GKE CORPORATION LIMITED
(Company Registration No. 200001941G)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

The Board of Directors ("**Board**") of GKE Corporation Limited ("**Company**" and together with its subsidiaries, "**Group**") refers to the Company's announcement for "Acquisition of TNS Ocean Lines (S) Pte Ltd – Compensation for Shortfall in Guaranteed Profits" released on 9 September 2019, as well as the Company's announcements dated 29 July 2016, 28 October 2016, 25 November 2016 and 30 November 2016 relating to the acquisition of the entire issued and paid-up share capital of TNS Ocean Lines (S) Pte. Ltd. Unless the context otherwise requires, capitalized terms used herein shall bear the same meanings as in the previous announcements.

The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") (each, a "**SGX Query**") as follows:

SGX Query 1

How was the initial S$3.5m profit guarantee amount derived? What were the supporting documents (e.g. forecasts) and consideration upon which the BOD had reviewed/considered in supporting the S$3.5m profit guarantee?

Company's Response to SGX Query 1

As set out in the Company's announcement dated 28 October 2016, in arriving at the profit guarantee of S$3.5m, the Board had taken into consideration several factors, *inter alia*, (i) the historical revenues generated by TNS; and (ii) TNS's contract with its major customer. The Company had also engaged Baker Tilly to perform financial due diligence on TNS prior to the acquisition, and the results of such diligence were also taken into account to evaluate the purchase consideration and the inclusion of the S$3.5m profit guarantee.

SGX Query 2

Were there any performance bonus paid to the key personnel of TNS? Given that this is excluded for the computation of net profit before tax.

Company's Response to SGX Query 2

There are no performance related bonuses paid to the key personnel of TNS other than all entitled remuneration as per their respective service agreements.

SGX Query 3

Were the profit guarantee term only for the period between Completion Date and date falling three years from Completion Date? Are there any other profit guarantee periods in the SPA?

Company's Response to SGX Query 3

The profit guarantee term is only for the period between the Completion Date and the date falling three (3) years from Completion Date. The Company confirms that there are no other profit guarantee periods in the SPA.

SGX Query 4

Prior to the entry into the settlement agreement, what were the terms in the original SPA that govern the non-achievement of profit guarantee of S$3.5m? What were the recourse and rights of GKE? In AC's views, in entering into the settlement agreement instead of pursuing the rights of GKE per the SPA, are the rights and interests of GKE and its shareholders safeguarded?

Company's Response to SGX Query 4

The SPA provided that, as security for the S$3.5m personal guarantee, 29,166,667 shares in the capital of the Company ("**Shares**") were to be held in moratorium and the Company would be entitled to sell and/or transfer such 29,166,667 Shares should the profit guarantee not be achieved.

In light of the additional time, costs, expenses and uncertainty that the Company would be subject to if the Company had chosen to undertake further formal legal proceedings as a result of the non-achievement of the profit guarantee, the Company had decided to enter into the settlement agreement. As such, the Audit Committee ("**AC**") of the Company is of the view that the Company's entry into the settlement agreement is in the best interests of the Company.

SGX Query 5

Current share price of GKE is approx. S$0.050. With 29,166,667 shares of the Company, it will amount to approx. S$1.46m. How is AC satisfied that the Company is adequately compensated for the non-achievement of profit guarantee of S$3.5m? How much is the potential loss to the Group? What is the net asset/liability and current net asset/liability position of TNS?

Company's Response to SGX Query 5

The 29,166,667 Shares held under moratorium ("**Moratorium Shares**") were priced at S$0.12 per Share, based on the share swap price of S$0.12 set out in the SPA. Although the current market price of the shares mean that the Moratorium Shares are no longer worth S$3.5 million, based on the current credit situation of the Vendors, it is not certain that the Company may reclaim the balance from the Vendors even if the Company formally pursues legal action against the Vendors. As such, as indicated above, in light of the additional time, costs, expenses and uncertainty that the Company would be subject to, the AC is of the view that entry into the settlement agreement is the best course of action for the Company to recover compensation for the non-achievement of the profit guarantee.

In the Company's audited financial statements for the financial year ended 31 May 2019, the Company recorded a fair value gain on contingent consideration of S$1.98 million under other income in relation to the 29,166,667 Moratorium Shares which are expected to be received by the Company pursuant to the settlement agreement. The loss and gain in the Company's profit and loss statement will largely depend on the Share price as the value of the Moratorium Shares are accounted for using the mark-to-market method which is in accordance with SFRS (I). As at 31 May 2019, the net assets and net current liabilities of TNS were approximately S$43,000 and S$137,000 respectively.

