities and working capital of the Group as at 31 December 2011, 31 December 2012 and 31 December 2013 are as follows:

	Audited As at 31 December 2011 S\$'000	Audited As at 31 December 2012 S\$'000	Audited As at 31 December 2013 S\$'000
Total current assets	12,100	16,139	13,817
Total current liabilities	(16,312)	(20,142)	(15,591)
Net current assets	(4,212)	(4,003)	(1,774)

5. IRREVOCABLE UNDERTAKINGS

5.1 Rights Entitlements of Undertaking Shareholders

As at the Latest Practicable Date:

- (a) Mr George Chew held an aggregate of 49,561,284 Shares, representing approximately 15.83% of the aggregate number of issued Shares. Accordingly, Mr George Chew will be entitled to subscribe for an aggregate of 69,385,797 Rights Shares;
- (b) Mdm Teresa Tan held an aggregate of 35,449,716 Shares, representing approximately 11.33% of the aggregate number of issued Shares. Accordingly, Mdm Teresa Tan will be entitled to subscribe for an aggregate of 49,629,602 Rights Shares;
- (c) Mr Steven Chew held an aggregate of 9,200,000 Shares, representing approximately 2.94% of the aggregate number of issued Shares. Accordingly, Mr Steven Chew will be entitled to subscribe for an aggregate of 12,880,000 Rights Shares;
- (d) Mr Chen held an aggregate of 37,500,000 Shares, representing approximately 11.98% of the aggregate number of issued Shares. Accordingly, Mr Chen will be entitled to subscribe for an aggregate of 52,500,000 Rights Shares; and
- (e) Ms Josca Woo held an aggregate of 37,500,000 Shares, representing approximately 11.98% of the aggregate number of issued Shares. Accordingly, Ms Josca Woo will be entitled to subscribe for an aggregate of 52,500,000 Rights Shares.

5.2 Irrevocable Undertakings

As an indication of their support and commitment to the Company,

- (a) Mr Steven Chew, Mr Chen and Ms Josca Woo, have each executed a deed of undertaking dated 21 May 2014 ("**Deed of Undertaking**") pursuant to which they have each given an irrevocable undertaking to the Company to, amongst other things, subscribe and/or cause to be subscribed for and on his/her behalf, their respective entitlements of the Rights Shares subject to, *inter alia*, the Whitewash Waiver being obtained from the SIC and the passing of the Whitewash Resolution at the EGM; and

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- (b) Mr George Chew and Mdm Teresa Tan have pursuant to the Deed of Set-Off and subject to the terms and conditions therein contained, including the Whitewash Waiver being obtained from the SIC and the passing of the Whitewash Resolution at the EGM, each given an irrevocable undertaking to the Company to, amongst other things, subscribe and/or cause to be subscribed for and on his/her behalf, their respective entitlements of the Rights Shares,

(collectively, the “**Irrevocable Undertakings**”).

In addition, each of Mr Steven Chew, Mr Chen, Ms Josca Woo, Mr George Chew and Mdm Teresa Tan have, in their respective Deeds of Undertaking or Deed of Set-Off, as the case may be, undertaken:

- (a) not to sell, transfer or otherwise deal with their respective shareholdings in the Company between the date of their respective undertakings and until the issue of the Rights Shares; and
- (b) to vote, and procure that their respective representatives and proxies will vote all their Shares and any further Shares which he/she may subsequently own or control in favour of the Rights Issue (other than those resolutions which he/she is required by the Company to abstain from voting).

Mr Steven Chew, Mr Chen and Ms Josca Woo have in their respective Deed of Undertaking confirmed to the Company that he/she has sufficient financial resources to subscribe for or procure the subscription in full of all his/her Rights Shares entitlements and Mr George Chew has in the Deed of Set-Off confirmed that he has sufficient financial resources to make payment of the Shortfall.

The Company has received evidence satisfactory to the Company in the form of bank statements of each of Mr George Chew, Mr Steven Chew, Mr Chen and Ms Josca Woo to support their respective confirmations as stated above.

6. WHITEWASH RESOLUTION

6.1 Concert Parties Shareholders

Mr George Chew is the Executive Chairman and Chief Executive Officer of the Company. Mr Steven Chew is an Executive Director and Deputy Chief Executive Officer of the Company. Mdm Teresa Tan is the Senior Vice President (Group Administration and Human Resources).

Mr George Chew, Mdm Teresa Tan and Mr Steven Chew are immediate family members. Mr George Chew is the husband of Mdm Teresa Tan while Mr Steven Chew is the son of both Mr George Chew and Mdm Teresa Tan. As at the Latest Practicable Date, Mr George Chew, Mdm Teresa Tan and Mr Steven Chew who are parties acting in concert with each other, hold an aggregate of 94,211,000 Shares constituting an aggregate voting interest of approximately 30.10% in the Existing Share Capital.

Ms Josca Woo is a Substantial Shareholder of the Company. She is not an employee of the Company and does not hold any executive function in the Group. Ms Josca Woo is the sister-in-law of Mr George Chew. Under the Code, a close relative of a person is presumed to be acting in concert with such person unless the contrary is established. On the presumed basis that Ms Josca Woo is a party acting in concert with Mr George Chew, Mr George Chew and parties acting in concert with him, namely Mdm Teresa Tan, Mr Steven Chew and Ms Josca Woo hold an aggregate of 131,711,000 Shares constituting an aggregate voting interest of approximately 42.08% in the Existing Share Capital.

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6.2 Potential Dilution

As a result of the Rights Issue, the collective shareholding interest of the Independent Shareholders in the Company may be diluted. Based on the Minimum Subscription Scenario and Maximum Subscription Scenario and the number of Shares held by the Concert Parties Shareholders as at the Latest Practicable Date, the shareholdings of the Concert Parties Shareholders and Independent Shareholders before and after the Rights Issue would be as follows:

	Before Rights Issue		After Rights Issue based on Minimum Subscription Scenario		After Rights Issue based on Maximum Subscription Scenario	
	No. of Shares Held	Total Interest (%) ⁽¹⁾	No. of Shares Held	Total Interest (%) ⁽²⁾	No. of Shares Held	Total Interest (%) ⁽³⁾
George Chew	49,561,284	15.83	118,947,081	21.63	118,947,081	15.83
Teresa Tan	35,449,716	11.33	85,079,318	15.47	85,079,318	11.33
Steven Chew	9,200,000	2.94	22,080,000	4.02	22,080,000	2.94
Josca Woo	37,500,000	11.98	90,000,000	16.37	90,000,000	11.98
Concert Parties Shareholders	131,711,000	42.08	316,106,399	57.49	316,106,399	42.08
Chen Weiping	37,500,000	11.98	90,000,000	16.37	90,000,000	11.98
Independent Directors						
Ng Boon Huan Daniels	350,000	0.11	350,000	0.06	840,000	0.11
Chin Sek Peng Michael	60,000	0.02	60,000	0.01	144,000	0.02
Public Shareholders	143,379,000	45.81	143,379,000	26.07	344,109,600	45.81
Independent Shareholders	181,289,000	57.92	233,789,000	42.51	435,093,600	57.92
TOTAL	313,000,000	100	549,895,400	100	751,200,000	100

Notes:

- (1) Computed based on the Existing Share Capital of 313,000,000 Shares.
- (2) Computed based on the enlarged total number of issued Shares of 549,895,400 Shares under the Minimum Subscription Scenario.
- (3) Computed based on the enlarged total number of issued Share of 751,200,000 Shares under the Maximum Subscription Scenario.
- (4) Comprise of the total number of Shares held by Mr Chen, the Independent Directors and the Public Shareholders.

As at the Latest Practicable Date, the Concert Parties Shareholders and the Independent Shareholders own approximately 42.08% and 57.92% of the Existing Share Capital respectively.

Based on the Maximum Subscription Scenario, the shareholding structure of the Company would remain unchanged.

Based on the Minimum Subscription Scenario, the Independent Shareholders' shareholding in the Company will reduce from approximately 57.92% to 42.51%, and the Concert Parties Shareholders' shareholding in the Company will increase from approximately 42.08% to 57.49% of the enlarged total number of issued Shares.

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Based on a scenario where none of the Independent Shareholders subscribe for their Rights Shares entitlements and any one or more of the Concert Parties Shareholders apply for, and are allocated all the excess Rights Shares available such that all the 438,200,000 Rights Shares are fully subscribed by the Concert Parties Shareholders, the shareholdings of the Concert Parties Shareholders (on an aggregated basis) and the Independent Shareholders before and after the Rights Issue are illustrated as follows:-

	Before Rights Issue		After Rights Issue where all the Rights Shares are subscribed by the Concert Parties Shareholders	
	No. of Shares Held	Total Interest (%) ⁽¹⁾	No. of Shares Held	Total Interest (%) ⁽²⁾
Concert Parties Shareholders	131,711,000	42.08	569,911,000	75.87
Independent Shareholders	181,289,000	57.92	181,289,000	24.13
TOTAL	313,000,000	100	751,200,000	100

Notes:

(1) Computed based on the Existing Share Capital of 313,000,000 Shares.

(2) Computed based on the enlarged total number of issued Shares of 751,200,000 Shares.

Based on the above scenario, the Independent Shareholders' shareholding in the Company will reduce from approximately 57.92% to 24.13%, and the Concert Parties Shareholders' shareholding in the Company will increase from approximately 42.08% to 75.87% of the enlarged total number of issued Shares.

6.3 Rule 14 of the Code

Under Rule 14 of the Code, when a person together with persons acting in concert with him, holds not less than 30.0% but not more than 50.0% of the voting rights and such person, or any person acting in concert with him, acquires in any period of six (6) months additional Shares carrying more than 1.0% of the voting rights, he must extend offers immediately to the holders of any class of share capital of the Company that carries votes and in which such person, or persons acting in concert with him, hold shares.

As the Concert Parties Shareholders hold in aggregate not less than 30.0% but not more than 50.0% of the voting rights of the Company, in the event that the Undertaking Shareholders subscribe for, or cause to be subscribed for and on their behalf, their respective entitlements of Rights Shares in full pursuant to the Irrevocable Undertakings but the Rights Issue is not fully subscribed, depending on the level of subscription for the Rights Shares by other Entitled Shareholders, such under-subscribed scenario may result in the aggregate voting rights of the Concert Parties Shareholders in the Company after the Rights Issue increasing by more than 1.0% within a six (6) month period thereby incurring an obligation on them and parties acting in concert with them to make a mandatory general offer under Rule 14.1 of the Code for the remaining Shares not already owned by them.

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6.4 Whitewash Waiver

The SIC had, on 27 June 2014, waived the requirement for the Concert Parties Shareholders to make a Mandatory Offer under Rule 14.1 of the Code in the event that the Concert Parties Shareholders and their concert parties increase their shareholdings in the Company by more than 1.0% in any six (6) month period based on the Company's enlarged issued capital as a result of the Concert Parties Shareholders subscribing for their pro-rata entitlements of the Rights Shares (in whole or in part) as the case may be, including any application for excess Rights Shares, subject to the following conditions ("**SIC Conditions**"):

- (a) a majority of holders of voting rights of the Company present and voting at a general meeting held before the issue of Rights Shares, approve the Whitewash Resolution by way of a poll to waive their rights to receive a general offer from the Concert Parties Shareholders;
- (b) the Whitewash Resolution is separate from other resolutions;
- (c) the Concert Parties Shareholders, parties acting in concert with them and parties not independent of them abstain from voting on the Whitewash Resolution;
- (d) the Concert Parties Shareholders did not acquire or are not to acquire any Shares or instruments convertible into and options in respect of the Shares (other than subscriptions for, rights to subscribe for, instruments convertible into or options in respect of Shares which have been disclosed in this Circular):
 - (i) during the period between the announcement of the Rights Issue and the date Shareholders' approval is obtained for the Whitewash Resolution; and
 - (ii) in the six (6) months prior to the announcement of the Rights Issue but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Rights Issue;
- (e) the Company appoints an independent financial adviser to advise its Independent Shareholders on the Whitewash Resolution;
- (f) the Company sets out clearly in this Circular to Shareholders:
 - (i) details of the Rights Issue, including the Irrevocable Undertakings;
 - (ii) the possible dilution effect of issuing the Rights Shares to existing holders of voting rights as a result of the Concert Parties Shareholders subscribing for the Rights Shares in whole or in part (as the case may be) including any application for excess Rights Shares;
 - (iii) the number and percentage of voting rights in the Company as well as the number of instruments convertible into, rights to subscribe for and options in respect of Shares held by the Concert Parties Shareholders and their concert parties as at the Latest Practicable Date;
 - (iv) the number and percentage of voting rights to be issued to the Concert Parties Shareholders as a result of their subscribing for the Rights Shares in whole or in part (as the case may be) including any application for excess Rights Shares;
 - (v) that Shareholders, by voting for the Whitewash Resolution, are waiving their rights to a general offer from the Concert Parties Shareholders at the highest price paid by the Concert Parties Shareholders and their concert parties for the Shares in the past six (6) months preceding the commencement of the Rights Issue; and

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- (vi) the acquisition of the Rights Shares by the Concert Parties Shareholders might result in the Concert Parties Shareholders and their concert parties holding Shares carrying over 49% of the voting rights of the Company based on its enlarged issued share capital and the fact that the Concert Parties Shareholders and their concert parties will be free to acquire further Shares without incurring any obligation under Rule 14 of the Code to make a general offer;
- (g) this Circular states that the waiver granted by SIC to the Concert Parties Shareholders and parties acting in concert with them from the requirements to make a general offer under Rule 14 of the Code is subject to the conditions stated in (a) to (f) of this Section 6.4;
- (h) the Company obtains SIC's approval in advance for those parts of this Circular that refer to the Whitewash Resolution; and
- (i) to rely on the Whitewash Resolution, the acquisition of Rights Shares by the Concert Parties Shareholders pursuant to the Rights Issue must be completed within three (3) months of the date of approval of the Whitewash Resolution.

As at the Latest Practicable Date, conditions (e), (f), (g) and (h) imposed by the SIC as set out above have been satisfied.

6.5 Advice of Independent Financial Adviser

Pursuant to the SIC Conditions, the IFA, Asian Corporate Advisors Pte. Ltd. has been appointed as the independent financial adviser to advise Independent Directors on the Whitewash Resolution.

A copy of the letter from the IFA to the Independent Directors in relation to the Whitewash Resolution is set out in the **Appendix**. **You are advised to read the letter carefully.**

Taking into consideration the factors set out in its letter and subject to the matters set out therein, the IFA is of the view that the Whitewash Resolution, when considered in the context of the Rights Issue, is not prejudicial to the interests of Independent Shareholders. **Accordingly, the IFA has advised Independent Directors to recommend that Independent Shareholders vote in favour of the Whitewash Resolution to be proposed at the EGM.**

Shareholders are advised to read the IFA letter set out in the Appendix of this Circular in full and consider carefully the recommendations of Independent Directors for the Whitewash Resolution set out in Section 13.2 of this Circular.

6.6 Advice to Independent Shareholders in relation to the Whitewash Resolution

Independent Shareholders should note that:

- (a) **by voting for the Whitewash Resolution (Ordinary Resolution 2), they will be waiving their rights to receive a Mandatory Offer from the Concert Parties Shareholders at the highest price paid by the Concert Parties Shareholders and their concert parties for the Shares in the past six (6) months preceding the commencement of the Mandatory Offer;**
- (b) **the acquisition of the Rights Shares by the Concert Parties Shareholders may result in the Concert Parties Shareholders and their concert parties holding Shares carrying over 49.0% of the voting rights of the Company based on its enlarged total number of issued Shares, and the Concert Parties Shareholders and their concert parties will be free to acquire further Shares without incurring any obligation under Rule 14 of the Code to make a Mandatory Offer; and**

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- (c) the Irrevocable Undertakings and the Rights Issue are conditional upon the approval of the Whitewash Resolution by the Independent Shareholders. In view of this, in the event that the Whitewash Resolution is not passed by the Independent Shareholders, the Irrevocable Undertakings will not take effect and the Rights Issue will not take place.

7. POTENTIAL TRANSFER OF CONTROLLING INTEREST

The subscription of the Rights Shares entitlements in full by each of the Affected Substantial Shareholders, namely Mdm Teresa Tan, Mr Chen and Ms Josca Woo pursuant to their Irrevocable Undertakings may potentially result in a transfer of controlling interest in the Company to each of them in the event that there is insufficient subscription of the Rights Shares entitlements and/or applications for excess Rights Shares by Shareholders other than the Undertaking Shareholders ("**Under-subscribed Scenario**").

Rule 803 of the Catalist Rules provides that an issuer must not issue securities to transfer a controlling interest without the prior approval of shareholders in general meeting. Accordingly, the Company seeks specific approval of Shareholders at the EGM for the Company to allot and issue to each of the Affected Substantial Shareholders Rights Shares up to the number of their respective Rights Shares entitlements to the extent that such issue of Rights Shares constitutes a transfer of controlling interest to such Affected Substantial Shareholder(s) pursuant to Rule 803 of the Catalist Rules in an Under-subscribed Scenario ("**Potential Transfer of Controlling Interest**").

In the event that any of the Affected Substantial Shareholders apply for excess Rights Shares, the allotment and issue of excess Rights Shares pursuant to such excess Rights Shares applications may potentially result in a transfer of controlling interest to him/her for which the Company is required to seek specific Shareholders' approval. Accordingly, each of the Affected Substantial Shareholders has confirmed in writing to the Company that he/she will not be making any excess application for Rights Shares so as to avoid a situation where the Company has to seek Shareholders' approval for the specific allotment and issue to them of any excess Rights Shares.

For the avoidance of doubt, regardless of whether Shareholders' approval is obtained for Ordinary Resolution 3 relating to the Potential Transfer of Controlling Interest, the Company may, subject to all applicable regulations and compliance with other conditions of the Rights Issue, issue such number of Rights Shares to each Affected Substantial Shareholder to the extent that such issue does not result in a transfer of a controlling interest in the Company to him/her under Rule 803 of the Catalist Rules. As Ordinary Resolution 1 is not conditional upon Ordinary Resolution 3, the Company may elect to proceed with the Rights Issue in the event that Ordinary Resolution 3 is not approved by Shareholders subject to the Company's compliance with Rule 803 of the Catalist Rules as set out above.

The actual number of Rights Shares to be issued to the Affected Substantial Shareholders will be determined by the overall subscription rate for the Rights Shares at the close of the Rights Issue.

8. OFFER INFORMATION STATEMENT

An Offer Information Statement will be despatched to Entitled Shareholders after approval from Shareholders for the Rights Issue has been obtained at the EGM. Acceptances and applications under the Rights Issue may only be made on the following (all of which will form part of the Offer Information Statement):

- (i) the PAL, in the case of Entitled Scripholders whose Shares are registered in their own names;
- (ii) the ARE, or through the ATMs of the Participating Banks, in the case of Entitled Depositors; and/or

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- (iii) the ARS, or through the ATMs of the Participating Banks, in the case of persons purchasing provisional allotment of Shares through the book-entry (scripless) settlement system and whose registered addresses with CDP are in Singapore.

9. DEED OF SET-OFF

Mr George Chew, the Director and controlling shareholder of the Company had, during the period between October 2010 and March 2014, made loan advances to the Company for working capital purposes of the Group. The amount outstanding to Mr George Chew between October 2010 and the Latest Practicable Date ranged between S\$158,513.00 and approximately S\$3,031,863.00. No interest has been paid to Mr George Chew in relation to such loan advances. Part of the loan advances had been repaid and as at the Latest Practicable Date, the loan amount outstanding to Mr George Chew is S\$1,005,504.00 ("**Outstanding SHI Loan**").

On 22 May 2014, the Company, SD, Mr George Chew and Mdm Teresa Tan entered into a conditional deed, which was modified by a deed supplemental thereto entered into between the same parties on 29 July 2014 (collectively, "**Deed of Set-Off**"), on, *inter alia*, the following terms:

- (a) Mr George Chew and Mdm Teresa Tan irrevocably undertake to the Company to, amongst other things, subscribe and/or cause to be subscribed for and on his/her behalf, their respective entitlements of the Rights Shares;
- (b) the Company agrees, in consideration of the undertaking of Mr George Chew and Mdm Tan as set forth above, and at the request of Mr George Chew, that Mr George Chew may set-off the subscription monies payable by him and Mdm Teresa Tan for the subscription of their respective entitlements of the Rights Shares against the Outstanding SHI Loan and, if the IPT Approvals are obtained for the Proposed SHI Interest Payment, the SHI Interest payable by the Company to Mr George Chew;
- (c) in the event that the IPT Approvals are not obtained for the Proposed SHI Interest Payment, the Outstanding SHI Loan will be set-off firstly towards payment in full for Mdm Teresa Tan's subscription for her Rights Shares entitlement, and the balance will then be set-off towards partial payment for Mr George Chew's subscription for his Rights Shares entitlement. The Shortfall, being the balance subscription monies of S\$184,650.00 payable in respect of Mr George Chew's subscriptions for his Rights Shares entitlement after off-setting the Outstanding SHI Loan, will be paid in cash; and
- (d) the Company agrees that if Mr George Chew applies for and is allotted any excess Rights Shares in accordance with the terms of the Rights Issue and any applicable Catalist Rules, subject to the IPT Approvals being obtained for the Proposed SHI Interest Payment, any balance SHI Interest not otherwise utilised to satisfy Mr George Chew's subscriptions of his Rights Shares entitlements, will be utilised towards setting-off an equivalent amount of the subscription monies payable in respect of any excess Rights Shares application by Mr George Chew. For the avoidance of doubt, to the extent that any such balance SHI Interest is not sufficient to satisfy excess Rights Shares application by Mr George Chew, the balance subscription monies for such excess Rights Shares application will be paid in cash.

The obligations of the parties as set forth above shall be subject to the conditions for the Rights Issue as enumerated in Section 2.3 of this Circular, being fulfilled and complied with.

For the avoidance of doubt, the Outstanding SD Loan and Proposed SD Interest Payment payable by SD will not be set-off against any part of the subscription monies payable by Mr George Chew and Mdm Teresa Tan for their Rights Shares entitlements. The Outstanding SHI Loan will be utilised in full to set off the subscription monies payable for all of Mdm Teresa Tan's Rights Shares entitlements and part of Mr George Chew's Rights Shares entitlements before any part of the Proposed SHI Interest Payment is utilised for the purpose of any such set-off.

LETTER TO SHAREHOLDERS

10. PROPOSED IPT

10.1 Chapter 9 of the Catalist Rules

Chapter 9 of the Catalist Rules governs transactions by a listed company, as well as transactions by its subsidiaries and associated companies that are considered to be at risk, with the listed company's interested persons. When this Chapter applies to a transaction and the value of that transaction alone or on aggregation with other transactions conducted with the interested person during the same financial year reaches, or exceeds, certain materiality thresholds, the listed company is required to make an immediate announcement, or to make an immediate announcement and seek its shareholders' approval for that transaction.

Except for certain transactions which, by reason of the nature of such transactions, are not considered to put the listed company at risk to its interested persons and hence are excluded from the ambit of Chapter 9 of the Catalist Rules, immediate announcement and shareholders' approval would be required in respect of transactions with interested persons if certain financial thresholds (which are based on the value of the transaction as compared with the listed company's latest audited consolidated NTA) are reached or exceeded. In particular, shareholders' approval is required for an interested person transaction of a value equal to, or exceeding:

- (i) 5% of the listed company's latest audited consolidated NTA; or
- (ii) 5% of the listed company's latest audited consolidated NTA, when aggregated with other transactions entered into with the same interested person (as such term is construed under Chapter 9 of the Catalist Rules) during the same financial year.

Rule 909(3) of the Catalist Rules further provides that in the case of borrowing of funds from an interested person, the value of the transaction is the amount of interest payable on the borrowing.

10.2 Proposed SHI Interest Payment

Subject to the IPT Approvals being obtained for the Proposed SHI Interest Payment, under the Deed of Set-Off, the Company has agreed to pay Mr George Chew, interest at the rates set forth below on the loan advances made by Mr George Chew to the Company during the period when such loan advances were and/or remain outstanding. Brief particulars of the loan advances and the proposed interest payment to the Company ("**Proposed SHI Interest Payment**"), are set out below:

FY	Loan Amount Outstanding		SHI Interest	
	Lowest S\$	Highest S\$	Interest Rate Per annum	SHI Interest Amount S\$
2010	158,513.00	300,000.00	5.28%	3,358.07
2011	273,513.00	1,163,963.00	5.28%	50,627.55
2012	2,147,463.00	3,016,563.00	5.28%	151,438.55
2013	998,000.00	3,031,863.00	5.28% and 5.68%	83,117.87
1 January 2014 to 30 April 2014	984,000.00	1,005,504.00	5.68% and 6.65%	21,038.11
1 May 2014 until repayment	1,005,504.00		Applicable Interest Rate	— ⁽¹⁾

Notes:

- (1) The amount of interest payable for the period from 1 May 2014 will be computed up to the date of payment of the Outstanding SHI Loan.

LETTER TO SHAREHOLDERS

Based on the proposed interest rates set forth above, the amount of interest proposed to be paid by the Company to Mr George Chew on, and for the duration when such loan advances were outstanding to Mr George Chew up to, 30 April 2014, is approximately S\$309,580.00 (“**SHI Interest**”). The SHI Interest is proposed to be paid on the Outstanding SHI Loan based on the actual interest cost rate incurred by Mr George Chew plus 4.0% per annum (“**Applicable Interest Rate**”) for the period after 30 April 2014 until such time when the Outstanding SHI Loan is fully repaid. The Outstanding SHI Loan will be fully repaid when the amount is fully set-off against the subscription monies payable for Mr George Chew’s and Mdm Teresa Tan’s Rights Shares entitlements upon completion of the Rights Issue.

The proposed interest rates on the Outstanding SHI Loan for the period prior to 1 May 2014 is arrived at based on the actual interest cost rates incurred by Mr George Chew plus 4.0% per annum.

10.3 Proposed SD Interest Payment

Mr George Chew had, during the period between June 2012 and March 2014, made loan advances to SD for working capital purposes of SD. The amount outstanding to Mr George Chew by SD between June 2012 and the Latest Practicable Date ranged between S\$50,000.00 and approximately S\$578,060.00. No interest has been paid to Mr George Chew in relation to such loan advances. As at the Latest Practicable Date, the loan amount outstanding to Mr George Chew by SD is S\$578,060.00 (“**Outstanding SD Loan**”).

Subject to the IPT Approvals being obtained for the Proposed SD Interest Payment, the Company is proposing that SD pays interest at the rates set forth below on the loan advances made by Mr George Chew to SD during the period when such loan advances were and/or remain outstanding. Brief particulars of the loan advances made by Mr George Chew to SD and the proposed interest payment by SD to Mr George Chew (“**Proposed SD Interest Payment**”), are set out below:

FY	Loan Amount Outstanding		SD Interest	
	Lowest S\$	Highest S\$	Interest Rate Per annum	SHI Interest Amount S\$
2012	50,000.00	240,500.00	5.28%	4,751.87
2013	237,265.00	578,060.00	5.28% and 5.68%	20,586.61
1 January 2014 to 30 April 2014	578,060.00	578,060.00	5.68% and 6.65%	12,161.89
1 May 2014 until repayment	578,060.00		Applicable Interest Rate	— ⁽¹⁾

Note:

- (1) The amount of interest payable for the period from 1 May 2014 will be computed up to the date of payment of the Outstanding SD Loan.

Based on the proposed interest rates set forth above, the amount of interest proposed to be paid to Mr George Chew on, and for the duration when such loan advances were outstanding by SD to Mr George Chew up to, 30 April 2014, is approximately S\$37,500.00 (“**SD Interest**”). The SD Interest is proposed to be paid on the Outstanding SD Loan at the Applicable Interest Rate for the period after 30 April 2014 until such time when the Outstanding SD Loan is fully repaid.

The proposed interest rates on the Outstanding SD Loan for the period prior to 1 May 2014 is arrived at based on the actual interest cost rates incurred by Mr George Chew plus 4.0% per annum.

LETTER TO SHAREHOLDERS

10.4 Rationale for the Proposed Interest Payment

Mr George Chew had during the relevant period when the Company was in need of financial support, made loan advances to the Company for its working capital requirements. The amount of loan advances made to the Company ranged between S\$158,513.00 and S\$3,031,863.00, and the amount of loan advances made to SD ranged between S\$50,000.00 and S\$578,060.00. The loan advances were financed by a combination of Mr George Chew's personal credit facilities from banks and funds raised from disposal of his personal investment assets. Mr George Chew personally paid interests to the banks in relation to funds drawn from his personal credit facilities.

As a result of Mr George Chew's loan advances, the Group had been less reliant on other external sources of funding. In addition, the effective rates of interest incurred by the Group on loans that it had been able to procure from third party bank/lender in FY2010, FY2011 and FY2013 were generally higher (but lower in FY2012) than the rates of interest proposed to be paid to Mr George Chew as set out in Sections 10.2 and 10.3.

The Proposed SHI Interest Payment and Proposed SD Interest Payment (collectively, "**Proposed Interest Payment**") are to compensate Mr George Chew for his interests and opportunity costs.

10.5 Proposed Interest Payment as an interested person transaction

Mr George Chew is an "interested person" and the Proposed Interest Payment is an "interested person transaction" for the purposes of Chapter 9 of the Catalyst Rules ("**Proposed IPT**").

The Proposed SHI Interest Payment will result in the payment of an interest amount of at least S\$309,580.00 to Mr George Chew. The Proposed SD Interest Payment will result in the payment of an interest amount of at least S\$37,500.00 to Mr George Chew. The Proposed SD Interest Payment is aggregated with the Proposed SHI Interest Payment for the purpose of determining whether Shareholders' approval is required as both interest payments are made to the same interested person in the same financial year.

The Proposed Interest Payment amount aggregates approximately S\$347,080.00, representing approximately 25.08% of the Company's latest audited consolidated NTA for FY2013. As the Proposed Interest Payment exceeds 5% of the Company's latest audited consolidated NTA, the Proposed Interest Payment is subject to the approval of Independent Shareholders in accordance with Rule 906 of the Catalyst Rules.

The Company will seek Shareholders' approval for the Proposed IPT in the EGM.

Other than the Outstanding SHI Loan and the Outstanding SD Loan, the Group has not entered into any interested person transaction with Mr George Chew or with any of the Company's interested persons during the current financial year.

10.6 Advice of Independent Financial Adviser

The IFA, Asian Corporate Advisors Pte. Ltd. has been appointed as the independent financial adviser to advise Independent Directors on the Proposed IPT.

A copy of the letter from the IFA to the Independent Directors in relation to the Proposed IPT is set out in the **Appendix**. **You are advised to read the letter carefully.**

Taking into consideration the factors set out in its letter, the IFA is of the view that the Proposed IPT in terms of the interest rates payable is on normal commercial terms and is not prejudicial to the interest of the Company and the Independent Shareholders. **Accordingly, the IFA has advised Independent Directors to recommend that Independent Shareholders vote in favour of the Proposed IPT to be proposed at the EGM.**

Shareholders are advised to read the IFA letter set out in the Appendix of this Circular in full and consider carefully recommendations of Independent Directors for the Proposed IPT set out in Section 13.4 of this Circular.

