

**CIRCULAR DATED 26 JULY 2019**

**THIS CIRCULAR IS IMPORTANT AS IT CONTAINS THE RECOMMENDATIONS OF THE INDEPENDENT DIRECTORS (AS DEFINED HEREIN) OF RAFFLES UNITED HOLDINGS LTD AND THE ADVICE OF ASIAN CORPORATE ADVISORS PTE. LTD., THE INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT DIRECTORS. THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION AND YOU SHOULD READ IT CAREFULLY.**

This Circular is issued by Raffles United Holdings Ltd (the “**Company**” or “**RUH**”). If you are in any doubt in relation to this Circular or as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately. Capitalised terms appearing on the cover of this Circular have the same meanings as defined herein.

If you have sold or transferred all your ordinary shares in the capital of RUH (“**Shares**”) held through The Central Depository (Pte) Limited (“**CDP**”), you need not forward this Circular to the purchaser or transferee, as arrangements will be made by CDP for a separate Circular to be sent to the purchaser or transferee. If you have sold or transferred all your Shares which are not deposited with the CDP, you should immediately forward this Circular to the purchaser or transferee, or to the bank, stockbroker or agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

This Circular has not been examined or approved by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) and the SGX-ST assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Circular.

**Raffles United**  
**Holdings Ltd**  
**RAFFLES UNITED HOLDINGS LTD**  
(Incorporated in the Republic of Singapore)  
(Company Registration Number: 197302030N)

**CIRCULAR TO SHAREHOLDERS IN RELATION TO  
THE MANDATORY UNCONDITIONAL CASH OFFER**

by

**RAFFLES INFINITY HOLDINGS PTE. LTD.**  
(Company Registration No. 201916537Z)

**to acquire all the issued and paid-up ordinary shares in the capital of the Company,  
other than those already owned, controlled or agreed to be acquired by  
Raffles Infinity Holdings Pte Ltd and parties acting in concert with it**

*Independent Financial Adviser to the Independent Directors of the Company*

**ASIAN CORPORATE ADVISORS PTE. LTD.**  
(Incorporated in the Republic of Singapore)  
(Company Registration No. 200310232R)

**SHAREHOLDERS SHOULD NOTE THAT THE OFFER DOCUMENT (AS DEFINED HEREIN) STATES THAT ACCEPTANCES SHOULD BE RECEIVED BY THE CLOSE OF THE OFFER AT 5.30 P.M. ON 14 AUGUST 2019. THE OFFEROR DOES NOT INTEND TO EXTEND THE OFFER BEYOND THAT DATE OR TO REVISE THE TERMS OF THE OFFER.**



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## DEFINITIONS

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

<b>“Acceptance Forms”</b>	:	The FAA and the FAT collectively, or either one of them (as the case may be)
<b>“Acquisition”</b>	:	Shall have the meaning ascribed to it in section 1.1 of this Circular
<b>“Board”</b>	:	The board of Directors
<b>“Business Days”</b>	:	A day which is not a Saturday, Sunday or public holiday in Singapore
<b>“CAD”</b>	:	Commercial Affairs Department of Singapore
<b>“CDP”</b>	:	The Central Depository (Pte) Limited
<b>“Circular”</b>	:	This circular dated 26 July 2019 issued by the Company to Shareholders containing the advice of the IFA to the Independent Directors and the recommendation of the Independent Directors in relation to the Offer
<b>“Closing Date”</b>	:	5.30 p.m. on 14 August 2019, being the last day for the lodgement of acceptances of the Offer
<b>“Code”</b>	:	The Singapore Code on Take-overs and Mergers
<b>“Company” or “RUH”</b>	:	Raffles United Holdings Ltd
<b>“Company Securities”</b>	:	(i) Shares;  (ii) securities which carry voting rights in the Company; and  (iii) convertible securities, warrants, options and derivatives in respect of any Shares or such securities which carry voting rights in the Company
<b>“Companies Act”</b>	:	The Companies Act, Chapter 50 of Singapore as amended, modified or supplemented from time to time
<b>“Concert Parties”</b>	:	Parties acting or deemed to be acting in concert with the Offeror in connection with the Offer
<b>“Constitution”</b>	:	The constitution of the Company, as amended or modified from time to time
<b>“CPF”</b>	:	Central Provident Fund

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## DEFINITIONS

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<b>“CPF Agent Banks”</b>	:	Agent banks included under the CPFIS
<b>“CPFIS”</b>	:	Central Provident Fund Investment Scheme
<b>“CPFIS Investors”</b>	:	Investors who have purchased Shares using their CPF contributions pursuant to the CPFIS
<b>“Directors”</b>	:	The directors of the Company (including the Independent Directors) as at the Latest Practicable Date, and <b>“Director”</b> means any one of them
<b>“Excluded Documents”</b>	:	The IFA Letter as set out in Appendix I to this Circular
<b>“FAA”</b>	:	Form of Acceptance and Authorisation, which forms part of the Offer Document and which is issued to Shareholders whose Offer Shares are deposited with CDP
<b>“FAT”</b>	:	Form of Acceptance and Transfer, which forms part of the Offer Document and which is issued to the Shareholders whose Offer Shares are not deposited with CDP
<b>“FY”</b>	:	Financial year ended or ending (as the case may be) on 31 December of a particular year as stated
<b>“Group”</b>	:	The Company and its subsidiaries
<b>“IFA”</b>	:	Asian Corporate Advisors Pte. Ltd., the independent financial adviser to the Independent Directors in relation to the Offer
<b>“IFA Letter”</b>	:	The letter dated 26 July 2019 from the IFA to the Independent Directors containing, <i>inter alia</i> , the advice of the IFA to the Independent Directors in relation to the Offer, as set out in Appendix I to this Circular
<b>“Independent Directors”</b>	:	The Directors who are considered independent for the purposes of making the recommendation to the Shareholders in respect of the Offer, being Tan Saik Hock, Lee Joo Hai, Teh Geok Koon and Ngoi Sing Shang
<b>“Interested Persons”</b>	:	As defined in the Note on Rule 23.12 of the Code, an interested person is:  (i) a director, chief executive officer, or substantial shareholder of the company;  (ii) the immediate family of a director, the chief executive officer, or a substantial shareholder (being an individual) of the company;

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## DEFINITIONS

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- (iii) the trustees, acting in their capacity as such trustees, of any trust of which a director, the chief executive officer or a substantial shareholder (being an individual) and his immediate family is a beneficiary;
- (iv) any company in which a director, the chief executive officer or a substantial shareholder (being an individual) together and his immediate family together (directly or indirectly) have an interest of 30% or more;
- (v) any company that is the subsidiary, holding company or fellow subsidiary of the substantial shareholder (being a company); or
- (vi) any company in which a substantial shareholder (being a company) and any of the companies listed in (e) above together (directly or indirectly) have an interest of 30% or more

<b>“KHPL”</b>	:	Kian Ho Pte Ltd
<b>“Latest Practicable Date”</b>	:	10 July 2019, being the latest practicable date prior to the printing of this Circular
<b>“Listing Manual”</b>	:	Listing Manual of the SGX-ST, as amended up to the Latest Practicable Date
<b>“Market Day”</b>	:	A day on which the SGX-ST is open for trading in securities
<b>“Offer”</b>	:	The mandatory unconditional cash offer by the Offeror to acquire all the Offer Shares on the terms and subject to the conditions set out in the Offer Document, the FAA and the FAT
<b>“Offer Announcement”</b>	:	The announcement of the Offer released by the Offeror on the Offer Announcement Date
<b>“Offer Announcement Date”</b>	:	1 July 2019, being the date of the Offer Announcement
<b>“Offer Document”</b>	:	The document dated 16 July 2019 issued by the Offeror in respect of the Offer, including the FAA and the FAT
<b>“Offer Document LPD”</b>	:	8 July 2019, stated in the Offer Document to be the latest practicable date prior to the printing of the Offer Document
<b>“Offer Period”</b>	:	The period from the Offer Announcement Date until the date the Offer is declared to have closed or lapsed

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## DEFINITIONS

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<b>“Offer Price”</b>	:	S\$0.065 in cash for each Offer Share
<b>“Offer Shares”</b>	:	All Shares to which the Offer relates, as more particularly defined in Section 2.2 of this Circular
<b>“Offeror”</b>	:	Raffles Infinity Holdings Pte. Ltd.
<b>“Offeror Securities”</b>	:	(i) Offeror Shares;  (ii) securities which carry voting rights in the Offeror; and  (iii) convertible securities, warrants, options and derivatives in respect of the Offeror Shares, or securities which carry voting rights in the Offeror
<b>“Overseas Shareholders”</b>	:	Shareholders whose addresses are outside Singapore, as shown on the Register or in the records of CDP (as the case may be)
<b>“Property”</b>	:	302 Ubi Avenue 1 #01-37, Singapore 400302
<b>“Properties”</b>	:	Shall have the meaning ascribed to it in paragraph 9 of Appendix II to this Circular
<b>“Register”</b>	:	The register of members of RUH
<b>“RUPL”</b>	:	Raffles United Pte. Ltd.
<b>“Securities and Futures Act”</b>	:	The Securities and Futures Act, Chapter 289, of Singapore as amended, supplemented or modified from time to time
<b>“SGX-ST”</b>	:	Singapore Exchange Securities Trading Limited
<b>“Share Registrar”</b>	:	Boardroom Corporate & Advisory Services Pte. Ltd.
<b>“Shareholders”</b>	:	Holder of Shares, including persons whose Shares are deposited with CDP or who have purchased Shares on the SGX-ST, and <b>“Shareholder”</b> shall be construed accordingly
<b>“Shares”</b>	:	The issued and paid-up ordinary shares in the capital of RUH
<b>“SIC”</b>	:	Securities Industry Council of Singapore
<b>“SZZH”</b>	:	Shenzhen Zhaoheng Industrial Co., Ltd
<b>“S\$” and “cents”</b>	:	Singapore dollars and cents respectively, being the lawful currency of Singapore

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## DEFINITIONS

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“TXH”	:	Teo Xian-Hui Amanda Marie
“Watch-list”	:	The watch-list of the SGX-ST
“%” or “per cent.”	:	Percentage or per centum

**Acting in Concert.** Unless otherwise defined, the term “**acting in concert**” shall have the meaning ascribed to it in the Code, and references to “**concert parties**” shall be construed accordingly.

**Depositors.** The terms “**Depositor**”, “**Depository Agent**” and “**Depository Register**” shall have the meanings ascribed to them respectively in Section 81SF of the Securities and Futures Act.

**Shareholders.** References to “**you**”, “**your**” and “**yours**” in this Circular are, as the context so determines, to Shareholders.

**Subsidiaries and related corporations.** The terms “**subsidiaries**” and “**related corporations**” shall have the meanings ascribed to them respectively in Sections 5 and 6 of the Companies Act.

**References.** 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 shall, where applicable, include corporations.

**Time and date.** Any reference to a time of day and date in this Circular is made by reference to Singapore time and date, unless otherwise stated.

**Statutes.** Any reference in this Circular to any enactment or statutory provision is a reference to that enactment or statutory provision as for the time being amended or re-enacted, unless the context otherwise requires. Any word defined under the Companies Act, the Securities and Futures Act, the Listing Manual, the Code or any statutory or regulatory modification thereof and not otherwise defined in this Circular shall, where applicable, have the meaning ascribed to it under the Companies Act, the Securities and Futures Act, the Listing Manual, the Code or any such statutory or regulatory modification thereof, as the case may be, unless the context otherwise requires.

**Sections.** Any reference in this Circular to a section is a reference to a section of this Circular, unless otherwise stated.

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

**Rounding.** Any discrepancies in the figures included in this Circular between amounts shown and the totals thereof are due to rounding. Accordingly, the figures shown as totals in this Circular may not be arithmetic aggregations of the figures that precede them.

**Where relevant, statements which are reproduced in their entirety from the Offer Document, the IFA Letter and the Constitution are set out in this Circular within quotes and in italics, and all capitalised terms and expressions used within these reproduced statements shall have the same meanings ascribed to them in the Offer Document, the IFA Letter and the Constitution respectively.**



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## CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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All statements other than statements of historical facts included in this Circular are or may be forward-looking statements. Forward-looking statements include but are not limited to those using words such as “**aim**”, “**seek**”, “**expect**”, “**anticipate**”, “**estimate**”, “**believe**”, “**intend**”, “**project**”, “**plan**”, “**strategy**”, “**forecast**” and similar expressions or future or conditional verbs such as “**will**”, “**if**”, “**would**”, “**should**”, “**could**”, “**may**” and “**might**”. These statements reflect the Company’s current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. Such forward-looking statements are not guarantees of future performance or events and involve known and unknown risks and uncertainties. Accordingly, actual results may differ materially from those described in such forward-looking statements. Shareholders should not place undue reliance on such forward-looking statements, and neither the Company nor the IFA guarantees any future performance or event or undertakes any obligation to update publicly or revise any forward-looking statements, subject to compliance with all applicable laws and regulations and/or the rules of the SGX-ST and/or any other regulatory or supervisory body or agency.

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## SUMMARY TIMETABLE

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Date of despatch of the Offer Document	:	16 July 2019
Date of despatch of Circular	:	26 July 2019
Closing Date	:	5.30 p.m. (Singapore time) on 14 August 2019, being the last day for the lodgement of acceptances of the Offer. The Offeror has stated that it does not intend to extend the Offer beyond 5.30 p.m. on the Closing Date, and has given notice that the Offer will not be open for acceptance beyond 5.30 p.m. on the Closing Date
Date of settlement of consideration for valid acceptances of the Offer <sup>1</sup>	:	Within 7 Business Days of the date of receipt of each valid and complete acceptance

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<sup>1</sup> Please refer to Appendix 4 of the Offer Document for further details.