Additional Query to SGX Query 5

In response to question 5 above, it says that "Although the current market price of the shares mean that the Moratorium Shares are no longer worth S$3.5 million, based on the current credit situation of the Vendors, it is not certain that the Company may reclaim the balance from the Vendors even if the Company formally pursues legal action against the Vendors":

Para 4.1 of announcement 29 Jul 2016 says "The Purchase Consideration was arrived on a "willing buyer-willing seller basis", after taking into account, *inter alia*, the future profitability of TNS in light of the profit guarantee referred to in paragraph 3.5 below and the future business potential of TNS." Purchase Consideration of S$9m comprised cash of S$2.7m and 52.5m Consideration Shares at issue price of S$0.12.

Further, para 4.5 of announcement dated 29 Jul 2016 says that "In the event that TNS fails to achieve the Profit Guarantee due to whatsoever reasons, the Vendors (except for Tan Nam Seng and Sern Chia Lung) shall compensate the Purchaser by paying a cash sum being the difference between the said sum of S$3,500,000 and the actual NPBT achieved for the period from the date of Completion and the date falling three (3) years of the date of Completion, as compensation for the non-fulfilment of the Profit Guarantee.

In the event that the Profit Guarantee is not fulfilled, the Company is entitled to sell any of the Consideration Shares to satisfy any payment obligation of the Vendors (except for Tan Nam Seng and Sern Chia Lung) under the Profit Guarantee."

(a) Pursuant to the SPA, is it provided for as to the priority of recovery of S$3.5m profit guarantee – via cash compensation of S$3.5m or via the selling of consideration shares?

(b) Company could have received total compensation by cash of S$3.5m, instead it is now receiving approx. S$1.46m-worth of shares in GKE. Further, this is after GKE had paid S$2.7m in cash as consideration for the acquisition of TNS back in 2016. With a cash balance of S$11.7m and loss for the year of S$1.9m for FYE 31 May 2019, in light of the time, costs and expense that parties would have to incur, please elaborate how the AC is of the view that entry into the settlement agreement adequately compensates for the non-achievement of the profit guarantee of S$3.5m, i.e. loss of potentially recovery of S$2m cash.

Company's Response to Additional Query to SGX Query 5

(a) Pursuant to the SPA, there is no difference in priority regarding the 2 compensation methods.

(b) The AC is of the view that the entry into the settlement agreement is in the best interest of the Company in respect of recovery for the non-achievement of the profit guarantee because:

(i) The former controlling shareholder of TNS was Spencer Tuppani, one of the key personnel who signed a service agreement with TNS following the acquisition, who has since unfortunately passed away. Spencer Tuppani was the largest vendor in this acquisition.

(ii) Having considered the additional time, costs and expense that the Company will incur, initialing a formal legal claim will have limited value and there is no guarantee of success even if the Company is willing to spend the time and resources to take the case to court.

SGX Query 6

How is the Estate of Spencer Tuppani related to GKE and/or the Vendors?

Company's Response to SGX Query 6

TNS had (5) shareholders prior to the Company's acquisition of TNS. Spencer Tuppani was the major shareholder of TNS prior to the Company's acquisition of TNS and was one of the Vendor. The remaining four (4) Vendors were Tan Nam Seng (father in law of Spencer Tuppani), Tan Cheng Cheng (spouse of Spencer Tuppani), Tan Meng Chuan (employee of TNS) and Sern Chia Long (investor in TNS). As part of the consideration for the acquisition of TNS by the Company, Shares were issued to Spencer Tuppani and he became a substantial shareholder of the Company following completion of the Company's acquisition of TNS. Following his demise, Spencer Tuppani's Shares were held in his estate. Accordingly, the estate of Spencer Tuppani is now a substantial shareholder of the Company.

BY ORDER OF THE BOARD

Neo Cheow Hui
Chief Executive Officer and Executive Director
17 September 2019

---

*This announcement has been reviewed by the Company's Sponsor, RHT Capital Pte. Ltd. ("**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"). The Sponsor has not independently verified the contents of this announcement.*

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

The details of the contact person for the Sponsor are:

Name: Mr. Nathaniel C.V. (Registered Professional, RHT Capital Pte. Ltd.)
Address: 9 Raffles Place, #29-01 Republic Plaza Tower 1, Singapore 048619
Tel: 6381 6757