LETTER TO SHAREHOLDERS

11. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

The interests of the Directors and Substantial Shareholders in the Company as at the Latest Practicable Date, based on the Register of Directors' Shareholdings and the Register of Substantial Shareholders, are as follows:-

	Direct Interest		Deemed Interest		Total Interest	
	No. of Shares	% ⁽¹⁾	No. of Shares	% ⁽¹⁾	No. of Shares	% ⁽¹⁾
Directors						
George Chew	49,561,284	15.83	35,449,716 ⁽²⁾	11.33 ⁽²⁾	85,011,000	27.16
Steven Chew	9,200,000	2.94	—	—	9,200,000	2.94
Ng Boon Huan Daniels	350,000	0.11	—	—	350,000	0.11
Chin Sek Peng Michael	60,000	0.02	—	—	60,000	0.02
Tan Eng Kiat Dominic	—	—	—	—	—	—
Substantial Shareholders						
Teresa Tan	35,449,716	11.33	—	—	35,449,716	11.33
Josca Woo	37,500,000	11.98	—	—	37,500,000	11.98
Chen Weiping	37,500,000	11.98	—	—	37,500,000	11.98

Notes:-

- (1) The shareholding percentages have been calculated based on the Existing Share Capital of 313,000,000 Shares as at the Latest Practicable Date.
- (2) Mr George Chew is deemed to be interested in the Shares held by Mdm Teresa Tan under Section 164 of the Companies Act (Cap. 50) by virtue of their spousal relationship.

Save as disclosed in this Circular, none of the Directors or Substantial Shareholders has any interest, direct or indirect, in the above transactions other than their respective shareholdings in the Company.

12. OPINION OF AUDIT COMMITTEE

Having reviewed, *inter alia*, the terms and rationale for the Proposed IPT, as well as the opinion and advice of the IFA, the Audit Committee concurs with the opinion of the IFA and is of the view that the Proposed IPT in terms of the interest rates payable is on normal commercial terms and is not prejudicial to the interests of the Company and Independent Shareholders.

13. DIRECTORS' RECOMMENDATION

13.1 Rights Issue

The Directors (save for Mr George Chew and Mr Steven Chew who have abstained from making any recommendations in view of the take-over consequences as set out in this Circular), having fully considered the basis of the Rights Issue, the principal terms of the Rights Issue, the purpose of the Rights Issue and the use of proceeds, and the financial effects of the Rights Issue as set out in this Circular, believe that the Rights Issue is in the best interests of the Company. Accordingly, they recommend that Shareholders vote in favour of Ordinary Resolution 1 relating to this matter to be proposed at the EGM as set out in pages N-1 to N-2 of this Circular.

LETTER TO SHAREHOLDERS

13.2 Whitewash Resolution

Mr George Chew and Mr Steven Chew are Concert Parties Shareholders. Being interested in the outcome of the Whitewash Resolution, they are not independent and have thus abstained from making any recommendation on the Whitewash Resolution. The Independent Directors, namely Mr Chin Sek Peng Michael, Mr Ng Boon Huan Daniels and Mr Tan Eng Kiat Dominic, are not interested in the outcome of the Whitewash Resolution and are independent in relation to the Whitewash Resolution.

Taking into account the opinion of the IFA in its letter set out in the **Appendix**, the Independent Directors are of the opinion that the Whitewash Resolution, when considered in the context of the Rights Issue, is not prejudicial to the interests of the Independent Shareholders. Accordingly, the Independent Directors recommend that Independent Shareholders vote in favour of Ordinary Resolution 2 relating to this matter to be proposed at the EGM as set out in page N-2 of this Circular.

13.3 Potential Transfer of Controlling Interest

Having considered, *inter alia*, the rationale for the Rights Issue, the terms and conditions of the Rights Issue, the terms of the Irrevocable Undertakings by the Affected Substantial Shareholders and the financial effects of the Rights Issue as set out in this Circular, the Directors (save for Mr George Chew and Mr Steven Chew who are considered to be associates of Mdm Teresa Tan) are of the opinion that the Potential Transfer of Controlling Interest is in the interests of the Company. Accordingly, they recommend that Shareholders vote in favour of Ordinary Resolution 3 relating to this matter to be proposed at the EGM as set out in page N-2 of this Circular.

13.4 Proposed IPT

Mr George Chew is an “interested person” in respect of the Proposed IPT for the purposes of Chapter 9 of the Catalist Rules, and Mr Steven Chew is an associate of Mr George Chew. Being interested in the outcome of the Proposed IPT, they are not independent and have thus abstained from making any recommendation on the Proposed IPT. The Independent Directors, namely Mr Chin Sek Peng Michael, Mr Ng Boon Huan Daniels and Mr Tan Eng Kiat Dominic, are not interested in the outcome of the Proposed IPT and are independent in relation to the Proposed IPT.

Taking into account the opinion of the IFA in its letter set out in the **Appendix**, the Independent Directors are of the opinion that the Proposed IPT in terms of the interest rates payable is on normal commercial terms and is not prejudicial to the interests of the Company and the Independent Shareholders. Accordingly, the Independent Directors recommend that Independent Shareholders vote in favour of Ordinary Resolution 4 relating to this matter to be proposed at the EGM as set out in page N-2 of this Circular.

Subject to the approval of Independent Shareholders, the Independent Directors have after taking into consideration the opinion of the IFA in its letter set out in the **Appendix**, approved the Proposed Interest Payment.

13.5 Note to Shareholders

Shareholders, in deciding whether to vote in favour of the Ordinary Resolutions 1, 2, 3 and 4, should read carefully the terms and conditions, rationale and financial effects of the Rights Issue, the Proposed IPT and the IFA’s advice in relation to the Whitewash Resolution and the Proposed IPT which should be considered in the context of the entirety of the IFA letter as set out in the Appendix and this Circular. In giving the above recommendations, the Directors have not had regard to the specific investment objectives, financial situation, tax position or unique needs or constraints of any individual Shareholder. As Shareholders would have different investment objectives, the Directors recommend that any Shareholder who may require specific advice in relation to his or her specific investment objectives or portfolio should consult his or her stockbroker, bank, solicitor, accountant, tax adviser or other professional advisers. Shareholders are advised to exercise caution in their decision in relation to the Whitewash Resolution and the resolution for the Proposed IPT.

LETTER TO SHAREHOLDERS

14. EXTRAORDINARY GENERAL MEETING

The EGM, notice of which is set out on pages N-1 to N-3 of this Circular, will be held on 25 August 2014, at 9.30 a.m. at 15 Hillview Terrace Singapore 669226, for the purpose of considering, and if thought fit, passing with or without any modifications, the Ordinary Resolutions 1, 2, 3 and 4 set out in the notice of EGM.

15. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who are unable to attend the EGM and who wish to appoint a proxy to attend and vote at the EGM on their behalf should complete, sign and return the proxy form attached to the notice of EGM in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the Company's registered office not less than 48 hours before the time fixed for the EGM. The completion and return of the proxy form by such Shareholder will not prevent him from attending the EGM and voting in person in place of his proxy should he subsequently wish to do so. Only Shareholders whose names are entered on the Register of Members of the Company will receive a proxy form with this Circular. A proxy need not be a Shareholder of the Company.

16. ABSTENTION FROM VOTING

Pursuant to the SIC Conditions, the Concert Parties Shareholders, parties acting in concert with them and parties not independent of the Concert Parties Shareholders will abstain from voting on Ordinary Resolution 2 in respect of the Whitewash Resolution, and shall not accept nomination as proxy, corporate representative or attorney, unless the Shareholder(s) appointing them indicate clearly how votes are to be cast in respect of such resolution.

Mr George Chew will abstain, and has undertaken to ensure his associates will abstain from voting on Ordinary Resolution 4 in respect of the Proposed IPT at the EGM as an interested person transaction, and shall not accept nominations as proxy, corporate representative or attorney, unless the Shareholder(s) appointing them indicate clearly how votes are to be cast in respect of such resolution.

17. BOOKS CLOSURE DATE

The Books Closure Date for the purpose of determining Entitled Shareholders' entitlements under the Rights Issue will be announced at a later date.

18. 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 Rights Issue, the Whitewash Resolution, the Potential Transfer of Controlling Interest, the Proposed IPT, 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 the 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 the Circular in its proper form and context.

19. CONSENT

The IFA has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name herein and of its letters to the Independent Directors in respect of the Whitewash Resolution and the Proposed IPT and all references thereto, in the form and context in which they appear in this Circular.

LETTER TO SHAREHOLDERS

20. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected by Shareholders at the registered office of the Company at 15 Hillview Terrace Singapore 669226 during normal business hours on any weekday (public holidays excepted) from the date of this Circular up to the date of the EGM:-

- (a) the Memorandum and Articles of Association of the Company;
- (b) the annual reports of the Company for FY2011, FY2012 and FY2013;
- (c) the Deed of Undertaking referred to in Section 5.2 of this Circular;
- (d) the Deed of Set-Off referred to in Section 9 of this Circular;
- (e) the IFA's letter of consent referred to in Section 19 of this Circular; and
- (f) the letter from the IFA to the Independent Directors dated 8 August 2014 in respect of the Whitewash Resolution and the Proposed IPT as set out in the **Appendix**.

21. COLLECTION, USE AND DISCLOSURE OF PERSONAL DATA

For the purposes of implementing and administering the Rights Issue, and in order to comply with any applicable laws, listing rules, regulations and/or guidelines, the Company will collect, use and disclose the personal data of Entitled Shareholders, as contained in each ARE, ARS, PAL and/or any other notice or communication given or received pursuant to the Rights Issue, and/or which is otherwise collected from Entitled Shareholders (or their authorised representatives). Entitled Shareholders should note that by participating in the Rights Issue, each Entitled Shareholder (a) consents to the collection, use and disclosure of his personal data for all such purposes, including disclosure of data to related corporations of the Company and/or third parties who provide services to the Company (whether within or outside Singapore), and to the collection, use and further disclosure by such parties for such purposes; (b) warrants that where he discloses the personal data of third parties to the Company in connection with the Rights Issue, he has obtained the prior consent of such third parties for the Company to collect, use and disclose their personal data for the abovementioned purposes, in accordance with any applicable laws, regulations and/or guidelines; and (c) shall indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the Entitled Shareholder's breach of this warranty.

Yours faithfully

For and on behalf of the Board of Directors of
SITRA HOLDINGS (INTERNATIONAL) LIMITED

Chew Ah Ba George
Executive Chairman & Chief Executive Officer

APPENDIX
**LETTER FROM ASIAN CORPORATE ADVISORS PTE. LTD. TO THE INDEPENDENT
DIRECTORS IN RESPECT OF THE WHITEWASH RESOLUTION AND THE PROPOSED IPT**

**LETTER FROM ASIAN CORPORATE ADVISORS PTE. LTD.
TO THE INDEPENDENT DIRECTORS OF THE COMPANY**

ASIAN CORPORATE ADVISORS PTE. LTD.

(Incorporated in the Republic of Singapore)
(Company Registration No: 200310232R)

112 Robinson Road #03-02
Singapore 068902

To:
The Independent Directors
Sitra Holdings (International) Limited
15 Hillview Terrace
Singapore 669226

8 August 2014

- (A) **THE PROPOSED WHITEWASH RESOLUTION FOR THE WAIVER OF THE RIGHTS OF THE INDEPENDENT SHAREHOLDERS OF THE COMPANY (AS DEFINED HEREIN) TO RECEIVE A MANDATORY GENERAL OFFER FROM THE CONCERT PARTIES SHAREHOLDERS (AS DEFINED HEREIN) FOR ALL THE ISSUED SHARES IN THE CAPITAL OF THE COMPANY NOT ALREADY OWNED OR CONTROLLED BY THE CONCERT PARTIES SHAREHOLDERS AS A RESULT OF THE RIGHTS ISSUE (THE “WHITEWASH RESOLUTION”); AND**
- (B) **PROPOSED INTEREST PAYMENT ON LOANS GRANTED BY DIRECTOR AND CONTROLLING SHAREHOLDER, MR CHEW AH BA GEORGE (“MR GEORGE CHEW”) TO THE COMPANY AND ITS SUBSIDIARY (THE “PROPOSED IPT”)**

Unless otherwise defined or where the context otherwise requires, the definition used in the Circular (defined herein) shall apply throughout this Letter.

1. INTRODUCTION

Asian Corporate Advisors Pte. Ltd. (“**ACA**”) has been appointed as an independent financial adviser (“**IFA**”) to the directors of Sitra Holdings (International) Limited (“**Sitra**” or the “**Company**”) who are considered independent (“**Independent Directors**”) for the purposes of making the recommendation in relation to the Whitewash Resolution and the Proposed IPT. We note from the circular dated 8 August 2014 (“**Circular**”) to be issued by the Company to the registered holders (“**Shareholders**”) of the ordinary shares (“**Shares**”) in the capital of the Company that the Independent Directors for the Whitewash Resolution and the Proposed IPT comprise namely Mr Chin Sek Peng Michael, Mr Ng Boon Huan Daniels and Mr Tan Eng Kiat Dominic.

This letter (“**Letter**” or “**IFA Letter**”) sets out, *inter alia*, our views and evaluation of the Whitewash Resolution which has been proposed as an ordinary resolution in the notice of the extraordinary general meeting (“**EGM**”) of the Company as set out in the Circular to the Shareholders, which if passed by Shareholders other than (i) Mr George Chew, Mdm Teresa Tan, Mr Chew Chiew Siang Steven (“**Mr Steven Chew**”) and Ms Josca Woo Kong Hwa (“**Ms Josca Woo**”) (collectively, the “**Concert Parties Shareholders**”); (ii) parties acting in concert with the Concert Parties Shareholders; and (iii) parties not independent of the persons mentioned in (i) and (ii) above, would result in a waiver by the Independent Shareholders (defined later) of their rights to receive a mandatory general offer (the “**Mandatory Offer**”) from the Concert Parties Shareholders and parties acting in concert with them in connection with the Rights Issue (defined later). Likewise, it contains our recommendations to the Independent Directors in relation to the Whitewash Resolution.

APPENDIX

LETTER FROM ASIAN CORPORATE ADVISORS PTE. LTD. TO THE INDEPENDENT DIRECTORS IN RESPECT OF THE WHITEWASH RESOLUTION AND THE PROPOSED IPT

In addition, this Letter sets out, *inter alia*, our views and evaluation of the Proposed IPT, which is being proposed as an ordinary resolution in the notice of EGM as set out in the Circular. The Proposed IPT will be subject to the approval by Shareholders other than Mr George Chew and his associates. Likewise, it contains our recommendations to the Independent Directors on whether the Proposed IPT is carried out on normal commercial terms and will not be prejudicial to the interest of the Company and its minority Shareholders.

This Letter is prepared for inclusion in the Circular in connection with, *inter alia*, the Whitewash Resolution and the Proposed IPT. For the purposes of this Letter, references to the Independent Shareholders shall in the context of: (a) the Whitewash Resolution mean Shareholders other than (i) the Concert Parties Shareholders; (ii) parties acting in concert with the Concert Parties Shareholders; and (iii) parties not independent of the persons mentioned in (i) and (ii) above; and (b) the Proposed IPT, Shareholders other than Mr George Chew and his associates. Unless otherwise defined or where the context otherwise requires, the definition used in the Circular shall apply throughout this Letter. Certain of the figures and computations as enumerated or set out in this Letter are based on approximations and its accuracy is subject to rounding.

1.1 Background – The Rights Issue and the Whitewash Resolution

On 23 May 2014, the Company announced, *inter alia*, that it was proposing a renounceable, non-underwritten rights issue of up to 438,200,000 new Shares (“**Rights Shares**”) in the issued and paid-up capital of the Company, at an issue price of S\$0.01 for each Rights Share (“**Issue Price**”) on the basis of seven (7) Rights Shares for every five (5) existing Shares held by Shareholders as at a date and time to be determined by the Directors (defined later) for the purpose of determining the entitlements of entitled Shareholders (“**Books Closure Date**”), fractional entitlements to be disregarded (the “**Rights Issue**”).

The Rights Shares will, upon allotment and issue, rank *pari passu* in all respects with the then existing Shares, save for any dividends, rights, allotments or other distributions, the Record Date for which falls before the date of issue of the Rights Shares.

As at 29 July 2014 (the “**Latest Practicable Date**”):

- (a) Mr George Chew held an aggregate of 49,561,284 Shares, representing approximately 15.83% of the aggregate number of issued Shares. Accordingly, Mr George Chew will be entitled to subscribe for an aggregate of 69,385,797 Rights Shares;
- (b) Mdm Teresa Tan held an aggregate of 35,449,716 Shares, representing approximately 11.33% of the aggregate number of issued Shares. Accordingly, Mdm Teresa Tan will be entitled to subscribe for an aggregate of 49,629,602 Rights Shares;
- (c) Mr Steven Chew held an aggregate of 9,200,000 Shares, representing approximately 2.94% of the aggregate number of issued Shares. Accordingly, Mr Steven Chew will be entitled to subscribe for an aggregate of 12,880,000 Rights Shares;
- (d) Mr Chen Weiping (“**Mr Chen**”) held an aggregate of 37,500,000 Shares, representing approximately 11.98% of the aggregate number of issued Shares. Accordingly, Mr Chen will be entitled to subscribe for an aggregate of 52,500,000 Rights Shares; and
- (e) Ms Josca Woo held an aggregate of 37,500,000 Shares, representing approximately 11.98% of the aggregate number of issued Shares. Accordingly, Ms Josca Woo will be entitled to subscribe for an aggregate of 52,500,000 Rights Shares.

APPENDIX
**LETTER FROM ASIAN CORPORATE ADVISORS PTE. LTD. TO THE INDEPENDENT
DIRECTORS IN RESPECT OF THE WHITEWASH RESOLUTION AND THE PROPOSED IPT**

As an indication of their support and commitment to the Company,

- (a) Mr Steven Chew, Mr Chen and Ms Josca Woo, have each executed a deed of undertaking dated 21 May 2014 ("**Deed of Undertaking**") pursuant to which they have each given an irrevocable undertaking to the Company to, amongst other things, subscribe and/or cause to be subscribed for and on his/her behalf, their respective entitlements of the Rights Shares subject to, *inter alia*, the Whitewash Waiver (defined later) being obtained from the Securities Industry Council of Singapore ("**SIC**") and the passing of the Whitewash Resolution at the EGM; and
- (b) Mr George Chew and Mdm Teresa Tan have pursuant to the Deed of Set-Off (defined later) and subject to the terms and conditions therein contained, including the Whitewash Waiver being obtained from the SIC and the passing of the Whitewash Resolution at the EGM, each given an irrevocable undertaking to the Company to, amongst other things, subscribe and/or cause to be subscribed for and on his/her behalf, their respective entitlements of the Rights Shares,

(collectively, the "**Irrevocable Undertakings**").

Mr George Chew, Mdm Teresa Tan, Mr Steven Chew, Mr Chen and Ms Josca Woo are referred as the "**Undertaking Shareholders**".

In addition, each of Mr Steven Chew, Mr Chen, Ms Josca Woo, Mr George Chew and Mdm Teresa Tan have, in their respective Deeds of Undertaking or Deed of Set-Off, as the case may be, undertaken:

- (a) not to sell, transfer or otherwise deal with their respective shareholdings in the Company between the date of their respective undertakings and until the issue of the Rights Shares; and
- (b) to vote, and procure that their respective representatives and proxies will vote all their Shares and any further Shares which he/she may subsequently own or control in favour of the Rights Issue (other than those resolutions which he/she is required by the Company to abstain from voting).

Mr Steven Chew, Mr Chen and Ms Josca Woo have in their respective Deed of Undertaking confirmed to the Company that he/she has sufficient financial resources to subscribe for or procure the subscription in full of all his/her Rights Shares entitlements and Mr George Chew has in the Deed of Set-Off confirmed that he has sufficient financial resources to make payment of the Shortfall.

In relation to the subscriptions by the Director and controlling shareholder, Mr George Chew and his wife, Mdm Teresa Tan for their pro rata entitlements of the Rights Shares, pursuant to the Deed of Set-Off, the payment for Mr George Chew's and Mdm Teresa Tan's subscriptions of their Rights Shares entitlements will be set-off against the Outstanding SHI Loan (defined below) owing by the Company to Mr George Chew. Subject to the Company obtaining the approval of Independent Directors and Independent Shareholders for the Proposed SHI Interest Payment (defined later) (collectively, "**IPT Approvals**") and to the extent that the amount of the Outstanding SHI Loan is insufficient to satisfy payment for Mr George Chew's subscription for his Rights Shares entitlement ("**Shortfall**"), the payment for the Shortfall shall be set-off against the SHI Interest payable to Mr George Chew. If any of the IPT Approvals is not obtained for the Proposed SHI Interest Payment, Mr George Chew will make payment of the Shortfall in cash. Please refer to Sections 9 and 10 of the Circular for more details.

Under Rule 14 of the Singapore Code on Take-overs and Mergers ("**Code**"), when a person together with persons acting in concert with him, holds not less than 30.0% but not more than 50.0% of the voting rights and such person, or any person acting in concert with him, acquires in any period of six (6) months additional Shares carrying more than 1.0% of the voting rights, he must extend offers immediately to the holders of any class of share capital of the Company that carries votes and in which such person, or persons acting in concert with him, hold shares.

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As the Concert Parties Shareholders hold in aggregate not less than 30.0% but not more than 50.0% of the voting rights of the Company, in the event that the Undertaking Shareholders subscribe for, or cause to be subscribed for and on their behalf, their respective entitlements of Rights Shares in full pursuant to the Irrevocable Undertakings but the Rights Issue is not fully subscribed, depending on the level of subscription for the Rights Shares by other entitled depositors and entitled scripholders ("**Entitled Shareholders**"), such under-subscribed scenario may result in the aggregate voting rights of the Concert Parties Shareholders in the Company after the Rights Issue increasing by more than 1.0% within a six (6) month period thereby incurring an obligation on them and parties acting in concert with them to make a mandatory general offer under Rule 14.1 of the Code for the remaining Shares not already owned by them.

The SIC had, on 27 June 2014, waived the requirement for the Concert Parties Shareholders to make a Mandatory Offer ("**Whitewash Waiver**") under Rule 14.1 of the Code in the event that the Concert Parties Shareholders and their concert parties increase their percentage of total voting rights by more than 1.0% in the Company in any six (6) month period based on the Company's enlarged issued capital as a result of the Concert Parties Shareholders subscribing for their pro-rata entitlements of the Rights Shares (in whole or in part) as the case may be, including any application for excess Rights Shares, subject to the conditions set out in Section 6.4 of the Circular. Please refer to Section 6 of the Circular for further information on the Whitewash Resolution.

1.2 Background – The Proposed IPT

Deed of Set-Off

Mr George Chew, the Director and controlling Shareholder of the Company had, during the period between October 2010 and March 2014, made loan advances to the Company for working capital purposes of the Group. The amount outstanding to Mr George Chew between October 2010 and 29 July 2014, being the Latest Practicable Date, ranged between S\$158,513.00 and approximately S\$3,031,863.00. No interest has been paid to Mr George Chew in relation to such loan advances. Part of the loan advances had been repaid and as at the Latest Practicable Date, the loan amount outstanding to Mr George Chew is S\$1,005,504.00 ("**Outstanding SHI Loan**").

On 22 May 2014, the Company, Sitra Dove Construction and Logistics Pte Ltd ("**SD**"), Mr George Chew and Mdm Teresa Tan entered into a conditional deed, which was modified by a deed supplemental thereto entered into between the same parties on 29 July 2014 (collectively, "**Deed of Set-Off**"), on, *inter alia*, the following terms:

- (a) Mr George Chew and Mdm Teresa Tan irrevocably undertake to the Company to, amongst other things, subscribe and/or cause to be subscribed for and on his/her behalf, their respective entitlements of the Rights Shares;
- (b) the Company agrees, in consideration of the undertaking of Mr George Chew and Mdm Tan as set forth above, and at the request of Mr George Chew, that Mr George Chew may set-off the subscription monies payable by him and Mdm Teresa Tan for the subscription of their respective entitlements of the Rights Shares against the Outstanding SHI Loan and, if the IPT Approvals are obtained for the Proposed SHI Interest Payment, the SHI Interest payable by the Company to Mr George Chew;
- (c) in the event that the IPT Approvals are not obtained for the Proposed SHI Interest Payment, the Outstanding SHI Loan will be set-off firstly towards payment in full for Mdm Teresa Tan's subscription for her Rights Shares entitlement, and the balance will then be set-off towards partial payment for Mr George Chew's subscription for his Rights Shares entitlement. The Shortfall, being the balance subscription monies of S\$184,650.00 payable in respect of Mr George Chew's subscriptions for his Rights Shares entitlement after off-setting the Outstanding SHI Loan, will be paid in cash; and

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- (d) the Company agrees that if Mr George Chew applies for and is allotted any excess Rights Shares in accordance with the terms of the Rights Issue and any applicable Catalist Rules, subject to the IPT Approvals being obtained for the Proposed SHI Interest Payment, any balance SHI Interest not otherwise utilised to satisfy Mr George Chew's subscriptions of his Rights Shares entitlements, will be utilised towards setting-off an equivalent amount of the subscription monies payable in respect of any excess Rights Shares application by Mr George Chew. For the avoidance of doubt, to the extent that any such balance SHI Interest is not sufficient to satisfy excess Rights Shares application by Mr George Chew, the balance subscription monies for such excess Rights Shares application will be paid in cash.

The obligations of the parties as set forth above shall be subject to the conditions for the Rights Issue as enumerated in Section 2.3 of the Circular, being fulfilled and complied with.

For the avoidance of doubt, the Outstanding SD Loan and Proposed SD Interest Payment payable by SD will not be set-off against any part of the subscription monies payable by Mr George Chew and Mdm Teresa Tan for their Rights Shares entitlements. The Outstanding SHI Loan will be utilised in full to set off the subscription monies payable for all of Mdm Teresa Tan's Rights Shares entitlements and part of Mr George Chew's Rights Shares entitlements before any part of the Proposed SHI Interest Payment is utilised for the purpose of any such set-off.

Proposed SHI Interest Payment

Subject to the IPT Approvals being obtained for the Proposed SHI Interest Payment, under the Deed of Set-Off, the Company has agreed to pay Mr George Chew, interest at the rates set forth below on the loan advances made by Mr George Chew to the Company during the period when such loan advances were and/or remain outstanding. Brief particulars of the loan advances and the proposed interest payment to the Company ("**Proposed SHI Interest Payment**"), are set out below:

FY	Loan Amount Outstanding		SHI Interest	
	Lowest S\$	Highest S\$	Interest Rate Per annum	SHI Interest Amount S\$
2010	158,513.00	300,000.00	5.28%	3,358.07
2011	273,513.00	1,163,963.00	5.28%	50,627.55
2012	2,147,463.00	3,016,563.00	5.28%	151,438.55
2013	998,000.00	3,031,863.00	5.28% and 5.68%	83,117.87
1 January 2014 to 30 April 2014	984,000.00	1,005,504.00	5.68% and 6.65%	21,038.11
1 May 2014 until repayment	1,005,504.00		Applicable Interest Rate (defined below)	— ⁽¹⁾

Notes:

- (1) The amount of interest payable for the period from 1 May 2014 will be computed up to the date of payment of the Outstanding SHI Loan.

Based on the proposed interest rates set forth above, the amount of interest proposed to be paid by the Company to Mr George Chew on, and for the duration when such loan advances were outstanding to Mr George Chew up to, 30 April 2014, is approximately S\$309,580.00 ("**SHI Interest**"). The SHI Interest is proposed to be paid on the Outstanding SHI Loan based on the actual interest cost rate incurred by Mr George Chew plus 4.0% per annum (the "**Applicable Interest Rate**") for the period after 30 April 2014 until such time when the Outstanding SHI Loan is fully repaid. The Outstanding SHI Loan will be fully repaid when the amount is fully set-off against the subscription monies payable for Mr George Chew's and Mdm Teresa Tan's Rights Shares entitlements upon completion of the Rights Issue.

The proposed interest rates on the Outstanding SHI Loan for the period prior to 1 May 2014 is arrived at based on the actual interest cost rates incurred by Mr George Chew plus 4.0% per annum.

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Proposed SD Interest Payment

Mr George Chew had, during the period between June 2012 and March 2014, made loan advances to SD for working capital purposes of SD. The amount outstanding to Mr George Chew by SD between June 2012 and the Latest Practicable Date ranged between S\$50,000.00 and approximately S\$578,060.00. No interest has been paid to Mr George Chew in relation to such loan advances. As at the Latest Practicable Date, the loan amount outstanding to Mr George Chew by SD is S\$578,060.00 (“**Outstanding SD Loan**”).

Subject to the IPT Approvals being obtained for the Proposed SD Interest Payment, the Company is proposing that SD pays interest at the rates set forth below on the loan advances made by Mr George Chew to SD during the period when such loan advances were and/or remain outstanding. Brief particulars of the loan advances made by Mr George Chew to SD and the proposed interest payment by SD to Mr George Chew (“**Proposed SD Interest Payment**”), are set out below:

FY	Loan Amount Outstanding		SD Interest	
	Lowest S\$	Highest S\$	Interest Rate Per annum	SHI Interest Amount S\$
2012	50,000.00	240,500.00	5.28%	4,751.87
2013	237,265.00	578,060.00	5.28% and 5.68%	20,586.61
1 January 2014 to 30 April 2014	578,060.00	578,060.00	5.68% and 6.65%	12,161.89
1 May 2014 until repayment	578,060.00		Applicable Interest Rate	— ⁽¹⁾

Notes:

(1) The amount of interest payable for the period from 1 May 2014 will be computed up to the date of payment of the Outstanding SD Loan.

Based on the proposed interest rates set forth above, the amount of interest proposed to be paid to Mr George Chew on, and for the duration when such loan advances were outstanding by SD to Mr George Chew up to, 30 April 2014, is approximately S\$37,500.00 (“**SD Interest**”). The SD Interest is proposed to be paid on the Outstanding SD Loan at the Applicable Interest Rate for the period after 30 April 2014 until such time when the Outstanding SD Loan is fully repaid.

The proposed interest rates on the Outstanding SD Loan for the period prior to 1 May 2014 is arrived at based on the actual interest cost rates incurred by Mr George Chew plus 4.0% per annum.

The Proposed SHI Interest Payment and Proposed SD Interest Payment are collectively referred as the “**Proposed Interest Payment**”.

Proposed Interest Payment as an interested person transaction

Mr George Chew is an “interested person” and the Proposed Interest Payment is an “interested person transaction” for the purposes of Chapter 9 of the Catalist Rules (“**Proposed IPT**”).

The Proposed SHI Interest Payment will result in the payment of an interest amount of at least S\$309,580.00 to Mr George Chew. The Proposed SD Interest Payment will result in the payment of an interest amount of at least S\$37,500.00 to Mr George Chew. The Proposed SD Interest Payment is aggregated with the Proposed SHI Interest Payment for the purpose of determining whether Shareholders’ approval is required as both interest payments are made to the same interested person in the same financial year.

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The Proposed Interest Payment amount aggregates approximately S\$347,080.00, representing approximately 25.08% of the Company's latest audited consolidated NTA for FY2013. As the Proposed Interest Payment exceeds 5% of the Company's latest audited consolidated NTA, the Proposed Interest Payment is subject to the approval of Independent Shareholders in accordance with Rule 906 of the Catalist Rules.