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## LETTER TO SHAREHOLDERS

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### RAFFLES UNITED HOLDINGS LTD

(Incorporated in the Republic of Singapore)  
(Company Registration Number: 197302030N)

**Board of Directors:**

Tan Saik Hock (*Non-Executive Independent Chairman*)  
Teo Teng Beng (*Managing Director*)  
Teh Geok Koon (*Executive Director cum Chief Operating Officer*)  
Lee Joo Hai (*Non-Executive Independent Director*)  
Ngoi Sing Shang (*Non-Executive Independent Director*)

**Registered Office:**

5 Changi South St 3  
Singapore 486117

26 July 2019

To: The Shareholders of Raffles United Holdings Ltd

Dear Sir/Madam

### MANDATORY UNCONDITIONAL CASH OFFER BY THE OFFEROR FOR THE OFFER SHARES

#### 1. INTRODUCTION

##### 1.1 Offer Announcement

On the Offer Announcement Date, the Offeror announced that it had acquired a total of 324,315,066 Shares representing approximately 82.08% of the Shares from RUPL and TXH, at S\$0.055 in cash per Share, excluding brokerage and other transaction cost (the “**Acquisition**”).

Following the Acquisition, the Offeror and its Concert Parties now hold an aggregate of 340,474,766 Shares, representing approximately 86.17% of the Shares.

In accordance with Section 139 of the Securities and Futures Act and Rule 14 of the Code, the Offeror is required to make a mandatory general offer for all the Offer Shares.

A copy of the Offer Announcement is available on the website of the SGX-ST at [www.sgx.com](http://www.sgx.com).

##### 1.2 Offer Document

Shareholders should have by now received a copy of the Offer Document, as announced by the Offeror to have been despatched on 16 July 2019, setting out, *inter alia*, the terms and conditions of the Offer. The principal terms and conditions of the Offer are set out in section 2 of the Offer Document and Appendix 4 to the Offer Document.

**Shareholders are advised to read the terms and conditions of the Offer set out in the Offer Document carefully.**

A copy of the Offer Document is available on the website of the SGX-ST at [www.sgx.com](http://www.sgx.com).

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## LETTER TO SHAREHOLDERS

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### 1.3 Independent Financial Adviser

Asian Corporate Advisors Pte. Ltd. has been appointed as the IFA to the Independent Directors in relation to the Offer. The advice of the IFA is set out in the IFA Letter in Appendix I to this Circular.

### 1.4 Purpose of this Circular

The purpose of this Circular is to provide Shareholders with relevant information relating to the Offer and to set out the recommendation of the Independent Directors and the advice of the IFA to the Independent Directors in respect of the Offer.

**Shareholders should read the Offer Document, this Circular and the IFA Letter set out in Appendix I to this Circular carefully and consider the advice of the IFA to the Independent Directors and the recommendation of the Independent Directors on the Offer before deciding whether or not to accept the Offer.**

## 2. THE OFFER

Based on the information set out in the Offer Document, the Offeror has made the Offer in accordance with Section 139 of the Securities and Futures Act and Rule 14 of the Code, to acquire all the Offer Shares on the terms and subject to the conditions set out in the Offer Document. The principal terms and conditions of the Offer, as extracted from the Offer Document, are set out below. All terms and expressions used in the extracts below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

### 2.1 Offer Price

As stated in section 2.1 of the Offer Document, the Offeror has offered to acquire all the Offer Shares on the following basis:

*“For each Offer Share: S\$0.065 in cash (the **“Offer Price”**).”*

Section 2.1 of the Offer Document further states, *inter alia*, the following:

*“The Offeror does not intend to revise the Offer Price and therefore, in accordance with Rule 20.2 of the Code, the Offeror will not be allowed to subsequently amend the terms of the Offer, including the Offer Price.”*

### 2.2 Offer Shares

Section 2.1 of the Offer Document states, *inter alia*, the following:

*“The Offer is extended, on the same terms and conditions, to all the Shares owned, controlled or agreed to be acquired by the Concert Parties (the **“Offer Shares”**).”*

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## LETTER TO SHAREHOLDERS

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### 2.3 No Encumbrances

Section 2.2 of the Offer Document states, *inter alia*, the following:

*“The Offer Shares are to be acquired:*

- (a) fully paid;*
- (b) free from any claim, charge, pledge, mortgage, lien, option, equity, power of sale, declaration of trust, hypothecation, retention of title, right of pre-emption, right of first refusal, moratorium or other third party right or security interest of any kind or an agreement, arrangement or obligation to create any of the foregoing (“Encumbrances”); and*
- (c) together with all rights, benefits and entitlements attached thereto as at the Offer Announcement Date and hereafter attaching thereto (including the right to receive and retain all dividends and other distributions or return of capital, if any, which may be announced, declared, paid or made thereon (the “Distributions”) by the Company on or after the Offer Announcement Date).”*

### 2.4 Adjustments for Distributions

Section 2.2 of the Offer Document states, *inter alia*, the following:

*“In the event that any Distribution is or has been announced, declared, paid or made by the Company in respect of the Offer Shares on or after the Offer Announcement Date, the Offeror reserves the right to reduce the Offer Price by an amount equivalent to the amount of such Distribution.”*

### 2.5 Unconditional Offer

Section 2.3 of the Offer Document states the following:

***“The Offer is unconditional in all respects. Therefore, the Offer is not conditional upon the level of acceptances which the Offeror may receive in respect of the Offer.”***

### 2.6 Warranty

Section 2.4 of the Offer Document states the following:

*“Acceptance of the Offer will be deemed to constitute an unconditional and irrevocable warranty by the accepting Shareholder that each Offer Share tendered in acceptance of the Offer is sold by the accepting Shareholder, as or on behalf of the beneficial owner(s) thereof, (a) fully paid, (b) free from any Encumbrance, and (c) with all such rights, benefits and entitlements attached thereto as at the Offer Announcement Date and thereafter attaching thereto, including the right to receive and retain all dividends, rights and other distributions (if any) declared, paid or made by RUH on or after the Offer Announcement Date.”*

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## LETTER TO SHAREHOLDERS

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### 2.7 Duration of the Offer

Section 2.5 of the Offer Document states the following:

*“Pursuant to Rule 22.3 of the Code, except insofar as the Offer is withdrawn with the consent of the SIC and every person released from any obligation incurred thereunder, the Offer will remain open for acceptances by Shareholders for a period of at least 28 days from the Despatch Date.*

*The Offeror does not intend to extend the Offer beyond the Closing Date.*

*Accordingly, the Offer will close at 5.30 p.m. on 14 August 2019.”*

### 2.8 Further Details of the Offer

Further details of the Offer, including details on (a) the settlement of the consideration for the Offer, (b) the requirements relating to the announcement of the level of acceptances of the Offer, and (c) the right of withdrawal of the acceptances of the Offer, are set out in Appendix 4 to the Offer Document.

### 2.9 Procedures for Acceptance

The procedures for the acceptance of the Offer are set out in Appendix 5 to the Offer Document.

## 3. IRREVOCABLE UNDERTAKINGS

Section 5 of the Offer Document states *inter alia* that as at the Offer Document LPD, neither the Offeror nor any of its Concert Parties has received any undertakings from any other party to accept or reject the Offer.

## 4. INFORMATION ON THE OFFEROR AND THE PARTIES ACTING IN CONCERT

The information on the Offeror and its Concert Parties, as reproduced in italics below, has been extracted from section 3 of the Offer Document. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

### **“3. INFORMATION ON THE OFFEROR AND ITS CONCERT PARTIES**

**3.1** *The Offeror is an investment holding company incorporated in the Republic of Singapore on 23 May 2019. The Offeror is a special purpose vehicle for the purposes of making the Offer, and its sole shareholder and director is Teo Xian-Hui Amanda Marie (“TXH”). The Offeror has an issued and paid-up share capital of S\$2.00 comprising two ordinary shares.*

**3.2** *Upon completion of the Acquisition, TXH holds, directly and indirectly, in aggregate a shareholding of 340,474,766 Shares in the Company, representing approximately 86.17% of the total number of issued Shares of the Company.*

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## LETTER TO SHAREHOLDERS

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**3.3** *Upon completion of the Acquisition, TXH holds directly and in her own name, 16,159,700 Shares in the Company (“**Shares Directly Held**”). In order to consolidate her holdings of Shares, TXH intends to accept the Offer in respect of all the Shares Directly Held.*

*Additional information on the Offeror is set out in Appendix 2 to this Offer Document.”*

### 5. RATIONALE FOR THE OFFER AND THE OFFEROR’S INTENTIONS FOR RUH

The full text of the rationale for the Offer and the Offeror’s intentions for RUH has been extracted from sections 6 and 7 of the Offer Document respectively, and are reproduced in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. **Shareholders are advised to read the extract below carefully.**

#### **“6. RATIONALE FOR THE OFFER**

##### **6.1 Compliance with the Code**

*As set out in Section 1.1 above, the Offeror is making the Offer in compliance with the requirements of the Code, because following the completion of the Acquisition, the Offeror will have acquired Shares which represents in excess of 30% of the voting rights of the Company.*

##### **6.2 Low trading liquidity**

*The trading volume of the Shares has been generally low, with an average daily trading volume of approximately 17,100 Shares, 32,303 Shares and 18,952 Shares during the one (1)-month period, three (3)-month period and six (6)-month period up to and including 27 June 2019, being the last full trading day of the Company prior to the Offer Announcement Date (the “**Last Trading Day**”). Each of these represents less than 0.01% of the total number of issued Shares for any of the aforementioned relevant periods.*

*Hence, the Offer represents a unique cash exit opportunity for Shareholders to liquidate and realise their entire investment at a premium to the prevailing market prices, an option which may not otherwise be readily available due to the low trading liquidity of the Shares.*

##### **6.3 Opportunity for minority Shareholders to realise their investment in the Shares at a premium**

*The Offer Price represents a premium of approximately 19%, 22% and 20% above the volume-weighted average price (“**VWAP**”) per share for the corresponding one (1)-month, three (3)-month and six (6)-month periods up to and including the last traded price per Share as quoted on the SGX-ST on 27 June 2019 (being the last market day preceding the Offer Announcement Date) When compared to the last traded price per Share, the Offer Price also represents a premium of approximately 27%.*

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## LETTER TO SHAREHOLDERS

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*Through the Offer, accepting Shareholders will have an opportunity to realise their investments in the Company for a cash consideration at a significant premium above the prevailing market share prices, without incurring any brokerage and other trading costs, amidst challenging market conditions.*

### **6.4 Greater Flexibility to Manage the Business of the Company**

*The Offeror intends to make the Offer with a view to delist the Company from the SGX-ST and if entitled to under Section 215(1) of the Companies Act, Chapter 50 of Singapore (“**Companies Act**”), the Offeror intends to compulsorily acquire all the Offer Shares, as further elaborated in Section 9.2 below.*

*If the Offeror is able to delist the Company, it would together, with the management of the Company, have a longer time horizon to manage and plan its business. A delisting would also provide the Offeror and the management of the Company more flexibility to manage the business of the Company, to optimise the use of its management and capital resources and to facilitate the implementation of any operational change.*

### **6.5 Compliance costs of maintaining listing status**

*In maintaining its listed status, the Company continues to incur compliance and associated costs. In the event that the Company is delisted from the SGX-ST, the Company will be able to save on expenses relating to the maintenance of its listed status and focus its resources on its business operations instead.*

### **6.6 Opportunity for Shareholders who are not prepared to bear the risks associated with the Company to realise their investment in cash**

*The Company has been placed on the SGX watch-list as set out in Section 4.3 above. Shareholders who are not prepared to bear the risks associated with the Company being placed on the watch-list (which may subsequently result in the SGX-ST delisting the Company or suspending trading in the Company’s shares with a view to delisting the Company), will benefit from the cash exit provided through the Offer.*

## **7. OFFEROR’S INTENTIONS IN RELATION TO THE COMPANY**

*The Offeror has no current intentions to (a) introduce any major changes to the existing business of the Company, (b) re-deploy the fixed assets of the Company, or (c) discontinue the employment of the existing employees of the Company or its subsidiaries, in each case, other than in the ordinary and usual course of business. However, the Offeror retains the flexibility at any time to further consider any options or opportunities which may present themselves, and which it regards to be in the interests of the Offeror and/or the Company. Following the close of the Offer, the Offeror will undertake a comprehensive review of the businesses of the Company and the review will help the Offeror to determine the optimal business strategy for the Company.”*



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## LETTER TO SHAREHOLDERS

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### 6. LISTING STATUS AND COMPULSORY ACQUISITION

The full text of the intentions of the Offeror relating to the listing status of the Company and the compulsory acquisition of the Shares has been extracted from section 9 of the Offer Document and is reproduced in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. **Shareholders are advised to read the extract below carefully.**

#### **“9. LISTING STATUS AND COMPULSORY ACQUISITION**

##### **9.1 Listing Status**

*Under Rule 723 of the listing manual of the SGX-ST (the “**Listing Manual**”), the Company must ensure that at least 10% of the total number of issued Shares (excluding any Shares held in treasury) is at all times held in public hands (the “**Free Float Requirement**”). Pursuant to Rule 1105 of the Listing Manual, upon an announcement by the Offeror that acceptances have been received pursuant to the Offer that bring the holdings owned by the Offeror and its Concert Parties to above 90% of the total number of issued Shares (excluding any Shares held in treasury), the SGX-ST may suspend the trading of the Shares until it is satisfied that at least 10% of the total number of issued Shares (excluding any Shares held in treasury) are held by at least 500 Shareholders who are members of the public.*

*Rule 1303(1) of the Listing Manual provides that if the Offeror succeeds in garnering acceptances exceeding 90% of the total number of issued Shares (excluding any Shares held in treasury), thus causing the percentage of the total number of issued Shares (excluding any Shares held in treasury) held in public hands to fall below 10%, the SGX-ST will suspend trading of the Shares only at the close of the Offer.*

*Under Rule 724(1) of the Listing Manual, if the Free Float Requirement is not satisfied, the Company must, as soon as possible, announce that fact and the SGX-ST may suspend trading of all the Shares. Rule 724(2) of the Listing Manual states that the SGX-ST may allow the Company a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of the Shares held in public hands to at least 10%, failing which the Company may be removed from the Official List of the SGX-ST.*

##### **9.2 Compulsory Acquisition**

*Pursuant to Section 215(1) of the Companies Act, in the event that the Offeror receives valid acceptances pursuant to the Offer and/or acquires Shares otherwise than through valid acceptances of the Offer in respect of not less than 90% of the total number of issued Shares (other than those already held by the Offeror, its related corporations or their respective nominees as at the date of the Offer and excluding any Shares held in treasury), the Offeror would be entitled to exercise the right to compulsorily acquire all the Shares from Shareholders who have not accepted the Offer at a price equal to the Offer Price.*

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## LETTER TO SHAREHOLDERS

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***In such an event, the Offeror intends to exercise its right to compulsorily acquire all the Offer Shares not acquired under the Offer. The Offeror will then proceed to delist the Company from the SGX-ST.***

*In addition, pursuant to Section 215(3) of the Companies Act, if the Offeror acquires such number of Shares which, together with the Shares held by it, its related corporations and their respective nominees, comprise 90% or more of the total number of issued Shares, the Shareholders who have not accepted the Offer have a right to require the Offeror to acquire their Shares at the Offer Price. Such Shareholders who wish to exercise such a right are advised to seek their own independent legal advice.*

### **9.3 Offeror's Intentions**

*The Offeror does not intend to preserve the listing status of the Company. In the event that, inter alia, the Free Float Requirement is not satisfied, the Offeror intends to delist the Company and does not intend to take any step for the public float to be restored and/or for any trading suspension of the Shares by the SGX-ST to be lifted. Furthermore, the Offeror, if and when entitled, intends to exercise its rights of compulsory acquisition under Section 215(1) of the Companies Act."*

## **7. DIRECTORS' INTERESTS**

Details of the Directors including, *inter alia*, the Directors' direct and deemed interests in the Company Securities and the Offeror Securities as at the Latest Practicable Date are set out in Appendix II to this Circular.