The Company will seek Shareholders' approval for the Proposed IPT in the EGM.

Other than the Outstanding SHI Loan and the Outstanding SD Loan, the Group has not entered into any interested person transaction with Mr George Chew or with any of the Company's interested persons during the current financial year.

2. TERMS OF REFERENCE

ACA has been appointed by the Company to advise the Independent Directors in respect of (1) the Whitewash Resolution and (2) the Proposed IPT. We were neither a party to the negotiations entered into by the Company in relation to the Rights Issue, the Whitewash Resolution and Proposed IPT as well as the Deed of Set-Off nor were we involved in the deliberation leading up to the decision on the part of the directors of the Company ("**Directors**") to enter into the Rights Issue, the Whitewash Resolution, the Proposed IPT and the Deed of Set-Off and we do not, by this Letter or otherwise, advise or form any judgment on the merits of or purpose for the Rights Issue or the possibilities or feasibilities of the completion of the Rights Issue or the determination of the parties acting in concert for the purposes of the Whitewash Resolution or when the Shares may be traded other than to form an opinion, strictly and solely on the bases set out herein on whether the Whitewash Resolution is prejudicial to the interests of the Independent Shareholders when considered in the context of the Rights Issue. In addition, we also do not by this Letter, or otherwise, advise or form any judgment on the merits of the Proposed IPT contemplated in the Circular, other than to form an opinion, strictly and solely on the bases set out herein on whether the financial terms of the Proposed IPT (pursuant to Chapter 9 of the Catalist Rules) are on normal commercial terms and are not prejudicial to the interests of the Company and its minority Shareholders.

It is not within our terms of reference to evaluate or comment on the legal, strategic, commercial and financial merits and/or risks of or the terms of the Rights Issue and/or the Whitewash Resolution as may have been issued by the Company or to compare its relative merits vis-à-vis alternative transactions previously considered by the Company (if any) or that may otherwise be available to the Company currently or in the future, and we have not made such evaluation or comment. In addition, our scope of assessment does not include any evaluation of the going concern assumption or the working capital adequacy or the financial affairs or position of the Company or the Company and its subsidiaries (the "**Group**") or the ability of the Group to fulfil all its obligations or the adequacy of the proceeds from the Rights Issue to fulfill the same or the resolutions to be approved at the EGM other than the Whitewash Resolution. Such evaluation or comment, if any, remains the sole responsibility of the Directors and/or the management of the Company (the "**Management**") although we may draw upon the views of the Directors and/or the Management or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion as set out in this Letter. For the Proposed IPT, we have confined our evaluation strictly and solely on the financial terms for the Proposed IPT and have not taken into account the legal/commercial/financial risks and/or merits (if any) of the Proposed IPT or the legality of retrospective application of the IPT Interest Rate (defined later) or the timing for the transactions contemplated in the Circular including the structuring or inter-conditionality (if applicable), of the Proposed IPT or to compare with alternative transactions previously considered by the Company (if any) or that may be otherwise available for the Company in the past, currently or in the future, or the validity of any resolution, or the future financial performance or position of the Company and the Group subsequent to the Proposed IPT. Such evaluation or comment remains the responsibility of the Directors and the Management of the Company although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our view as set out in this Letter.

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Our opinion on the Proposed IPT is on the premise of the understanding among the Directors on the payment of interest for both the Outstanding SHI Loan and the Outstanding SD Loan (both retrospective and going forward). As at and prior to the Latest Practicable Date, no interest is payable for the Outstanding SHI Loan and the Outstanding SD Loan. Accordingly, approval by the Independent Shareholders would result in the retrospective and going forward application of the Proposed Interest Payment for the outstanding balances of both SHI and SD loans. Independent Directors should note the application of interest is normally and commercially agreed and formalized prior to the grant of the loan in most circumstances, and interest for such loans from interested persons is subject to Independent Shareholders approval. Whilst there was no formal agreement, the Directors have previously agreed in-principle on the payment of interest on SHI Loan and SD Loan subject to Independent Shareholders' approval (due to the nature of the transactions being an interested person transaction). Hence, our opinion on the Proposed IPT is subject to and limited to the retrospective application of the Proposed Interest Payment ("**IPT Limitation**") on the basis of Directors' confirmation and representation that there were prior in-principle agreements for payment of interest for the loans subject to Independent Shareholders' approval.

In the course of our evaluation, we have held discussions with Directors and Management and/or their professional advisers including its consultants or advisers or solicitors or auditors *inter alia*, regarding their assessment of the rationale for the Rights Issue and the Proposed IPT and have examined and relied on publicly available information collated by us as well as information provided and representations made to us, both written and verbal, by Directors, the Management and/or the professional advisers including its consultants or advisers or solicitors or auditors of the Company, including information contained in the Circular. We have not independently verified such information but have made such enquiries and used our judgement as we deemed necessary on such information and have found no reason to doubt the reliability of the information used for the purposes of our evaluation. Accordingly, we cannot and do not expressly or impliedly represent or warrant, and do not accept any responsibility for, the accuracy or completeness or adequacy of such information or the manner it has been classified or presented or the basis of any valuations which may have been included in the Circular or announced by the Company.

We have relied upon the assurance of the Directors and Management that all statements of fact, belief, opinion and intention made by the Directors and the Management in the Circular as well as their announcements for the financial results have been reasonably made after due and careful enquiry. Accordingly, no representation or warranty, expressed and implied, is made and no responsibility is accepted by us concerning the accuracy or completeness or adequacy of such information or statements of facts or belief or opinion or intention.

Our evaluation is based solely on publicly available information and other information provided by the Company as well as the economic and market conditions prevailing as at the Latest Practicable Date, and therefore does not reflect expected financial performance after the financial year ended 31 December 2013 ("**FY2013**") for the Company. Accordingly, we have not commented on or assessed the expected future performance or prospects of the Company or the Group after the completion of the Rights Issue and the Proposed IPT stipulated in the Circular. We are not required under our scope and terms of reference nor are we able to discuss, comment, opine, or advise on the Group's financial performance, position and conditions after 31 December 2013. Accordingly, we have not commented on or assessed the expected future performance or prospects of the Company or the Group after 31 December 2013 or the completion of the transactions stipulated in the Circular or the sufficiency of the Group's working capital after the repayment of the Outstanding SHI Loan, the Outstanding SD Loan and the Proposed Interest Payment. Our evaluation and opinion and recommendation do not and cannot take into account future or prospective performance of the Company or the Group, and neither are we responsible for it. Accordingly, estimates or analysis or evaluation of the merits of the Company or the Group or the Rights Issue or the Whitewash Resolution or the Proposed IPT, if any, in this Letter are necessarily limited and we do not warrant or represent that it is complete or in entirety. Neither are we required to provide opinions on the going concern assumption, or the adequacy of the working capital, or the sufficiency of the Rights Issue to address the concerns of the Company or the Group, or subsequent to the Proposed IPT or the possibility or probability that the Group can improve their profitability after the Rights Issue and the Proposed IPT.

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We have not been provided with the financial statements for the Group subsequent to FY2013 nor had any discussion with the Directors and the Management on the Group's financial results subsequent to FY2013. The Directors and the Management confirmed that ACA has not been provided with financial statements for the Group subsequent to FY2013 and that they have not had any discussion with ACA on the Group's financial results subsequent to FY2013.

Our scope does not require us and we have not made any independent evaluation or appraisal of the assets and liabilities (including without limitation, property, plant and equipment) or contracts entered into by the Company or the Group and we have not been furnished with any such evaluation and appraisal in respect of assets and liabilities (if any) held or contracts entered into by the Group. With respect to such valuation, we are not experts in the evaluation or appraisal of assets and liabilities (including without limitation, property, plant and equipment) including, *inter alia* the contracts that the Group has embarked upon or are about to embark upon and have relied on the opinion of the Directors and the financial statements (audited and unaudited), where applicable for the assessment. The Directors are of the opinion that the values of the assets and liabilities as well as the financial performance or condition of the Company and the Group as reflected in the full year audited financial statements for the Company and the Group as at 31 December 2013 are true and fair. In addition, the Directors confirmed that to the best of their knowledge and belief, such information is true, complete and accurate in all respects and that there is no other information or fact *inter alia* the valuation or appraisal of assets and liabilities including, *inter alia* the contracts that the Group has embarked upon or are about to embark upon, the omission of which would render those statements or information to be untrue, inaccurate, incomplete or misleading. Our views, opinion and recommendations are thus limited and subject to these matters as well as others mentioned in the Letter.

The Directors further confirmed that as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter and the audited financial statements for the Group for FY2013, there has been no material changes to the assets and liabilities, financial position, condition and performance.

Our opinion in this Letter is based on economic, market, industry, monetary and other conditions (if applicable) in effect on, and the information provided to us, as of the Latest Practicable Date. Accordingly, the bases or assumptions and likewise our views or opinion or recommendation may and do change in the light of these developments which, *inter alia*, include general as well as company specific or industry specific conditions or sentiments or factors. Independent Directors (as well as Independent Shareholders of the Company who would be receiving the Circular and this Letter enclosed with the Circular) should note that our evaluation is based solely on publicly available information and other information provided by the Company, the Directors as well as those disclosed in the Circular as well as the economic and market conditions prevailing as at the Latest Practicable Date, and therefore does not reflect expected financial performance after the relevant financial year end for the Company or the Group or developments both macro and company specific and that these factors do and will necessarily affect the evaluation of the Whitewash Resolution and/or the Proposed IPT and our recommendation or opinion or views. Likewise this Letter outlines some of the matters or bases or factors or assumptions which we have used in our assessment and is a summary. They are by no means exhaustive or a reproduction of all the matters or bases or factors or assumptions etc. which we have used in our assessment.

The Directors have jointly and severally accepted full responsibility, as set out in the Circular, for the truth, accuracy and completeness of the information and representations as provided by the Directors and contained therein. The Directors have confirmed to ACA that all material information including but not limited to shareholding or concert parties or plans or prospects or proposals or rationale involving the Rights Issue, the Whitewash Resolution, or the Proposed IPT or the Company or Group or the transactions stipulated in the Circular or issue or changes to its capital structure, available to them and the Management in connection with the Whitewash Resolution and the Proposed IPT has been disclosed to ACA and included in the Circular, that such information is true, complete and accurate in all material respects and that there is no other information or fact including the expected future performance or future

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growth prospects or plans of the Company or the Group (including the use of the proceeds from the Rights Issue), the omission of which would result in the facts stated and the opinions expressed by the Directors in the Circular to be untrue, inaccurate or incomplete in any respect or misleading. Accordingly, no representation or warranty, expressed or implied, is made and no responsibility is accepted by ACA concerning the truth, accuracy, completeness or adequacy of such information or facts.

The scope of our appointment does not require us to express, and we do not express, a view on the future growth prospects of the Company or the Group before and after the transactions stipulated in the Circular or the Whitewash Resolution or the Proposed IPT or the sufficiency of the Group's working capital after the repayment of the Outstanding SHI Loan, the Outstanding SD Loan and the Proposed Interest Payment. We are therefore not expressing any view herein as to the prices at which the Shares may trade upon completion or rejection of the Rights Issue or the Whitewash Resolution or the Proposed IPT or the other transactions or resolutions stipulated in the Circular where applicable or voting for or voting against the Rights Issue, Whitewash Resolution or the Proposed IPT or the other transactions or resolutions stipulated in the Circular where applicable or on the future financial performance of the Company or the Group or the plans (if any) for each of them.

We are also not required (under the terms and scope of our appointment) nor are we able to express any opinion herein as to the going concern assumption on which the audited financial statements for FY2013 as well as the financial effects of the Rights Issue may have been prepared and Independent Directors and Shareholders should note that the evaluation performed by ACA were prepared, *inter alia* on the going concern assumption and the continued support of the creditor-banks, ability of the Group to generate positive operating cash flow for the next 12 months; and ability of the Group to obtain new credit facilities or utilise its existing facilities as well as the ability of the Group to discharge its obligations where applicable.

In rendering our opinion and giving our recommendation, we have not had regard to the general or specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any individual Independent Shareholder. As different Independent Shareholders would have different investment profiles and objectives, we would advise the Independent Directors to recommend that any individual Independent Shareholder who may require advice in the context of his specific investment portfolio, including his investment in the Company, consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

Accordingly, any factor or assumption or basis as well as the relative emphasis on any matter set out in this Letter or the Rights Issue or the Whitewash Resolution or the Proposed IPT or the Company or the Group or the Shares or the Right Shares which we used or may have used may differ from the relative emphasis accorded by any individual Independent Shareholder or Independent Director, and as such the Independent Directors are advised to highlight to Independent Shareholders as well as note for themselves that any reliance on our opinion or view or assessment, is subject to the contents of this Letter in its entirety. In addition, ACA will not be responsible or required to provide an updated assessment or opinion or views of the Whitewash Resolution and/or the Proposed IPT or its recommendation, following the date of the issue of this Letter.

This Letter is addressed to the Independent Directors in connection with and for the sole purpose of their evaluation of the Whitewash Resolution and the Proposed IPT and is not meant or intended to be an evaluation of the other resolutions to be proposed. Whilst a copy of this Letter may be included in the Circular, neither the Company nor the Directors nor any other party, may reproduce, disseminate or quote this Letter (or any part thereof) for any other purpose at any time and in any manner without the prior written consent of ACA in each specific case, except at the forthcoming EGM and for the sole purpose of the Whitewash Resolution and the Proposed IPT. In addition, any references to our Letter or opinion or views or recommendation, should not be made except with our prior consent in writing and even if made with our prior consent in writing, shall be subject to the contents of this Letter in its entirety *inter alia* the matters, conditions, assumptions, limitations, factors and bases as well as our terms of reference for this Letter.

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3. THE RIGHTS ISSUE

3.1 Information on the Rights Issue

The Rights Issue is proposed to be made on a renounceable non-underwritten basis to Entitled Shareholders at the Issue Price of S\$0.01 for each Rights Share, on the basis of seven (7) Rights Shares for every five (5) existing Shares, held by the Entitled Shareholders as at the Books Closure Date, fractional entitlement to be disregarded.

Further information on the Rights Issue, including *inter alia* the principal terms of the Rights Issue, can be found in the Circular Section 2 and Independent Shareholders are advised to read those sections carefully. The following section on the Rights Issue are extracts from those sections and Independent Shareholders should read it carefully including those sections that relate to provisions for application, subscription etc.

As set out in the Circular, the Issue Price of S\$0.01 per Rights Share represents (i) a discount of approximately 68.75% to the closing price of S\$0.032 for Shares traded on the Catalist on 27 February 2014, being the last Market Day on which Shares were traded on the Catalist immediately preceding the date of the announcement of the Rights Issue; (ii) a discount of approximately 68.75% to the closing price of S\$0.032 for Shares traded on the Catalist on 25 July 2014, being the last Market Day on which Shares were traded on the Catalist immediately preceding the Latest Practicable Date; and (iii) a discount of approximately 47.8% to the theoretical ex-rights price of the Shares of S\$0.0192 based on the closing price of the Shares traded on the Catalist on 27 February 2014.

Entitled Shareholders will be provisionally allotted the Rights Shares on the basis of their shareholdings as at the Books Closure Date. Entitled Shareholders will be at liberty to accept (in full or in part), decline, or otherwise renounce or trade during the rights trading period prescribed by the SGX-ST their provisional allotments of Rights Shares and will be eligible to apply for additional Rights Shares in excess of their provisional allotments under the Rights Issue.

Fractional entitlements to the Rights Shares, if any, will be disregarded in arriving at Entitled Shareholder's provisional allotments of Rights Shares and will, together with provisional allotments of Rights Shares which are not taken up or allotted for any reason, be aggregated and issued to satisfy excess applications for Rights Shares (if any), or disposed of or otherwise dealt with in such manner as the Directors may, in their absolute discretion, deem fit in the interest of the Company.

In the allotment of excess Rights Shares, preference will be given to the rounding of odd lots, and Directors and Substantial Shareholders who have control or influence over the Company in connection with the day-to-day affairs of the Company or the terms of the Rights Issue, or have representation (direct or through a nominee) on the Board, will rank last in priority for rounding of odd lots and allotment of excess Rights Shares. The Company will also not make any allotment and issue of any excess Rights Shares that will result in a transfer of controlling interest in the Company unless otherwise specifically approved by Shareholders in a general meeting.

The Rights Shares are payable in full upon acceptance and/or application by Entitled Shareholders.

In relation to the subscriptions by the Director and controlling shareholder, Mr George Chew and his wife, Mdm Teresa Tan for their pro rata entitlements of the Rights Shares, pursuant to the Deed of Set-Off, the payment for Mr George Chew's and Mdm Teresa Tan's subscriptions of their Rights Shares entitlements will be set-off against the Outstanding SHI Loan owing by the Company to Mr George Chew. Subject to the Company obtaining the IPT Approvals for the Proposed SHI Interest Payment and to the extent that the amount of the Outstanding SHI Loan is insufficient to satisfy payment for Mr George Chew's subscription for his Rights Shares entitlement, the payment for the Shortfall shall be set-off against the SHI Interest payable to Mr George Chew. If any of the IPT Approvals is not obtained for the Proposed SHI Interest Payment, Mr George Chew will make payment of the Shortfall in cash.

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The Rights Shares will, upon allotment and issue, rank *pari passu* in all respects with the then existing Shares, save for any dividends, rights, allotments or other distributions, the Record Date for which falls before the date of issue of the Rights Shares.

The Rights Issue will not be underwritten. The Company believes that the Issue Price of S\$0.01 for each Rights Share, which represents a discount of approximately 68.75% to the closing price of S\$0.032 for Shares traded on the Catalist on 27 February 2014, being the last Market Day on which Shares were traded on the Catalist immediately preceding the date of the announcement of the Rights Issue, is attractive and should encourage subscriptions for the Rights Shares by Shareholders. In view of the foregoing and taking into consideration the Irrevocable Undertakings as well as cost considerations, the Company has decided to proceed with the Rights Issue on a non-underwritten basis.

The Rights Issue will not be withdrawn after commencement of the ex-rights trading.

Independent Directors should note and highlight for Independent Shareholders the principal terms of the Rights Issue as set out in Section 2.2 of the Circular, which should be read in its entirety.

3.2 Conditions precedent for the Rights Issue

The conditions precedent for the Rights Issue are stated in Section 2.3 of the Circular and have been reproduced in italics below. Independent Shareholders are advised to read Section 2.3 of the Circular carefully and its entirety.

“2.3 Conditions Precedent

The Rights Issue is subject to, inter alia, the following:

- (a) the receipt of the listing and quotation notice from the SGX-ST for the listing and quotation of the Rights Shares on the Catalist;*
- (b) the approval of Shareholders having been obtained at the EGM for the Company to allot and issue the Rights Shares pursuant to the Rights Issue;*
- (c) the approval of Shareholders having been obtained at the EGM for the Whitewash Resolution; and*
- (d) lodgement of the Offer Information Statement with the SGX-ST (acting as agent on behalf of the Authority).*

On 30 July 2014, the SGX-ST issued the listing and quotation notice for the listing and quotation of the Rights Shares on the Catalist subject to the following conditions:

- (a) Compliance with the SGX's listing requirements; and*
- (b) Shareholders' approval being obtained for the Rights Issue at an extraordinary general meeting to be convened.*

Shareholders should note that the listing and quotation notice of the SGX-ST is not to be taken as an indication of the merits of the Company, its subsidiaries, the Shares, the Rights Issue or the Rights Shares. The SGX-ST assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Circular.”

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3.3 Option to scale down

We note from Section 2.4 of the Circular that depending on the level of subscription for the Rights Shares, the Company will, if necessary, and upon the approval of the Sponsor and/or the SGX-ST, scale down the subscription and/or excess applications for the Rights Shares by any of the Substantial Shareholders (if such Substantial Shareholder chooses to subscribe for its pro rata Rights Shares entitlement and/or apply for excess Rights Shares) to avoid placing the relevant Substantial Shareholder and parties acting in concert with it in the position of incurring a mandatory general offer obligation under the Code as a result of other Shareholders not taking up their Rights Shares entitlement in full.

3.4 Irrevocable Undertakings

As at the Latest Practicable Date:

- (a) Mr George Chew held an aggregate of 49,561,284 Shares, representing approximately 15.83% of the aggregate number of issued Shares. Accordingly, Mr George Chew will be entitled to subscribe for an aggregate of 69,385,797 Rights Shares;
- (b) Mdm Teresa Tan held an aggregate of 35,449,716 Shares, representing approximately 11.33% of the aggregate number of issued Shares. Accordingly, Mdm Teresa Tan will be entitled to subscribe for an aggregate of 49,629,602 Rights Shares;
- (c) Mr Steven Chew held an aggregate of 9,200,000 Shares, representing approximately 2.94% of the aggregate number of issued Shares. Accordingly, Mr Steven Chew will be entitled to subscribe for an aggregate of 12,880,000 Rights Shares;
- (d) Mr Chen held an aggregate of 37,500,000 Shares, representing approximately 11.98% of the aggregate number of issued Shares. Accordingly, Mr Chen will be entitled to subscribe for an aggregate of 52,500,000 Rights Shares; and
- (e) Ms Josca Woo held an aggregate of 37,500,000 Shares, representing approximately 11.98% of the aggregate number of issued Shares. Accordingly, Ms Josca Woo will be entitled to subscribe for an aggregate of 52,500,000 Rights Shares.

As an indication of their support and commitment to the Company,

- (a) Mr Steven Chew, Mr Chen and Ms Josca Woo, have each executed the Deed of Undertaking pursuant to which they have each given an irrevocable undertaking to the Company to, amongst other things, subscribe and/or cause to be subscribed for and on his/her behalf, their respective entitlements of the Rights Shares subject to, *inter alia*, the Whitewash Waiver being obtained from the SIC and the passing of the Whitewash Resolution at the EGM; and
- (b) Mr George Chew and Mdm Teresa Tan have pursuant to the Deed of Set-Off and subject to the terms and conditions therein contained, including the Whitewash Waiver being obtained from the SIC and the passing of the Whitewash Resolution at the EGM, each given an irrevocable undertaking to the Company to, amongst other things, subscribe and/or cause to be subscribed for and on his/her behalf, their respective entitlements of the Rights Shares.

In addition, each of Mr Steven Chew, Mr Chen, Ms Josca Woo, Mr George Chew and Mdm Teresa Tan have, in their respective Deeds of Undertaking or Deed of Set-Off, as the case may be, undertaken:

- (a) not to sell, transfer or otherwise deal with their respective shareholdings in the Company between the date of their respective undertakings and until the issue of the Rights Shares; and

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- (b) to vote, and procure that their respective representatives and proxies will vote all their Shares and any further Shares which he/she may subsequently own or control in favour of the Rights Issue (other than those resolutions which he/she is required by the Company to abstain from voting).

Mr Steven Chew, Mr Chen and Ms Josca Woo have in their respective Deed of Undertaking confirmed to the Company that he/she has sufficient financial resources to subscribe for or procure the subscription in full of all his/her Rights Shares entitlements and Mr George Chew has in the Deed of Set-Off confirmed that he has sufficient financial resources to make payment of the Shortfall.

The Company has received evidence satisfactory to the Company in the form of bank statements of each of Mr George Chew, Mr Steven Chew, Mr Chen and Ms Josca Woo to support their respective confirmations as stated above.

4. THE WHITEWASH RESOLUTION

4.1 Concert Parties Shareholders

Mr George Chew is the Executive Chairman and Chief Executive Officer of the Company. Mr Steven Chew is an Executive Director and Deputy Chief Executive Officer of the Company. Mdm Teresa Tan is the Senior Vice President (Group Administration and Human Resources).

Mr George Chew, Mdm Teresa Tan and Mr Steven Chew are immediate family members. Mr George Chew is the husband of Mdm Teresa Tan while Mr Steven Chew is the son of both Mr George Chew and Mdm Teresa Tan. As at the Latest Practicable Date, Mr George Chew, Mdm Teresa Tan and Mr Steven Chew who are parties acting in concert with each other, hold an aggregate of 94,211,000 Shares constituting an aggregate voting interest of approximately 30.10% in the existing Share capital of the Company comprising 313,000,000 Shares ("**Existing Share Capital**").

Ms Josca Woo is a Substantial Shareholder of the Company. She is not an employee of the Company and does hold any executive function in the Group. Ms Josca Woo is the sister-in-law of Mr George Chew. Under the Code, a close relative of a person is presumed to be acting in concert with such person unless the contrary is established. On the presumed basis that Ms Josca Woo is a party acting in concert with Mr George Chew, Mr George Chew and parties acting in concert with him, namely Mdm Teresa Tan, Mr Steven Chew and Ms Josca Woo hold an aggregate of 131,711,000 Shares constituting an aggregate voting interest of approximately 42.08% in the Existing Share Capital.

4.2 Rule 14 of the Code

Under Rule 14 of the Code, when a person together with persons acting in concert with him, holds not less than 30.0% but not more than 50.0% of the voting rights and such person, or any person acting in concert with him, acquires in any period of six (6) months additional Shares carrying more than 1.0% of the voting rights, he must extend offers immediately to the holders of any class of share capital of the Company that carries votes and in which such person, or persons acting in concert with him, hold shares.

As the Concert Parties Shareholders hold in aggregate not less than 30.0% but not more than 50.0% of the voting rights of the Company, in the event that the Undertaking Shareholders subscribe for, or cause to be subscribed for and on their behalf, their respective entitlements of Rights Shares in full pursuant to the Irrevocable Undertakings but the Rights Issue is not fully subscribed, depending on the level of subscription for the Rights Shares by other Entitled Shareholders, such under-subscribed scenario may result in the aggregate voting rights of the Concert Parties Shareholders in the Company after the Rights Issue increasing by more than 1.0% within a six (6) month period thereby incurring an obligation on them and parties acting in concert with them to make a mandatory general offer under Rule 14.1 of the Code for the remaining Shares not already owned by them.

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4.3 Whitewash Waiver

The SIC had, on 27 June 2014, waived the Concert Parties Shareholders and their concert parties from the requirement to make a Mandatory Offer under Rule 14.1 of the Code in the event that the Concert Parties Shareholders and their concert parties increase their shareholdings in the Company by more than 1.0% in any six (6) month period based on the Company's enlarged issued capital as a result of the Concert Parties Shareholders subscribing for their pro-rata entitlements of the Rights Shares (in whole or in part) as the case may be, including any excess Rights Shares, subject to the following conditions ("**SIC Conditions**"):

- (a) a majority of holders of voting rights of the Company present and voting at a general meeting held before the issue of Rights Shares, approve the Whitewash Resolution by way of a poll to waive their rights to receive a general offer from the Concert Parties Shareholders;
- (b) the Whitewash Resolution is separate from other resolutions;
- (c) the Concert Parties Shareholders, parties acting in concert with them and parties not independent of them abstain from voting on the Whitewash Resolution;
- (d) the Concert Parties Shareholders did not acquire or are not to acquire any Shares or instruments convertible into and options in respect of the Shares (other than subscriptions for, rights to subscribe for, instruments convertible into or options in respect of Shares which have been disclosed in the Circular):
 - (i) during the period between the announcement of the Rights Issue and the date Shareholders' approval is obtained for the Whitewash Resolution; and
 - (ii) in the six (6) months prior to the announcement of Rights Issue but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Rights Issue;
- (e) the Company appoints an independent financial adviser to advise its Independent Shareholders on the Whitewash Resolution;
- (f) the Company sets out clearly in the Circular to Shareholders:
 - (i) details of the Rights Issue, including the Irrevocable Undertakings;
 - (ii) the possible dilution effect of issuing the Rights Shares to existing holders of voting rights as a result of the Concert Parties Shareholders subscribing for the Rights Shares in whole or in part (as the case may be) including any application for excess Rights Shares;
 - (iii) the number and percentage of voting rights in the Company as well as the number of instruments convertible into, rights to subscribe for and options in respect of Shares held by the Concert Parties Shareholders and their concert parties as at the Latest Practicable Date;
 - (iv) the number and percentage of voting rights to be issued to the Concert Parties Shareholders as a result of their subscribing for the Rights Shares in whole or in part (as the case may be) including any application for excess Rights Shares;
 - (v) that Shareholders, by voting for the Whitewash Resolution, are waiving their rights to a general offer from the Concert Parties Shareholders at the highest price paid by the Concert Parties Shareholders and their concert parties for the Shares in the past six (6) months preceding the commencement of the Rights Issue; and

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- (vi) the acquisition of the Rights Shares by the Concert Parties Shareholders might result in the Concert Parties Shareholders and their concert parties holding Shares carrying over 49% of the voting rights of the Company based on its enlarged issued share capital and the fact that the Concert Parties Shareholders and their concert parties will be free to acquire further Shares without incurring any obligation under Rule 14 of the Code to make a general offer;
- (g) the Circular states that the waiver granted by SIC to the Concert Parties Shareholders and parties acting in concert with them from the requirements to make a general offer under Rule 14 of the Code is subject to the conditions stated in (a) to (f) above;
- (h) the Company obtains SIC's approval in advance for those parts of the Circular that refer to the Whitewash Resolution; and
- (i) to rely on the Whitewash Resolution, the acquisition of Rights Shares by the Concert Parties Shareholders pursuant to the Rights Issue must be completed within three (3) months of the approval of the Whitewash Resolution.

As at the Latest Practicable Date, conditions (e), (f), (g), and (h) imposed by the SIC as set out above have been satisfied.

5. EVALUATION OF THE PROPOSED WHITEWASH RESOLUTION

For the purposes of evaluating the financial terms of the Whitewash Resolution, we have relied upon the following general bases as well as others set out in this Letter:

- (a) As at the Latest Practicable Date, the Company had paid up and issued ordinary Share capital of approximately S\$13,633,037 comprising of 313,000,000 Shares.
- (b) As at the Latest Practicable Date, the Company has no convertible securities which remain outstanding.

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

- (i) Rationale for the Rights Issue and use of proceeds;
- (ii) The Rights Shares being offered to Entitled Shareholders on a pro-rata basis;
- (iii) Inter-conditionality of the Rights Issue and the Whitewash Resolution;
- (iv) Assessment of the Issue Price for the Rights Shares;
- (v) Potential financial effects of the proposed Rights Issue;
- (vi) Dilution impact of the Rights Issue for the Independent Shareholders;
- (vii) Support from the Undertaking Shareholders; and
- (viii) Other considerations in relation to the Whitewash Resolution.

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These factors are discussed in greater detail in the ensuing sections.

In our assessment of the Whitewash Resolution, we have applied certain valuation ratios in assessing the reasonableness of the Whitewash Resolution. A brief description of such valuation ratios are as follows:–

- | | |
|---|--|
| (i) EV/EBITDA | <p>“EV” or “Enterprise Value” is defined as the sum of a company’s market capitalisation, preferred equity, minority interests, short term and long term debts less its cash and cash equivalents. “EBITDA” stands for earnings before interest, tax, depreciation and amortisation but after share of associates’ and joint ventures’ income but excluding exceptional items.</p> <p>The “EV/EBITDA” multiple is an earnings-based valuation methodology that does not take into account the capital structure of a company as well as its interest, taxation, depreciation and amortisation charges. Therefore, it serves as an illustrative indicator of the current market valuation of the business of a company relative to its pre-tax operating cash flow and performance.</p> |
| (ii) Price-to-Earnings
 (“PER”) | <p>The PER is a widely used earnings-based valuation methodology that illustrates the ratio of the current market price of a company’s shares relative to its net earnings per share. Unlike the EV/EBITDA multiple, the PER is based on the net earnings attributable to shareholders after interest, taxation, depreciation and amortisation expenses. As such, the PER is affected by the capital structure of a company, tax position as well as its depreciation and goodwill policies.</p> |
| (iii) Price-to-NTA
 (“P/NTA”) | <p>The P/NTA ratio is the ratio of the relevant prices of the shares to the net tangible asset value of the relevant companies. It is an asset-based valuation methodology that illustrates the ratio of the current market valuation of a company relative to its asset backing as measured in terms of its NTA value. The NTA of a company provides an estimate of its value assuming a hypothetical sale of all its tangible assets, the proceeds of which are first used to repay the liabilities and obligations of that company with the balance available for distribution to its shareholders. The NTA-based approach is widely used for valuing the shares of property-based companies as their tangible asset backings are perceived as providing support for the value of their shares.</p> |
| (iv) Price-to-NAV
 (“P/NAV”) | <p>The P/NAV ratio is the ratio of the relevant prices of the shares to the net asset value of the relevant companies. It is an asset based valuation methodology that illustrates the ratio of the current market valuation of a company relative to its tangible and intangible asset backing as measured in terms of its NAV value.</p> <p>The NAV of a company provides an estimate of its value assuming a hypothetical sale of all its tangible and intangible assets, the proceeds of which are first used to repay the liabilities and obligations of that company with the balance available for distribution to its shareholders.</p> |

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5.1 Rationale for the Rights Issue and use of proceeds

The rationale for the Rights Issue and use of proceeds has been extracted from Section 2.7 of the Circular and are set out in italics below. We recommend that Independent Directors advise Independent Shareholders to read this section of the Circular carefully. All terms and expressions used in the extract below shall have the same meaning as those defined in the Circular, unless otherwise stated :–

“2.7 Rationale and Use of Proceeds

The Company is undertaking the Rights Issue to strengthen the financial position and capital base of the Company and to provide additional working capital for the operations of the Group. The Rights Issue will also provide Shareholders with an opportunity to further participate in the equity of the Company, and allow the Group to be less reliant on external sources of funding as well as to repay the Outstanding SHI Loan by way of the set-off described in Section 9 of this Circular.

There is no minimum amount to be raised from the Rights Issue. For the purposes of Rule 814(1) (e) of the Catalist Rules, the Directors are of the opinion that:

- (i) after taking into consideration the present bank facilities, the working capital available to the Group is not sufficient to meet its present requirements; and*
- (ii) after taking into consideration the present bank facilities and the net proceeds of the Rights Issue based on a Minimum Subscription Scenario, the working capital available to the Group will be sufficient to meet its present requirements.*

The proceeds arising from the Rights Issue is (a) S\$2,368,954.00 in the Minimum Subscription Scenario, and (b) S\$4,382,000.00 in the Maximum Subscription Scenario. The Company intends to use such proceeds (in the following order of priority) in the manner set out below:

Use of Proceeds	Maximum Subscription Scenario (S\$)	Minimum Subscription Scenario (S\$)
1. <i>Estimated costs and expenses relating to Rights Issue</i>	175,000.00	175,000.00
2. <i>Repayment of Outstanding SHI Loan⁽¹⁾</i>	1,005,504.00	1,005,504.00
3. <i>Proposed SHI Interest Payment (partial)⁽²⁾</i>	184,650.00	184,650.00
4. <i>Working capital purposes</i>	3,016,846.00 ⁽³⁾	1,003,800.00
Gross Proceeds from Rights Issue	4,382,000.00	2,368,954.00

Notes:

- (1) The payment of the Outstanding SHI Loan will be set-off against the subscription monies payable by Mdm Teresa Tan for her Rights Shares entitlement and part of the subscription monies payable by Mr George Chew for his Rights Shares entitlement.*
- (2) The Proposed SHI Interest Payment is subject to the IPT Approvals being obtained. If the Proposed SHI Interest Payment is approved, part of the SHI Interest of S\$184,650.00 will be set-off against the balance subscription monies payable for the subscription of the Rights Shares entitlement by Mr George Chew. If the Proposed SHI Interest Payment is not approved, the proceeds of S\$184,650.00 which would otherwise be reserved for part payment of the SHI Interest amount will be utilised towards working capital of the Group.*
- (3) If Mr George Chew applies for and is allocated excess Rights Shares, he may utilise any balance SHI Interest payable to him to set-off against the subscription monies for his excess Rights Shares application. In such an event, the amount reserved for working capital purposes will be reduced by the amount of the balance SHI Interest utilised for the set-off.*
- (4) The Company does not intend to utilise the net proceeds of the Rights Issue for the repayment of any balance unpaid SHI Interest not utilised to set-off Mr George Chew's subscription for his Rights Shares entitlements and any excess Rights Shares application, the Outstanding SD Loan and/or the SD Interest.*

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Pending the deployment of the net proceeds raised from the Rights Issue, such proceeds may be deposited with banks and/or financial institutions, used for investment in short-term money markets instruments and/or marketable securities, as the Directors may deem appropriate in the interests of the Company.

The Company will make periodic announcements on the use of the proceeds from the Rights Issue as and when such proceeds are materially disbursed and will provide a status report on the use of proceeds from the Rights Issue in the annual report(s) of the Company, until such time the proceeds have been fully utilised. Where the proceeds have been used for working capital purposes, the Company will provide a breakdown with specific details on how the proceeds have been applied in the announcements and status report.

In the event that any part of the Company's proposed uses of the net proceeds does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the proceeds to other purposes and/or hold such funds on short-term deposits for as long as the Directors deem it to be in the interest of the Company and the Shareholders. Any change in the use of the net proceeds will be subject to the Catalist Rules and appropriate announcements will be made by the Company."

In considering the rationale and proposed utilisation of the proceeds of the Rights Issue, the details of which are set out in full in Section 2.7 of the Circular, we have taken into account the following factors:-

(a) Financial performance and positions of the Group

The following tables provide a summary of the audited financial performance and position as well as the cash flow statements of the Group for FY2013, FY2012, FY2011 and FY2010 and should be read in conjunction with Section 4 of the Circular and the relevant annual reports for the Group for FY2013, FY2012 and FY2011 in its entirety:-

Summary of consolidated statement of income

Figures in S\$'000 ⁽¹⁾	Audited FY2013	Audited FY2012	Audited FY2011	Audited FY2010
Revenue	18,687	23,407	32,711	44,336
Cost of sales	(17,624)	(20,461)	(28,446)	(35,777)
Gross profit margin	5.7%	12.6%	13.0%	26.2%
Gross profit	1,063	2,946	4,265	8,560
Operating expenses ⁽²⁾	(5,674)	(9,738)	(11,401)	(9,831)
Loss before tax	(6,093)	(7,012)	(6,785)	(1,001)
Loss after tax	(6,169)	(7,020)	(6,778)	(1,191)
Loss after tax attributable to equity holders of the Company	(6,032)	(6,830)	(6,545)	(644)

Summary of consolidated statement of financial position

Figures in S\$'000 ⁽¹⁾	Audited FY2013	Audited FY2012	Audited FY2011	Audited FY2010
Non-current assets	3,233	4,179	10,522	7,296
Current assets	13,818	16,139	12,110	20,432
Non-current liabilities	76	93	2,669	4,251
Current liabilities	15,590	20,142	16,312	19,317
Total borrowings	10,112	11,123	13,030	16,802
Shareholders' equity	1,581	187	4,033	5,393
Net working capital	(1,773)	(4,003)	(4,202)	1,114

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Summary of cash flow statement

Figures in S\$'000 ⁽¹⁾	Audited FY2013	Audited FY2012	Audited FY2011	Audited FY2010
Net cash generated from/(used in) operating activities	(2,805)	(60)	1,024	3,578
Net cash generated from /(used in) investing activities	5,921	586	2,243	(2,067)
Net cash generated from/(used in) financing activities	(2,605)	(283)	(3,891)	(1,750)
Net increase / (decrease) in cash and cash equivalents	510	243	(624)	(239)
Cash and cash equivalents at end of the period	(339)	(867)	(1,105)	(481)

Notes:

- (1) Figures and computation presented in this section are subject to rounding.
- (2) Operating expenses comprise selling and marketing expenses, administrative expenses, other operating expenses and finance costs.

We note the following:-

- (i) The Group reported losses after tax attributable to equity holders of the Company for the last four consecutive financial years (being FY2010 to FY2013) with significant dwindling in its revenue and gross profit margin. The loss after tax attributable to equity holders of the Company in FY2013 of approximately S\$6.0 million is slightly less than the loss after tax attributable to equity holders of the Company of approximately S\$6.8 million and S\$6.5 million in FY2012 and FY2011 respectively but was significantly higher compared to the loss after tax attributable to equity holders of approximately S\$0.6 million in FY2010.

The Group's revenue declined from approximately S\$44.3 million in FY2010 to approximately S\$32.7 million, S\$23.4 million and S\$18.7 million in FY2011, FY2012 and FY2013 respectively. We understand from the Management that the declines in revenue for the period FY2010 to FY2013 was generally due to the declines in contribution from the wood based products and lifestyle outdoor furniture products, which was partially offset by the increased contribution from the total design & build solutions ("TDBS") business units. In addition, we note that the Group's gross profit margin declined from approximately 26.2% in FY2010 to approximately 13.0%, 12.6% and 5.7% in FY2011, FY2012 and FY2013 respectively. We understand from the Management that the declining gross profit margin was attributed to the higher project costs incurred by the TDBS business units.

It is also noted that the Group's operating expenses (comprising selling and marketing expenses, administrative expenses, other operating expenses and finance costs) increased from approximately S\$9.8 million in FY2010 to approximately S\$11.4 million in FY2011 and subsequently declined to approximately S\$9.7 million and S\$5.7 million in FY2012 and FY2013 respectively (due to, *inter alia*, downsizing and closing down of overseas subsidiaries).

- (ii) The Group's net working capital has declined substantially from a positive net working capital of approximately S\$1.1 million as at 31 December 2010 to a negative net working capital of approximately S\$4.2 million as at 31 December 2011 (mainly due to declines in inventories, trade and other receivables). The net working capital position of the Group improved subsequently but remained in the negative region. The Group's net working capital position improved from approximately negative S\$4.2 million as at 31 December 2011 to approximately negative S\$4.0 million as at 31 December 2012 (mainly due to reclassification of the Group's property at 18 Sungei Kadut Street 2, Sungei Kadut Industrial Estate (the "Property") to non-current asset held-for-sale of approximately S\$7.2 million and was partially offset by a decline in inventories and an increase in other payables) and to approximately negative S\$1.8 million as at 31 December 2013 (mainly due to the declines in the current portion of bank borrowing, trade and other payables (including payable to non-controlling interest, Directors and their immediate family members)).

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We note that as at 31 December 2013, the Group's current assets of approximately S\$13.8 million comprised mainly of non-current asset held-for-sale which amounted to approximately S\$7.2 million or approximately 52.0% of total current assets, inventories amounted to approximately S\$2.7 million or approximately 19.4% of total current assets (of which finished goods is approximately S\$1.8 million, work-in-progress is approximately S\$0.8 million and raw materials is approximately \$33 thousand) and other receivables of approximately S\$2.2 million or approximately 16.3% of total current assets. We further note that on 14 February 2014, the proposed disposal of the Property ("**Disposal**") has been approved at an extraordinary general meeting and the Disposal of the Property was subsequently completed on 4 April 2014 with a gain on disposal of approximately S\$6.1 million. We understand from the Group's annual report for FY2013 ("**AR2013**") that the net proceeds from the Disposal of approximately S\$8.4 million has been fully disbursed for repayment of bank borrowings (approximately S\$8.1 million) and for general working capital (approximately S\$0.3 million).

We also note that as at 31 December 2013, the Group's current liabilities of approximately S\$15.6 million comprised mainly of borrowings which amounted to approximately S\$10.1 million or approximately 64.7% of the total current liabilities (of which trust receipts amounted to approximately S\$6.8 million, bank borrowings amounted to approximately S\$2.5 million and bank overdrafts amounted to approximately S\$0.8 million), other payables amounted to approximately S\$3.9 million or 25.0% of the total current liabilities (of which *inter alia*, payables to Directors and their immediate family members amounted to approximately S\$1.6 million, accruals for operating expenses amounted to approximately S\$1.3 million, advances received amounted to approximately S\$0.7 million and other payables to non-related parties amounted to approximately S\$0.3 million) and trade payables to non-related parties amounted to approximately S\$1.6 million or 10.2% of the total current liabilities. As highlighted in the previous paragraph, the Group has repaid approximately S\$8.1 million of the total borrowing of approximately S\$10.1 million as at 31 December 2013.

- (iii) The Group's shareholders' equity attributable to equity holders of the Company declined substantially from approximately S\$5.4 million as at 31 December 2010 to approximately S\$4.0 million as at 31 December 2011 to approximately S\$0.2 million as at 31 December 2012 (mainly due to increase in accumulated losses of approximately S\$6.5 million in FY2011 and approximately S\$13.2 million in FY2012) and subsequently increased to approximately S\$1.6 million as at 31 December 2013 (mainly due to issuance and allotment of 75 million placement Shares on 15 March 2013 and 40 million option Shares pursuant to the exercise of call option, currency translation gain of approximately S\$2.3 million, which was offset partially by loss attributable to equity holders incurred in FY2013).

The Group's total borrowings (defined as long-term borrowings and short-term borrowings which are interest-bearing) decreased from approximately S\$16.8 million as at 31 December 2010 to approximately S\$13.0 million as at 31 December 2011 to approximately S\$11.1 million as at 31 December 2012 to approximately S\$10.1 million as at 31 December 2013 due to the repayments of loan and borrowings. As mentioned in paragraph (i) above, subsequent to FY2013, the Group has repaid approximately S\$8.1 million of the total borrowing of approximately S\$10.1 million as at 31 December 2013.

- (iv) The Group recorded positive cash flow from operating activities of approximately S\$3.6 million in FY2010 and approximately S\$1.0 million in FY2011. The Group recorded negative cash flow from operating activities of approximately S\$60 thousand in FY2012 and approximately S\$2.8 million in FY2013.
- (v) Cash and cash equivalents remained at approximately S\$0.2 million as at 31 December 2010 and as at 31 December 2011 and subsequently increased to approximately S\$0.3 million as at 31 December 2012 and approximately S\$0.5 million as at 31 December 2013.

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- (vi) We have not been provided with the financial statements for the Group subsequent to FY2013 nor had any discussion with the Directors and the Management on the Group's financial results subsequent to FY2013. The Directors and the Management confirmed that ACA has not been provided with financial statements for the Group subsequent to FY2013 and that they have not had any discussion with ACA on the Group's financial results subsequent to FY2013.

(b) Capital Base and Debt Burden

We set out below summarised extracts of the financial position relating to the capital base and debt burden of the Group for FY2013, FY2012 and FY2011:-

S\$'000	Audited FY2013	Audited FY2012	Audited FY2011	Audited FY2010
Shareholders' equity ⁽¹⁾	1,581	187	4,033	5,393
Borrowings ⁽²⁾				
Current portion – External	10,091	11,090	10,432	12,633
Non current portion – External	21	32	2,598	4,170
Total Borrowings ⁽³⁾	10,112	11,123	13,030	16,802
Total liabilities	15,666	20,236	18,981	23,569
Cash and cash equivalent	456	331	156	204
Total borrowings (net of cash)	9,656	10,792	12,874	16,599
Gearing ratio ⁽⁴⁾ (times)	6.4	59.6	3.2	3.1
Net gearing ratio ⁽⁵⁾ (times)	6.1	57.8	3.2	3.1
Total liabilities/Shareholders' equity (times)	9.9	108.4	4.7	4.4

Notes:

- (1) Shareholders' equity is defined as the aggregate of issued and paid-up capital, and reserves comprising capital reserves, currency translation reserve, general reserve, asset revaluation reserve and retained earnings of the Group before minority interest.
- (2) Borrowings is defined as interest bearing debt and does not include loan from directors and their immediate family members.
- (3) Total borrowings is defined as borrowings from banks and financial institutions, trust receipts and finance lease liabilities.
- (4) Gearing ratio is defined as the ratio of total borrowings to shareholders' equity while leverage ratio is defined as the ratio of total liabilities to Shareholders' equity.
- (5) Net gearing ratio is defined as the ratio of total borrowings net of cash and cash equivalent to shareholders' equity.
- (6) All discrepancies in the figures included herein between the listed and total amounts thereof are due to rounding.

We wish to highlight that the Group's net gearing ratio had increased significantly from approximately 3.2 times in FY2011 to approximately 57.8 times in FY2012 and subsequently declined to approximately 6.1 times in FY2013. In addition, the ratio of total liabilities to shareholders' equity for the Group had increased significantly from approximately 4.4 times in FY2010 to approximately 4.7 times in FY2011 and peaked at approximately 108.4 times in FY2012. Subsequently, the Group's ratio of total liabilities to shareholders' equity declined, but remained high, at approximately 9.9 times in FY2013. We note that the total borrowings do not include the loan from Directors and their immediate family members. In the event that the loan from Directors and their immediate family members is included, the gearing ratio would be approximately 7.4 times and the net gearing ratio would be approximately 7.1 times. Also, as mentioned in (a)(ii), subsequent to FY2013, the Group has repaid approximately S\$8.1 million of the total borrowing of approximately S\$10.1 million as at 31 December 2013. In the event that the repayment of borrowings is taken into consideration, the gearing ratio and the net gearing ratio (including the loan from Director and their immediate family members) would be approximately 1.3 times and 1.1 times respectively.

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We wish to highlight that for FY2012, the Group had to supplement its negative operating cash flow of approximately S\$60 thousand and repayment of bank borrowings, finance lease liabilities which totalled approximately S\$4.3 million with an unsecured, interest free and payable on demand loan from its Directors and their immediate family members of approximately S\$2.0 million, and proceeds from bank borrowings of approximately S\$2.5 million. For FY2013, the Group had to supplement its negative operating cash flow of approximately S\$2.8 million and repayment of bank borrowings, finance lease liabilities and loan from Directors and their immediate family members which totalled approximately S\$5.0 million with the net proceeds from the issuance of 75 million placement Shares on 15 March 2013 and 40 million option Shares of approximately S\$5.6 million (after deducting the share issuance expenses).

We note that as at 31 December 2013 the outstanding loan from the Directors and their immediate family members as well as from non-controlling interest were approximately S\$1.6 million and approximately S\$67 thousand respectively. These amounts were unsecured, interest free and payable on demand. We also note the Company's increasing reliance on the support from the Directors over the period under review and that the loan from the Directors and their immediate family members have increased from approximately S\$159 thousand as at 31 December 2010 to approximately S\$1.2 million and S\$3.2 million as at 31 December 2011 and 31 December 2012 respectively. It declined subsequently to approximately S\$1.6 million as at 31 December 2013.

We further note that pursuant to the Deed of Set-Off, which in relation to the subscriptions by the Director and controlling shareholder, Mr George Chew and his wife, Mdm Teresa Tan for their pro rata entitlements of the Rights Shares, the payment for Mr George Chew's and Mdm Teresa Tan's subscriptions of their Rights Shares entitlements will be set-off against the Outstanding SHI Loan owing by the Company to Mr George Chew.

5.2 The Rights Shares being offered to Entitled Shareholders on a pro-rata basis

The Rights Issue is being offered on a pro-rata basis, subject to rounding, to all Entitled Shareholders (including the Concert Parties Shareholders). Entitled Shareholders are at liberty to accept, decline or otherwise renounce or trade their provisional allotments of Rights Shares and will be eligible to apply for additional Rights Shares in excess of their provisional allotments under the Rights Issue.

Thus Entitled Shareholders will get the right of first refusal to subscribe for the Rights Shares based on their provisional allotment of the Rights Shares. In addition, these Entitled Shareholders (including the Concert Parties Shareholders) have the option to apply for additional Rights Shares in excess of their entitlements, except that preference will be given to the rounding of odd lots, and the Directors and substantial Shareholders (which include the Undertaking Shareholders) who have control or influence over the Company in connection with the day-to-day affairs of the Company or the terms of the Rights Issue, or have representation (direct or through a nominee) on the Board and the Undertaking Shareholders will rank last in priority for the rounding of odd lots and allotment of excess Rights Shares.

Hence, Independent Shareholders are not being prejudiced in their subscription of the Rights Shares or the allocation of their application for the excess Rights Shares.

Likewise, the rights of Shareholders' ability to accept, decline or otherwise renounce or trade their provisional allotment of Rights Shares or apply for excess Rights Shares is not affected or varied as a result of the Irrevocable Undertakings or the Whitewash Resolution.

We understand that for practical reasons and to avoid violation of securities legislation applicable in the countries other than Singapore, the Rights Issue is only made in Singapore and the Rights Shares will not be offered to Foreign Shareholders. Foreign Shareholders will not be entitled to participate in the Rights Issue.

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We note from Section 2.8 of the Circular that arrangements may, at the discretion of the Company, be made for provisional allotments of Rights Shares which would otherwise have been provisionally allotted to Foreign Shareholders to be sold “nil-paid” on the Catalist as soon as practicable after dealings in the provisional allotment of Rights Shares commence. Such sales may, however, only be effected if the Company, in its absolute discretion, determines that a premium can be obtained from such sales, after taking into account expenses to be incurred in relation thereto. In such an instance, the Foreign Shareholders shall be entitled to the cash proceeds in proportion to their respective shareholdings or, as the case may be, the number of Shares entered against their names in the Depository Register as at the Books Closure Date, provided that the net proceeds to be distributed to any single Foreign Shareholder is at least S\$10.00.

5.3 Inter-conditionality of the Rights Issue and the Whitewash Resolution

We note from Section 6 of the Circular that the Rights Issue is conditional upon the approval of the Whitewash Resolution and approval of the Whitewash Resolution and the resolution pertaining to the Rights Issue are each conditional on the other.

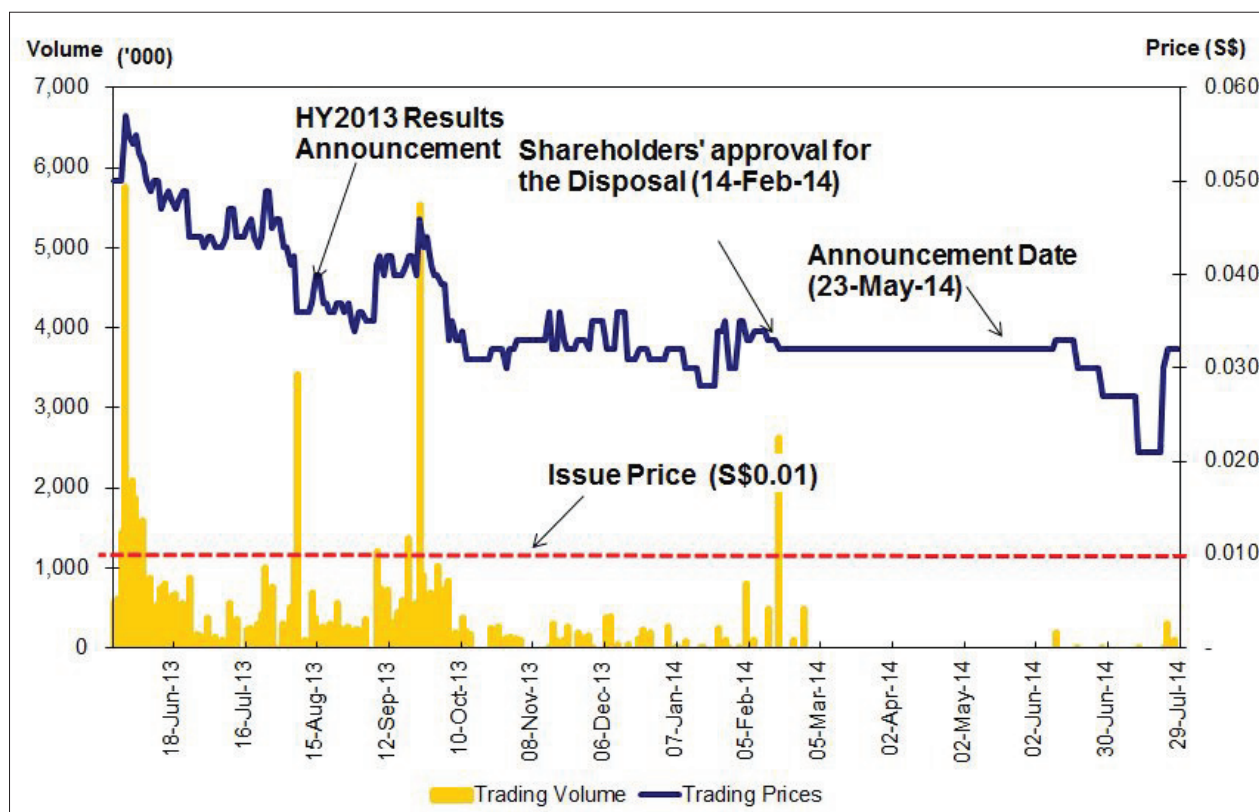
In view of this, in the event that the Whitewash Resolution is not passed by the Independent Shareholders, the Irrevocable Undertakings will not take effect and the Rights Issue will not take place.

5.4 Assessment of the Issue Price for the Rights Shares

In assessing the Issue Price, we have considered the historical trading performance of the Shares as well as the salient statistics of selected Rights Issues of shares by companies listed on the SGX-ST.

(a) Share Price Analysis

The historical price chart (based on the closing prices together with the number of Shares traded on a daily basis) for the Shares during the period commencing from 27 May 2013 (being the Market Day 12 months prior to the Announcement Date) and ending on the Latest Practicable Date is set out below:-



Source: SGX-ST

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For the period commencing from 27 May 2013 and ending on the Announcement Date (both dates inclusive), we note that the closing prices for the Shares were above the Issue Price on 251 Market Days out of the total of 251 Market Days (or the closing price for the Shares were always higher than the Issue Price for the said period). We observed that for the period commencing from 26 May 2014 (being the Market Day immediately after the Announcement Date) till 29 July 2014 (being the Latest Practicable Date), the closing prices for the Shares were above the Issue Price on 46 Market Days out of the total 46 Market Days or all of the Market Days. For the period commencing from 26 May 2014 (being the Market Day immediately after the Announcement Date) till 29 July 2014 (being the Latest Practicable Date), the highest closing price for the Shares was at S\$0.033 per Share on 10 June 2014. The Shares closed at S\$0.032 per Share on 25 July 2014, being the last Trading Day immediately preceding the Latest Practicable Date.

As a general market comparison and observation, the FTSE Straits Times Catalist Index ("**FTSE ST Catalist**") declined by approximately 0.9% for the period commencing from 27 May 2013 and ending on 23 May 2014, being the Announcement Date (both dates inclusive) and subsequently increased by approximately 0.2% from 26 May 2014 to the Latest Practicable Date. The closing price for the Shares have declined by approximately 36.0% for the period commencing from 27 May 2013 and ending on 23 May 2014, being the Announcement Date (both dates inclusive), and subsequently the Shares closed at S\$0.032 per Share on 25 July 2014, being the last Trading Day immediately preceding the Latest Practicable Date, which is equivalent to the last transacted price for the Shares immediately preceding the Announcement Date). The Shares have underperformed the FTSE ST Catalist for both the period commencing from 27 May 2013 and ending on the Announcement Date (both dates inclusive), and the period commencing from 26 May 2014 (being the Market Day immediately after the Announcement Date) till the Latest Practicable Date.

The above chart and the analysis below is presented for illustrative purposes only, and they are by no means representative of the future trading performance or prices for the Shares.

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The volume-weighted closing price (“**VWCP**”), the highest and lowest transacted prices and the average daily trading volume for the Shares, for the period commencing from 27 May 2013 to the Latest Practicable Date are set out below:

	VWCP per Share ⁽¹⁾ (S\$)	Premium/ (Discount) of the Issue Price over/ from VWCP per Share (%)	Lowest transacted price (S\$)	Highest transacted price (S\$)	Average daily trading volume ⁽²⁾ (Shares)	Average daily trading volume as % of free- float ⁽³⁾ (%)
For the period prior to the Announcement Date (23-May-2014)						
Last 12 months	0.044	(77.2)%	0.028	0.059	261,574	0.18%
Last 6 months	0.032	(69.1)%	0.028	0.036	60,065	0.04%
Last 3 months	0.032	(68.8)%	0.032	0.032	9,677	0.01%
Last 1 month ⁽⁴⁾	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Last transacted price on 27 February 2014 (being the last Trading Day immediately preceding the Announcement Date) ⁽⁵⁾	0.032	(68.8)%	0.032	0.032	500,000	0.35%
For the period commencing after the Announcement Date to the Latest Practicable Date						
Till the Latest Practicable Date	0.032	(68.8)%	0.021	0.033	14,087	0.01%
Last transacted price on 25 July 2014 (being the last Trading Day immediately preceding the Latest Practicable Date) ⁽⁶⁾	0.032	(68.8)%	0.028	0.032	101,000	0.07%

Source: SGX-ST

Notes:

- (1) The VWCP had been weighted based on the last transacted prices of the Shares and traded volumes for the relevant trading days for each of the periods.
- (2) The average daily trading volume of the Shares is calculated based on the total number of Shares traded during the period divided by the number of Market Days during that period.
- (3) Public Shareholders float refers to the approximately 143,379,000 Shares or approximately 45.81% of the issued Shares held by Shareholders, other than the substantial Shareholders (including the Undertaking Shareholders) and Directors as at the Latest Practicable Date and as enumerated in the Circular.
- (4) There was no trading of Shares for the 1-month period prior to the Announcement Date.
- (5) This represents the last transacted price instead of VWCP for the Shares on 27 February 2014, being the last Trading day prior to the Announcement Date.
- (6) This represents the last transacted price instead of VWCP and trading volume for the Shares on 25 July 2014, being the last Trading Day prior to the Latest Practicable Date. The Shares were not traded on the Latest Practicable Date.

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Based on a general observation of the chart above and after taking into account the summary of the transacted prices for the Shares, we note that the Issue Price represents:

- (i) a discount of approximately 68.8% from the last transacted price of S\$0.032 per Share on the SGX-ST Catalist on 27 February 2014, being the last trading day immediately preceding the Announcement Date;
- (ii) a discount of approximately 77.2%, 69.1% and 68.8%, from the VWCP for the Shares for the 12-months, 6-months and 3-months period prior to the Announcement Date respectively. There was no trading of Shares for the 1-month period prior to the Announcement Date;
- (iii) a discount of approximately 68.8% from the VWCP for the Shares of S\$0.032 for the period commencing from the Market Day immediately after the Announcement Date and ending on the Latest Practicable Date; and
- (iv) a discount of approximately 68.8% from the last transacted price of S\$0.032 per Share on the SGX-ST Catalist on 25 July 2014, being the last Trading Day prior to the Latest Practicable Date. The Shares were not traded on the Latest Practicable Date.