## **8. ADVICE AND RECOMMENDATION IN RESPECT OF THE OFFER**

### **8.1 Appointment of the IFA**

Asian Corporate Advisors Pte. Ltd. has been appointed as the independent financial adviser to advise the Independent Directors in respect of the Offer. Shareholders should read and carefully consider the advice of the IFA to the Independent Directors on the Offer as set out in the IFA Letter, and the recommendation of the Independent Directors in their entirety before deciding whether to accept or reject the Offer. The IFA Letter is set out in Appendix I to this Circular.

### **8.2 Advice of the IFA to the Independent Directors on the Offer**

The IFA's advice to the Independent Directors in respect of the Offer, as extracted from section 11 of the IFA Letter, is set out below and should be read in conjunction with, and in the context of, the full text of the IFA Letter. All terms and expressions used in the extract below shall have the same meanings as those defined in the IFA Letter, unless otherwise stated. **Shareholders should read and consider carefully the key considerations relied upon by the IFA, in arriving at its advice to the Independent Directors.**

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## LETTER TO SHAREHOLDERS

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### **“11. OPINION**

*In arriving at our opinion in respect of the Offer, we have taken into account, inter alia, the following factors which we consider to have a significant bearing on our assessment as summarised below and as elaborated elsewhere in this Letter. In connection with the Appraised Properties, and such other assets of the Group, the Company did not commission any valuation in connection with the Offer. We have relied on the Director’s confirmation that (a) the valuation of the Appraised Properties as at the Latest Practicable Date would not be materially different from that as at the Valuation Dates, and that the Appraised Properties of the Group are fairly stated; and (b) as at the Latest Practicable Date, save for the Appraised Properties which are subject to valuation, there are no material differences between the estimated market values of the assets of the Group inter alia remaining PPE for which no valuation was performed and their respective book values as at 31 December 2018, which would have a material impact on the NAV and NTA of the Group. Accordingly, our views, recommendation and opinion are necessarily limited and subject to these matters.*

*This is purely a summary of the factors that have been highlighted in this Letter and Shareholders should be advised to read the following in conjunction with, and in the context of, the full text of this Letter:–*

- (a) The rationale for the Offer, intention of the Offeror and the listing status of the Company as set out in the Offer Document.*
- (b) The historical financial performance and position of the Group as set out in paragraph 9.1 of this Letter. The Group recorded a loss of attributable to owners of the Company of approximately S\$7.0 million in FY2016, but turned around and posted net profits attributable to owners of the Company of approximately S\$3.4 million and S\$1.8 million in FY2017 and FY2018 respectively. The Group’s shareholders’ equity strengthened and increased from approximately S\$68.0 million as at 31 December 2016 to approximately S\$79.1 million as at 31 December 2018. However the net working capital position for the Group had weakened and declined from approximately S\$21.1 million as 31 December 2016, to approximately S\$16.8 million as at 31 December 2017 and at 31 December 2018. Due to the enlarged shareholders’ equity and coupled with declining bank borrowings, the bank gearing ratio has improved (decreased from approximately 0.8 times as at 31 December 2016, to approximately 0.5 times as at 31 December 2017 and 0.4 times as at 31 December 2018). Though the net cash flow from operations for the Group were positive during the period reviewed, it had declined from approximately S\$13.9 million in FY2016 to approximately S\$6.0 million in FY2018.*

*The Directors 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 FY2018, and the Company’s announcements released on the SGXNET, there has been no material changes to the Group’s assets and liabilities, financial position, condition and performance.*

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## LETTER TO SHAREHOLDERS

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- (c) *The historical financial performance of the Group appears to be weaker as compared to the Selected Comparable Companies – this is evident from the Group's relatively lower LTM ROE and LTM net profit margin, higher ratios for total liabilities to shareholders' equity and total borrowings to shareholders' equity ratios. The LTM assets turnover ratio as compared to Selected Comparable Companies is slightly more favourable in terms of the median and the simple average.*
- (d) *The Offer Price (as set out in Section 9 of this Letter) after taking into account, inter alia, the following factors:–*
- (i) *The Offer Price represents a substantial discount of approximately 80.8% from the Group's NAV and/or NTA per Share as at 31 December 2018.*
  - (ii) *The Offer Price is substantially lower than the MTP for shares listed on the Mainboard of the SGX-ST.*
  - (iii) *The Offer Price represents a substantial discount of approximately 71.4% over the Adjusted NAV and/or NTA per Share per Share for the Group (after taking into account the net proceeds from the Right Issue, the Sale of Citimac Property and the net gain on Acee Disposal). In the event that the Group's Adjusted Cash per Share is deducted from the Offer Price and likewise from the Group's Adjusted NAV and/or NTA per Share, the Offer Price less Adjusted Cash per Share represents a discount of approximately 81.3% from the Group's Adjusted NAV and/or NTA per Share less Adjusted Cash per Share.*
  - (iv) *The Offer Price represents a substantial discount of approximately 71.9% from the Group's Adjusted RNAV and/or RNTA per Share respectively.*
  - (v) *The Offer Price represents a premium of approximately 27.5% over the last transacted price of S\$0.051 per Share for the Shares on the SGX-ST on 25 June 2019, being the Last Trading Day immediately preceding the Offer Announcement Date.*
  - (vi) *The Offer Price represents a premium of approximately 18.4%, 23.6%, 22.5% and 22.3% over the VWCP for the Shares for the 12-month, 6-month, 3 month and 1 month period prior to the Last Trading Day immediately preceding the Offer Announcement Date respectively.*
  - (vii) *The Offer Price represents a premium of approximately 0.2% over the VWCP for the Shares for the period commencing on the Market Day immediately after the Offer Announcement Date and ending on the Latest Practicable Date.*
  - (viii) *The Offer Price represents a premium of approximately 1.6% over the last transacted price of S\$0.064 per Share on the SGX-ST on 10 July 2019, being the Latest Practicable Date.*

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- (ix) *The Offer Price is not favourable when compared with the valuation of Selected Comparable Companies – the valuation of the Group in terms of P/NAV, P/NTA, ratios (as implied by the Offer Price and the Group's Adjusted RNAV and/or RNTA per Share) appears to be less favourable as compared to the simple average and the median of Selected Comparable Companies. It is further noted that the valuation of the Group in terms of LTM PER (as implied by the Offer Price) appears to be less favourable as compared to the median of Selected Comparable Companies. However, the valuation of the Group (as implied by the Offer Price) in terms of LTM EV/EBITDA appears to be more favourable as compared to the simple average and the median of Selected Comparable Companies.*

*Such comparison should be reviewed in conjunction with the following: (a) the Group's relatively weaker financial position (in terms of the ratios of total liabilities to shareholders' equity, and total borrowings to shareholders' equity), the Group's financial performance (in terms of LTM ROE and LTM net profit margin) appears to be weaker than any of the combined Selected Comparable Companies; and (b) the trading statistics for the shares of Selected Comparable Companies are based on transactions which do not result in acquisition of control whilst for the Offer, the Offeror's intention is to delist and privatise the Company (as at the Offer Announcement Date, the Offeror and its Concert Parties had already a super majority control over the Company by having an interest in 340,474,766 Shares, representing approximately 86.17% of the total number of issued Shares).*

- (x) *The Offer Price is not favourable when compared with Selected Successful Privatisations. In summary, the valuation of the Group as implied by the Offer Price in terms of premiums over historical prices for the Shares generally appears to be within the range but less favourable as compared to the simple average and median for the Selected Successful Privatisations. In addition, the valuation of the Group, (as implied by the Offer Price and Adjusted RNAV) in terms of P/NAV ratio appears to be lower than any of the transactions under the Selected Successful Privatisations.*
- (xi) *The Offer Price is not favourable when compared with Selected Successful Delistings. In summary, the valuation of the Group in general, as implied by the Offer Price in terms of premiums over historical prices for the Shares appears to be within the range but less favourable as compared to the simple average and median for the Selected Successful Delistings. In addition, the valuation of the Group in general, as implied by the Offer Price and the Adjusted RNAV per Share in terms of P/NAV ratio appears to be within the range and lower than the simple average and median for the Selected Successful Delistings.*



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- (xii) *Comparison on a relative basis, with the Rights Issue Price. The Offer Price representing a discount of approximately 71.9% from the Group's Adjusted RNAV and/or NTA per Share, as compared to the Rights Issue Price representing a discount of approximately 84.3% from the Group's NAV and/or NTA per Share of approximately S\$0.3175 as at 30 June 2018 (being the latest available interim financials prior to the announcement of the Rights Issue), is not significantly higher. We note that similar observations are made when the Offer Price is evaluated against the Rights Issue Price, in the context of the audited financial statements of the Group for FY2018 and the effects of the Sale of Citimac Property both of which were released or disclosed prior to the close of the Rights Issue.*
- (xiii) *The Offer Price is not favourable when compared with the previous Offer 2014. In summary, the valuation of the Group (as implied by the Offer Price and Adjusted RNTA) in terms of the P/NTA ratio, relative to its peers, generally appears to be less favourable as compared to similar ratios for Offer 2014. Likewise, the valuation of the Group as implied by the Offer Price in terms of LTM EV/EBITDA and LTM PER relative to its peers, generally appears to be less favourable as compared to similar ratios for Offer 2014.*
- (e) *As at the Offer Announcement Date, the Offeror and its Concert Parties held Shares, constituting approximately 86.17% of the issued Share capital of the Company. Accordingly, the Offeror already has super majority control over the Company, which places the Offeror and its Concert Parties in a position to have significant influence, inter alia, on the management, operating and financial policies of the Company and ability to pass all ordinary resolution on matters in which the Offeror and its Concert Parties do not have an interest, at general meetings of Shareholders. Subsequent to the Offer Announcement Date to the Latest Practicable Date, the Offeror did not make any further announcement in connection with changes in its shareholding in the Company or further purchases of Shares.*
- Competing offer for the Shares (if any) is unlikely to be forthcoming without the support of the Offeror in view of its super majority control as represented by the percentage of the total number of Shares that the Offeror and its Concert Parties hold. Thus, the possibility of an alternative offer from parties other than the Offeror will be significantly reduced.*
- (f) *We note that the Company had not declared any dividends for the last three financial years. As such, if compared to the Selected Comparable Companies or STI ETF, the net dividend yield for Shares, are on a relative basis unfavourable.*
- (g) *As set out in the Offer Document, the Offer Price is final and the Offeror does not intend to increase the Offer Price.*
- (h) *The Directors' confirmation that (a) no other third parties have approached the Company with an intention to make an offer for the Company; and (b) apart from the Offer being made by the Offeror, no other third party has made a firm offer for the Company as at the Latest Practicable Date.*
- (i) *Other considerations are set out in Section 9 or other such sections of this Letter.*

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*In summary, having regard to our analysis and the consideration in this Letter (including, inter alia, its limitation and constraints and in the absence of a valuation in connection with the Offer) and after having considered carefully the information available to us and based on market, economic and other relevant considerations prevailing as at the Latest Practicable Date, and subject to our terms of reference, we are of the opinion that, in the absence of an alternative offer, the financial terms of the Offer is, on balance, **NOT FAIR** and **NOT REASONABLE**.*

*For the purposes of evaluation of the Offer from a financial point of view, we have adopted the approach that the term “fair and reasonable” comprises two distinct concepts:*

- (i) Whether the Offer is “fair” relates to the value of the offer price which is based strictly on the evaluation of the Offer Price (i.e. by looking at the financial or fundamental analyses of the Offer Price as set out in this Letter and based on information known to us or which is publicly available).*
- (ii) Whether the Offer is “reasonable”, after taking into consideration the actual and potential financial impact of other circumstances surrounding the Offer and the Company which we consider relevant (being both quantitative and qualitative factors available and made known to us).*

*We consider the financial terms of the Offer to be **NOT FAIR**, from a financial point of view after factoring, inter alia, the following:–*

- (i) The Offer Price is at a steep discount of approximately 71.9% from the Group’s Adjusted RNAV and/or RNTA per Share and furthermore the valuation of the Group as implied by the Offer Price and the Adjusted RNAV and/or RNTA per Share in terms of P/NAV ratio of approximately 0.3 times is lower than any of the transactions under the Selected Successful Privatisations and only at the same levels as the minimum for the Selected Successful Delistings.*
- (ii) Unfavourable comparison with the valuation of Selected Comparable Companies. Whilst the valuation of the Group (as implied by the Offer Price) in terms of LTM EV/EBITDA appears to be more favourable as compared to the simple average and the median of the Selected Comparable Companies, the valuation of the Group in terms P/NAV, P/NTA, ratios (as implied by the Offer Price and the Group’s Adjusted RNAV and/or RNTA per Share) appears to be less favourable as compared to the simple average and the median of Selected Comparable Companies. It is further noted that the valuation of the Group in terms of LTM PER (as implied by the Offer Price) appears to be less favourable as compared to the simple average and median of Selected Comparable Companies.*
- (iii) The Offer as compared against the Selected Successful Privatisations and the Selected Successful Delistings in the context of the implied premiums of the Offer Price over historical prices for the Shares for the 3 month and 1 month period (prior to the Announcement) appears to be within the range but less favourable as compared to the simple average and median for both the Selected Successful Privatisations and the Selected Successful Delistings.*
- (iv) Unfavourable comparison of the Offer Price against the Rights Issue Price.*
- (v) Unfavourable comparison of the Offer as compared to the previous offer in 2014.*