For illustrative purposes only and based on the number of Shares that were traded on a daily basis during the period commencing from 27 May 2013 and ending on the Latest Practicable Date, we note that: -

- (i) from 27 May 2013 to 23 May 2014, being the Announcement Date (both dates inclusive), Shares were traded on 125 Market Days out of the total 251 Market Days during the period, with the total number of Shares traded being approximately 65.7 million and an average daily trading volume of approximately 261,574 Shares, which represents approximately 0.08% of the issued Share capital as at the Latest Practicable Date or approximately 0.18% of the issued Share capital held by Shareholders other than the Substantial Shareholders (including the Undertaking Shareholders) and the Directors as at the Latest Practicable Date;
- (ii) the trading volume for the Shares were exceptionally high for the following dates: 30 May 2013 (approximately 5.77 million Shares), 6 August 2013 (approximately 3.42 million Shares), 25 September 2013 (approximately 5.54 million Shares) and 18 February 2014 (approximately 2.64 million Shares) prior to and including the Announcement Date. In the event that the number of traded Shares for the above dates were excluded, the discounts implied by the Issue Price from the VWCP for the Shares for the period prior to and including the Announcement Date for the period 12-months would have been lower at approximately 76.8%; and
- (iii) for the period commencing from the Market Day immediately after the Announcement Date till the Latest Practicable Date (both dates inclusive), the Shares were traded on 7 Market Days out of the total 46 Market Days during the period, with the total number of Shares traded being approximately 648.0 thousand and an average daily trading volume of approximately 14,087 Shares, which represents 0.005% of the issued Share capital as at the Latest Practicable Date or approximately 0.01% of the issued Share capital held by Shareholders other than the Substantial Shareholders (including the Undertaking Shareholders) and Directors as at the Latest Practicable Date.

We note that the trading for the Shares is erratic and that the number of Shares traded during the 1 year period analysed prior to the Announcement Date is significantly low as compared to the number of issued Shares as at the Latest Practicable Date. We note that for the period commencing from 27 May 2013 (being the Market Day 12 months prior to the Announcement Date) and ending on the Announcement Date, the Shares were traded only on 125 Trading Days out of the total 251 Market Days. In addition, for the period commencing on 26 May 2014 (being the Market Day immediately after the Announcement Date) and ending on the Latest Practicable Date, the Shares were traded only on 7 Trading Days out of 46 Market Days. It is generally accepted that the more actively traded the Shares, the greater reliance on market prices as a determination of the fair value of the Shares between willing buyer and willing seller.

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We also note that the number of Shares that were traded on a daily basis after the Announcement Date till the Latest Practicable Date is significantly lower as compared to the number of Shares that were traded on a daily basis during the 1 year period prior to the Announcement Date. For the period commencing from 26 May 2014 (being the Market Day immediately after the Announcement Date) till the Latest Practicable Date, the Share price has remained unchanged at S\$0.032 for each Share on 23 May 2014 (being the Announcement Date) and on 25 July 2014, being the last Trading Day preceding the Latest Practicable Date.

It is likely that for the period after the Announcement Date, the significantly lower number of Shares traded on daily basis may have been attributed to or is in anticipation of the proposed Rights Issue and/or the Irrevocable Undertakings. The Shares closed at S\$0.032 per Share on 25 July 2014, being the last Trading Day prior to the Latest Practicable Date. The relatively weaker performance of the Shares as compared to the FTSE STI, may *inter alia*, be a reflection of the prospects or demand for the Shares after the Announcement Date. However, there is no assurance that the observed decline in the average number of Shares traded on a daily basis will continue or that the transacted prices after the completion of the Rights Issue (or if the proposed Rights Issue lapses) will be at the same levels prevailing during the period commencing from the Announcement Date and ending on the Latest Practicable Date and this may *inter alia* be due to short period analysed and the fact that economic and market conditions as well as the Group or the Company's financial performance, position, condition and prospects may change or perceived differently.

We note that as at the Latest Practicable Date, the Company has no outstanding convertible securities.

Independent Directors should note that past trading performance for the Shares may not be relied upon as an indication or promise or prospects of its trading performance in the future.

(b) Market Statistics of Selected Rights Issues

In assessing the reasonableness of the discount to market prices of the Shares as implied by the Issue Price, we have compared selected completed precedent rights issues of ordinary shares announced by companies listed on the SGX-ST (whether Catalist or Main Board) from January 2012 to the Latest Practicable Date (the "**Selected Rights Issues**") where the rights issues are renounceable, non-underwritten and involve a whitewash waiver. Our comparisons below are based on the then existing issued and paid-up share capital of the relevant companies as at the date of announcement and does not take into account any potential issuance of shares arising from exercise or conversion of any warrants or options or other convertible securities. The details are listed below:

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Rights Shares Company	Announcement Date	Principal terms of the rights issue	% holdings of shareholders who undertake to accept their entitlements to the rights to the rights shares	% of undertaken rights shares to total rights shares	Financial position prior to the announcement date	Last transacted share price before announcement or last transacted price on the trading day prior to announcement to announcement	Issue size of rights issue as a percentage of market capitalisation at announcement date or the trading day prior to announcement to announcement	Rights share issue price as a discount to	
								The relevant last transacted share price	Theoretical ex-rights price based on the last transacted share price
Interra Resources Limited	27-Jun-12	1 new rights share at S\$0.150 for every 2 existing shares	29.8%	59.9%	Profit	0.4056	18.5%	63.0%	53.6%
Yoma Strategic Holdings Ltd.	19-Nov-12	1 new rights share at S\$0.38 for every 4 existing shares	41.7%	76.9%	Profit	0.56	20.4%	32.1%	27.5%
Albedo Limited	27-Nov-12	4 rights shares at S\$0.005 with 4 free warrants at exercise price of S\$0.005	23.9%	67.9%	Loss making with disclaimer of opinion and emphasis of matter from the independent auditor pertaining to <i>inter alia</i> going concern	0.02	100.0%	75.0%	37.5%
GSH Corporation Limited (<i>formerly known as JEL Corporation Holdings Ltd</i>)	6-Mar-13	1 rights shares at S\$0.05 for every 1 existing share	46.5%	46.5%	Loss ⁽¹⁾	0.124	40.3%	59.7%	42.5%
MAXIMUM			46.5%	76.9%		0.560	100.0%	75.0%	53.6%
MINIMUM			23.9%	46.5%		0.020	18.5%	32.1%	27.5%
MEDIAN			35.7%	63.9%		0.265	30.3%	61.3%	40.0%
SIMPLE AVERAGE			35.4%	62.8%		0.277	44.8%	57.5%	40.3%
Group	23-May-14	7 Right Shares at S\$0.01 for every 5 existing Shares	54.1%	54.1%	Loss	0.032	43.8%	68.8%	47.8%

Source: Bloomberg, SGX-ST company announcements and circulars

Note:

(1) Based on the audited financial statements for GSH Corporation Limited for the financial year ended 31 December 2011.

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For illustrative purpose only, we note from the above that: -

- (i) The issue size for the Rights Issue represents approximately 43.8% of the market capitalisation of the Company, as at the Announcement Date. This is within the range, higher than the median but lower than the simple average of the issue size as a percentage of the market capitalization for the Selected Rights Issues.
- (ii) The Issue Price represents a discount of approximately 68.8% from the last transacted market price of the Shares on 27 February 2014, being the last Trading Day prior to the Announcement Date. This discount appears to be within range, but higher than both the simple average and the median for the Selected Rights Issues.
- (iii) The Issue Price represents a discount of approximately 47.8% to the theoretical ex-rights price ("TERP") of the Shares of S\$0.0192 (based on the closing price for the Share price on 27 February 2014, being the last Trading Day prior to the Announcement Date) and this discount appears to be within the range but higher than the simple average and median for the Selected Rights Issues, where the rights issue with whitewash waiver was not underwritten by a financial institution.
- (iv) The percentage of undertaking rights shares as compared to the total number of Rights Shares for the Company's Rights Issue, based on the maximum number of Rights Shares to be subscribed pursuant to the Irrevocable Undertakings of approximately 54.1% is within range and lower than both the simple average and median of the Selected Rights Issues.

Independent Directors should note that the relatively higher discount (as compared to the simple average and median for the Selected Rights Issues) represented by the Issue Price to the last transacted market price for the Shares prior to the Announcement Date and the TERP as compared to the Selected Rights Issues must be viewed in the context of the Group's weak financial performance (losses for the past four consecutive financial years with significant dwindling in its revenue and gross profit margin) and position (in terms of the negative net working capital and erosion of the shareholders' equity during the period reviewed) and the ability of the Group to seek alternative forms of financing or equity contribution given their specific context and confirmations or representations, and the low trading liquidity for the Shares prior to the Announcement Date. It is generally accepted that the less actively traded the shares, the lesser the reliance on market prices as a determination of the fair value of the shares between willing buyer and willing seller. Hence, the historically transacted prices for the Shares may not be a meaningful indicator of its financial value.

On balance, given the issue size for the Rights Issue (in terms of comparison with the market capitalization), the Group's weak financial performance and position as well as the percentage of the Rights Issue undertaken, the terms and basis for the Rights Issue appears to be comparable to the Selected Rights Issue, albeit the discount of the Issue Price to the last transacted market price for the Shares prior to the Announcement Date and the TERP may appear to be relatively higher than the simple average for the Selected Rights Issue, but are still within the range of the Selected Rights Issue.

The Independent Directors should note that the underlying transaction for which the Whitewash Resolution is sought is a rights issue, wherein it is generally accepted that a rights issue is usually priced such that the Rights Shares are at a discount to the existing market prices of the Shares as well as on a theoretical rights issue basis) and the ability of the Undertaking Shareholders to subscribe or accept or apply or be allotted for Rights Shares in excess of their entitlements is subject to existing Shareholders rights to subscribe, accept or apply for Rights Shares.

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We wish to highlight that any inference made from the premium and/or discount implied by the issue prices of these rights issues may not be heavily relied upon in making any comparison with the premium and/or discount implied by the Issue Price and are included for illustrative purposes only as the circumstances, terms and basis for the Selected Rights Issues may be different from the Rights Issue.

The above table which are by no means representative of the market, capture only the premium over/discount to of the issue price for the rights shares vis-à-vis the market share price for the Selected Rights Issues and does not highlight the bases other than market price in determining an appropriate level of premium/discount to be set in a rights issue in order to induce shareholders to subscribe the rights shares. Moreover, as the Company may not be directly comparable to the companies under the Selected Rights Issues in terms of the basis for the rights issue of shares or warrants, the size, market capitalization, volume of shares traded, business activities, cash flow requirement, track record and prospects, financial position and performance, the above comparison merely serves as an illustration.

We also wish to highlight that only the issue price of rights shares and the theoretical ex-rights price have been considered in the above tables and no consideration is taken into account for other convertible securities (such as free warrants) or debt securities, if any, attached to the rights issue for the said Selected Rights Issues as well as the requirement of the relevant companies for equity capital or its financial position or performance or prospects. Furthermore, from a general observation of the tables above, the amount of discounts implied in rights issues (if any) may be affected or influenced by *inter alia*, factors such as the financial condition and performance of the companies listed under the Selected Rights Issues, share price, the equity capital markets condition, the relative demand and supply conditions for the shares, the general economic conditions and other prevailing conditions at or about the time of the rights issue.

We advise Independent Directors to note that the business activities, size of operations, risk profile, geographical spread, operating and financial leverage, market capitalisation, composition of business activities, cash flow requirement, track record, future prospects and other relevant criteria of each of the selected companies above are not identical to the Group and/or Company. Accordingly, any inference that can be drawn from the comparison of the relevant discount to theoretical ex-rights prices may not be directly comparable to the Rights Issue and should not be conclusively relied upon.

(c) NAV and NTA of the Group

The NAV based approach of valuing a company or group is based on the aggregate value of all the assets of the company in their existing condition, after deducting the sum of all liabilities of the company and minorities' interests. The NAV based approach is meaningful as it shows the extent to which the value of each share is backed by both tangible and intangible assets and would be relevant in the event that the company or group decides to realise or convert the use of all or most of its assets. The NAV based approach in valuing a company may provide an estimate of the value of a company or group assuming the hypothetical sale of all its assets (including any intangible assets including but not limited to goodwill, trademarks and brand names) in an orderly manner or over a reasonable period of time and at the aggregate value of the assets used in the computation of the NAV, the proceeds of which are used to settle the liabilities, minority interest and obligation of the company or group with the balance to be distributed to its shareholders. However the NAV approach does not take into account or consideration the hypothetical sale of assets in a non-orderly manner or over a short period of time. It does not illustrate the values at which assets may actually be realized or disposed of.

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The NTA based approach of valuing a company or group is based on the aggregate value of all the assets of the company in their existing condition, after deducting the sum of all liabilities and intangible assets of the company. The NTA based approach is meaningful as it shows the extent to which the value of each share is backed by tangible assets and would be relevant in the event that the company or group decides to realise or convert the use of all or most of its assets. The NTA based approach in valuing a company may provide an estimate of the value of a company or group assuming the hypothetical sale of all its assets (other than intangible assets) in an orderly manner over a reasonable period of time at the aggregate value of the assets used in the computation of the NTA, the proceeds of which are used to settle the liabilities, minority interest and obligation of the company or group, with the balance to be distributed to its shareholders. However the NTA based approach does not take into account or consideration the presence of any intangible assets including but not limited to land use rights, goodwill, trademarks and brand names nor does it take into account the hypothetical sale of assets in a non-orderly manner or over a short period of time. It does not illustrate the values of which assets may actually be realized or disposed of.

In assessing the Issue Price of S\$0.01 for each Rights Share in relation to the NAV and NTA per Share of the Group as at 31 December 2013, we have reviewed the audited statement of financial position of the Group as at 31 December 2013 to determine whether there are any assets that are of an intangible nature and as such would not appear in a valuation based on the NTA approach, but would be included in the NAV approach. Save as disclosed in the audited balance sheet of the Group as at 31 December 2013 and in the Circular, the Directors have confirmed, that as at the Latest Practicable Date, to the best of their knowledge and based on disclosures made available to them, there are no other intangible assets or tangible assets which ought to be disclosed in such audited statement of financial position as at 31 December 2013 in accordance with Singapore Financial Reporting Standards and which have not been so disclosed and where such intangible or tangible assets would have had a material impact on the overall financial position of the Group as at Latest Practicable Date.

The Directors have also confirmed that as at the Latest Practicable Date, there were no material contingent liabilities, bad or doubtful debts or unrecorded earnings or expenses or assets or liabilities which could have a material impact on the NAV or NTA of the Group as at 31 December 2013, save as disclosed in the audited financial statement of the Group as at 31 December 2013 as well as the Circular. In addition, the Directors are of the opinion that save as disclosed in the Circular, the values of the assets (other than those for which valuation has been conducted, where applicable), and liabilities as well as financial performance or condition of the Group as disclosed and reflected in the audited financial statements of the Group as at 31 December 2013 are true and fair. Lastly, the Directors confirmed that to the best of their knowledge or belief that such information is true, complete and accurate in all respects and that there is no other information or fact, the omission of which would render those statements or information, including our references, as well as analysis of such information to be untrue, inaccurate or incomplete in any respect or misleading.

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The following table shows an extract of the audited consolidated statement of financial position or balance sheet of the Group as at 31 December 2013:-

Consolidated audited balance sheet as at 31 December 2013⁽¹⁾	S\$'000
<u>Non-current assets</u>	
Property, plant and equipment	3,233
	3,233
<u>Current assets</u>	
Non-current asset held for sale	7,192
Inventories	2,683
Trade and other receivables	3,014
Other current assets	472
Cash and cash equivalents	456
	13,818
<u>Non-current liabilities</u>	
Borrowings	21
Deferred tax liabilities	55
	76
<u>Current liabilities</u>	
Borrowings	10,091
Trade and other payables	5,488
Current income tax liabilities	12
	15,590
Net assets value including non-controlling interest	1,384
Less: Non-controlling interest	(197)
Net assets value attributable to equity holders of the Company ("NAV")	1,581
Less: Intangible assets	—
Net Tangible Assets attributable to equity holders of the Company ("NTA") as at 31 December 2013	1,581
NAV or NTA per Share as at 31 December 2013 (S\$)⁽²⁾	0.005
Issue Price (S\$)	0.01
Premium of Issue Price over the Group's NAV or NTA per Share as at 31 December 2013	98.0%
Cash and cash equivalents (S\$'000)	456
Cash and cash equivalents per Share (S\$)	0.0015
Issue Price less cash and cash equivalents per Share (S\$)	0.0085
NAV/NTA per Share less cash and cash equivalents per Share (S\$)	0.0036
Premium of Issue Price less cash and cash equivalents per Share over the Group's NAV/NTA per Share less cash and cash equivalents per Share	137.8%

Notes:

- (1) The figures above are based on the Group's audited financial statement for financial year ended 31 December 2013. The figures and computations above are subject to rounding.
- (2) The figures are computed based on the Company's issued Share capital of 313,000,000 Shares as at the Latest Practicable Date.

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From the table above, we note that the Group had NAV or NTA of approximately S\$1.6 million based on the audited financial statements as at 31 December 2013 or approximately 0.5 Singapore cent per Share (based on the Company's issued Share capital as at the Latest Practicable Date). The Issue Price of S\$0.01 for each Rights Share represents a premium of approximately 98.0% over the Group's NAV or NTA per Share as at 31 December 2013. In the event that cash and cash equivalents per Share is deducted from the Issue Price as well as the Group's NAV per Share and NTA per Share, the Issue Price represents a premium of approximately 137.8% over both the Group's NAV per Share and NTA per Share after deducting cash and cash equivalents as at 31 December 2013.

Adjusted NTA of the Group

In our evaluation of the Issue Price, we have also considered whether there are any assets which should be valued at an amount that is materially different from that which recorded in the audited balance sheet of the Group as at 31 December 2013. We note from the AR2013 that subsequent to FY2013, the Disposal of the Property has been completed on 4 April 2014. For illustrative purpose only, the gain on the Disposal has been calculated and presented in the table below.

NTA adjusted with the gain from the Disposal ⁽¹⁾	S\$'000
Net proceeds from the Disposal ⁽²⁾	8,432
Net book value of Property	7,192
Gain on the Disposal ⁽²⁾	1,240
NTA as at 31 December 2013	1,581
Add: Gain on the Disposal	1,240
Adjusted NTA	2,821
Adjusted NTA per Share (S\$) ⁽³⁾	0.009
Issue Price (S\$)	0.01
Premium of Issue Price over the Group's Adjusted NTA per Share	11.0%

Notes:

(1) Figures and computation are subject to rounding.

(2) Figures have been provided and confirmed by the Management.

(3) Based on the Company's issued Share capital of 313,000,000 Shares as at the Latest Practicable Date.

Based on the table above, we note that the Group's Adjusted NTA is approximately S\$2.8 million after taking into account the gain on the Disposal of the Property or approximately 0.9 Singapore cents per Share. The Issue Price represents a premium of approximately 11.0% over the Group's Adjusted NTA per Share of the Group.

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The table below presents the Group's Adjusted NTA and taking into account the effects of the Rights Issue (the "**NTA Adjusted with Rights Issue**") under various scenarios and the respective discounts represented by the Issue Price from the NTA Adjusted with Rights Issue:

<i>(Figures are in S\$'000, unless otherwise stated)⁽¹⁾</i>	Minimum Subscription Scenario	Maximum Subscription Scenario
Adjusted NTA	2,821	2,821
Add: net proceeds from the Rights Issue	2,194	4,207
NTA Adjusted with Rights Issue	5,014	7,028
No of Shares ('000)	549,895	751,200
NTA Adjusted with Rights Issue per Share (S\$)	0.0091	0.0094
Premium of the Issue Price from the NTA Adjusted with Rights Issue per Share (%)	9.7%	6.9%

Note:

(1) The figures and computations above are subject to rounding.

From the above table, we note that the Issue Price represents a premium of approximately 9.7% and 6.9% respectively over the Group's NTA Adjusted with Rights Issue per Share under the Minimum Subscription Scenario and the Maximum Subscription Scenario respectively.

It should be noted that the NTA basis of valuation provides an estimate of the value of a hypothetical sale of all its tangible assets over a reasonable period of time and is only relevant in the event that the Group decides to change the nature of its business or to release or convert the uses of all its assets. The NTA basis of valuation, however, does not necessarily reflect the value of the Group as a going concern nor can it capture or illustrate any value for the Group's goodwill or branding. In addition, it does not illustrate the values at which the assets may actually be realised or disposed of.

(d) Relative valuation analysis

In assessing the Group and the Rights Issue, we have also considered the financial performance and position of selected listed companies that may, in our view, be broadly comparable to the core businesses of the Group, which are companies engage in the wood-based and/or lifestyle furniture and other related products ("**Selected Comparable Companies**").

The Selected Comparable Companies have been identified after a search was carried out on SGX-ST and evaluation of the companies operating in the same industries as the Group. We have had discussions with the Directors and Management of the Group about the suitability and reasonableness of these Selected Comparable Companies acting as a basis for comparison with the core businesses of the Group. Relevant information has been extracted from the annual reports and/or public announcements of the Selected Comparable Companies. The Selected Comparable Companies may or may not have significant business operations or assets outside of Singapore and accounting policies with respect to the values for which the assets or the revenue and cost are recorded may differ from the Group. In addition, the liquidity for the shares of the Selected Comparable Companies may differ from that of the Shares and prices at which the Shares and shares of the Selected Comparable Companies trade at, may be caused by any actual, perceived or fundamentally determined risk premiums.

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Independent Directors should note that the market capitalisation of the Group as implied by both the Issue Price and the last transacted price of the Shares as at the Latest Practicable Date are lower than the market capitalisation for the Selected Comparable Companies. It is generally accepted that the valuation statistics for companies with higher market capitalisation may be different from those with lower market capitalisation and this may be attributable to the relative liquidity in terms of number or value of shares traded as well as relative interest in the shares of companies with larger market capitalisations. Likewise the more actively traded the shares are, the greater the relative reliance on the market prices as a determination of the fair value between willing buyers and willing sellers. Notwithstanding that we have evaluated the proposed Rights Issue by comparing a range of valuation statistics as implied by the Issue Price, including historical price to earnings ratio, EV/EBITDA and premium over (or discount from) NTA per share, of the Selected Comparable Companies to the Group.

We also wish to highlight that the NTA based approach for valuing a company is dependent on factors that may differ for each of the Selected Comparable Companies including, *inter alia*, factors such as accounting or depreciation policies. As such, the comparison of the consolidated NTA of the Group with those of the Selected Comparable Companies is necessarily limited and such comparison is made for illustrative purposes only. In addition, as all the ratios and tools used invariably uses the price of the shares, they may or may not take into account any relative or perceived or actual risk premium or demand and supply conditions for those shares which may or may not have been fundamentally justified. In addition, as these are tools or ratios that are based on historical financial performance or position, they may or may not reflect the anticipated financial performance and the mix of it activities or the relative contributions in terms of assets, financial performance may differ.

Independent Directors should note that the prices at which shares trade include factors other than historical financial performance, and some of these, *inter alia*, include prospects real or perceived of financial performance or historical share price performance or demand and supply conditions of the shares as well as the relative liquidity of the shares and the market capitalisation or the relative sentiments of the market for the shares.

Selected Comparable Companies	Market capitalisation (S\$' million)	Principal activities
Koda Ltd (" Koda ") <i>Listed on the SGX-ST</i>	13.7	The company is engaged in the manufacturing of furniture and fixtures of wood (including upholstery), furniture design services and investment holding.
Cacola Furniture International Limited (" Cacola ") <i>Listed on the SGX-ST</i>	12.2	The company is engaged in the design, manufacturing and distribution of a range of modern-style home and office furniture mainly in the People's Republic of China (PRC).
Lorenzo International Limited (" Lorenzo ") <i>Listed on the SGX-ST</i>	19.2	The company is a branded lifestyle furniture retailer and sells its products under the Lorenzo brand name, which are grouped under two main collections: Dante for classic leather sofas and Enzo for wood-based products.
KLW Holdings Limited (" KLW ") <i>Listed on SGX-ST</i>	123.8	The company is engaged in the manufacture and distribution of doors, furniture and fittings, wood related products and supply and installation of doors and wood based flooring and also property leasing business.

Source: Bloomberg, SGX-ST

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The following table tabulates the salient ratios for comparative financial performance and position for the Selected Comparable Companies: -

Selected Comparable Companies	Financial Year Ended	ROE ⁽¹⁾ (%)	Net profit margin ⁽²⁾ (%)	Asset turnover ⁽³⁾ (times)	Total liabilities ⁽⁴⁾ /shareholders' equity ⁽⁵⁾ (times)	Total borrowings ⁽⁶⁾ /shareholders' equity ⁽⁵⁾ (times)
Koda	30-Jun-13	2.5%	1.1%	1.1	0.9	0.4
Cacola ⁽⁷⁾	31-Dec-13	Negative	Negative	0.4	0.3	No borrowings
Lorenzo ⁽⁸⁾	31-Dec-13	Negative	Negative	1.2	1.5	0.8
KLW ⁽⁹⁾	31-Mar-14	0.7%	0.4%	1.0	0.5	0.3
MAXIMUM		2.5%	1.1%	1.2	1.5	0.8
MINIMUM		0.7%	0.4%	0.4	0.3	0.3
MEDIAN		1.6%	0.8%	1.1	0.7	0.4
SIMPLE AVERAGE		1.6%	0.8%	0.9	0.8	0.5
The Group⁽¹⁰⁾	31-Dec-13	Negative	Negative	1.1	9.9	6.4

Source: The latest annual reports or announced unaudited full year financial statements of respectively companies. The ratios for Koda are based on the audited financial statements for the financial year ended on 30 June 2013. The ratios for Cacola and Lorenzo are based on the audited financial statements for the financial year ended on 31 December 2013. The ratios for KLW are based on the audited financial statements for the financial year ended on 31 March 2014. For the Group the ratios are computed based on the audited financial statements for the financial year ended on 31 December 2013.

Notes:

- (1) The return on equity ("ROE") is based on the ratio of the consolidated net profits after tax attributable to the equity holders to the consolidated equity holders excluding minority interest of the respective companies.
- (2) Net profit margin is the ratio of the consolidated net profits after tax attributable to shareholders to the total consolidated revenue of the respective companies.
- (3) Asset turnover is the ratio of the total consolidated revenue to the total consolidated assets of the respective companies.
- (4) Total liabilities include all the liabilities of the respective companies but exclude any contingent liabilities.
- (5) Shareholders' equity is the consolidated shareholders' funds excluding minority interest of the respective companies as at the respective financial year end of the Selected Comparable Companies and the Group.
- (6) Total borrowings include all bank loans and borrowings as well as hire purchase obligations and interest bearing debts.
- (7) Cacola recorded a loss after tax of approximately RMB62.1 million for the financial year ended 31 December 2013, hence its ROE and net profit margin are negative and not meaningful.
- (8) Lorenzo recorded a loss after tax of approximately S\$4.4 million for the financial year ended 31 December 2013, hence its ROE and net profit margin are negative and not meaningful.
- (9) KLW changed their financial year end from 31 December to 31 March and as such, the company is reporting for 15 month ended 31 March 2014.
- (10) The Group incurred a loss after tax attributable to equity holders of the Company of approximately S\$6.0 million for FY2013, hence, the Group's ROE and net profit margin are negative and not meaningful.

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Relative Performance of the Group

For illustrative purposes only, we note the following:

The Group incurred a loss after tax attributable to owners of approximately S\$6.0 million for FY2013. Consequently, the Group's ROE and net profit margin are not meaningful. In comparison, the Selected Comparable Companies (save for Cacola and Lorenzo) were profitable for the period under reviewed with positive ROEs (range from 0.7% to 2.5%) and net profit margins (range from 0.4% to 1.1%). We wish to highlight that the Group's negative ROE of approximately 381.6% is higher and less favourable as compared to Cacola's and Lorenzo's negative ROE ratios of approximately 90.1% and 16.5% respectively, while the Group's negative net profit margin of approximately 32.3% is more favourable than Cacola's negative net profit margin of approximately 171.5%, but less favourable than Lorenzo's negative net profit margin of approximately 5.4%. The Group's asset turnover is within range, in line with the median and higher than the simple average for the Selected Comparable Companies. The ratios for total liabilities to shareholders' equity and total borrowings to shareholders' equity for the Group are higher than any of the Selected Comparable Companies.

In summary, the historical financial performance of the Group for FY2013 (as reflected by its ROE and net profit margin) appears to be much weaker than those for the Selected Comparable Companies (save for negative net profit margin as compared to Cacola). In terms of asset turnover, the Group's ratio appears to be in line with the median and higher than the simple average for the Selected Comparable Companies. In addition, the Group's financial position in terms of financial leverage as reflected by the ratio of total liabilities to shareholders' equity or total borrowings to shareholders' equity are higher and less favourable than any of the Selected Comparable Companies.

We note from the discussion with the Management that assuming the Disposal of the Property had been completed prior to 31 December 2013, the Group would have recorded a gain on disposal of approximately S\$6.1 million hence its profit attributable to equity holders of the Company for FY2013 would have been approximately S\$63 thousand and its ROE would have been approximately 2.2%, which would have been more favourable than any of the Selected Comparable Companies (save for Koda). However, we wish to highlight that the gain on disposal is non-recurring and non-trade in nature.

The following valuation statistics for the Group and Selected Comparable Companies are based on their respective closing prices as at the Latest Practicable Date. All the valuation statistics are computed on a historical basis using financial data and information obtained from their latest publicly available audited financial statements or annual reports.

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The following table tabulates the comparative valuation statistics for the Selected Comparable Companies and the Group and should be evaluated in the context of their relative financial performance.

Selected Comparable Companies	Market capitalisation (S\$ million)	EV/ EBITDA (times)	PER ⁽¹⁾ (times)	P/NAV ⁽²⁾ (times)	P/NTA ⁽³⁾ (times)	Premium/ (discount) over/from NTA (%)
Koda	13.7	9.1	19.3	0.5	0.5	(48.4)%
Cacola ⁽⁴⁾	12.2	Negative	Negative	0.9	0.9	(11.9)%
Lorenzo ⁽⁵⁾	19.2	33.2	Negative	0.7	0.7	(27.3)%
KLW	123.8	67.7	720.9	5.1	5.1	407.6%
MAXIMUM	123.8	67.7	720.9	5.1	5.1	407.6%
MINIMUM	12.2	9.1	19.2	0.5	0.5	(48.4)%
MEDIAN	16.4	33.2	370.1	0.8	0.8	(19.6)%
SIMPLE AVERAGE	42.2	36.7	370.1	1.8	1.8	80.0%
MEDIAN (Excluding KLW)	13.7	21.1	19.3	0.7	0.7	(27.3)%
SIMPLE AVERAGE (Excluding KLW)	15.0	21.1	19.3	0.7	0.7	(29.2)%
The Group						
Last transacted price as at Latest Practicable Date⁽⁶⁾	10.0	Negative⁽⁹⁾	Negative⁽⁹⁾	3.6	3.6	255.1%
Issue Price (S\$0.01)⁽⁷⁾	3.1	Negative⁽⁹⁾	Negative⁽⁹⁾	1.1	1.1	11.0%
Theoretical Ex-Rights Price (S\$0.019)⁽⁸⁾	10.5	Negative⁽⁹⁾	Negative⁽⁹⁾	2.1	2.1	110.2%

Notes:

- (1) The PERs for the Selected Comparable Companies are based on the earnings per share as reflected in their latest announced unaudited full year financial statements or audited financial statements from their annual reports as at the respective financial year end.
- (2) The P/NAV ratios for the Selected Comparable Companies are based on their respective NAV values as set out in their latest available announced unaudited full year financial statements or audited financial statements from their annual reports.
- (3) The P/NTA ratios for the Selected Comparable Companies are based on their respective NTA values as set out in their latest available announced unaudited full year financial statements or audited financial statements from their annual reports.
- (4) Cacola recorded a loss after tax of approximately RMB62.1 million and negative EBITDA of approximately RMB61.8 million for the financial year ended 31 December 2013, hence its EV/EBITDA and PER are negative and not meaningful.
- (5) Lorenzo recorded a loss after tax of approximately S\$4.4 million for the financial year ended 31 December 2013, hence its PER is negative and not meaningful.
- (6) For the Group, the computations for market capitalisation, PER, P/NAV, P/NTA and EV/EBITDA are based on the last transacted price, the issued Share capital as at the Latest Practicable Date and the Group's Adjusted NTA.
- (7) For the Group, the computations for market capitalisation, PER, P/NAV, P/NTA and EV/EBITDA are based on the Issue Price, the issued Share capital as at the Latest Practicable Date and the Group's Adjusted NTA.
- (8) For the Group, the computations for P/NAV and P/NTA are based on the TERP (based on the last transacted price for the Shares prior to the Announcement Date of S\$0.032), as well as the Group's NTA Adjusted with Rights Issue (under the Minimum Subscription Scenario).
- (9) The Group incurred a loss after tax attributable to equity holders of the Company of approximately S\$6.0 million and negative EBITDA of approximately S\$5.3 million for FY2013, hence the valuation statistics for the Group in terms of EV/EBITDA and PER are negative and not meaningful.