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We consider the financial terms of the Offer to be, on balance, **NOT REASONABLE**, from a financial point of view after factoring, inter alia, the following:–

- (i) *Less favourable comparison with Selected Successful Privatisations. In summary, the valuation of the Group as implied by the Offer Price in terms of premiums over historical prices for the Shares generally appears to be within the range but less favourable as compared to the simple average and median for the Selected Successful Privatisations.*
- (ii) *Less favourable comparison with Selected Successful Delistings. In summary, the valuation of the Group in general, as implied by the Offer Price in terms of premiums over historical prices for the Shares appears to be within the range but less favourable as compared to the simple average and median for the Selected Successful Delistings.*
- (iii) *The Offer Price is at a steep discount of approximately 71.9% from the Group's Adjusted RNAV and/or RNTA per Share and furthermore the valuation of the Group as implied by the Offer Price and the Adjusted RNAV and/or RNTA per Share in terms of P/NAV ratio of approximately 0.3 times is lower than any of the transactions under the Selected Successful Privatisations and only at the same levels as the minimum for the Selected Successful Delistings.*

### **ACA's Recommendation on the Offer**

*Based on our assessment of the financial terms of the Offer as at the Latest Practicable Date (without considering any acceptance(s) of the Offer or any change in the shareholding of the Offeror and its Concert Parties subsequent to the Latest Practicable Date) as set out above, we advise the Independent Directors that they should recommend that Shareholders **REJECT** the Offer.*

*The Shareholders should note that in the event the Free Float Requirement is not satisfied, the Offeror does not intend to take any step for the public float to be restored and/or for any trading suspension of the Shares by the SGX-ST to be lifted. As at the Offer Announcement Date, the Offeror and its Concert Parties had already a super majority control over the Company by having an interest of approximately 86.17% of the total number of issued Shares and to reach or cross the threshold for the suspension of trading pursuant to the Free Float Requirement, it would require the Offer to be accepted by approximately 3.83% of the issued Share capital of the Company (or about 27.67% of Offer Shares other than those owned by TXH). As at the Latest Practicable Date, the Free Float Requirement remains satisfied.*

*The Shareholders should monitor and take into account the acceptance level in conjunction with the Free Float Requirement and note that in the event the Free Float Requirement is not satisfied, the rejection of the Offer may result in them holding suspended or delisted Shares. In the event of suspension and a delisting, it is likely to be difficult for Shareholders who do not accept the Offer to sell their Shares in the absence of a public market for the Shares. The Shareholders should take into account the risk of holding suspended or delisted Shares and evaluate such risk of in conjunction with, inter alia, their specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints or plans of any individual Shareholder, or group of Shareholders.*



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## LETTER TO SHAREHOLDERS

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### **Matters to highlight**

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

1. *If the Shareholders are considering selling their Offer Shares in the open market, they should be aware that the current market prices and trading volumes for the Shares may have been supported by the Offer and may not be maintained at current levels when the Offer closes. It should be noted that for the period commencing on the Market Day immediately after the Offer Announcement Date to the Latest Practicable Date, the transacted prices for the Shares have always been lower than the Offer Price and the Offer Price represents a small premium of approximately 1.6% over the last transacted price of S\$0.064 per Share on the SGX-ST on 10 July 2019, being the Latest Practicable Date.*
2. *The Shareholders should note that the number of Shares traded for the 1 year period prior to the Offer Announcement Date is relatively low as compared to the number of issued Shares as at the Latest Practicable Date whilst for the period immediately after the Offer Announcement Date until the Latest Practicable Date, the number of Shares traded remains low as compared to the number of issued Shares as at the Latest Practicable Date. In addition, the Shares were only traded on 78 Trading Days (approximately 31.2%) out of the total 250 Market Days for the period 12-months prior to the Offer Announcement Date and 4 Trading Days out of the total 7 Market Days for the period commencing from the Offer Announcement Date to the Latest Practicable Date.*
3. *The Offeror has stated in the Offer Document that it will not revise the Offer Price of S\$0.065 per Offer Share.*
4. *Whilst the possibility of a higher offer from a third party cannot be ruled out, as at the Latest Practicable Date, we are not aware of any publicly available evidence of an alternative offer for the Shares. Shareholders should be aware that the chances of such an alternative offer for Shares being made by a third party may be affected by the fact that as at the Latest Practicable Date, the Offeror and its Concert Parties hold in aggregate of 340,474,766 Shares, representing approximately 86.17% of the total number of issued Shares.*
5. *The Offeror is making the Offer with a view to delist and privatise the Company from the SGX-ST and if entitled to under the Companies Act, the Offeror intends to compulsorily acquire all the Offer Shares.*

***In the event the Company does not meet the Free Float Requirement, the Offeror does not intend to preserve the listing status of the Company and does not intend to take any steps for any trading suspension in the securities of the Company to be lifted.***

***In the event that the trading of Shares on the SGX-ST is suspended pursuant to Rule 724, Rule 1105 or Rule 1303(1) of the Listing Manual, the Offeror does not intend to preserve the listing status of the Company and has no intention of undertaking or supporting any action for any such trading suspension by the SGX-ST to be lifted.***

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## LETTER TO SHAREHOLDERS

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*The Shareholders should therefore monitor the acceptance level and note that in the event the Free Float Requirement is not satisfied, the rejection of the Offer will result in them holding suspended or delisted Shares. In the event of suspension and a delisting, it is likely to be difficult for Shareholders who do not accept the Offer to sell their Shares in the absence of a public market for the Shares.*

- 6. The Directors confirmed that as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter, the audited financial statements for the Group for FY2018, and the Company's announcements released on the SGXNET, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance.*
- 7. Our scope does not require us and we have not made any independent evaluation of the Group (including without limitation, market value or economic potential) or appraisal of the Group's assets and liabilities (including without limitation where applicable PPE and investment properties) 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 including, inter alia, the contracts that the Group has entered into or are about to enter into, save for the Independent Valuation Reports in respect of the market value of the Appraised Properties as at their respective Valuation Dates. Notwithstanding, the Directors have confirmed that no valuation was undertaken, in connection with Offer.*
- 8. The Company was placed on the SGX-ST Watch List under the MTP entry criteria with effect from 5 December 2018. Shareholders should note that the Company must meet the criteria, inter alia (i) records a volume-weighted average price of at least S\$0.20 over the last six (6) months; and (ii) an average daily market capitalisation of S\$40 million or more over the last six (6) months, in Section 10.1(a) above in order to avoid delisting. If the Company fails to satisfy the said criteria by 4 December 2021, being 36 months from the date on which it was placed on the Watch-list, the SGX-ST may either remove the Company from the Official List of the Mainboard of the SGX-ST, or suspend trading of the Shares (without the agreement of the Company) with a view to removing the Company from the Official List of the Mainboard of the SGX-ST."*

### 8.3 Independence of Directors

Mr. Tan Saik Hock, Mr. Teh Geok Koon, Mr. Lee Joo Hai and Mr. Ngoi Sing Shang are regarded as independent for the purposes of the Offer and are required to make a recommendation to Shareholders in respect of the Offer.

Mr. Teo Teng Beng, the Managing Director of the Company and member of the Nominating Committee of the Company, is the father of TXH who is the sole shareholder of the Offeror. Therefore, he is a party presumed to be acting in concert with the Offeror under the Code for the purposes of the Offer, and would face an irreconcilable conflict of interest in relation to the Offer that would render it inappropriate for him to join the Independent Directors in making a recommendation to Shareholders on the Offer.

The SIC had, on 23 July 2019, ruled that Mr. Teo Teng Beng is exempted from the requirement to make a recommendation on the Offer.

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Nonetheless, all the Directors (including, for the avoidance of doubt, Mr. Teo Teng Beng) are jointly and severally responsible for the accuracy of facts stated, opinions expressed and completeness of the information given by the Company to Shareholders on the Offer, including information contained in documents, announcements and advertisements issued by or on behalf of the Company in connection with the Offer.

### 8.4 Recommendation of the Independent Directors

The Independent Directors, having carefully considered the terms of the Offer and the advice given by the IFA to the Independent Directors as set out in the IFA Letter, **CONCUR** with the advice of the IFA in respect of the Offer. Accordingly, the Independent Directors recommend that Shareholders **REJECT** the Offer.

**Shareholders are advised to read and consider the IFA Letter set out in Appendix I to this Circular and the recommendation of the Independent Directors carefully and in its entirety before deciding whether to accept or reject the Offer.**

**Shareholders are advised that the opinion and advice of the IFA and the recommendation of the Independent Directors should not be relied upon by any Shareholder as the sole basis for deciding whether or not to accept the Offer.**

**Further, in rendering the above recommendation, the Independent Directors have not had regard to the general or specific investment objectives, financial situations, tax status or position, risk profiles or unique needs and constraints or other particular circumstances of any individual Shareholder or group of Shareholders. As each Shareholder or group of Shareholders would have different investment objectives and profiles, the Independent Directors, as advised by the IFA, recommend that any individual Shareholder or group of Shareholders who may require advice in the context of his investment objectives or portfolio, should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.**

## 9. OVERSEAS SHAREHOLDERS

### 9.1 Availability of the Offer to Overseas Shareholders

Shareholders whose addresses are outside Singapore, as shown on the Register or, as the case may be, in the records of CDP (each, an “**Overseas Shareholder**”) should refer to section 10 of the Offer Document, the full text of which is extracted and reproduced in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

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## LETTER TO SHAREHOLDERS

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### **“10. OVERSEAS SHAREHOLDERS**

**10.1 Availability to Overseas Shareholders.** *The availability of the Offer to Overseas Shareholders may be affected by the laws of the relevant overseas jurisdictions. It is currently not intended that the Offer will be made in or into, and the Offer is not capable of acceptance in or from, any jurisdiction in or from which the making of the Offer is prohibited or affected by the laws of that jurisdiction. Accordingly, Overseas Shareholders should inform themselves about and observe any applicable legal requirements. For the avoidance of doubt, the Offer is open to all the Shareholders, including those to whom this Offer Document, the FAAs and/or the FATs have not been, or may not be, despatched.*

**10.2 Overseas Jurisdiction.** *It is the responsibility of any Overseas Shareholder who wishes to accept the Offer to satisfy himself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtaining of any governmental or other consent which may be required, and compliance with all necessary formalities or legal requirements and the payment of any taxes, imposts, duties or other requisite payments due in such jurisdiction. Such Overseas Shareholder shall be liable for any such taxes, imposts, duties or other requisite payments payable and the Offeror and any person acting on his behalf shall be fully indemnified and held harmless by such Overseas Shareholder for any such taxes, imposts, duties or other requisite payments as the Offeror and/or any person acting on his behalf may be required to pay. Any Overseas Shareholder who is in any doubt about his position should consult his professional adviser in the relevant jurisdiction. In accepting the Offer, the Overseas Shareholder represents and warrants to the Offeror that he is in full observance of the laws of the relevant jurisdiction in that connection, and that he is in full compliance with all necessary formalities or legal requirements.*

**10.3 Copies of the Offer Document.** *The Offeror reserves the right not to send this Offer Document, the FAA and the FAT to any Overseas Shareholder due to potential restrictions on sending such documents to the relevant jurisdictions. Any affected Overseas Shareholder may, nonetheless, apply to obtain copies of this Offer Document, and the FAA or the FAT, as the case may be, and any related documents during normal business hours and up to the Closing Date, from the Offeror through the Share Registrar (if he is a scripholder), at Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 or from CDP (if he is a Depositor) at 9 North Buona Vista Drive, #01-19/20 The Metropolis, Singapore 138588. Alternatively, an Overseas Shareholder may write in to the Offeror through the Share Registrar (if he is a scripholder) at Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 or to CDP (if he is a Depositor) at Robinson Road Post Office P.O. Box 1984 Singapore 903934 to request for this Offer Document, the FAA or the FAT, as the case may be, and any related documents to be sent to an address in Singapore by ordinary post at his own risk (the last date for despatch in respect of such request shall be a date falling three (3) Market Days prior to the Closing Date). It is the responsibility of any Overseas Shareholder who wishes to request for this Offer Document, the FAA, the FAT and any related documents to satisfy himself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtaining of any governmental or other consent which may be required, and compliance with all necessary formalities or legal requirements. In requesting for this Offer Document, the FAA, the FAT and any related documents, the Overseas Shareholder represents and warrants to the Offeror that he is in full observance of the laws of the relevant jurisdiction in that connection, and that he is in full compliance with all necessary formalities or legal requirements.*

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## LETTER TO SHAREHOLDERS

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**10.4 Notice.** *The Offeror reserves the right to notify any matter, including the fact that the Offer has been made, to any or all of the Shareholders (including Overseas Shareholders) by announcement to the SGX-ST or paid advertisement in a daily newspaper published and circulated in Singapore, in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any Shareholder to receive or see such announcement or advertisement.”*

### 9.2 Copies of Circular

This Circular and any related documents may not be sent to certain Overseas Shareholder due to the potential restrictions on sending such documents to the relevant overseas jurisdictions. Any affected Overseas Shareholder may, nonetheless, obtain a copy of this Circular during normal business hours on any day (other than a public holiday, Saturday or Sunday) and up to 5:30 p.m. on the Closing Date, from the office of the Share Registrar, being Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623. Alternatively, any Overseas Shareholder may make a request to the Share Registrar at the aforementioned address for this Circular and any related documents to be sent to an address in Singapore by ordinary post at his own risk. The last date for despatch in respect of such request shall be the date falling five (5) Market Days prior to the Closing Date.