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For illustrative purposes only, we note the following:

- (i) The market capitalisation of the Group as implied by the closing price as at the Latest Practicable Date, the Issue Price and the TERP is lower than all the Selected Comparable Companies. We note that the trading statistics for companies with higher market capitalisation may be different than those with lower market capitalisation and this may be attributable to the relative liquidity in terms of number or value of shares traded as well as relative interest in the shares of companies with larger market capitalisations.
- (ii) Valuation of the Group in terms of PER and EV/EBITDA are not meaningful as the Group incurred a loss after tax attributable to equity holders of the Company of approximately S\$6.0 million and a negative EBITDA of approximately S\$5.3 million in FY2013. For illustrative purpose only, the Selected Comparable Companies were traded between 9.1 times to 67.7 times in terms of EV/EBITDA ratio (excluding Cacola) and between 19.3 times to 720.9 times in terms of PER ratio (excluding Cacola and Lorenzo).
- (iii) The ratio of P/NTA for the Group (as implied by the last transacted price as at the Latest Practicable Date and the Group's Adjusted NTA per Share) is approximately 3.6 times (or the last transacted price as at the Latest Practicable Date represents a premium of approximately 255.1% over the Adjusted NTA per Share for the Group) and this is more favourable than any of the Selected Comparable Companies (save for K LW).
- (iv) The ratio of P/NTA for the Group (as implied by the Issue Price and the Group's Adjusted NTA per Share) is 1.1 times (or the Issue Price represents a premium of approximately 11.0% over the Adjusted NTA per Share for the Group) and this is more favourable than any of the Selected Comparable Companies (save for K LW).
- (v) The ratio of P/NTA for the Group (as implied by the TERP and the Group's NTA Adjusted with Rights Issue under the Minimum Subscription Scenario) is 2.1 times (or the TERP represents a premium of approximately 110.2% over the Group's NTA Adjusted with Rights Issue under the Minimum Subscription Scenario) and this is more favourable than any of the Selected Comparable Companies (save for K LW).

The above illustrates that the valuation of the Group in terms of PER and EV/EBITDA are not meaningful given the loss after tax attributable to equity holders and negative EBITDA recorded by the Group in FY2013. Meanwhile, in terms of P/NTA, the valuation of the Group (as implied by the Issue Price and the TERP) is generally more favourable as compared to the Selected Comparable Companies (save for K LW) after taking into account the Group's substantially weaker financial performance and position as compared to the Selected Comparable Companies with losses in the past four consecutive financial years, negative net working capital position in the past three consecutive financial years and dwindling shareholder's equity attributable to equity holders of the Company.

We also wish to highlight that the NAV and NTA based approach of valuing a company is dependent on factors that may differ for each Selected Comparable Company including, *inter alia*, factors such as depreciation policies. As such, the comparison of the NAV and NTA of the Group with those of the Selected Comparable Companies is necessarily limited and such comparison is made for illustrative purposes only. In addition, as all the ratios and tools used invariably uses the price of the shares, they may or may not take into account any relative or perceived or actual risk premiums or demand and supply conditions for those shares which may or may not have been fundamentally justified. In addition, as these are tools or ratios that are based on historical financial performance or position, they may or may not reflect the anticipated financial performance and the mix of its activities or the relative contributions in terms of assets, financial performance may differ.

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Independent Directors should note that the prices at which shares trade include factors other than historical financial performance, and some of these, *inter alia*, include prospects real or perceived of financial performance or historical share price performance or demand and supply conditions of the shares as well as the relative liquidity of the shares and the market capitalisation or the relative sentiments of the market for the shares.

5.5 Potential financial effects of the proposed Rights Issue

The pro-forma financial effects of the proposed Rights Issue under the Minimum Scenario and the Maximum scenario as well as the underlying assumptions are set out in Section 3 of the Circular. We recommend that Independent Shareholders read those pages of the Circular carefully.

The following is an extract from the Circular and is set out in italics below. Unless otherwise defined or the context otherwise requires, all terms defined in the Circular shall have the same meaning herein.

“3. FINANCIAL EFFECTS OF THE RIGHTS ISSUE

The financial effects of the Rights Issue under the Minimum Subscription Scenario and the Maximum Subscription Scenario as presented herein:

- (a) are for illustrative purposes only and are not a projection of the actual future financial performance or financial position of the Group immediately after the completion of the Rights Issue;*
- (b) are based on the audited consolidated financial statements of the Group for FY2013;*
- (c) assume that the Rights Issue was completed on 31 December 2013 for the purposes of computing the financial effects on the share capital, NTA and gearing; and*
- (d) assume that the Rights Issue was completed on 1 January 2013 for the purposes of computing the financial effects on the LPS.*

3.1 Share Capital

The effects of the Rights Issue on the share capital of the Company are follows:

	Assuming Minimum Subscription Scenario		Assuming Maximum Subscription Scenario	
	No. of Shares	S\$	No. of Shares	S\$
<i>Existing Share Capital as at the Latest Practicable Date</i>	313,000,000	13,633,037	313,000,000	13,633,037
<i>Add:</i>				
<i>Rights Shares to be issued pursuant to the Rights Issue</i>	236,895,400	2,193,954	438,200,000	4,207,000
<i>Enlarged issued and paid-up share capital after the Rights Issue</i>	549,895,400	15,826,991	751,200,000	17,840,037

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3.2 NTA per Share

The effects of the Rights Issue on the NTA per Share of the Group based on the audited consolidated balance sheet of the Group as at 31 December 2013 are as follows:

S\$'000	Assuming Minimum Subscription Scenario	Assuming Maximum Subscription Scenario
NTA as at 31 December 2013	1,384	1,384
Add: Net proceeds from the Rights Issue	2,194	4,207
Adjusted NTA after the Rights Issue	<u>3,578</u>	<u>5,591</u>
Before the Rights Issue		
Total number of issued and paid-up Shares	313,000,000 ⁽¹⁾	313,000,000 ⁽¹⁾
NTA per Share (cents)	0.44	0.44
Immediately after the Rights Issue		
Total number of issued Shares	549,895,400 ⁽²⁾	751,200,000 ⁽³⁾
Adjusted NTA per Share (cents)	0.65	0.74

Notes:

(1) Based on the Existing Share Capital.

(2) Based on enlarged total number of issued Shares after the Rights Issue under the Minimum Subscription Scenario of 549,895,400 Rights Shares.

(3) Based on enlarged total number of issued Shares after the Rights Issue under the Maximum Subscription Scenario of 751,200,000 Rights Shares.

3.3 Loss and LPS

The effects of the Rights Issue on the LPS of the Group based on the audited consolidated income statement of the Group for FY2013 are as follows:

	Assuming Minimum Subscription Scenario	Assuming Maximum Subscription Scenario
Loss attributable to Shareholders for FY2013 (S\$)	6,031,816	6,031,816
LPS before the Rights Issue (cents) ⁽¹⁾	2.10	2.10
LPS after the Rights Issue (cents)	1.10 ⁽²⁾	0.80 ⁽³⁾

Notes:

(1) Based on the adjusted weighted average number of Shares of 287,370,000 Shares.

(2) Based on enlarged total number of issued Shares after the Rights Issue under the Minimum Subscription Scenario of 549,895,400 Rights Shares.

(3) Based on enlarged total number of issued Shares after the Rights Issue under the Maximum Subscription Scenario of 751,200,000 Rights Shares.

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3.4 **Gearing**

*In April 2014, the Company completed the disposal of the property at 18 Sungei Kadut Street 2, Singapore 729236. Pursuant to the disposal, approximately S\$8.14 million was paid to the bank to reduce the outstanding bank borrowing of the Group ("**Partial Loan Repayment**").*

The effects of the Rights Issue on the gearing of the Group based on the audited consolidated balance sheet of the Group as at 31 December 2013, after adjusting for the Partial Loan Repayment, are as follows:

S\$'000	Assuming Minimum Subscription Scenario	Assuming Maximum Subscription Scenario
Total Borrowings as at 31 December 2013	11,688	11,688
Less: Partial Loan Repayment in April 2014	8,142	8,142
Repayment of Outstanding SHI Loan	1,005	1,005
Adjusted Borrowings	2,541	2,541
Shareholders' Funds as at 31 December 2013	13,633	13,633
Add: Net proceeds of the Rights Issue	2,194	4,207
Adjusted Shareholders' Funds	15,827	17,840
Gearing (times)		
Before the Rights Issue	0.86	0.86
Immediately after the Rights Issue	0.22	0.20
Immediately after the Rights Issue and the repayment of Outstanding SHI Loan	0.16	0.14

Note:

(1) If the Proposed SHI Interest Payment and Proposed SD Interest Payment are approved, total borrowing will be increased by S\$347,080.

*For purpose of the above calculations, the expression "**gearing**" means the ratio of Total Borrowings to Shareholders' Funds. The expression "**Total Borrowings**" means the amount of liabilities arising from all the borrowings (including hire purchase facilities) from banks and other financial institutions. The expression "**Shareholders' Funds**" means the aggregate of the issued and paid-up share capital, and reserves of the Group."*

We note that the potential financial effects of the Rights Issue:

- are favourable for the NTA per Share of the Group as the NTA per Share for each of the scenario presented (after the Rights Issue) will be increased; and
- are favourable for the loss per Share ("**LPS**") and gearing as the LPS and gearing (immediately after the Rights Issue and immediately after the Rights Issue and the repayment of outstanding SHI Loan) for each of the scenario presented (after the Rights Issue) will be reduced.

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5.6 Dilution impact of the Rights Issue for the Independent Shareholders

In evaluating the dilution impact of the Rights Issue on Independent Shareholders, we have considered the following scenarios:

“**Minimum Subscription Scenario**” is defined as the scenario for the subscription of the Rights Issue that describes the allotment and issue of 236,895,400 Rights Shares based on the assumption that other than the Undertaking Shareholders, none of the other Entitled Shareholders subscribe for their pro rata entitlements of Rights Shares.

“**Maximum Subscription Scenario**” is defined as the scenario for the subscription of the Rights Issue that describes the allotment and issue of 438,200,000 Rights Shares based on the assumption that all of the Entitled Shareholders subscribe and pay for their pro rata entitlements of Rights Shares.

	Before the Rights Issue		Minimum Subscription Scenario		Maximum Subscription Scenario	
	Number of Shares held	% of issued Share capital ⁽¹⁾	Number of Shares held	% of issued Share capital ⁽²⁾	Number of Shares held	% of issued Share capital ⁽³⁾
Undertaking Shareholders						
Chew Ah Ba, George	49,561,284	15.83%	118,947,081	21.63%	118,947,081	15.83%
Teresa Tan	35,449,716	11.33%	85,079,318	15.47%	85,079,318	11.33%
Chew Chiew Siang, Steven	9,200,000	2.94%	22,080,000	4.02%	22,080,000	2.94%
Josca Woo Kong Hwa	37,500,000	11.98%	90,000,000	16.37%	90,000,000	11.98%
Concert Parties Shareholders	131,711,000	42.08%	316,106,399	57.48%	316,106,399	42.08%
Chen Weiping	37,500,000	11.98%	90,000,000	16.37%	90,000,000	11.98%
Undertaking Shareholders	169,211,000	54.06%	406,106,399	73.85%	406,106,399	54.06%
Directors						
Chew Ah Ba, George	49,561,284	15.83%	118,947,081	21.63%	118,947,081	15.83%
Chew Chiew Siang, Steven	9,200,000	2.94%	22,080,000	4.02%	22,080,000	2.94%
Ng Boon Huan, Daniels	350,000	0.11%	350,000	0.06%	840,000	0.11%
Chin Sek Peng, Michael	60,000	0.02%	60,000	0.01%	144,000	0.02%
Tan Eng Kiat Dominic	–	–	–	–	–	–
Substantial Shareholders (excluding Directors)						
Tan Teresa	35,449,716	11.33%	85,079,318	15.47%	85,079,318	11.33%
Chen Weiping	37,500,000	11.98%	90,000,000	16.37%	90,000,000	11.98%
Josca Woo Kong Hwa	37,500,000	11.98%	90,000,000	16.37%	90,000,000	11.98%
Public Shareholders	143,379,000	45.81%	143,379,000	26.07%	344,109,600	45.81%
Independent Shareholders⁽⁴⁾	181,289,000	57.92%	233,789,000	42.52%	435,093,600	57.92%
TOTAL	313,000,000	100%	549,895,400	100%	751,200,000	100.00%

Notes:

- (1) Based on the Company's issued and paid-up share capital of 313,000,000 Shares.
- (2) Based on the enlarged total number of issued Shares of 549,895,400 Shares under the Minimum Scenario.
- (3) Based on the enlarged total number of issued Shares of 751,200,000 Shares under the Maximum Scenario.
- (4) Based on the total number of Shares held by Mr Chen, the Independent Directors and the public Shareholders.

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Based on the table, we note the followings:

- (a) Minimum Subscription Scenario (and on the assumption that only the Undertaking Shareholders subscribe for the Rights Shares pursuant to the Irrevocable Undertakings and none of the other Entitled Shareholders (save for the Undertaking Shareholders pursuant to the Irrevocable Undertakings) subscribe for their entitlements to the Rights Shares and/or apply for excess Rights Shares).

The Concert Parties Shareholders will have their percentage shareholding interest in the Company, increased significantly from approximately 42.08% to approximately 57.48% immediately after the completion of the Rights Issue and the Independent Shareholders will have their aggregate percentage shareholding interest in the Company, reduced significantly from approximately 57.92% to approximately 42.52% immediately after the completion of the Rights Issue.

- (b) Maximum Subscription Scenario (and on the assumption that 438,200,000 Rights Shares based on the assumption that all of the Entitled Shareholders subscribe and pay for their pro rata entitlements of Rights Shares).

The Concert Parties Shareholders will have their percentage shareholding interest in the Company, remained unchanged at approximately 42.08% immediately after the completion of the Rights Issue and the Independent Shareholders will have their aggregate percentage shareholding interest in the Company, remained unchanged at approximately 57.92% immediately after the completion of the Rights Issue.

We note that the Rights Issue will not result in any dilution impact on their percentage shareholdings in the Company in the event that all Shareholders subscribe in full for their respective Rights Shares under the Rights Issue. In this regard, the dilution impact or a reduction in the percentage shareholding interest will only occur for the Independent Shareholders who do not subscribe in full for their respective Rights Shares under the Rights Issue.

However, the percentage shareholding interest of the Concert Parties Shareholders in the Company will increase and consequently, the Independent Shareholder's percentage of aggregate shareholding interest in the Company will be reduced in such event that none or an insufficient number of Shareholders, other than the Undertaking Shareholders, subscribe in full for their respective Rights Shares under the Rights Issue.

5.7 Support from the Undertaking Shareholders

As set out in Section 5 of the Circular, the Rights Issue will be supported by the Undertaking Shareholders.

As at the Latest Practicable Date:

- (a) Mr George Chew held an aggregate of 49,561,284 Shares, representing approximately 15.83% of the aggregate number of issued Shares. Accordingly, Mr George Chew will be entitled to subscribe for an aggregate of 69,385,797 Rights Shares;
- (b) Mdm Teresa Tan held an aggregate of 35,449,716 Shares, representing approximately 11.33% of the aggregate number of issued Shares. Accordingly, Mdm Teresa Tan will be entitled to subscribe for an aggregate of 49,629,602 Rights Shares;
- (c) Mr Steven Chew held an aggregate of 9,200,000 Shares, representing approximately 2.94% of the aggregate number of issued Shares. Accordingly, Mr Steven Chew will be entitled to subscribe for an aggregate of 12,880,000 Rights Shares;

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- (d) Mr Chen held an aggregate of 37,500,000 Shares, representing approximately 11.98% of the aggregate number of issued Shares. Accordingly, Mr Chen will be entitled to subscribe for an aggregate of 52,500,000 Rights Shares; and
- (e) Ms Josca Woo held an aggregate of 37,500,000 Shares, representing approximately 11.98% of the aggregate number of issued Shares. Accordingly, Ms Josca Woo will be entitled to subscribe for an aggregate of 52,500,000 Rights Shares.

As an indication of their support and commitment to the Company, the Undertaking Shareholders have provided the Irrevocable Undertakings as follows:-

- (a) Mr Steven Chew, Mr Chen and Ms Josca Woo, have each executed a Deed of Undertaking pursuant to which they have each given an irrevocable undertaking to the Company to, amongst other things, subscribe and/or cause to be subscribed for and on his/her behalf, their respective entitlements of the Rights Shares subject to, *inter alia*, the Whitewash Waiver being obtained from the SIC and the passing of the Whitewash Resolution at the EGM; and
- (b) Mr George Chew and Mdm Teresa Tan have pursuant to the Deed of Set-Off and subject to the terms and conditions therein contained, including the Whitewash Waiver being obtained from the SIC and the passing of the Whitewash Resolution at the EGM, each given an irrevocable undertaking to the Company to, amongst other things, subscribe and/or cause to be subscribed for and on his/her behalf, their respective entitlements of the Rights Shares.

In addition, each of Mr Steven Chew, Mr Chen, Ms Josca Woo, Mr George Chew and Mdm Teresa Tan have, in their respective Deeds of Undertaking or Deed of Set-Off, as the case may be, undertaken:

- (a) not to sell, transfer or otherwise deal with their respective shareholdings in the Company between the date of their respective undertakings and until the issue of the Rights Shares; and
- (b) to vote, and procure that their respective representatives and proxies will vote all their Shares and any further Shares which he/she may subsequently own or control in favour of the Rights Issue (other than those resolutions which he/she is required by the Company to abstain from voting).

Mr Steven Chew, Mr Chen and Ms Josca Woo have in their respective Deed of Undertaking confirmed to the Company that he/she has sufficient financial resources to subscribe for or procure the subscription in full of all his/her Rights Shares entitlements and Mr George Chew has in the Deed of Set-Off confirmed that he has sufficient financial resources to make payment of the Shortfall.

The Company has received evidence satisfactory to the Company in the form of bank statements of each of Mr George Chew, Mr Steven Chew, Mr Chen and Ms Josca Woo to support their respective confirmations as stated above.

The Undertaking will ensure that net proceeds of at least approximately S\$2.2 million (after deducting estimated expenses of approximately S\$175 thousand) will be raised from the Rights Issue. The net cash proceeds (derived from the Gross Proceeds from the Rights Issue, less estimated costs and expenses relating to the Rights Issue, repayment of the Outstanding SHI Loan, and Proposed SHI Interest Payment) will be approximately S\$3.0 million and S\$1.0 million under the Maximum Subscription Scenario and Minimum Subscription Scenario respectively.

We believe that the above underscores the Undertaking Shareholders' support for the Rights Issue and demonstrates its commitment to and confidence in the prospects of the Group. However in the event that the Undertaking Shareholders does increase their interest in the Company in terms of the numbers of Shares or the percentage shareholding interest pursuant to their Undertaking, Independent shareholders' interest in the Company will be reduced.

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6 OTHER CONSIDERATIONS IN RELATION TO THE WHITEWASH RESOLUTION

The following factors should also be considered together with the other comments and issues raised in this Letter and the contents of the Circular.

6.1 Obligations of the Undertaking Shareholders to make a general offer

As set out in Section 6.3 of the Circular, the Concert Parties Shareholders hold in aggregate not less than 30.0% but not more than 50.0% of the voting rights of the Company, in the event that the Undertaking Shareholders subscribe for, or cause to be subscribed for and on their behalf, their respective entitlements of Rights Shares in full pursuant to the Irrevocable Undertakings but the Rights Issue is not fully subscribed, depending on the level of subscription for the Rights Shares by other Entitled Shareholders, such under-subscribed scenario may result in the aggregate voting rights of the Concert Parties Shareholders in the Company after the Rights Issue increasing by more than 1.0% within a six (6) month period thereby incurring an obligation on them and parties acting in concert with them to make a mandatory general offer under Rule 14 of the Code for the remaining Shares not already owned by them unless such obligation is waived by the SIC.

Further, we note from Section 6.4 of the Circular, the SIC had on 27 June 2014, waived the requirement for the Concert Parties Shareholders to make a Mandatory Offer under Rule 14.1 of the Code in the event that the Concert Parties Shareholders and their concert parties increase their percentage of total voting rights by more than 1.0% in the Company in any six (6) month period based on the Company's enlarged issued capital as a result of the Concert Parties Shareholders subscribing for their pro-rata entitlements of the Rights Shares (in whole or in part) as the case may be, including any application for excess Rights Shares, subject to the SIC Conditions (*inter alia*, approval of the Whitewash Resolution by way of poll).

In this respect, Independent Directors should note that as a result of Independent Shareholders, voting in favour of the Whitewash Resolution, they would forgo their rights or opportunity to sell their existing Shares to the Concert Parties Shareholders at the Issue Price or such other prices as may be applicable for the offer, as they would be able to do so in an event of a mandatory general offer under a takeover situation.

Independent Shareholders should also note that depending on the level of subscriptions or applications or acceptances, the Concert Parties Shareholders percentage shareholding interest in the Company may increase beyond 49%. In such an event, the Concert Parties Shareholders will be free to increase their shareholding in the Company without incurring any obligation under Rule 14 of the Code to make a general offer.

6.2 Potential takeover offer from a third party

Independent Shareholders should note that in the event the Whitewash Resolution is approved, after the Rights Issue, the Concert Parties Shareholders could possibly hold more than 50% of the enlarged issued Share capital (under the Minimum Subscription Scenario). In such a scenario, the Company will be in a relatively less favourable position, in the context of interest from potential parties seeking control for the Company or who may have intentions to acquire a significant interest or control of the Company and thus, it may be less likely for a third party to make a takeover offer for the Company without the support of the Concert Parties Shareholders.

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6.3 Implications of the Concert Parties Shareholders' controlling interest in the Company

Depending on the level of subscriptions or applications or acceptance, the Concert Parties Shareholders' percentage shareholding interest may increase beyond 50% after the Rights Issue. In such an event, the Concert Parties Shareholders will be in a position to exercise statutory control of the Company. Statutory control will put the Concert Parties Shareholders in a position to be able to pass all ordinary resolutions on matters in which the Concert Parties Shareholders do not have an interest in and which are tabled for Shareholders' approval at general meetings to be convened by the Company. Accordingly, the ability of the Independent Shareholders to vote and influence the outcome of such resolutions are significantly reduced.

6.4 Pre-emptive rights

As the process for the Rights Issue requires an "offer" first to Shareholders, Independent Shareholders should note that they have a "pre-emptive" right with respect to their ability to subscribe for such Rights Shares. Independent Directors should highlight to Independent Shareholders that voting for or against the Whitewash Resolution individually does not preclude them (on the basis that they are Entitled Shareholders for the Rights Issue) from accepting the Rights Shares, declining or otherwise renouncing or trading their provisional allotments of Rights Shares or applying (for that matter) additional Rights Shares in excess of their provisional allotments under the Rights Issue. However, we note that the Rights Issue is conditional on the Whitewash Resolution. In the event that the Whitewash Resolution is not approved or obtained, the Rights Issue will not take place. Independent Directors should note that the Undertaking Shareholders' ability to subscribe for additional Rights Shares will only arise after satisfaction of all acceptances for the Rights Shares and application for excess Rights Shares (other than applications from the Undertaking Shareholders).

6.5 Funding alternative

We understand from the Directors that they had considered other funding alternatives, including external borrowing from financial institutions, before eventually deciding to proceed with the Rights Issue.

The Directors note that the Group's existing weak financial performance and position (in particular, the losses incurred in the past four financial years with significant deterioration in its revenue, negative net working capital and the erosion of the shareholders' equity) makes it difficult to seek any meaningful amount of external borrowing from financial institutions or to obtain underwriting for the rights issue.

We note from the discussion with the Directors that as it may be costly to obtain underwriting for the Rights Issue and in view of the Group's existing weak financial performance and position, the Irrevocable Undertakings present a realistic opportunity for the Company to raise the required funds via the Rights Issue and ensuring that there is at least S\$2.2 million in net proceeds is available for the Group upon completion of the Rights Issue for the strengthening of the financial position and capital base of the Company and to provide additional working capital for the operations of the Group. We note from Section 2.7 of the Circular that under the Minimum Subscription Scenario, while approximately S\$1.2 million of the net proceeds from the Rights Issue will be used toward repayment of the Outstanding SHI Loan and partial repayment of the Proposed SHI Interest Payment (subject to the IPT approvals), approximately S\$1.0 million will be used for working capital.

In view of the reason stated above, the Irrevocable Undertakings and cost savings in respect of underwriting fees, the Rights Issue will not be underwritten by any financial institution. Likewise it does appear and as confirmed by the Directors that that the Rights Issue is a realistic means as a step for the Group to lower its leverage and gearing.

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6.6 Past fund raising exercises

We note that since FY2010, the Company has conducted the following fund raising exercises:

- a) The Company had on 2 November 2011 entered into a conditional subscription and option agreement (the “**Subscription and Option Agreement**”) with Mr Kwan Chee Seng (“**Mr Kwan**”) pursuant to which the Company has agreed to allot and issue, an aggregate of 40 million new Shares (the “**Placement Shares**”) at an issue price of S\$0.06 for each Placement Share (the “**Placement Price**”) and a grant of call option to Mr Kwan, pursuant to which Mr Kwan shall be entitled to subscribe for up to an additional 40 million new Share (“**Option Shares**”) at the issue price of S\$0.06. The Placement Shares represented approximately 25.3% of the then existing Share capital. The aggregate consideration for the subscription of the Placement Shares is approximately S\$2.4 million and the aggregate consideration payable by Mr Kwan for the subscription of the Option Shares (assuming the call option is exercised in full) is S\$2.4 million. The Placement Price represents a premium of approximately 7.14% over the volume-weighted average price of S\$0.056 for each Share, based on trades done on the SGX-ST Catalist on 2 November 2011 (being the full market day on which the Shares were last traded before the Subscription and Option Agreement was signed) and a premium of approximately 57.2% over the Group’s unaudited NTA per Share as at 30 June 2011 (being the latest available interim financial results for the Group prior to the signing of the Subscription and Option Agreement).
- b) The Company had on 6 March 2013 entered into a subscription agreement (the “**Subscription Agreement**”) with Mr Chen Wei Ping and Ms Josca Woo pursuant to which the Company has agreed to allot and issue, an aggregate of 75 million new Shares (the “**Subscription Shares**”) at an issue price of S\$0.0428 for each Subscription Share (the “**Subscription Price**”), amounting to an aggregate consideration of S\$3.21 million, on the terms and conditions set out in the Subscription Agreement. The Subscription Shares represented approximately 37.9% of the then existing Share capital. The Subscription Price represents a discount of approximately 10.0% to the volume-weighted average price of S\$0.04755 for each Share, based on trades done on the SGX-ST Catalist on 5 March 2013 (being the full market day on which the Shares were last traded before the Subscription Agreement was signed) and a substantial premium of approximately 4,431.8% over the Group’s NTA per Share as at 31 December 2012 (being the last available financial results for the Group prior to the signing of the Subscription Agreement).

We note that the discount implied by the Issue Price from the last transacted price of the Shares prior to the Announcement Date of approximately 68.75% is less favourable as compared to the premium/discount of the Placement Price (which was at a premium of approximately 7.14%) and the Subscription Price (which was at a discount of approximately 10.0%), over/from the respective last transacted prices prior to the signing of the respective agreement. In addition, we note that the premium implied by the Issue Price over the audited NTA per Share for the Group as at 31 December 2013 of approximately 98.0% is more favourable as compared to the premium of the Placement Price over the Group’s unaudited NTA per Share as at 30 June 2011 but less favourable as compared to the premium of the Subscription Price over the Group’s NTA per Share as at 31 December 2012. Lastly, the premium implied by the Issue Price over the Adjusted NTA per Share for the Group of approximately 11.0% is less favourable as compared to the premium of the Placement Price over the Group’s unaudited NTA per Share as at 30 June 2011 and the premium of the Subscription Price over the Group’s NTA per Share as at 31 December 2012.

We note that the gross proceeds raised from the Subscription and Option Agreement in 2011 and the Subscription Agreement in 2013 of approximately S\$4.8 million and approximately S\$3.2 million respectively were higher than the minimum gross proceeds from the Rights Issue of approximately S\$2.4 million for which the Undertaking Shareholders have provided the Irrevocable Undertakings.

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The above comparison has to be assessed in the context of the fact that the economic or general market conditions for the Shares or the prices for which the Shares were traded at the time then prevailing as well as the purpose for the issuance of such instruments may have been different from the Rights Issue or the Whitewash Resolution. In addition, Independent Directors should note and highlight to Independent Shareholders that the underlying transaction for which the Whitewash Resolution is sought being a rights issue, wherein the rights shares are normally issued at a discount to the prevailing market prices and where shareholders have a pre-emptive right for acceptance or subscription or application for excess Rights Shares.

7 EVALUATION OF THE PROPOSED IPT

For the purposes of evaluating the financial terms of the Proposed IPT, we have given due consideration to, *inter alia*, the following key factors:

- (i) Rationale for the Proposed Interest Payment;
- (ii) Comparison with the Group's historical interest rate for its external borrowings;
- (iii) Comparison with the Singapore's historical prime lending rate;
- (iv) Comparison with the Company's historical cost of capital;
- (v) No alternative source of funding during the period from FY2010 to FY2013;
- (vi) Rank of the Outstanding SHI Loan and the Outstanding SD Loan;
- (vii) Retrospective application of the Proposed Interest Payment;
- (viii) Issue Price at premium to the Group's Adjusted NTA;
- (ix) The proposed Rights Issue not conditional upon the approval of the Proposed IPT; and
- (x) Interests on the remaining outstanding balance post Rights Issue

These factors are discussed in greater detail in the ensuing sections. The discussion and analysis on the Proposed IPT herein should be read in conjunction with *inter alia* the IPT Limitation.