### 10. INFORMATION PERTAINING TO CPFIS INVESTORS

Section 12.6 of the Offer Document sets out information pertaining to CPFIS Investors, extracts of which are reproduced in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

**“12.6 Information Pertaining to CPFIS Investors.** *CPFIS Investors will receive further information on how to accept the Offer from their respective CPF Agent Banks directly. CPFIS Investors are advised to consult their respective CPF Agent Banks should they require further information, and if they are in any doubt as to the action they should take, CPFIS Investors should seek independent professional advice. CPFIS Investors who wish to accept the Offer are to reply to their respective CPF Agent Banks by the deadline stated in the letter from their respective CPF Agent Banks.*

*CPFIS Investors who accept the Offer will receive the Offer Price payable in respect of their Offer Shares in their CPF investment accounts.”*

### 11. ACTION TO BE TAKEN BY THE SHAREHOLDERS

Shareholders who wish to accept the Offer must do so not later than **5.30 p.m. (Singapore time) on 14 August 2019**, and should take note of the procedures for acceptance of the Offer as set out in Appendix 5 of the Offer Document. **Shareholders should note that the Offeror had indicated in the Offer Document that it has no intention of extending the Offer beyond the Closing Date. Accordingly, the Offer will not be open for acceptance beyond 5:30 p.m. on the Closing Date, and acceptances received after 5:30 p.m. on the Closing Date will be rejected.**

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## LETTER TO SHAREHOLDERS

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Acceptances should be completed and returned as soon as possible and, in any event, so as to be received, on behalf of the Offeror, by the CDP (in respect of the FAA) or the Share Registrar (in respect of the FAT), as the case may be, not later than the Closing Date.

Shareholders who do not wish to accept the Offer need not take any further action in respect of the Offer Document, the FAA and/or the FAT which have been sent to them.

### 12. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors (including those who may have delegated detailed supervision of the preparation of this Circular) have taken all reasonable care to ensure that the facts stated and all opinions expressed in this Circular (excluding those relating to the Offeror, parties acting in concert or deemed to be acting in concert with the Offeror, the Offer and the Excluded Documents) are fair and accurate and that no material facts have been omitted from this Circular, the omission of which would make any statement in this Circular (excluding those relating to the Offeror, parties acting in concert or deemed to be acting in concert with the Offeror, the Offer and the Excluded Documents) misleading, and they jointly and severally accept responsibility accordingly.

The recommendation of the Independent Directors to Shareholders set out in section 8.4 of this Circular is the sole responsibility of the Independent Directors. In respect of the IFA Letter, the sole responsibility of the Directors has been to ensure that the facts stated therein with respect to the Company are, to the best of their knowledge and belief, fair and accurate in all material respects.

Where any information has been extracted or reproduced from published or otherwise publicly available sources (including, without limitation, the Offer Announcement, the Offer Document and the Excluded Documents), the sole responsibility of the Directors has been to ensure, through reasonable enquiries, that such information has been accurately and correctly extracted from such sources or, as the case may be, accurately and correctly reflected or reproduced in this Circular in its proper form and context.

### 13. ADDITIONAL INFORMATION

The attention of Shareholders is also drawn to the Appendices to this Circular which form part of this Circular.

Yours faithfully  
For and on behalf of the Board of Directors of  
**RAFFLES UNITED HOLDINGS LTD**

Tan Saik Hock  
Chairman  
26 July 2019



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## APPENDIX I – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

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### LETTER FROM ASIAN CORPORATE ADVISORS PTE. LTD. TO THE INDEPENDENT DIRECTORS OF RAFFLES UNITED HOLDINGS LTD

#### ASIAN CORPORATE ADVISORS PTE. LTD.

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

160 Robinson Road #21-05  
SBF Center  
Singapore 068914

The Independent Directors (as hereinafter defined)  
Raffles United Holdings Ltd  
5 Changi South St 3  
Singapore 486117

26 July 2019

#### MANDATORY UNCONDITIONAL CASH OFFER BY RAFFLES INFINITY HOLDINGS PTE. LTD. ("OFFEROR") FOR THE OFFER SHARES (AS DEFINED HEREIN)

*Unless otherwise defined or where the context otherwise requires, all terms used herein shall have the same meanings as defined in the circular dated 26 July 2019 (the "Circular").*

#### 1. INTRODUCTION

On 1 July 2019 ("**Offer Announcement Date**"), the Offeror announced that it had acquired a total of 324,315,066 ordinary shares ("**Shares**") in Raffles United Holdings Ltd ("**RUH**" or the "**Company**" or the "**Offeree**"), representing approximately 82.08% of the issued and paid-up share capital of RUH, at S\$0.055 in cash per Share, excluding brokerage and other transaction cost (the "**Acquisition**").

Accordingly, following the Acquisition, the Offeror, together with parties acting or deemed to be acting in concert with the Offeror, in connection with the Offer ("**Concert Parties**"), owns 340,474,766 Shares in the capital of RUH, representing approximately 86.17% of its issued and paid-up Share capital. In accordance with Section 139 of the Securities and Futures Act, Chapter 289 of Singapore and Rule 14 of the Singapore Code on Take-overs and Mergers (the "**Code**"), and subject to the terms and conditions set out in the formal offer document dated 18 July 2019 issued by the Offeror (the "**Offer Document**"), the Offeror is required to make a mandatory unconditional cash offer (the "**Offer**") for all the offer shares ("**Offer Shares**") being the remaining Shares in issue not already owned, controlled or agreed to be acquired by the Offeror and parties acting or deemed to be acting in concert with the Offeror and its Concert Parties at a price of S\$0.065 in cash for each Offer Share (the "**Offer Price**").

The Offer Document dated 16 July 2019 issued by the Offeror, setting out, *inter alia*, the terms and conditions of the Offer, had been despatched to the shareholders of the Company ("**Shareholders**"). We note that in order to consolidate her holdings of the Shares, Teo Xian-Hui Amanda Marie ("**TXH**") who holds, directly and in her own name, 16,159,700 Shares in the Company ("**Shares Directly Held**"), intends to accept the Offer in respect of all the Shares Directly Held.

Asian Corporate Advisors Pte. Ltd. ("**ACA**") has been appointed as the independent financial adviser ("**IFA**") to advise the directors of the Company ("**Directors**"), who are independent for the purpose of making a recommendation to the Shareholders in respect of the Offer ("**Independent Directors**"). We note from the Circular that the Independent Directors comprise Tan Saik Hock, Teh Geok Koon, Lee Joo Hai and Ngoi Sing Shang.

We note from the Circular that Mr Teo Teng Beng, the Managing Director of the Company and member of the Nominating Committee of the Company, is the father of TXH who is the sole shareholder of the Offeror. Therefore, Mr Teo Teng Beng is a party presumed to be acting in concert

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## APPENDIX I – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

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with the Offeror under the Code for the purposes of the Offer, and would face an irreconcilable conflict of interest in relation to the Offer that would render it inappropriate for him to join the Independent Directors in making a recommendation to Shareholders on the Offer.

The Securities Industry Council of Singapore (“**SIC**”) had, on 23 July 2019, ruled that Mr. Teo Teng Beng is exempted from the requirement to make a recommendation on the Offer. Nonetheless, all the Directors (including, for the avoidance of doubt, Mr. Teo Teng Beng) are jointly and severally responsible for the accuracy of facts stated, opinions expressed and completeness of the information given by the Company to Shareholders on the Offer, including information contained in documents, announcements and advertisements issued by or on behalf of the Company in connection with the Offer.

This letter (“**Letter**”) and any other document, which may be issued by ACA, in respect of the Offer, for the purpose of revising, amending or supplementing or updating (as the case may be) and setting out, *inter alia*, our views and evaluation of the financial terms of the Offer and our recommendations thereon, will form part of the Circular providing, *inter alia*, details of the Offer and the recommendations of the Independent Directors with regard to the Offer. Unless otherwise defined or the context otherwise requires, all terms defined in the Circular shall have the same meaning ascribed herein.

### 2. TERMS OF REFERENCE

ACA has been appointed to advise the Independent Directors on the financial terms of the Offer and whether the Shareholders should accept or reject the Offer. We do not warrant the merits of the Offer other than to form a view, for the purposes of Rules 7.1 and 24.1(b) of the Code, as to whether the financial terms of the Offer are fair and reasonable. We have confined our evaluation strictly and solely on the financial terms of the Offer and have not taken into account the commercial risks and/or merits (if any) of the Offer or their strategic merits or the future prospects of the Company and its subsidiaries (“**Group**”) including, *inter alia* the contracts that the Company and the Group has entered into or are about to enter into or the comparison with other deals involving the Shares or the timing or the time extended for the Offer. Such evaluation or comment remains the responsibility of the Directors and the management of the Company (“**Management**”) although we may draw on 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. We do not express any opinion on the relative merits of the Offer as compared to any other alternative transaction.

We were not requested or authorized to solicit, and we have not solicited, any indications of interest from any third party with respect to the Offer Shares or assets or businesses of the Group. In addition, we do not express any views or opinions (nor have we advised the Directors or Management or Company) on the legality of the Offer or all other matters pertaining to the Offer or documents for the Offer (the Circular and the Offer Document), *inter alia*, the mechanism or processes of acceptances, its eligibility or validity or other alternatives (if any) or the sufficiency of information or any undertakings provided or rights of compulsory acquisition under the Companies Act, Chapter 50 of Singapore (“**Act**” or “**Companies Act**”) or the requirement for a forecast or prospect statement or its contents pursuant to the Code. Our scope does not include determining the independence of the Independent Directors for the purpose of making recommendation in respect of the Offer.

In the course of our evaluation, we have held discussions with Directors and Management regarding their assessment of the rationale for the Offer and have examined publicly available information collated by us, including the unaudited and audited financial statements as well as information, both written and verbal, provided to us by the Directors and Management and professional advisers of the Company, including its consultants or advisers, solicitors, auditors and valuers (where applicable). We have not independently verified such information but have made such reasonable enquiries and used our judgement as we deemed necessary on the reasonable use of such information and have found no reason to doubt the accuracy or reliability of the information. Accordingly, we cannot and do not expressly or impliedly represent or warrant, and do not accept any responsibility for the accuracy, completeness or adequacy of such information or the manner it has been classified or presented.

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 have been



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## APPENDIX I – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

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reasonably made after due and careful enquiry. Further the Directors and Management are of the view that, having sought advice for which we are not a party and have not been provided with a confirmation of such advice, that no forecasts or prospect statements are required under the Code. Accordingly Directors and Management have confirmed that, having sought advice for which we are not a party and have not been provided with a confirmation of such advice, that no forecasts or prospect statements are required under the Code. Accordingly, no representation or warranty, expressed and implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of such information.

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 10 July 2019 (the “**Latest Practicable Date**”), and therefore does not reflect expected financial performance after the financial year ended 31 December 2018 for the Group. We have informed the Management on market practice in determining the Latest Practicable Date (being no later than 14 days prior to the despatch date), but the Management has instructed us to fix the Latest Practicable Date as at 10 July 2019 and the despatch date as at 26 July 2019. Accordingly, we have not commented on or assessed the expected future performance or prospects of the Company or the Group or the Shares, irrespective of the outcome of the Offer. Accordingly, our evaluation and opinion and recommendation do not and cannot take into account the future or prospective performance and neither are we responsible for it or for any updates pursuant to any announcements subsequent to the issuance of this Letter or the timing of the Offer or the dates for issuance of the Circular. Accordingly, any estimates or analysis or evaluation of the merits of the Company or the Group or the Shares in this Letter are necessarily limited and we do not warrant or represent that it is complete or in entirety.

Our scope does not require us and we have not made any independent evaluation of the Group (including without limitation, market value or economic potential) or appraisal of the Group’s assets and liabilities (including without limitation where applicable, property, plant and equipment and investment properties) 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 save for the valuation reports as described in this Letter (“**Independent Valuation Reports**”) issued by the independent valuers as described in the Circular and this Letter (the “**Independent Valuers**”) for which the Directors, after having made due and careful enquiry, have relied on. These Independent Valuation Reports are in respect of the market value of the Group’s investment properties and properties under property, plant and equipment (collectively, the “**Appraised Properties**”) as at their respective valuation dates (“**Valuation Dates**”). Notwithstanding, the Directors have confirmed that no valuation was undertaken, in connection with Offer.

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 and investment properties) including, *inter alia*, where applicable the contracts that the Group has entered into or are about to enter into and have relied on the opinion of the Directors and the financial statements where applicable for the assessment. The Directors confirmed that they are aware of and satisfied with the selection of the Group’s assets for the valuation exercise, being the Appraised Properties, and having reviewed the Independent Valuation Reports (*inter alia*, the assumptions, methodology used and information relied upon by the Independent Valuers) as a whole, they are of the opinion that the assumptions and methodology of the Independent Valuation Reports are fair and reasonable.

The Directors are of the opinion that the values of the assets and liabilities as well as the financial performance or condition of the Group as reflected in audited financial statements for the Group for the financial year ended (“**FY**” or “**FYE**”) 31 December 2018 (“**FY2018**”) are true and fair. The Directors have also confirmed that to the best of their knowledge, nothing has come to their attention which may render the Group’s audited financial statements for FY2018 to be false or misleading in any material aspect. In addition, the Directors have 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, the contracts or agreements that the Group has entered into or are about to enter into, the omission of which would render those statements or information to be untrue, inaccurate, incomplete or misleading.

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## APPENDIX I – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

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The Directors further confirmed that, to the best of their knowledge, as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter, the Group's audited financial statements for FY2018, and the Company announcements on the SGXNET, there has been no material changes to the Group's 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), and the information provided to us, as at 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*, includes general as well as company-specific or industry-specific conditions or sentiments or factors. The Independent Directors should note that our evaluation is based solely on publicly available information and such other information provided by the Company or its Directors or Management as well as the economic and market conditions prevailing as at the Latest Practicable Date, and therefore does not reflect expected financial performance after FY2018 for the Group or developments (both macro and company-specific) and that these factors do and will necessarily affect the evaluation of the Offer and our recommendation or opinion or views.