7.1 Rationale for the Proposed Interest Payment

The rationale of the Proposed Interest Payment have been disclosed in Section 10.4 of the Circular and have been extracted and set out in italic below. Unless otherwise defined or the context otherwise requires, all terms defined in the Circular shall have the same meaning herein.

"10.4 Rationale for the Proposed Interest Payment

Mr George Chew had during the relevant period when the Company was in need of financial support, made loan advances to the Company for its working capital requirements. The amount of loan advances made to the Company ranged between S\$158,513.00 and S\$3,031,863.00, and the amount of loan advances made to SD ranged between S\$50,000.00 and S\$578,060.00. The loan advances were financed by a combination of Mr George Chew's personal credit facilities from banks and funds raised from disposal of his personal investment assets. Mr George Chew personally paid interests to the banks in relation to funds drawn from his personal credit facilities.

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As a result of Mr George Chew's loan advances, the Group had been less reliant on other external sources of funding. In addition, the effective rates of interest incurred by the Group on loans that it had been able to procure from third party bank/lender in FY2010, FY2011 and FY2013 were generally higher (but lower in FY2012) than the rates of interest proposed to be paid to Mr George Chew as set out in Sections 10.2 and 10.3.

*The Proposed SHI Interest Payment and Proposed SD Interest Payment (collectively, “**Proposed Interest Payment**”) are to compensate Mr George Chew for his interests and opportunity costs.”*

7.2 Comparison with the Group's historical interest rate for its external borrowings

In our evaluation of the interest rates on Outstanding SHI Loan and Outstanding SD Loan, we have made comparison between the interest rates on Outstanding SHI Loan and Outstanding SD Loan against the Group's historical interest rate for its external borrowings provided by third party banks or finance companies.

As set out in Section 10.2 and 10.3 of the Circular, interest rate of the Outstanding SHI Loan and the Outstanding SD Loan are as follow:

FY	Loan Amount Outstanding		SHI Interest	
	Lowest S\$	Highest S\$	Interest Rate Per annum	SHI Interest Amount S\$
2010	158,513.00	300,000.00	5.28%	3,358.07
2011	273,513.00	1,163,963.00	5.28%	50,627.55
2012	2,147,463.00	3,016,563.00	5.28%	151,438.55
2013	998,000.00	3,031,863.00	5.28% and 5.68%	83,117.87
1 January 2014 to 30 April 2014	984,000.00	1,005,504.00	5.68% and 6.65%	21,038.11
1 May 2014 until repayment	1,005,504.00		Applicable Interest Rate	— ⁽¹⁾

Note:

- (1) *The amount of interest payable for the period from 1 May 2014 will be computed up to the date of payment of the Outstanding SHI Loan.*

FY	Loan Amount Outstanding		SD Interest	
	Lowest S\$	Highest S\$	Interest Rate Per annum	SHI Interest Amount S\$
2012	50,000.00	240,500.00	5.28%	4,751.87
2013	237,265.00	578,060.00	5.28% and 5.68%	20,586.61
1 January 2014 to 30 April 2014	578,060.00	578,060.00	5.68% and 6.65%	12,161.89
1 May 2014 until repayment	578,060.00		Applicable Interest Rate	— ⁽¹⁾

Note:

- (1) *The amount of interest payable for the period from 1 May 2014 will be computed up to the date of payment of the Outstanding SD Loan.*

Based on the Company's annual reports for FY2010 to FY2013, the loans provided by Mr George Chew (the “**Interested Person**”) to SHI and SD are unsecured, with no defined maturity date, and repayable on demand. We note from the Circular that the interest payable on Outstanding SHI Loan and Outstanding SD Loan are derived from the actual interest cost rates incurred by Mr George Chew plus 4.0% per annum.

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The proposed interest rates on the Outstanding SHI Loan and Outstanding SD Loan for the period on or prior to 30 April 2014 are derived from the actual interest cost rates incurred by Mr George Chew plus 4.00% per annum. For avoidance of doubt, the interest rates payable for the period on or after 1 May 2014 will be determined based on the same method. The interest rates on Outstanding SHI Loan and Outstanding SD Loan for both periods (on or before 30 April 2014 and on or after 1 May 2014) is referred as the “**IPT Interest Rate**”.

The table below sets out a summary of the Group’s credit facilities extended by third party banks or financing companies or third party individual for FY2010 to the Latest Practicable Date:

Financial Year	Type of Credit Facilities	Purpose	Interest rate	Securities/collateral
FY2010	Term loan	LEFS bridging Loan	5.00%	N.A
	Term loan	Commercial property loan	5.72%	1) Legal mortgage over 18 Sungei Kadut property. 2) Joint and several guarantee for \$2.616 million by executive directors (Mr George Chew and Mr Steven Chew)
	Term loan	Term loan	11.00%	Corporate guarantee by the Company
FY2011	Term loan	Bridging loan	5.00%	N.A
	Term loan	Property loan	5.52%	1) Legal mortgage over 18 Sungei Kaudut property. 2) Joint and several guarantee for \$2.616 million by executive directors (Mr George Chew and Mr Steven Chew)
FY2012	Term loan	Bridging loan	5.00%	N.A
	Term loan	Property loan	5.25%	1) Legal mortgage over 18 Sungei Kaudut Property.
	Term loan	Term loan	6.00%	2) Joint and several guarantee for \$2.616 million by Executive directors (Mr George Chew and Mr Steven Chew)
FY2013	Term loan	Bridging loan	5.00%	N.A
	Term loan	Property loan	5.25%	1) Legal mortgage over 18 Sungei Kaudut property.
	Term loan	Term Loan	6.00%	2) Joint and several guarantee for \$2.616 million by Executive directors (Mr George Chew and Mr Steven Chew)
FY2014	Term loan	1 month loan	60.00%(1)	Corporate guarantee by the Company

Notes:

- (1) This is an urgent one month bridging loan of S\$200,000 obtained by SD to refinance and/or for working capital purpose. The interest amount paid was S\$10,000.00 for 1 month, thus computed to be 5.00% per month or annualised 60% per annum. The principal and interest for this loan was fully settled on 27 January 2014.
- (2) The Group’s trust receipt has been excluded as it is for trading in nature and denominated in US dollars.

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For illustrative purpose only, we note from the above table that the Group's credit facilities carry interests ranging from 5.0% to 11.0% per annum for the period FY2010 to FY2013. The IPT Interest Rate is within the range of the interest rates paid by the Group for its external borrowings provided by the third party banks or finance companies for the period FY2010 to FY2013. In addition, we note that save for the bridging loan facilities, all the credit facilities provided by the external financiers are secured (*inter alia*, with a leasehold property at 18 Sungei Kadut, personal guarantees provided by both Mr George Chew and Mr Steven Chew, or corporate guarantee by the Company itself).

The comparison of the IPT Interest Rate against the Group's historical and current interest rates payable for its credit facilities provided by the external parties, should be assessed in the context of the fact that both the Outstanding SHI Loan and the Outstanding SD Loan are unsecured, whilst the Group's external credit facilities for FY2010 to FY2013 were all secured loan (save for bridging loans) with securities including, *inter alia*, legal mortgage over the Property and/or personal guarantees provided by the Interested Person and another Executive Director (who is an immediate family member of the Interested Person).

The Directors and the Management have represented that there is no prior agreement to rank the Outstanding SHI Loan and Outstanding SD Loan in priority to the credit facilities extended by third parties, whether secured or unsecured, in the event of liquidation of the Company or SD (as the case may be). In addition the Directors and the Management have represented that in view of the absence of such prior agreement, the Outstanding SHI Loan and the Outstanding SD Loan will at most rank *pari passu* with all the unsecured debts provided by the existing lenders in the event of a liquidation of the Company or SD, as the case may be.

The table below sets out the comparison of the IPT Interest Rate against the weighted average interest rates and effective interest rates for the Group:

	Weighted Average Interest Rates ⁽¹⁾	Effective Interest Rate ⁽²⁾	IPT Interest Rate
FY2010	5.88%	5.40%	5.28%
FY2011	5.26%	5.61%	5.28%
FY2012	5.41%	4.81%	5.28%
FY2013	5.39%	5.89%	5.28% and 5.68%
1 January 2014 to 30 April 2014	—	—	5.68% and 6.65%
1 May 2014 until repayment	—	—	Applicable Interest Rate

Notes:

- (1) Interest rates of the loans from third party banks are weighted by average outstanding balance.
- (2) Effective interest rate of the loans from third party banks are computed using actual interest paid on those loans during the financial year.
- (3) The Group's trust receipt has been excluded as it is for trading in nature and denominated in US dollars.
- (4) The bridging loan with interest of 60.0% per annum for FY2014 was excluded as such interest rate is outlier in nature and the loan was repaid within one month, and the Company does not have any other facilities from the bank since January 2014.

Based on the table above and for illustrative purpose only, we note the following:-

- (i) the IPT Interest Rate were always lower than the weighted average interest rates for the Group's external borrowings for the period under review (FY2010 to FY2013), save for FY2011 and the higher end of the IPT Interest Rate for FY2013;
- (ii) the IPT Interest Rate were lower than the Group's effective interest rate for FY2010, FY2011 and FY2013, but it was higher than the Group's effective interest rate for FY2012;

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- (iii) we note that the Disposal of the Property was completed on 4 April 2014 and the net proceeds from the Disposal of approximately S\$8.4 million has been fully disbursed for repayment of bank borrowings (approximately S\$8.1 million) and for general working capital (approximately S\$0.3 million);
- (iv) SD obtained a one month bridging loan of S\$200,000 subsequent to FY2014 (which was secured by a corporate guarantee by the Company). The principal and interest for this one month bridging loan was fully settled on 27 January 2014. The interest amount paid was S\$10,000.00 for 1 month, thus computed to be 5.00% per month or annualised 60% per annum.

In summary, we note that the IPT Interest Rate were generally lower than the weighted average interest rates (save for FY2011 and the higher end of the IPT Interest Rate for FY2013) and the effective interest rates for the Group's external borrowings (save for the effective interest rate for the Group for FY2012 which was relatively lower as compared to the IPT Interest Rate). Independent Directors should review the comparison of the IPT Interest Rate and the Group's weighted average interest rates and effective interest rates in the context of the fact that the Outstanding SHI Loan and the Outstanding SD Loan were unsecured whilst the Group's external credit facilities were all secured loan (save for bridging loans (other than the 1 month bridging loan in FY2014) in FY2010, FY2011, FY2012 and FY2013) with securities including, *inter alia*, legal mortgage over the Property and/or personal guarantees provided by the Interested Person and another Executive Director (who is an immediate family member of the Interested Person). It is generally accepted that secured lending with higher seniority usually carries much lower interest rate than those unsecured lending and subordinated loans, as lenders' risks will usually be significantly reduced by having priority in charges or legal claims over valuable securities/collaterals in the event of default and/or in repayment orders. The loan from Interested Person was not repaid despite the non-subordination.

7.3 Comparison with the Singapore's historical prime lending rate

In addition to the comparison with lending facilities provided to the Group by third party, we have also compared the IPT Interest Rate against the Singapore's historical prime lending rate.

The table below sets out the IPT Interest Rate in comparison against Singapore prime lending rate:

	Singapore Prime Lending Rate	IPT Interest Rate
FY2010	5.38%	5.28%
FY2011	5.38%	5.28%
FY2012	5.38%	5.28%
FY2013	5.38%	5.28% and 5.68%
1 January 2014 to 30 April 2014	5.35%	5.68% and 6.65%
1 May 2014 until repayment	5.35%	Applicable Interest Rate

Note:

- (1) Source for Singapore prime lending rate ("**Singapore Prime Rate**") is from Monetary Authority of Singapore (the "**MAS**") website. The data provided by MAS refer to average rates compiled from that quoted by 10 leading banks and finance companies.

Prime rate as defined by the Association of Banks in Singapore ("**ABS**") as the lowest lending rate which a bank is prepared to lend in Singapore Dollars to its best customers on an overdraft or demand basis. We observe from the table above, for the period from FY2010 to FY2012, the IPT Interest Rate were lower than the Singapore Prime Rate. However, we note for the FY2013, the higher end of the IPT Interest Rate of 5.68% per annum, and for the period commencing from 1 January 2014 till 30 April 2014, the Applicable Interest Rate were higher than the Singapore Prime Rate.

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We wish to highlight that banks and financing companies determine their prime rates based on factors, *inter alia*, cost of funds, spread to cover credit risks, operating expenses and a desired return on shareholders' funds. Credit risks of the borrowers' vary based on, *inter alia*, general economy environment in which the borrowers operates in, financial performance, financial position, existing debt burden, credit history, and availability of assets to be securitised/collateralized. As such, comparison with Singapore Prime Rate is generally limited.

Independent Directors should note and assess the above comparison in the context of the Group's weak financial performance (loss making position for the last four consecutive financial years with significant dwindling in its revenue and gross profit margin) and financial position (in terms of negative net working capital and erosion in the shareholders equity) and that the Outstanding SHI Loan and the Outstanding SD Loan are unsecured.

7.4 Comparison with the Company's historical cost of capital

To evaluate the Interest Rate, we have also assessed the Company's historical cost of capital, as cost of capital represents Company's historical costs for the funds as at that point in time. Corporations should strive to seek lower cost for funding whenever they are available, be it debt financing or equity financing. We note from the Bloomberg that the weighted average cost of capital ("**WACC**") of the Company ranged between approximately 4.0% per annum to 7.0% per annum for the period starting from FY2010 to FY2012. There was no data for the period during FY2013 and the Bloomberg indicated that the WACC of the Group as at the Latest Practicable Date was 0.4634% (which may not be relevant in view of the negative Beta as indicated in the Bloomberg).

We note that for the period between FY2010 to FY2013, the IPT Interest Rate is within the range of the Company's historical WACC.

Shareholders should note that WACC is the rate that a company is expected to pay on average to all its security holders (debt or equity) to raise financing, it does not indicate the actual costs incurred during the period under review.

7.5 No alternative source of funding during the period from FY2010 to FY2013

The Directors note that the Company's historical financial performance and position (in particular, the losses incurred and the negative net working capital position in FY2010 to FY2013) makes it difficult to seek any meaningful amount of external borrowing from financial institutions.

We note that all the Group's bank borrowings during FY2010 to FY2013 (save for the bridging loans) are not only secured by mortgage but are also supported by personal guarantees from the Interested Person and another Executive Director (who is an immediate family member of the Interested Person), if not for the mortgage and the personal guarantee the banks may not even extend the facilities to the Group in view of its weak financial performance and position during the period under review.

The Directors have confirmed that they were not aware of any alternative offers for funding from other parties during the period under review, which was comparable in nature, size, and interest rates and scope to the Outstanding SHI Loan and the Outstanding SD Loan. In the event that the Proposed IPT resolution is not passed, the interest on the Outstanding SHI Loan will be repaid from internal sources other than from the Right Issue Proceeds. Directors have also confirmed that the Company will repay and/or refinance Outstanding SD Loan in the event that funding with better terms become available to the Company.

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7.6 Rank of the Outstanding SHI Loan and the Outstanding SD Loan

Based on the discussion with the Directors and Management, we note that the Outstanding SHI Loan and the Outstanding SD Loan are unsecured and there is no formal document which records its ranking amongst other secured or unsecured indebtedness. Accordingly, the Outstanding SHI Loan and the Outstanding SD Loan will at most rank *pari passu* with all the unsecured debts provided by the existing lenders in the event of a liquidation of the Company or SD, as the case may be.

7.7 Retrospective application of Proposed Interest Payment

Based on the discussion with the Directors and Management, we understand that there has been no formal documentation for both the SHI and SD loans in the past and that the SHI and SD loans were recorded under other receivables in the Company's annual reports for financial period ended FY2010 (the "**AR2010**"), FY2011 (the "**AR2011**"), FY2012 (the "**AR2012**"), and AR2013 had been disclosed under the notes to the respective financial statements as other payables – directors and their immediate family members (the "**Amount due to Directors and Their Immediate Family Members**"). The Amount due to Directors and Their Immediate Family Members are unsecured, interest free and are payable on demand.

We further note from Section 10.4 of the Circular that Mr George Chew had during the relevant period when the Company was in need of financial support, made loan advances to the Company for its working capital requirements. The amount of loan advances made to the Company ranged between S\$158,513.00 and S\$3,031,863.00, and the amount of loan advances made to SD ranged between S\$50,000.00 and S\$578,060.00. The loan advances were financed by a combination of Mr George Chew's personal credit facilities from banks and funds raised from disposal of his personal investment assets. Mr George Chew personally paid interests to the banks in relation to funds drawn from his personal credit facilities. As a result of Mr George Chew's loan advances, the Group had been less reliant on other external sources of funding. In addition, the effective rates of interest incurred by the Group on loans that it had been able to procure from third party banks/lenders in FY2010, FY2011 and FY2013 were generally higher (but lower in FY2012) than the rates of interest proposed to be paid to Mr George Chew as set out in Sections 10.2 and 10.3 of the Circular. The Directors have also represented that given the weak financial performance and position of the Group, there were constraints and difficulties for the Group to obtain additional financing from external parties.

The Outstanding SHI Loan and Outstanding SD Loan were extended on an ad hoc and as and when the Company and its subsidiary needed the fund on an urgent basis. In addition, we also understand from the Management and Directors that it has always been the Company's and Mr George Chew's intention to include an interest element in SHI Loan and SD Loan. However, due to the urgent needs for funding, Mr George Chew disbursed the said loans to the Company and SD on a good faith basis without documenting the terms on the interest payment. The Directors are aware on the said arrangement.

The Directors confirm that the Proposed Interest Payment had been brought up for discussion during various board meetings in the past and that the Directors have in the past agreed in principle on the payment of interest on Outstanding SHI Loan and Outstanding SD Loan (subject to Shareholders' approval due to the nature of the transaction being an interested person transaction defined under Catalist Rules).

The Proposed Interest Payment will apply retrospectively for the outstanding balances of both SHI and SD loans as at the end of FY2010 to the Latest Practicable Date and are proposed by the Company to compensate Mr George Chew for his interests and opportunity costs.

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7.8 Issue Price at premium to the Group's Adjusted NTA

As set out under Section 5.4 of this Letter, the Issue Price of the proposed Rights Issue is at a premium of approximately 11.0% over the Group's Adjusted NTA per Share. As such, in the event that the Proposed IPT is approved during the EGM, the Proposed Interest Payment would be effectively converted into Rights Shares at an Issue Price that is at a slight premium to the Group's Adjusted NTA per Share. In the event the Proposed IPT resolution is passed, the Group will make repayment of the Outstanding SHI Loan and partial repayment of the Proposed SHI Interest Payment by issuance of the Rights Shares at the Issue Price which is at a premium of approximately 11.0% over the Group's Adjusted NTA per Share.

7.9 The proposed Rights Issue not conditional upon the approval of the Proposed IPT

We note as set out in Section 2.3 of the Circular, the conditions precedent to the proposed Rights Issue do not include the approval of the Proposed IPT at the same EGM. As such the proposed Rights Issue is not conditional upon the approval for the Proposed IPT.

In addition, it is set out in Section 9 of the Circular that in the event that the IPT Approvals are not obtained for the Proposed SHI Interest Payment, the Outstanding SHI Loan will be set-off firstly towards payment in full for Mdm Teresa Tan's subscription for her Rights Shares entitlement, and the balance will then be set-off towards partial payment for Mr George Chew's subscription for his Rights Shares entitlement. The Shortfall, being the balance subscription monies of S\$184,650.00 payable in respect of Mr George Chew's subscriptions of his Rights Shares entitlement after off-setting the Outstanding SHI Loan, will be paid in cash.

7.10 Interests on the remaining outstanding balances post Rights Issue

In addition, the Directors have confirmed that as part of the Deed of Set-off, and in consideration of the repayable by demand nature of the 2 outstanding loans, the lender's agreement not to charge interest in the past and continued advances and support in terms of the loans outstanding, the Company and the Mr George Chew have agreed subject to Independent Shareholders approvals to the following:

- i. The payment of interest at an agreed rate and amount for both loans outstanding.
- ii. The repayment of the principal amount outstanding under SHI Loan of S\$1,005,504 via offsetting any amounts payable by Mr George Chew and Mdm Teresa Tan for their aggregate rights entitlement, being S\$1,190,154.
- iii. The repayment of interest payable for the SHI Loan (subject to Independent Shareholders approval for the interest) of S\$309,580 via partially offsetting the difference between aggregate amounts payable by both Mr George Chew and Mdm Teresa Tan for their rights entitlement of S\$1,190,154 and the principal amount outstanding under SHI Loan of S\$1,005,504 or S\$184,650. The balance of the interest payable of S\$124,930 will not be repaid from the cash proceeds of the Rights Issue. In the event that Independent Shareholders approval is not obtained for the interest payable for the SHI Loan, there will be no interest payable for the SHI Loan.
- iv. The repayment of the principal amount outstanding under SD Loan of S\$578,060 via the Group's internal resources as may be decided by the Directors (other than those interested in the repayment of interest) from time to time in the interest of the Company.
- v. The repayment of interest payable for the SD Loan (subject to Independent Shareholders approval for the interest) of S\$37,500 via the Group's internal resources as may be decided by the Directors (other than those interested in the repayment of interest) from time to time in the interest of the Company. In the event that Independent Shareholders approval is not obtained for the interest payable for the SD Loan, there will be no interest payable for the SD Loan.

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- vi. The Outstanding SD Loan and the Proposed SD Interest Payment (subject to Independent Shareholders approval for the interest) will not be eligible to be offset against the subscription monies payable by Mr George Chew and Mdm Teresa.

We note from the Circular that pursuant to the Deed of Set-Off, the Outstanding SHI Loan will be used to offset the subscription monies payable by Mr George Chew and Mdm Teresa Tan first before applying the Proposed SHI Interest Payment, if the Proposed IPT is approved in the EGM. In the event, that the Proposed IPT is not approved in the EGM, only Outstanding SHI Loan will be used to offset the subscription monies payable by Mr George Chew and Mdm Teresa Tan. As such, an additional amount of S\$184,650 is payable by Mr George Chew and Mdm Teresa Tan in cash for the subscription of their rights entitlement.

In addition, Outstanding SD Loan and the Proposed SD Interest Payment will not be eligible to be offset against the subscription monies payable by Mr George Chew and Mdm Teresa. It is further noted that pursuant to Section 2.7 of the Circular, the Company does not intend to utilise the net proceeds of the Rights Issue for the repayment of any balance of the unpaid SHI Interest and they will not be applied to be set-off Mr George Chew's subscription for his Rights Shares entitlements and any excess Rights Shares application. Further, Mr George Chew has confirmed that he will not demand for immediate repayment of any balance of the unpaid SHI Interest and the Outstanding SD Loan subsequent to completion of the Rights Issue.

In view of the above, we note that there will be remaining outstanding interests for Outstanding SHI Loan and remaining outstanding principal and interest for SD Loan post Rights Issue.

As set out in the Circular Section 10.2, the Applicable Interest Rate from 1 May 2014 onwards is determined based on the actual interest cost rate incurred by Mr George Chew plus 4.0% per annum.

Directors have confirmed that the Company will undertake to repay or refinance Outstanding SHI Loan and Outstanding SD Loan in the event that they can procure funding with better terms and rates (as compared to the Outstanding SHI Loan and Outstanding SD Loan) become available to the Company.

8. OPINION AND RECOMMENDATION

In arriving at our recommendation, we have reviewed and examined all factors which we have considered to be pertinent in our assessment of the Whitewash Resolution and the Proposed IPT, including the views of and representations by the Directors. Our recommendation or opinion is by no means an indication of the merits of the prospects, financial performance and position of the Company or the Group or the prices at which the Shares would trade after the completion of the transactions, or the adequacy of the Group's working capital after the repayment of the Outstanding SHI Loan, the Outstanding SD Loan and the Proposed Interest Payment, or the sufficiency of the Rights Issue to address the concerns of the Company or the Group and is not a recommendation from us for further investments in the Company or the Group or for the Independent Shareholders to subscribe for or apply for any Rights Shares.

8.1 The Whitewash Resolution

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

- (a) The rationale and use of proceeds as outlined in Section 2.7 of the Circular.

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- (b) The historical and current weak financial performance, position and condition of the Company. The Group reported losses after tax attributable to equity holders of the Company for the last four consecutive financial years (being FY2010 to FY2013) with significant dwindling in its revenue and gross profit margin. The Group recorded negative net working capital as at the end of FY2011, FY2012 and FY2013 (with improvement noted in FY2013 but it remains in the negative region). We note from AR2013 that despite the gain from the Disposal, all the net proceeds from the Disposal of approximately S\$8.4 million has been fully disbursed for repayment of bank borrowings (approximately S\$8.1 million) and for general working capital (approximately S\$0.3 million). We also note the Company's reliance on the support from the Directors over the period under review with loan from the Directors and their immediate family members amounted to approximately S\$1.6 million as at 31 December 2013 (which is lower than approximately S\$3.2 million as at the end of FY2012 but higher than approximately S\$1.2 million as at the end of FY2011).
- (c) The Rights Issue is offered to the Entitled Shareholders who get the "right of first refusal" (for their provisional allotments of the Rights Shares) and can subscribe if they choose to subscribe for their Rights Shares. Entitled Shareholders also have the option of trading their provisional allotment in the open market as well as applying for excess Rights Shares. These Entitled Shareholders (including the Concert Parties Shareholders) have the option to apply for additional Rights Shares in excess of their entitlements, except that preference will be given to the rounding of odd lots, and the Directors and Substantial Shareholders (which include the Undertaking Shareholders) who have control or influence over the Company in connection with the day-to-day affairs of the Company or the terms of the Rights Issue, or have representation (direct or through a nominee) on the Board and the Undertaking Shareholders will rank last in priority for the rounding of odd lots and allotment of excess Rights Shares. Hence, Independent Shareholders are not being prejudiced in their subscription of the Rights Shares or the allocation of their application for the excess Rights Shares. The Company will also not make any allotment and issue of any excess Rights Shares that will result in a transfer of controlling interest in the Company unless otherwise specifically approved by Shareholders in a general meeting.
- (d) The approval of the Whitewash Resolution and the Rights Issue are inter-conditional. In the event that the approval by the Independent Shareholders for the Whitewash Resolution is not obtained, the proposed Rights Issue will not take place.
- (e) The Group's historical financial performance, position and condition as at 31 December 2013 are weaker with significantly higher leverage as compared to the Selected Comparable Companies, which operates in the same industry that the Group operates in.
- (f) The Issue Price (as set out in Section 5 of this Letter) after taking into account *inter alia* the following factors:
- (i) a discount of approximately 68.8% from the last transacted price of S\$0.032 per Share on the SGX-ST Catalist on 27 February 2014, being the last trading day immediately preceding the Announcement Date;
 - (ii) a discount of approximately 77.2%, 69.1% and 68.8%, from the VWCP for the Shares for the 12-months, 6-months and 3-months period respectively prior to the Announcement Date respectively. There was no trading of Shares for the 1-month period prior to the Announcement Date;
 - (iii) a discount of approximately 68.8% from the VWCP for the Shares of S\$0.032 for the period commencing from the Market Day immediately after the Announcement Date and ending on the Latest Practicable Date; and
 - (iv) a discount of approximately 68.8% from the last transacted price of S\$0.032 per Share on the SGX-ST Catalist on 25 July 2014, being the last Trading Day prior to the Latest Practicable Date.

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- (v) The Issue Price represents a discount of approximately 68.8% to the last transacted market price of the Shares on 27 February 2014, being the last Trading Day prior to the Announcement Date which appears to be within range, but higher than both the simple average and the median for the Selected Rights Issues. In addition, the Issue Price represents a discount of approximately 47.8% to the TERP of the Shares of S\$0.0192 (based on the closing price for the Share price on 27 February 2014, being the last Trading Day prior to the Announcement Date) and this discount appears to be within the range but higher than the simple average and median for the Selected Rights Issues, where the rights issue with whitewash waiver was not underwritten by a financial institution. The relatively higher discounts represented by the Issue Price to the last transacted market price for the Shares prior to the Announcement Date as well as the TERP as compared to the Selected Rights Issues must be viewed in the context of the Group's weak financial performance (losses for the past four consecutive financial years with significant dwindling in its revenue and gross profit margin) and position (in terms of the negative net working capital and erosion of the shareholders' equity during the period reviewed) and the ability of the Group to seek alternative forms of financing or equity contribution given their specific context and confirmations or representations, and the low trading liquidity for the Shares prior to the Announcement Date. It is generally accepted that the less actively traded the shares, the lesser the reliance on market prices as a determination of the fair value of the shares between willing buyer and willing seller. Hence, the historically transacted prices for the Shares may not be a meaningful indicator of its financial value.
- (vi) The Issue Price represents a premium of approximately 98.0% over the Group's NTA per Share as at 31 December 2013 or a premium of approximately 11.0% over the Group's Adjusted NTA per Share after taking into consideration the gain on the Disposal of the Property. The premium of approximately 11.0% over the Group's Adjusted NTA per Share is more favourable than any of the Selected Comparable Companies (save for KLV).
- (vii) The Issue Price represents a premium of approximately 9.7% and 6.9% respectively over the Group's NTA Adjusted with Rights Issue per Share under the Minimum Subscription Scenario and the Maximum Subscription Scenario respectively.
- (viii) The ratio of P/NTA for the Group as implied by the TERP is 2.1 times (or the TERP represents a premium of approximately 110.2% over the Group's NTA Adjusted with Rights Issue under the Minimum Subscription Scenario) and is more favourable than any of the Selected Comparable Companies (save for KLV).
- (g) The Irrevocable Undertakings given by the Undertaking Shareholders indicates a commitment and confidence in the Company after the Rights Issue as well as ensuring that the minimum net proceeds of approximately S\$2.2 million will be raised from the Rights Issue.
- (h) The potential favourable financial effects of the Rights Issue as outlined in Section 3 of the Circular on the Group's NTA per Share, LPS and gearing.
- (i) The potential dilutive impact of the Rights Issue on the percentage of shareholding interest of the Independent Shareholders as compared the percentage of interest before the Rights Issue. Depending on the level of subscriptions or applications or acceptance, the Concert Parties Shareholders' percentage shareholding interest may increase beyond 50%. In such an event, the Concert Parties Shareholders will be in a position to exercise statutory control of the Company. Accordingly, the ability of the Independent Shareholders to vote and influence the outcome of such resolutions are significantly reduced.

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- (j) The Directors' confirmation and representation that they have considered other alternative fund raisings, however are of the opinion that the Rights Issue and the Irrevocable Undertakings present a realistic opportunity to raise funds and ensuring that there is at least S\$2.2 million in net proceeds available for the Group upon completion of the Rights Issue for the strengthening of the financial position and capital base of the Company and to provide additional working capital for the operations of the Group. Under the Minimum Subscription Scenario, approximately S\$1.2 million of the net proceeds from the Rights Issue will be used toward repayment of the Outstanding SHI Loan and partial repayment of the Proposed SHI Interest Payment (subject to the IPT Approvals) and approximately S\$1.0 million will be used for working capital.
- (k) Other considerations in relation to the Whitewash Resolution as set out in Section 6 of this Letter.

In summary, having regard to our analysis and the consideration in this Letter and after having considered carefully the information available to us and based on the market, economic and other relevant conditions prevailing as at the Latest Practicable Date and subject to our terms of reference, we are of the view that the financial terms of the Rights Issue, being the transaction that is subject of the Whitewash Resolution, is, on balance **FAIR AND REASONABLE** from a financial point of view.