The Directors have collectively and severally accepted full responsibility, as set out in the Circular, for the truth, accuracy and completeness of all information and representations as provided by the Directors and contained herein. The Directors have confirmed to ACA that to the best of their knowledge and belief, all material information including but not limited to plans or prospects or proposals involving acquisition or issuance of securities, or changes to its capital structure or reorganisation or amalgamation or restructuring or future listing plans available to them and the Management in connection with the Company, the Group, the Offer or the Offeror or such other parties has been disclosed to ACA in its entirety 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 financial performance or expected future performance or future growth prospects or restructuring plans (if applicable) of the Company or the Group, the omission of which would result in the facts stated and the opinions expressed by the Directors in the Circular or this Letter 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 Offer. We are therefore not expressing any view herein as to the returns that the Shareholders may have owning the Shares upon completion or close of the Offer or on the future financial performance of the Company or the Group or the plans (if any) that the Offeror may have for the Company. In rendering our advice 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 or particular circumstances of any individual Shareholder. As each Shareholder would have different investment profiles and objectives, horizons and risk profiles, we would advise Independent Directors to recommend that any Shareholder, who may require advice in the context of his specific investment objective(s), investment portfolio(s), including his investment in the Company, should 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 on the Offer or the Company or the Group or the Shares which we used or may have used may differ from the relative emphasis accorded by any individual Shareholder or Independent Director, and as such the Independent Directors are advised to highlight to 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 Offer or its recommendation, following the date of the issue of this Letter.

Accordingly, our Letter or opinion or views or recommendation should not be used or relied by anyone for any other purposes and should only be used by the Independent Directors, subject to our terms of reference and the contents of this Letter as one of the basis for their opinions or views or recommendation. In addition, any references to our Letter as one of the basis for their opinion, views or recommendation, should not be made except with our prior consent in writing and even if made

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## **APPENDIX I – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS**

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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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## APPENDIX I – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

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### 3. TERMS AND CONDITIONS OF THE OFFER

The principal terms and conditions of the Offer, as extracted from Section 2 of the Offer Document, are set out in italics below. We recommend that Shareholders read the terms and conditions contained therein carefully.

#### **"2 THE OFFER**

##### **2.1 Offer Terms**

*In accordance with Rule 14 of the Code, and subject to the terms and conditions set out in this Offer Document, the FAA and the FAT, the Offeror hereby offers to acquire all the Offer Shares on the following basis:*

<i>For each Offer Share: S\$0.065 in cash (the "Offer Price").</i>
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*The Offeror does not intend to revise the Offer Price and therefore, in accordance with Rule 20.2 of the Code, the Offeror will not be allowed to subsequently amend the terms of the Offer, including the Offer Price.*

*The Offer is extended, on the same terms and conditions, to all the Shares owned, controlled or agreed to be acquired by the Concert Parties (the "Offer Shares").*

##### **2.2 No encumbrances**

*The Offer Shares are to be acquired:*

- (a) fully paid;*
- (b) free from any claim, charge, pledge, mortgage, lien, option, equity, power of sale, declaration of trust, hypothecation, retention of title, right of pre-emption, right of first refusal, moratorium or other third party right or security interest of any kind or an agreement, arrangement or obligation to create any of the foregoing ("Encumbrances"); and*
- (c) together with all rights, benefits and entitlements attached thereto as at the Offer Announcement Date and hereafter attaching thereto (including the right to receive and retain all dividends and other distributions or return of capital, if any, which may be announced, declared, paid or made thereon (the "Distributions") by the Company on or after the Offer Announcement Date).*

*In the event that any Distribution is or has been announced, declared, paid or made by the Company in respect of the Offer Shares on or after the Offer Announcement Date, the Offeror reserves the right to reduce the Offer Price by an amount equivalent to the amount of such Distribution.*

##### **2.3 Unconditional Offer**

*The Offer is unconditional in all respects. Therefore, the Offer is not conditional upon the level of acceptances which the Offeror may receive in respect of the Offer.*

##### **2.4 Warranty**

*Acceptance of the Offer will be deemed to constitute an unconditional and irrevocable warranty by the accepting Shareholder that each Offer Share tendered in acceptance of the Offer is sold by the accepting Shareholder, as or on behalf of the beneficial owner(s) thereof, (a) fully paid, (b) free from any Encumbrance, and (c) with all such rights, benefits and entitlements attached thereto as at the Offer Announcement Date and thereafter attaching thereto, including the right to receive and retain all*

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## APPENDIX I – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

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*dividends, rights and other distributions (if any) declared, paid or made by RUH on or after the Offer Announcement Date.*

### **2.5 Duration of the Offer**

*Pursuant to Rule 22.3 of the Code, except insofar as the Offer is withdrawn with the consent of the SIC and every person released from any obligation incurred thereunder, the Offer will remain open for acceptances by Shareholders for a period of at least 28 days from the Dispatch Date.*

*The Offeror does not intend to extend the Offer beyond the Closing Date.*

*Accordingly, the Offer will close at 5.30 p.m. on 14 August 2019.*

### **2.6 Further Details of the Offer**

*Please refer to Appendix 4 to this Offer Document which sets out further details on (a) the settlement of the consideration for the Offer, (b) the requirements relating to the announcement of the level of acceptances of the Offer, and (c) the right of withdrawal of acceptances of the Offer.*

### **2.7 Procedures for Acceptance**

*Please refer to Appendix 5 to this Offer Document which sets out the procedures for acceptance of the Offer.”*

**We note that the Offer is unconditional and will close on 5.30 p.m. on 14 August 2019, being the last day for the lodgement of acceptances of the Offer (“Closing Date”) and that the Offeror does not intend to extend the Offer beyond the Closing Date.**

## **4. INFORMATION ON THE OFFEROR AND ITS CONCERT PARTIES**

The information on the Offeror is set out in italics below has been extracted from Section 3 of the Offer Document. Shareholders should also refer to Appendix 2 of the Offer Document for additional information on the Offeror. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

### **“3. INFORMATION ON THE OFFEROR AND ITS CONCERT PARTIES**

*3.1 The Offeror is an investment holding company incorporated in the Republic of Singapore on 23 May 2019. The Offeror is a special purpose vehicle for the purposes of making the Offer, and its sole shareholder and director is Teo Xian-Hui Amanda Marie (“TXH”). The Offeror has an issued and paid-up share capital of S\$2.00 comprising two ordinary shares.*

*3.2 Upon completion of the Acquisition, TXH holds, directly and indirectly, in aggregate a shareholding of 340,474,766 Shares in the Company, representing approximately 86.17% of the total number of issued Shares of the Company.*

*3.3 Upon completion of the Acquisition, TXH holds directly and in her own name, 16,159,700 Shares in the Company (“Shares Directly Held”). In order to consolidate her holdings of Shares, TXH intends to accept the Offer in respect of all the Shares Directly Held.*

*Additional information on the Offeror is set out in Appendix 2 of the Offer Document.”*

## **5. INFORMATION ON THE COMPANY**

Information and additional general information on the Company are set out in Appendices II, III, IV and V of the Circular and Section 4 and Appendix 3 of the Offer Document.

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## APPENDIX I – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

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The Company was founded in 1956 as a sole proprietorship and subsequently incorporated in Singapore on 3 November 1973, RUH is one of the largest stockists, distributors and retailers of bearings and seal products in South-East Asia and the Far East, catering primarily to bearing wholesalers, replacement markets and original equipment manufacturers. RUH was listed on the SGX-ST Dealing and Automated Quotation on 10 November 1995 and upgraded to the SGX-ST Mainboard on 2 February 1998.

The principal activities of the Company and its subsidiaries as at the Latest Practicable Date are those relating to:

- (i) distribution, retailing and application of bearings and seals in South East Asia and the Far East that caters primarily to the wholesale, maintenance, repair, and overhaul, and original equipment manufacturer (OEM) markets;
- (ii) property investment, including collection of rent, capital growth potential and/or provision of property related services and facilities and/or the investment in or acquisition or disposal of shares or interests in any entity that holds property related assets;
- (iii) property development, including the acquisition, development and/or sale of property related assets and/or investment in or acquisition or disposal of shares or interests in any entity that undertakes such property development activities; and
- (iv) offering gearbox and electrical products to distributors, retailers and contractors as well as beauty products to consumers.

### 6. THE RATIONALE FOR THE OFFER AND THE OFFEROR'S INTENTION FOR THE COMPANY

The rationale for the Offeror, the Offeror's intention relating to the Company are set out in italics below has been extracted from Sections 6 and 7 of the Offer Document. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

#### **“6. RATIONALE FOR THE OFFER**

##### **6.1 Compliance with the Code**

*As set out in paragraph 1 above, the Offeror is making the Offer in compliance with the requirements of the Code, because following completion of the Acquisition, the Offeror will have acquired Shares which represents in excess of 30% of the voting rights of the Company.*

##### **6.2 Low trading liquidity**

*The trading volume of the Shares has been generally low, with an average daily trading volume of approximately 17,100 Shares, 32,303 Shares and 18,952 Shares during the one (1)-month period, three (3)-month period and six (6)-month period up to and including 27 June 2019, being the last full trading day of the Company prior to the Offer Announcement Date (the “**Last Trading Day**”). Each of these represents less than 0.01% of the total number of issued Shares for any of the aforementioned relevant periods.*

*Hence, the Offer represents a unique cash exit opportunity for Shareholders to liquidate and realise their entire investment at a premium to the prevailing market prices, an option which may not otherwise be readily available due to the low trading liquidity of the Shares.*

##### **6.3 Opportunity for minority Shareholders to realise their investment in the Shares at a premium**

*The Offer Price represents a premium of approximately 19%, 22% and 20% above the volume-weighted average price (“**VWAP**”) per share for the corresponding one-month, three-month and six-month periods up to and including the last traded price per Share as quoted on the SGX-ST on 27*



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*June 2019 (being the last market day preceding the Offer Announcement Date) When compared to the last traded price per Share, the Offer Price also represents a premium of approximately 27%.*

*Through the Offer, accepting Shareholders will have an opportunity to realise their investments in the Company for a cash consideration at a significant premium above the prevailing market share prices, without incurring any brokerage and other trading costs, amidst challenging market conditions.*

### **6.4 Greater Flexibility to Manage the Business of the Company**

*The Offeror intends to make the Offer with a view to delist the Company from the SGX-ST and if entitled to under Section 215(1) of the Companies Act, Chapter 50 of Singapore ("Companies Act"), the Offeror intends to compulsorily acquire all the Offer Shares, as further elaborated in paragraph 11 below.*

*If the Offeror is able to delist the Company, it would together, with the management of the Company, have a longer time horizon to manage and plan its business. A delisting would also provide the Offeror and the management of the Company more flexibility to manage the business of the Company, to optimise the use of its management and capital resources and to facilitate the implementation of any operational change.*

### **6.5 Compliance costs of maintaining listing status**

*In maintaining its listed status, the Company continues to incur compliance and associated costs. In the event that the Company is delisted from the SGX-ST, the Company will be able to save on expenses relating to the maintenance of its listed status and focus its resources on its business operations instead.*

### **6.6 Opportunity for Shareholders who are not prepared to bear the risks associated with the Company to realise their investment in cash**

*The Company has been placed on the SGX watch-list as set out in paragraph 6.5 above. Shareholders who are not prepared to bear the risks associated with the Company being placed on the watch-list (which may subsequently result in the SGX-ST delisting the Company or suspending trading in the Company's shares with a view to delisting the Company), will benefit from the cash exit provided through the Offer.*

## **7. OFFEROR'S INTENTIONS IN RELATION TO THE COMPANY**

*The Offeror has no current intentions to (a) introduce any major changes to the existing business of the Company, (b) re-deploy the fixed assets of the Company, or (c) discontinue the employment of the existing employees of the Company or its subsidiaries, in each case, other than in the ordinary and usual course of business. However, the Offeror retains the flexibility at any time to further consider any options or opportunities which may present themselves, and which it regards to be in the interests of the Offeror and/or the Company. Following the close of the Offer, the Offeror will undertake a comprehensive review of the businesses of the Company and the review will help the Offeror to determine the optimal business strategy for the Company."*

## **7. LISTING STATUS, COMPULSORY ACQUISITION, WATCH LIST AND MTP (DEFINED LATER)**

The listing status and compulsory acquisition, are set out in italics below has been extracted from Sections 9 of the Offer Document. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

### **"9. LISTING STATUS AND COMPULSORY ACQUISITION**

#### **9.1 Listing Status**

*Under Rule 723 of the listing manual of the SGX-ST (the "**Listing Manual**"), the Company must ensure that at least 10% of the total number of issued Shares (excluding any Shares held in treasury) is at all times held in public hands (the "**Free Float Requirement**"). Pursuant to Rule 1105 of the*

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*Listing Manual, upon an announcement by the Offeror that acceptances have been received pursuant to the Offer that bring the holdings owned by the Offeror and its Concert Parties to above 90% of the total number of issued Shares (excluding any Shares held in treasury), the SGX-ST may suspend the trading of the Shares until it is satisfied that at least 10% of the total number of issued Shares (excluding any Shares held in treasury) are held by at least 500 Shareholders who are members of the public.*

*Rule 1303(1) of the Listing Manual provides that if the Offeror succeeds in garnering acceptances exceeding 90% of the total number of issued Shares (excluding any Shares held in treasury), thus causing the percentage of the total number of issued Shares (excluding any Shares held in treasury) held in public hands to fall below 10%, the SGX-ST will suspend trading of the Shares only at the close of the Offer.*

*Under Rule 724(1) of the Listing Manual, if the Free Float Requirement is not satisfied, the Company must, as soon as possible, announce that fact and the SGX-ST may suspend trading of all the Shares. Rule 724(2) of the Listing Manual states that the SGX-ST may allow the Company a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of the Shares held in public hands to at least 10%, failing which the Company may be removed from the Official List of the SGX-ST.*

### **9.2 Compulsory Acquisition**

*Pursuant to Section 215(1) of the Companies Act, in the event that the Offeror receives valid acceptances pursuant to the Offer and/or acquires Shares otherwise than through valid acceptances of the Offer in respect of not less than 90% of the total number of issued Shares (other than those already held by the Offeror, its related corporations or their respective nominees as at the date of the Offer and excluding any Shares held in treasury), the Offeror would be entitled to exercise the right to compulsorily acquire all the Shares from Shareholders who have not accepted the Offer at a price equal to the Offer Price.*

***In such an event, the Offeror intends to exercise its right to compulsorily acquire all the Offer Shares not acquired under the Offer. The Offeror will then proceed to delist the Company from the SGX-ST.***