For the purposes of evaluation of the Rights Issue, being the transaction that is subject of the Whitewash Resolution, from a financial point of view, we have adopted the approach that the term "fair and reasonable" should be regarded as comprising two distinct concepts:

- (i) Whether a rights issue is "fair" relates to an opinion on the value of the issue price which is based strictly on the evaluation of the issue price (i.e. by looking at the financial or fundamental analyses of the Issue Price as set out in this Letter and based on information known to us or which is publicly available) and taking into account the fact that the underlying transaction for which the Whitewash Resolution is sought being the a rights issue, wherein it is generally accepted that a rights issue is usually priced such that the Rights Shares are at a discount to the existing market prices of the Shares as well as on a theoretical rights issue basis) and the ability of the Undertaking Shareholders to subscribe or accept or apply or be allotted for Rights Shares in excess of their entitlements is subject to, *inter alia*, existing Shareholders rights to subscribe, accept or apply for Rights Shares.
- (ii) Whether a rights issue is "reasonable", after taking into consideration the actual and potential financial impact of other circumstances surrounding the Rights Issue and the Company which we consider relevant (being quantitative and qualitative factors).

The Issue Price is at a substantial discount from the historical market prices for the Shares for the period before the Announcement Date and for the period after the Announcement Date to the Latest Practicable Date whilst we note that the historical prices for the Shares may not be a meaningful indicator of its financial value given the low liquidity of the Shares; we consider the Rights Issue to be FAIR, from a financial point of view, for the following reasons:

- (i) The Issue Price represents a premium of approximately 98.0% over the Group's NTA per Share as at 31 December 2013 or a premium of approximately 11.0% over the Group's Adjusted NTA per Share after taking into consideration the gain on the Disposal of the Property. The premium of approximately 11.0% over the Group's Adjusted NTA per Share is more favourable than any of the Selected Comparable Companies (save for KLV).
- (ii) The Issue Price represents a premium of approximately 9.7% and 6.9% respectively over the Group's NTA Adjusted with Rights Issue per Share under the Minimum Subscription Scenario and the Maximum Subscription Scenario respectively.
- (iii) The TERP represents a premium of approximately 110.2% over the Group's NTA Adjusted with Rights Issue under the Minimum Subscription Scenario) and is more favourable than any of the Selected Comparable Companies (save for KLV).

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We also consider the Rights Issue to be REASONABLE, from a financial point of view, for the following reasons:

- (i) The Group's weak financial performance (losses for the past four consecutive financial years with significant dwindling in its revenue and gross profit margin) and position (in terms of the negative net working capital for the past three consecutive financial years and erosion of the shareholders' equity during the period reviewed) and the ability of the Group to seek alternative forms of financing or equity contribution given their specific context and confirmations or representations.
- (ii) On balance, the terms and basis for the Rights Issue appears to be comparable to the Selected Rights Issue considering the issue size for the Rights Issue (in terms of comparison with the market capitalisation), the Group's weak financial performance and position as well as the percentage of the Rights Issue undertaken, albeit the discount of the Issue Price to the last transacted market price for the Shares prior to the Announcement Date and the TERP may appear to be relatively higher than the simple average for the Selected Rights Issue, but are still within the range of the Selected Rights Issue.
- (iii) The potential favourable financial effects of the Rights Issue as outlined in Section 3 of the Circular on the Group's NTA per Share, LPS and gearing.
- (iv) The Directors' confirmation and representation that they have considered other alternative fund raisings, including but not limited to placement as the Company was unable to source and procure investors, and are of the opinion that the Rights Issue and the Irrevocable Undertakings present a realistic opportunity to raise funds and ensuring that there is at least S\$2.2 million in net proceeds is available for the Group upon completion of the Rights Issue for the strengthening of the financial position and capital base of the Company and to provide additional working capital for the operations of the Group. Under the Minimum Subscription Scenario, approximately S\$1.2 million of the net proceeds from the Rights Issue will be used toward repayment of the Outstanding SHI Loan and partial repayment of the Proposed SHI Interest Payment (subject to the IPT Approvals) and approximately S\$1.0 million will be used for working capital.

Lastly, having considered all of the above, subject to the qualifications and assumptions set out in this Letter including but not limited to the uncertainties, the Group's historically weak financial performance and position, and in the context of the Group's present circumstances including the negative net working capital position of the Group as at 31 December 2013 and the constraints which faced by the Group in seeking alternative forms of financing or equity contribution given their specific context and confirmations or representations, we are of the opinion that, based on the information available to us as at the Latest Practicable Date the Whitewash Resolution is **not prejudicial** to the interests of the Independent Shareholders, when considered in the context of the "pre-emptive" rights accorded to all shareholders pursuant to the Rights Issue, as well as the fact that the Whitewash Resolution may facilitate the Rights Issue in ensuring that there is at least approximately S\$2.2 million in net proceeds from the Irrevocable Undertakings and in the context of the Directors' confirmation that after taking into consideration the present bank facilities, the working capital available to the Group is not sufficient to meet its present requirements; as well as our understanding from the Directors that as it may be costly to obtain underwriting for the Rights Issue, the Irrevocable Undertakings present a realistic opportunity for the Company to raise the required funds for strengthening its financial position and capital base of the Company notwithstanding that it may not be adequate to significantly address the issues highlighted in this Letter, *inter alia*, the negative net working capital position and erosion of the Group's shareholders equity.

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8.2 The Proposed IPT

In arriving at our recommendation in respect of, the Proposed IPT, we have taken into account, *inter alia*, the following factors summarised below as well as others elaborated elsewhere in our Letter. The following should be read in conjunction with, and in the context of, the full text of this Letter (including *inter alia* its limitation and constraints).

- (a) The rationale of the Proposed Interest Payment as set out in Section 10.4 of the Circular which indicated, *inter alia*, that Mr George Chew had during the relevant period when the Company was in need of financial support, made loan advances to the Company for its working capital requirements, which we have viewed in conjunction with the Directors' representation that (i) given the weak financial performance and position of the Group, there were constraints and difficulties for the Group to obtain additional financing from external parties, and (ii) the rates of interest incurred by the Group on loans that it had been able to procure from third party bank/lender in FY2010, FY2011 and FY2013 were generally higher but lower in FY2012 than the IPT Interest Rate.
- (b) The Group's weak historical financial performance (losses for the past four consecutive financial years with significant dwindling in its revenue and gross profit margin) and position (in terms of the negative net working capital for the past three consecutive financial years and erosion of the shareholders' equity during the period reviewed).
- (c) The IPT Interest Rate (as set out in Section 7 of this Letter) after taking into account, *inter alia*, the following factors:-
 - (i) the IPT Interest Rate for the Outstanding SHI Loan and the Outstanding SD Loan is within the range of the historical interest rates paid by the Group to the external financiers.
 - (ii) the IPT Interest Rate were lower than the weighted average interest rates for the Group's external borrowings for the period under review (FY2010 to FY2013), save for FY2011 and the higher end of the IPT Interest Rate in FY2013.
 - (iii) the IPT Interest Rate were lower than the Group's effective interest rate for FY2010 FY2011, and 2013, but they were higher than the Group's effective interest rate for FY2012.

Independent Directors should review the comparison of the IPT Interest Rate and the Group's weighted average interest rates and effective interest rates in the context of the fact that the Outstanding SHI Loan and the Outstanding SD Loan are unsecured whilst the Group's external credit facilities for FY2010 to FY2013 were all secured loan (save for bridging loans) with securities including, *inter alia*, legal mortgage over the Property and/or personal guarantees provided by the Interested Person and another Executive Director (who is an immediate family member of the Interested Person). It is generally accepted that secured lending with higher seniority usually carries much lower interest rate than those unsecured lending and subordinated loans, as lenders' risks will usually be significantly reduced by having priority in charges or legal claims over valuable securities/collaterals in the event of default and/or in repayment orders. The loan from Interested Person was not repaid despite the non-subordination.

- (iv) For the period from FY2010 to FY2012, the IPT Interest Rate was lower than the Singapore Prime Rate. However, we note for the FY2013, the highest IPT Rate of 5.68% per annum and the IPT Interest Rate for the period commencing from 1 January 2014 till 30 April 2014, were higher than the Singapore Prime Rate. The comparison between the IPT Interest Rate with the Singapore Prime Rate should be reviewed in the context of the Group's weak financial performance (loss making position for the last four consecutive financial years

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with significant dwindling in its revenue and gross profit margin) and financial position (in terms of negative net working capital and erosion in the shareholders equity) and that the Outstanding SHI Loan and the Outstanding SD Loan are unsecured whilst the Singapore Prime Rate is for overdraft facility which may be secured.

- (v) For the period between FY2010 to FY2012, the IPT Interest Rate are within the range of the Company's historical WACC.
- (d) In view of the Company's historical financial performance and position (in particular, the losses incurred and the negative net working capital position in FY2010 to FY2013) makes it difficult to seek any meaningful amount of external borrowing from financial institutions. The Directors have also confirmed that they were not aware of any alternative offers for funding from other parties during the period under review, which was comparable in nature, size and interest rate and scope to the Outstanding SHI Loan and the Outstanding SD Loan.
- (e) Ranking of the Outstanding SHI Loan and Outstanding SD Loan. The Directors and the Management have also represented that there is no prior agreement to rank the Outstanding SHI Loan and Outstanding SD Loan in priority to credit facilities extended by third parties whether secured or unsecured, in the event of a liquidation of the Company or SD, as the case may be. In addition the Directors and the Management have represented that in view of the absence of prior agreement, the Outstanding SHI Loan and the Outstanding SD Loan will at most rank *pari passu* with all the unsecured debts provided by the existing lenders in the event of a liquidation of the Company or SD, as the case may be.
- (f) The Proposed Interest Payment will apply retrospectively for the outstanding balances of both SHI and SD loans as at the end of FY2010 to the Latest Practicable Date and are proposed by the Company to compensate Mr George Chew for his interests and opportunity costs. There is however no interest paid or accrued or approved by Independent Shareholders at the time of grant of the loan. Prior to the Announcement Date, there is no formal agreement which is normally expected for payment of interest and interest for the loans to the Group (being interested persons transactions), is subject to Independent Shareholders approval. Independent Directors should note the application of interest is normally and commercially agreed and formalized prior to the grant of the loan in most circumstances, and interest for such loans from interested persons is subject to Independent Shareholders approval. Whilst there was no formal agreement, the Directors have previously agreed in-principle on the payment of interest on SHI Loan and SD Loan, subject to Independent Shareholders' approval (due to the nature of the transactions being an interested person transaction).
- (g) The offsetting arrangement for the SHI Outstanding Loan and the Proposed SHI Interest Payment pursuant to the Deed of Set-Off which we have viewed in conjunction with the fairly valued Issue Price for the Rights Issue, being at a premium of approximately 11.0% over the Group's Adjusted NTA per Share. As such, in the event that the Proposed IPT is approved during the EGM, the Proposed SHI Interest Payment would be effectively converted into Rights Shares at an Issue Price which is at a premium to the Group's Adjusted NTA per Share.
- (h) The Rights Issue not conditional upon the approval of the Proposed IPT.
- (i) Directors have confirmed that payment of interests on the Outstanding SHI Loan and Outstanding SD Loan had been brought up several times during the past Board meetings, and the Board have in-principle agreed to pay the interests on the Outstanding SHI Loan and Outstanding SD Loan, subject to Shareholders' approval and, where applicable, compliance with the Catalist Rules and other applicable rules and regulations. Due to the weak financial performance and position of the Company and the urgent need for working capital requirements, the Board was of the view that the Company was unable to pay the interest.

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- (j) Directors' confirmation and undertaking on the repayment or refinancing of Outstanding SHI Loan and Outstanding SD Loan in the event that funding with better terms and rates (as compared to the Outstanding SHI Loan and Outstanding SD Loan) become available to the Company

In summary, our opinion takes into account of our analysis and consideration in this Letter and is subject to the qualifications and assumptions as set out in this Letter including but not limited to the fair comparison of the IPT Interest Rate with the weighted average and effective interest rate for the Group's existing credit facilities provided by third parties as well as the Singapore Prime Rate after taking into account the fact that the Outstanding SHI Loan and the Outstanding SD Loan are unsecured and their ranking is at most, *pari passu* with the unsecured credit facilities extended by the third parties, the Directors' representation and confirmation that (i) given the weak financial performance and position of the Group, there were constraints and difficulties for the Group to obtain additional financing from external parties; (ii) the rates of interest incurred by the Group on loans that it had been able to procure from banks and other lenders are generally higher than the IPT Interest Rate; (iii) the Proposed Interest Payment had been brought up for discussions during various board meeting in the past and the Directors have agreed in principle on the payment of interest on Outstanding SHI Loan and Outstanding SD Loan (subject to Shareholders' approval due to the nature of the transaction being an interested person transaction defined under Catalist Rules); and (iv) the Outstanding SHI Loan and Outstanding SD Loan will be repaid in the event that funding with better terms and rates become available to the Company; we are of the opinion that based on the information available to us as at the Latest Practicable Date, the Proposed IPT in terms of the IPT Interest Rate payable is **on normal commercial terms**.

Lastly, having regard to the rationale for the Proposed Interest Payment which we have reviewed together with the Directors' confirmation and representation that (i) given the weak financial performance and position of the Group, there were constraints and difficulties for the Group to obtain additional financing from external parties, (ii) the rates of interest incurred by the Group on loans that it had been able to procure from banks and other lenders are generally higher than the IPT Interest Rate; (iii) the Proposed Interest Payment had been brought up for discussion during various board meetings in the past, the Directors have in the past agreed in principle on the payment of interest on Outstanding SHI Loan and Outstanding SD Loan (subject to Shareholders' approval due to the nature of the transaction being an interested person transaction defined under Catalist Rules); (iv) the Outstanding SHI Loan and Outstanding SD Loan will be repaid in the event that funding with better terms and rates become available to the Company; and (v) as part of the Deed of Set-off, and in consideration of the repayable by demand nature of the 2 outstanding loans, the lender's agreement not to demand and charge interest in the past and continued advances and support in terms of the loans outstanding, as well as the offsetting arrangement for the SHI Outstanding Loan and the Proposed SHI Interest Payment pursuant to the Deed of Set-Off which we have viewed in conjunction with the fairly valued Issue Price for the Rights Issue, being at a premium of approximately 11.0% over the Group's Adjusted NTA per Share, we are of the view that based on the information available to us as at the Latest Practicable Date, the Proposed IPT in terms of the IPT Interest Rate payable is **not prejudicial** to the interest of the Independent Shareholders and the Company.

Recommendation

Accordingly, we advise the Independent Directors to recommend that Independent Shareholders vote **in favour of** the Whitewash Resolution and the resolution for the Proposed IPT to be proposed at the EGM, and to highlight to Independent Shareholders the matters as stated in our Letter and to exercise caution in their decision in relation to the Whitewash Resolution and the resolution for the Proposed IPT.

In performing our evaluation, we have not been provided with, and have not had access to, any financial projections or future plans or corporate actions (if any) of the Group or the plans to hedge the exchange risk. The opinion set forth herein is based solely on publicly available information and information provided by the Directors and the Management and therefore does not reflect any projections or future financial performance of the Company or the Group after the completion of the Rights Issue and Proposed IPT and as well as the economic and market conditions prevailing as of the date of this opinion. Our advice is solely confined to our views on the financial terms of the Whitewash Resolution in relation to the Rights Issue and the Proposed IPT.

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Matters to highlight

We would also wish to highlight the following matters which may affect the decisions or actions of the Independent Shareholders:

1. Independent Shareholders should note that:
 - (a) by voting for the Whitewash Resolution, they will be waiving their rights to receive a Mandatory Offer from the Concert Parties Shareholders and their concert parties at the highest price paid or agreed to be paid by the Concert Parties Shareholders and their concert parties for the Shares in the past six (6) months preceding the commencement of the Mandatory Offer;
 - (b) the acquisition of the Rights Shares by the Concert Parties Shareholders may result in the Concert Parties Shareholders and their concert parties holding Shares carrying over 49.0% of the voting rights of the Company based on its enlarged total number of issued Shares, and the Concert Parties Shareholders and their concert parties will be free to acquire further Shares without incurring any obligation under Rule 14 of the Code to make a Mandatory Offer; and
 - (c) the Irrevocable Undertakings and the Rights Issue are conditional upon the approval of the Whitewash Resolution by the Independent Shareholders. In view of this, in the event that the Whitewash Resolution is not passed by the Independent Shareholders, the Irrevocable Undertakings will not take effect and the Rights Issue will not take place.
2. Our scope does not require us and we have not made any independent evaluation or appraisal of the assets and liabilities (including without limitation, property, plant and equipment) or contracts entered into by the Company or the Group and we have not been furnished with any such evaluation and appraisal in respect of assets and liabilities (if any) held or contracts entered into by the Group. With respect to such valuation, we are not experts in the evaluation or appraisal of assets and liabilities (including without limitation, property, plant and equipment) including, *inter alia* the contracts that the Group has embarked upon or are about to embark upon and have relied on the opinion of the Directors and the financial statements (audited and unaudited), where applicable for the assessment. The Directors are of the opinion that the values of the assets and liabilities as well as the financial performance or condition of the Company and the Group as reflected in the full year audited financial statements for the Company and the Group as at 31 December 2013 are true and fair. In addition, the Directors confirmed that to the best of their knowledge and belief, such information is true, complete and accurate in all respects and that there is no other information or fact *inter alia* the valuation or appraisal of assets and liabilities including, *inter alia* the contracts that the Group has embarked upon or are about to embark upon, the omission of which would render those statements or information to be untrue, inaccurate, incomplete or misleading. Our views, opinion and recommendations are thus limited and subject to these matters as well as others mentioned in the Letter.
3. We have not been provided with the financial statements for the Group subsequent to FY2013 nor had any discussion with the Directors and the Management on the Group's financial results subsequent to FY2013. The Directors and the Management confirmed that ACA has not been provided with financial statements for the Group subsequent to FY2013 and that they have not had any discussion with ACA on the Group's financial results subsequent to FY2013.
4. The scope of our appointment does not require us to express, and we do not express, a view on the future prospects of the Company or the Group or the sufficiency of the Group's working capital after the repayment of Outstanding SHI Loan, Outstanding SD Loan, and the Proposed Interest Payment.

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5. The scope of our appointment does not require us to express, and we do not express, a view on the legality of retrospective application of the IPT Interest Rate, as such remains the responsibility of the Directors and the Company's legal counsel.

Specific Objectives

In rendering our advice, we have not had regard to the specific investment objectives, financial situation, tax position, risk profiles or particular or individual needs and constraints of any individual Independent Shareholder. As each Independent Shareholder or group of Independent Shareholders would have different investment objectives and profiles, we would advise the Independent Directors to advise any individual Shareholder or group of Shareholders who may require specific advice in the context of investments in unlisted shares or his or their specific investment objectives or portfolio should consult his or their stockbroker, bank manager, solicitor, accountant, tax adviser, or other professional adviser immediately.

9. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who are unable to attend the EGM and who wish to appoint a proxy to attend and vote at the EGM on their behalf should complete, sign and return the proxy form attached to the notice of EGM in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the Company's registered office of the Company not less than forty-eight (48) hours before the time fixed for the EGM. The completion and return of the proxy form by such Shareholder will not prevent him from attending the EGM and voting in person in place of his proxy should he subsequently wish to do so. Only Shareholders whose names are entered on the Register of Members of the Company will receive a proxy form with the Circular. A proxy need not be a Shareholder of the Company.

A Depositor shall not be regarded as a member of the Company entitled to attend the EGM and to speak and vote thereat unless his name appears on the Depository Register at least 48 hours before the EGM.

In addition, Independent Shareholders are advised to read Section 15 of the Circular and Notice of the EGM which has been enclosed with the Circular carefully so that the appropriate election on voting for or voting against can be made.

This Letter is addressed to the Independent Directors in connection with and for the sole purpose of their evaluation of the Whitewash Resolution and the Proposed IPT and is not meant or intended to be an evaluation of the other resolutions to be proposed. Whilst a copy of this Letter may be included in the Circular, neither the Company nor the Directors nor any other party, may reproduce, disseminate or quote this Letter (or any part thereof) for any other purpose at any time and in any manner without the prior written consent of ACA in each specific case, except at the forthcoming EGM and for the sole purpose of the Whitewash Resolution and the Proposed IPT. This opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters and the scope of our appointment stated herein and does not apply by implication to any other matter. Nothing herein shall confer or be deemed or is intended to confer any right of benefit to any third party and the Contracts (Rights of Third Parties) Act Chapter 53B and any re-enactment thereof shall not apply.

The recommendations made by the Independent Directors to the Independent Shareholders in relation to Whitewash Resolution and the proposed IPT as well as other resolutions referred to in the Circular and the issue of the Circular shall remain the sole responsibility of the Independent Directors and the Directors respectively.

Yours faithfully,
For and on behalf of
ASIAN CORPORATE ADVISORS PTE. LTD.

H.K. LIAU
MANAGING DIRECTOR

FOO QUEE YIN
MANAGING DIRECTOR

NOTICE OF EXTRAORDINARY GENERAL MEETING

SITRA HOLDINGS (INTERNATIONAL) LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration Number: 197901237E)

Unless otherwise defined, all capitalised terms not defined herein shall bear the same meaning as ascribed to them in the circular dated 8 August 2014 of the Company to its Shareholders (including supplements and modifications thereto).

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (“**EGM**”) of Sitra Holdings (International) Limited (the “**Company**”) will be held at 15 Hillview Terrace Singapore 669226 on 25 August 2014 at 9.30 a.m. for the purpose of considering and, if thought fit, passing with or without modification the following resolutions:

AS ORDINARY RESOLUTIONS

ORDINARY RESOLUTION 1: THE PROPOSED RIGHTS ISSUE

That:-

- (a) contingent upon the passing of Ordinary Resolution 2, the renounceable non-underwritten rights issue of up to 438,200,000 new Shares be and is hereby approved and the Directors be and is hereby authorised to provisionally allot and issue the Rights Shares at an issue price of S\$0.01 for each Rights Share, on the basis of seven (7) Rights Shares for every five (5) existing Shares held by Shareholders as at the Books Closure Date, fractional entitlements to be disregarded, on the terms and conditions set out below and/or otherwise on such terms and conditions as the Directors may think fit:-
 - (i) the provisional allotments of the Rights Shares under the Rights Issue shall be made on a renounceable non-underwritten basis to Shareholders whose names appear in the Register of Members of the Company or the records of the Central Depository (Pte) Limited (“**CDP**”) as at the Books Closure Date with registered addresses in Singapore or who have, at least three (3) Market Days prior to the Books Closure Date, provided to the CDP or the Company, as the case may be, addresses in Singapore for the service of notices and documents, on the basis of seven (7) Rights Shares for every five (5) existing Shares held by Shareholders as at the Books Closure Date;
 - (ii) no provisional allotment of the Rights Shares shall be made in favour of Shareholders with registered addresses outside Singapore as at the Books Closure Date or who have not, at least three (3) Market Days prior thereto, provided to the CDP or the Company, as the case may be, addresses in Singapore for the service of notices and documents (the “**Foreign Shareholders**”);
 - (iii) the entitlements to the Rights Shares which would otherwise accrue to Foreign Shareholders shall be disposed of by the Company in such manner and on such terms and conditions as the Directors shall deem fit for the purpose of renouncing the rights entitlements relating thereto to purchasers thereof and to pool and thereafter distribute the net proceeds thereof, if any (after deducting all expenses), proportionately among such Foreign Shareholders in accordance with their respective shareholdings as at the Books Closure Date provided that if the amount to be distributed to any single Foreign Shareholder is less than S\$10.00, such amount shall instead be retained or dealt with for the sole benefit of the Company, as further set out in the Circular;
 - (iv) the entitlements to the Rights Shares not taken up or allotted for any reason (other than allotments to Foreign Shareholders referred to above) shall be allotted in such manner as the Directors may, in their absolute discretion, deem fit in the interests of the Company; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (v) the Rights Shares will, when allotted and issued, rank *pari passu* in all respects with the then existing Shares, save for any dividends, rights, allotments or other distributions that may be declared or paid, the Record Date for which falls before the date of issue of the Rights Shares.
- (b) The Directors be and are hereby authorised to complete and do all acts and things (including executing all such documents as may be required in connection with the Rights Issue) and exercise such discretion as the Directors may in their absolute discretion deem fit, advisable or necessary to give full effect to this Ordinary Resolution 1 and the Rights Issue.

ORDINARY RESOLUTION 2: THE PROPOSED WHITEWASH RESOLUTION

That subject to the conditions in the letter from the Securities Industry Council dated 27 June 2014 being fulfilled, the Shareholders hereby (on a poll taken) waive their rights to receive a mandatory general offer from Mr Chew Ah Ba George, Mdm Teresa Tan, Mr Chew Chiew Siang Steven and Ms Josca Woo Kong Hwa (the “**Concert Parties Shareholders**”) for all the Shares not already owned by them in the event that the acquisition of new Shares by the Concert Parties Shareholders and parties acting in concert with them pursuant to the proposed renounceable non-underwritten rights issue by the Company results in them incurring a mandatory bid obligation pursuant to Rule 14 of the Singapore Code on Take-overs and Mergers.

ORDINARY RESOLUTION 3: POTENTIAL TRANSFER OF CONTROLLING INTEREST

That contingent upon the passing of Ordinary Resolution 1:-

- (a) approval be and is hereby given for the allotment and issuance by the Company of (i) 49,629,602 Rights Shares to Mdm Teresa Tan, (ii) 52,500,000 Rights Shares to Mr Chen Weiping, and (iii) 52,500,000 Rights Shares to Ms Josca Woo Kong Hwa, at the issue price of S\$0.01 for each Rights Share, on and subject to the terms of the Rights Issue and the Irrevocable Undertakings provided by each of them, to the extent that such issue of Rights Shares constitutes a transfer of a controlling interest in the Company to Mdm Teresa Tan, Mr Chen Weiping and Ms Josca Woo respectively pursuant to Rule 803 of the Catalist Rules; and
- (b) any of the Directors of the Company be and is hereby authorised and empowered to complete and to do all acts and things as he may consider necessary, desirable or expedient for the purposes of or in connection with, and to give effect to the matters referred to in paragraph (a) of this resolution as he shall think fit and in the interests of the Company.

ORDINARY RESOLUTION 4: PROPOSED IPT

That:-

- (a) approval be and is hereby given for the Proposed IPT; and
- (b) any Directors of the Company be and is hereby authorised and empowered to complete and to do all such acts and things as he may consider necessary, desirable or expedient for the purposes of or in connection with, and to give effect to the matters referred to in paragraph (a) of this resolution as he shall think fit and in the interests of the Company.

BY ORDER OF THE BOARD
SITRA HOLDINGS (INTERNATIONAL) LIMITED

Mr Chew Ah Ba George
Executive Chairman & Chief Executive Officer
8 August 2014

NOTICE OF EXTRAORDINARY GENERAL MEETING

IMPORTANT: Please read notes below.

Notes:

1. A member of the Company entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint not more than two proxies to attend and vote in his stead and a proxy need not be a member of the Company.
2. 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.
3. The instrument appointing a proxy must be lodged at the Company's place of business at 15 Hillview Terrace Singapore 669226, not less than 48 hours before the time appointed for the Extraordinary General Meeting.

Personal data privacy:

By submitting a proxy form appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a shareholder of the Company (i) consents to the collection, use and disclosure of the shareholder'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 shareholder discloses the personal data of the shareholder's proxy(ies) and/or representative(s) to the Company (or its agents), the shareholder has obtained the prior 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, and (iii) agrees that the shareholder will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the shareholder's breach of warranty.

PROXY FORM

SITRA HOLDINGS (INTERNATIONAL) LIMITED

(Incorporated in the Republic of Singapore)

(Registration No. 197901237E)

PROXY FORM

IMPORTANT:-

1. For investors who have used their CPF monies to buy Sitra Holdings (International) Limited's shares, this Circular is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to vote should contact their CPF approved nominees.

I/We _____ (Name) NRIC/Passport No. _____

of _____ (Address)

being a shareholder / member of **SITRA HOLDINGS (INTERNATIONAL) LIMITED** (the "Company"), hereby appoint:-

Name	Address	NRIC / Passport Number	Proportion of Shareholdings (%) to be represented by proxy

and/or*

Name	Address	NRIC / Passport Number	Proportion of Shareholdings (%) to be represented by proxy

or failing him/her, the Chairman of the Meeting as my/our* proxy/proxies* to vote for me/us* on my/our behalf and, if necessary, to demand a poll, at the Extraordinary General Meeting of the Company to be held at 15 Hillview Terrace Singapore 669226 on 25 August 2014 at 9.30 a.m. and at any adjournment thereof. I/We* direct my/our proxy/proxies* to vote in the manner indicated below. If no specific directions as to voting are given, the proxy/proxies* will vote or abstain from voting at his/their* discretion, as he/they* will on any other matters arising at the Extraordinary General Meeting.

ORDINARY RESOLUTIONS	To be used on a show of hands		To be used in the event of a poll	
	For**	Against**	No. of Votes For***	No. of Votes Against ***
RESOLUTION 1: To approve the Rights Issue				
RESOLUTION 2: To approve the Whitewash Resolution				
RESOLUTION 3: To approve the Potential Transfer of Controlling Interest				
RESOLUTION 4: To approve the Proposed IPT				

Notes:

1. * Please delete accordingly.
2. ** Please indicate your vote "For" or "Against" with an "x" within the box provided.
3. *** If you wish to exercise all your votes "For" or "Against", please indicate with an "x" within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this _____ day of _____ 2014

Total Number of Shares held

Signature(s) of Member(s)/Common Seal

IMPORTANT: PLEASE READ NOTES OVERLEAF BEFORE COMPLETING THIS PROXY FORM



PROXY FORM

Notes: -

1. A member of the Company entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
2. Where a shareholder of the Company appoints two proxies, the appointments shall be invalid unless he specifies the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy.
3. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members of the Company, he should insert the aggregate number of shares. If no number is inserted, this proxy form will be deemed to relate to all the shares held by the member of the Company.
4. The instrument appointing a proxy or proxies, together with the power of attorney or other authority (if any) under which it is signed, or a duly certified copy thereof, must be deposited at the registered office of the Company at 15 Hillview Terrace Singapore 669226 not later than 48 hours before the time appointed for the Extraordinary General Meeting.
5. The instrument appointing a proxy or proxies must be 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 either under its common seal or under the hand of its attorney or a duly authorised officer.
6. A corporation which is a member of the Company may, in accordance with Section 179 of the Companies Act, Cap. 50 of Singapore, authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Extraordinary General Meeting.
7. The Company shall be entitled to reject the instrument appointing a proxy or proxies, if it 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 appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies if a member of the Company, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Extraordinary General Meeting, as certified by the Central Depository (Pte) Limited to the Company.

Personal data privacy:

By submitting a proxy form appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a shareholder of the Company (i) consents to the collection, use and disclosure of the shareholder'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 shareholder discloses the personal data of the shareholder's proxy(ies) and/or representative(s) to the Company (or its agents), the shareholder has obtained the prior 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, and (iii) agrees that the shareholder will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the shareholder's breach of warranty.

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