*In addition, pursuant to Section 215(3) of the Companies Act, if the Offeror acquires such number of Shares which, together with the Shares held by it, its related corporations and their respective nominees, comprise 90% or more of the total number of issued Shares, the Shareholders who have not accepted the Offer have a right to require the Offeror to acquire their Shares at the Offer Price. Such Shareholders who wish to exercise such a right are advised to seek their own independent legal advice.*

### **9.3 Offeror's Intentions**

*The Offeror does not intend to preserve the listing status of the Company. In the event that, inter alia, the Free Float Requirement is not satisfied, the Offeror intends to delist the Company and does not intend to take any step for the public float to be restored and/or for any trading suspension of the Shares by the SGX-ST to be lifted. Furthermore, the Offeror, if and when entitled, intends to exercise its rights of compulsory acquisition under Section 215(1) of the Companies Act."*

Information on the Company being placed on the SGX-ST Watch-list ("**Watch List**") under the minimum trading price ("**MTP**") entry criteria with effect from 5 December 2018, are set out in italics below has been extracted from Sections 4.3 of the Offer Document. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

#### **"4.3 SGX-ST Watch-List and Associated Risks**

- (a) *The Company was placed on the SGX-ST Watch-list under the minimum trading price ("**MTP**") entry criteria with effect from 5 December 2018. An issuer on the relevant Watch-list*



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may be removed from that Watch-list if it satisfies the following requirements, where applicable:

The issuer:

- (i) records a volume-weighted average price of at least S\$0.20 over the last six (6) months; and
  - (ii) an average daily market capitalisation of S\$40 million or more over the last six (6) months.
- (b) Pursuant to Rule 1313(2) of the Listing Manual of the SGX-ST, the Company must, for the period in which it remains on the Watch-list, provide the market with a quarterly update on its efforts and the progress made in meeting the exit criterion of the Watch-list. The Company has made an announcement in relation to this on 13 May 2019.
- (c) Shareholders should note that the Company must meet the criteria in Section 4.2(a) above in order to avoid delisting. If the Company fails to satisfy the criteria set out in Section 4.2(a) of this Offer Document by 4 December 2021, being 36 months from the date on which it was placed on the watch-list, the SGX-ST may either remove the Company from the Official List of the Mainboard of the SGX-ST, or suspend trading of the Shares (without the agreement of the Company) with a view to removing the Company from the Official List of the Mainboard of the SGX-ST.
- (d) In view of the Company being on the Watch-list, it is very unlikely that the Company can find new investors, or improve its currently illiquid and thinly traded Shares, in order to exit the Watch-list.”

### 8. IRREVOCABLE UNDERTAKING

We note from Section 5 of the Offeror Document that, neither the Offeror nor any of its Concert Parties has received any undertakings from any other party to accept or reject the Offer.

As stated in Section 3.3 of the Offer Document, in order to consolidate her holdings of Shares, TXH intends to accept the Offer in respect of all the Shares directly held in her own name.

Accordingly following the Acquisition, the Offeror, together with its Concert Parties, owns 340,474,766 Shares in the capital of the Company, representing approximately 86.17% of the Company issued and paid-up capital.

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### 9. FINANCIAL ASSESSMENT OF THE OFFER

In assessing the financial terms of the Offer from a financial point of view, we have taken into account the following pertinent factors as well as others in the Letter, which we consider will have a significant bearing on our assessment:

- (i) historical financial performance and position of the Group;
- (ii) analysis of the Group's net asset value ("**NAV**") and net tangible assets ("**NTA**");
- (iii) relative valuation analysis;
- (iv) market quotation and trading activities for the Shares;
- (v) comparison with recently completed privatisation and delisting transactions in Singapore; and
- (vi) such other relevant considerations which have significant bearing on our assessment.

As at the Latest Practicable Date, the Company only has one (1) class of shares, being ordinary Shares, with equal ranking rights to dividend, voting at general meetings and return of capital. We note from Appendix II of the Circular, the issued and paid-up share capital of the Company is S\$39,580,081.90 comprising 395,103,118 Shares; and the Company does not hold any treasury shares as at the Latest Practicable Date.

As at the Latest Practicable Date, the Company has not granted and has no outstanding instruments convertible into, rights to subscribe for and options or derivatives in respect of, the Shares or securities which carry voting rights affecting and Shares.

These factors are discussed in detail in the ensuing sections.

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

- (i) **EV/EBITDA**                      "**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.

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.

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- (ii) **Price-to-Earnings (“PER”)** 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.
- (iii) **Price-to-NTA (“P/NTA”)** 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.
- (iv) **Price-to-NAV (“P/NAV”)** 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.
- 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.

In assessing the financial terms of the Offer, we have taken into account the following pertinent factors (as well as others in this Letter), which we consider will have a significant bearing on our assessment.

### 9.1 Historical financial performance and position of the Group

The following are extracts from the audited consolidated financial statements of the Group for the FY ended 31 December 2016 (“FY2016”), 31 December 2017 (“FY2017”) and FY2018.

#### Summary of income statements

Figures in S\$'000 <sup>(1)</sup>	Audited FY2018	Audited FY2017	Audited FY2016
Revenue	68,443	72,974	71,441
Cost of sales <sup>(2)</sup>	53,420	58,230	58,417
Gross profit	15,023	14,744	13,024
Operating expenses <sup>(3)</sup>	11,910	11,117	18,607
Profit/(loss) before tax	2,515	3,023	(6,579)
Profit/(loss) after tax	1,873	3,646	(6,742)
Profit/(loss) after tax attributable to owners of the Company	1,827	3,394	(6,989)

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### Summary of statements of financial position

Figures in S\$'000 <sup>(1)</sup>	Audited FY2018	Audited FY2017	Audited FY2016
Non-current assets	93,830	86,937	81,115
Current assets	46,295	50,142	64,252
Non-current liabilities	22,534	29,107	26,187
Current liabilities	29,460	27,136	43,127
Total borrowings <sup>(4)</sup>	31,210	36,189	51,786
Shareholders' equity	79,098	71,967	67,930
Net working capital	16,835	23,006	21,125

### Summary of statements of cash flows

Figures in S\$'000 <sup>(1)</sup>	Audited FY2018	Audited FY2017	Audited FY2016
Net cash flow generated from operating activities	5,981	15,765	13,873
Net cash flow used in investing activities	(2,347)	(5,270)	(236)
Net cash flow used in financing activities	(4,864)	(15,756)	(7,353)
Cash and cash equivalents at end of period	4,847	6,128	11,414

**Notes:**

- (1) Figures and computation presented in this section are subjected to rounding.
- (2) Cost of sales comprises change in inventories and raw materials and consumables used.
- (3) Operating expenses comprise staff costs, depreciation of property, plant and equipment, foreign exchange loss, net impairment loss recognised on trade debtors, write-back of provision/(provision) for slow-moving inventories, net impairment loss reversed/(recognised) on amounts due from an associate, impairment loss reversed/(recognised) on sundry debtors, impairment loss on other investments, plant and equipment written off, net / gain on disposal of plant and equipment, loss on disposal of a subsidiary, non-controlling interest share on waiver of intercompany trade debts on disposal of a subsidiary and other operating expenses.
- (4) Borrowings comprise interest bearing loans and borrowings.

We note the following: -

- (i) Financial performance for FY2018, FY2017 and FY2016

The Group operates mainly in operating segments which focuses on the:

- (a) distribution, retailing and application of bearings and seals in South East Asia and the Far East that caters primarily to the wholesale, maintenance, repair, and overhaul, and original equipment manufacturer (“OEM”) markets. This contributed approximately 95.7% of the Group’s total revenue in FY2018;
- (b) property investment, including collection of rent, capital growth potential and/or provision of property related services and facilities and/or the investment in or acquisition or disposal of shares or interests in any entity that holds property related assets. This contributed approximately 2.8% of the Group’s total revenue in FY2018; and
- (c) distribution and retailing of gearbox products and beauty products. This contributed approximately 1.5% of the Group’s total revenue in FY2018.

The Group’s revenue increased by approximately 2.1% from approximately S\$71.4 million in FY2016 to approximately S\$73.0 million in FY2017 due mainly to an increase in sales from OEM market and contribution from the Group’s newly acquired subsidiary, Acee Electric Pte

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Ltd (“Acee”) which was offset partially by absence of revenue contribution from the Group’s Taiwan subsidiary following its disposal and effects of stiff competition.

The Group’s revenue declined by approximately 6.2% from approximately S\$73.0 million in FY2017 to approximately S\$68.4 million in FY2018, which was due to cyclical downturn in OEM market in Singapore, longer delivery lead time from suppliers resulting in delay in fulfilment of customers’ back orders and stiff competition in the dealers markets in Asean and other Asian countries that the Group operates in.

The Group recorded gross profit of approximately S\$13.0 million, S\$14.7 million and S\$15.0 million with corresponding gross profit margin of approximately 18.2%, 20.2% and 21.9% in FY2016, FY2017 and FY2018 respectively.

Total operating expenses for the Group (comprising *inter-alia* staff cost, depreciation, net foreign exchange loss, impairment for trade debtors, write-back of provision/(provision) for slow-moving inventories, impairment loss for amounts due from an associate, impairment loss on sundry debtors, impairment loss on investments, plant and equipment, gain on disposal of plant and equipment, loss on disposal of subsidiary, non-controlling interest share on waiver of intercompany trade debts on disposal of a subsidiary and other operating expenses) amounted to approximately S\$18.6 million, S\$11.1 million, and S\$11.9 million in FY2016, FY2017 and FY2018 respectively.

The lower operating expenses in FY2017 as compared to FY2016 was due to there being write back of provision for slow-moving inventories in FY2017 of approximately S\$0.9 million (as compared to the S\$4.2 million provision in FY2016), a loss on disposal of subsidiary in FY2016 of approximately S\$1.3 million, other operating expenses (which decreased by approximately 23.6% to approximately S\$2.8 million in FY2017), staff cost (which decreased by approximately 3.7% to approximately S\$7.4 million in FY2017), impairment loss recognised on amounts due from an associate (which decreased by approximately 37.5% to approximately S\$250 thousand in FY2017), there being a non-controlling interest share on waiver of intercompany trade debts on disposal of a subsidiary of approximately S\$147 thousand in FY2016, impairment loss recognised on trade debtors (which decreased by approximately 58.0% to approximately S\$89 thousand in FY2017).

Meanwhile, the higher operating expenses in FY2018 as compared to FY2017 was attributable to higher amounts of net FX loss (increased by approximately 253.6% to approximately S\$983 thousand in FY2018), staff cost (increased by approximately 2.4% to approximately S\$7.6 million in FY2018), other operating expense (increased by approximately 16.3% to approximately S\$3.3 million in FY2018), impairment loss on trade debtors (increased by approximately 155.1% to approximately S\$227 thousand in FY2018). This was offset partially by impairment loss reversed on sundry debtors (increased by approximately 139.7% to approximately S\$117 thousand in FY2018), reversal of impairment loss on amounts due from an associate (increased by approximately 129.2% to approximately S\$73 thousand in FY2018).

Finance costs amounted to approximately S\$1.3 million, S\$1.1 million and S\$1.0 million in FY2016, FY2017 and FY2018 respectively.

Whilst there was a loss on changes in fair value of investment properties of approximately S\$73 thousand in FY2016, the Group recorded gains on changes in fair value of investment properties of approximately S\$0.4 million and, S\$0.3 million in FY2017 and FY2018 respectively.

The Group also recorded positive share of results of associates of approximately S\$0.3 million, S\$10 thousand and S\$16 thousand in FY2016, FY2017 and FY2018 respectively.

Whilst the Group recorded a loss profit attributable to owners of the Company of approximately S\$7.0 million in FY2016, the Group recorded profit attributable to owners of the Company of approximately S\$3.4 million and S\$1.8 million in FY2017 and FY2018 respectively.

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(ii) Assets and liabilities

As at 31 December 2018, the Group's total assets amounted to approximately S\$140.1 million, comprising current assets of approximately S\$46.3 million (or approximately 33.0% of the total assets) and non-current assets of approximately S\$93.8 million (or approximately 67.0% of the total assets).

Non-current assets as at 31 December 2018, comprised mainly property, plant and equipment of approximately S\$36.0 million; investment properties of approximately S\$57.0 million.

Current assets as at 31 December 2018 comprised mainly trade debtors of approximately S\$10.8 million, inventories of approximately S\$30.2 million, cash at banks and on hand of approximately S\$4.8 million and prepayments of approximately S\$302K.

As at 31 December 2018, the Group's total liabilities amounted to approximately S\$52.0 million comprising current liabilities of approximately S\$29.5 million (or approximately 56.7% of the total liabilities) and non-current liabilities of approximately S\$22.5 million (or approximately 43.3% of the total liabilities).

Current liabilities as at 31 December 2018 comprised mainly interest bearing loans and borrowings of approximately S\$12.8 million, trade creditors and accruals of approximately S\$13.3 million and amounts due to related parties of approximately S\$2.4 million.

Non-current liabilities as at 31 December 2018 comprised interest bearing loans and borrowings of approximately S\$18.4 million and deferred tax liabilities of approximately S\$4.1 million.

(iii) Net Working Capital

The Group's net working capital have always been positive during the period reviewed. Net working capital for the Group increased from approximately S\$21.1 million as at 31 December 2016 to approximately S\$23.0 million as at 31 December 2017, and declined thereafter to S\$16.8 million as at 31 December 2018.

The decline in the positive net working capital for the Group from 31 December 2017 of approximately S\$23.0 million to approximately S\$16.8 million as at 31 December 2018 was largely attributed to:

- lower amounts of trade debtors (which decreased from approximately S\$13.7 million as at 31 December 2017 to S\$10.8 million as at 31 December 2018);
- lower amounts of cash at banks and on hand (which decreased from approximately S\$6.1 million as at 31 December 2017 to S\$4.8 million as at 31 December 2018);
- higher amounts of current-portion interest bearing loans and borrowings (increased from approximately S\$10.1 million as at 31 December 2017 to approximately S\$12.8 million as at 31 December 2018);

which was partially offset by higher amounts of inventories (increased from approximately S\$29.7 million as at 31 December 2017 to approximately S\$30.2 million as at 31 December 2018).

(iv) Shareholders' equity and gearing

Shareholders' equity of the Group increased generally from approximately S\$67.9 million as at 31 December 2016 to approximately S\$79.1 million as at 31 December 2018, largely attributable to increases in assets revaluation reserve, revenue reserve (from profits generated during the periods reviewed), and foreign currency translation reserve.

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Total borrowings (comprising interest bearing loans and borrowings) for the Group decreased from approximately S\$51.8 million as at 31 December 2016 to approximately S\$36.2 million as at 31 December 2017, and to approximately S\$31.2 million as at 31 December 2018.

As a result, the Group's bank gearing ratio decreased from approximately 0.8 times as at 31 December 2016 to 0.5 times as at 31 December 2017, and to approximately 0.4 times as at 31 December 2018.

(v) Positive net cash flow from operations

The Group generated positive net cash flow from operating activities during the period reviewed. However, whilst net cash flow from operating activities increased from approximately S\$13.9 million in FY2016 to S\$15.8 million in FY2017, it has subsequently declined to approximately S\$6.0 million in FY2018. We note that net cash flow used in financing was primary due to the net cash flow used in repayment of borrowings, which was relatively significant as compared to the amount of net cash flow generated from operating activities.

The Directors confirmed that, to the best of their knowledge, as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter, the Group's audited financial statements for FY2018, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance.

(vi) Outlook

We note that in the Group's annual report for 31 December 2018 ("AR2018"), the following commentary on outlook for 2019 was provided.

*"The Group expects the business operating environment to remain challenging globally in the year ahead. The Group will continue to exercise prudence in its operations as well as generate positive cashflow to maintain a healthy balance sheet and working capital position. Barring any unforeseen circumstances, the Directors expect the performance of the Group for the financial year 2019 to remain profitable.*

*The Company hopes to complete the Rights Issue to raise funds towards improving the Group's working capital and gearing and further strengthening the Group's financial position."*

The Rights Issue (defined later) was completed and the Rights Shares were issued and allotted on 14 May 2019, and listed on 15 May 2019.

The following paragraph set out in italics below has been extracted from paragraph 8.3 or Appendix II of the Circular:-

*"Save as disclosed in this Circular and publicly available information on the Company, there are no known material changes in the financial position of the Company as at the Latest Practicable Date since 31 December 2018, being the date to which the last published audited financial statements of the Company were made up."*



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### 9.2 Analysis of the Group's NAV and NTA

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 the hypothetical sale of assets in a non-orderly manner or over a short period of time. In addition, it does not illustrate the values at which assets may actually be realized or disposed of.

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, minority interest 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 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 (where applicable) 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.

#### NAV and NTA of the Group

In assessing the Offer Price of S\$0.065 for each Offer Share, in relation to the NAV and NTA per Share of the Group as at 31 December 2018, we have reviewed the audited statement of financial position of the Group as 31 December 2018 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 2018 as well as 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 2018 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 the 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 2018, save as disclosed in the audited financial statements of the Group as at 31 December 2018 and 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 2018 are true and fair. Lastly, the Directors confirmed that, to the best of their knowledge or belief, 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 or misleading in any respect.



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Consolidated audited balance sheet as at 31 December 2018 <sup>(1)</sup>	S\$'000
<b><u>Non-current assets</u></b>	
Property, plant and equipment ("PPE")	36,019
Investment in associates	780
Investment properties	57,031
	<b>93,830</b>
<b><u>Current assets</u></b>	
Trade debtors	10,831
Other debtors	81
Prepayments	302
Inventories	30,234
Cash at banks and on hand	4,847
	<b>46,295</b>
<b><u>Current liabilities</u></b>	
Interest bearing loans and borrowings	12,800
Trade creditors and accruals	13,313
Other creditors	844
Amounts due to related parties	2,384
Provision for taxation	119
	<b>29,460</b>
<b><u>Non-current liabilities</u></b>	
Interest bearing loans and borrowings	18,410
Deferred tax liabilities	4,124
	<b>22,534</b>
<b>NAV including non-controlling interests</b>	<b>88,131</b>
Less: Non-controlling interests	(9,033)
<b>NAV attributable to owners of the Company</b>	<b>79,098</b>
Less: Intangible assets	-
<b>NTA attributable to owners of the Company</b>	<b>79,098</b>
<b>NAV and/or NTA per Share (S\$) <sup>(2)</sup></b>	<b>0.338</b>
<b>Offer Price (S\$)</b>	<b>0.065</b>
<b>Discount of Offer Price from the Group's NAV and/or NTA per Share (%)</b>	<b>(80.8)%</b>

**Notes:**

(1) The figures above are based on the Group's audited financial statements for FY2018 and are subject to rounding.

(2) Based on the Company's issued Share capital comprising 234,060,000 Shares as at 31 December 2018.

From the table above, we note that both the Group's NAV and NTA attributable to owners of the Company as at 31 December 2018 amounted to approximately S\$79.1 million (or approximately S\$0.338 on per Share basis). Accordingly, the Offer Price represents a discount of approximately 80.8% from the Group's NAV and NTA per Share.

### Adjusted NAV and NTA

#### Rights Issue

We note that subsequent to the balance sheet date as of 31 December 2018, the Company completed the Rights Issue to raise funds towards improving the Group's working capital and gearing and further strengthening the Group's financial position. Furthermore, we note from the announcement dated 29 May 2019, that the net proceeds raised from the Rights Issue of approximately S\$8.0 million was fully utilised (for the repayment of bank borrowings).

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No dividends were declared for FY2018.

### Disposal of properties and subsidiary

We note from the announcements dated 29 January 2019 and 28 June 2019 that the Group had:

- (i) disposed of its investment property at unit #02-03 Citimac Industrial Complex Singapore 368240 (“**Citimac Property**”) as part of a collective sale for a gross proceeds of S\$6,133,000 exclusive of goods and services tax (the “**Sale of Citimac Property**”); and
- (ii) completed the disposal (“**Acee Disposal**”) of its entire 70% of the ordinary shares held by the Company in its Singapore subsidiary, Acee, at a nominal cash consideration of S\$1/- to Seow Koon Pang (“**SKP**”), the minority shareholder of Acee, as Acee has been dormant since November 2018.

The consideration was arrived at on a willing buyer willing seller basis, taking into account the Group’s share of the unaudited negative net book value of Acee as at 27 June 2019 of \$391,000.

As a result of the Rights Issue, Sale of Citimac Property and Acee Disposal, the Group’s NAV and NTA and bank balances and cash, would increase by approximately S\$10.8 million and S\$6.1 million respectively which is illustrated in the table below.

<b>Adjusted NAV and NTA<sup>(1)</sup></b>	<b>S\$’000</b>
<b>NAV and/or NTA as at 31 December 2018</b>	79,098
Add: Net Proceeds from Rights Issue	7,952
Net gain on Sale of Citimac Property after expense	2,491
Net gain on Acee Disposal	391
<b>NAV and/or NTA adjusted with the above items (“Adjusted NAV and/or NTA”)</b>	<b>89,932</b>
<b>Adjusted NAV and/or NTA per Share (S\$)<sup>(2)</sup></b>	<b>0.228</b>
<b>Discount of Offer Price from Adjusted NAV and/or NTA per Share (%)</b>	<b>(71.4)%</b>
<b>Bank balances and cash as at 31 December 2018</b>	<b>4,847</b>
Add: Net proceeds from Rights Issue not utilised	-
Net proceeds from Sale of Citimac Property after expense	6,091
Net proceeds on Acee Disposal	-
<b>Bank balances and cash adjusted with payment of dividends (“Adjusted Cash”)</b>	<b>10,938</b>
<b>Adjusted Cash per Share (S\$)<sup>(2)</sup></b>	<b>0.028</b>
<b>Offer Price less Adjusted Cash per Share (S\$)</b>	<b>0.037</b>
<b>Discount of Offer Price less Adjusted Cash per Share from Adjusted NAV and/or NTA per Share less Adjusted Cash per Share (%)</b>	<b>(81.3)%</b>

#### Notes:

(1) Figures and computations are subject to rounding.

(2) Based on the Company’s issued Share capital comprising 395,103,118 Shares as at the Latest Practicable Date.

From the table above, we note that the Offer Price represents a discount of approximately 71.4% from the Group’s Adjusted NAV and/or NTA per Share.

In the event that the Group’s Adjusted Cash per Share is deducted from the Offer Price and likewise from the Group’s Adjusted NAV and/or NTA per Share, the Offer Price less Adjusted Cash per Share represents a discount of approximately 81.3% from the Group’s Adjusted NAV and/or NTA per Share less Adjusted Cash per Share. This comparison is purely for illustrative purpose only in view of the fact that as at 31 December 2018, the Group’s total borrowings of approximately S\$23.3 million (after

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adjusted with the repayment from the Rights issue proceeds) had exceeded its Adjusted Cash of approximately S\$10.9 million.

### Revalued NAV (“RNAV”) and Revalued NTA (“RNTA”)

In our evaluation of the Offer Price, we have also considered whether there are any assets which should be valued at an amount that is materially different from that which are recorded in the audited balance sheet of the Group as at 31 December 2018.

The Company had commissioned the Independent Valuers (described in this Letter and the Circular) to determine the market value of the Appraised Properties as at the Valuation Dates, which were on or about 31 December 2018 for the purposes of the Company’s annual report for 31 December 2018. Based on confirmations from the Independent Valuers, that the valuations as at the Latest Practicable Date would not be materially different from that of the Valuation Dates, save for the China Properties (defined later), the Directors are of the view that the Appraised Properties of the Group are fairly stated.

The Directors and the Management represented and confirmed that the aggregate market value of the Appraised Properties of the Group is approximately S\$90.7 million based on the confirmations received from the Independent Valuers as at 30 June 2019, which is slightly higher than its aggregate book value of approximately S\$88.7 million as at 31 December 2018.

A summary of the Appraised Properties, the valuation methods, their respective book value as at 31 December 2018 and the respective market value of the Appraised Properties as at the Valuation Dates is summarised below.

- (1) All properties under the Group’s PPE with an aggregate net book value of approximately S\$35.3 million as at 31 December 2018 and a similar aggregate market value of approximately S\$35.3 million as at the Valuation Dates with details as follow:-

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Description of Property	Valuation method	Valuation Date	Net book value as at 31 December 2018 (S\$'000) <sup>(1)</sup>	Market value as at respective Valuation Date (S\$'000) <sup>(1)</sup>
27A Jurong Port Road #01-42 Singapore 619101	Direct Comparison Method	31 December 2018	150	150
5 Changi South Street 3 Singapore 486117	Direct Comparison Method / Comparative Method of Valuation	31 December 2018	26,500	26,500
387F Woodlands Road Singapore 677951	Direct Comparison Method	31 December 2018	80	80
359 Jalan Besar Singapore 208992	Comparison Method	31 December 2018	5,230	5,230
302 Ubi Avenue 1 #01-37 Singapore 400302	Comparative Method of Valuation	31 December 2018	2,300	2,300
43, 43A, 43B, 43C Jln Glasair Taman Tasek Johor Bahru, Malaysia	Comparison Approach of Valuation	26 December 2018	360 <sup>(2)</sup>	361 <sup>(3)</sup>
Lots nos: 0009, 0010, 0011 Resource Complex Ground Floor 33 Jln Segambut Atas Segambut, Kuala Lumpur, Malaysia	Comparison Approach of Valuation	26 December 2018	524 <sup>(2)</sup>	525 <sup>(3)</sup>
63 Jln Lim Swee Sim Kluang, Malaysia	Comparison Approach of Valuation	26 December 2018	154 <sup>(2)</sup>	154 <sup>(3)</sup>
<b>TOTAL</b>			<b>35,298</b>	<b>35,300</b>

**Notes:**

- (1) Figures (including computations and summation) are subject to rounding.
- (2) The respective book value have been translated in S\$ equivalent based on the relevant exchange rate as at 31 December 2018.
- (3) The respective market value have been translated in S\$ equivalent based on the relevant exchange rate as at 30 June 2019.

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We note that the properties under PPE above with an aggregate net book value of approximately S\$35.3 million as at 31 December 2018 accounted for approximately 98.0% of the Group's total PPE as at 31 December 2018. The remaining PPE as at 31 December 2018 for which no valuation was conducted comprised plant and machinery of approximately S\$77 thousand, renovation, signboards, furniture and fittings of approximately S\$91 thousand, computer equipment of approximately S\$54 thousand, motor vehicles, machine handling equipment and forklifts of approximately S\$0.4 million, and office equipment of approximately S\$87 thousand.

- (2) Save for the Citimac Property which has been sold in March 2019, the remaining Group's investment properties with an aggregate net book value of approximately S\$53.4 million as at 31 December 2018 and an aggregate market value of approximately S\$55.4 million as at the Valuation Dates with details as follow:-

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Description of Investment Property	Valuation method	Valuation Date	Net book value as at 31 December 2018 (S\$'000) <sup>(1)</sup>	Market value as at respective Valuation Date (S\$'000) <sup>(1)</sup>
Poh Leng Building #04-01 21 Moonstone Lane Singapore 328462	Direct Comparison Method	31 December 2018	920	920
296/298/300/302/304/306/308 Lavender Street Singapore 338808 / 338809 / 338810 / 338811 / 338812 / 338813 / 338814	Direct Comparison Method	31 December 2018	30,000	30,000
302 Ubi Avenue 1 #01-65 Singapore 400302	Comparative Method of Valuation	31 December 2018	2,490	2,490
1 Sophia Road #01-01 to #01-08 Peace Centre Singapore 228149	Comparison Method	31 December 2018	9,750	9,750
1 Sophia Road #02-01/02 Peace Centre Singapore 228149	Comparison Method	31 December 2018	6,000	6,000
220 Mei Gui Nan Road, Ground Floor Block 20, Shanghai Wai Gao Qiao Free Trade Zone, Shanghai, China	Market Value Matching Method	15 December 2018	3,657 <sup>(2)(*)</sup>	5,160 <sup>(3)</sup>
Chengdu Jinniu District, 777 Jinfu Road, Block 32 Unit 11 Jin Fu Hardware Centre Chengdu Sichuan, China 610031	Market Value Matching Method	15 December 2018	614 <sup>(2)(*)</sup>	1,108 <sup>(3)</sup>
<b>TOTAL</b>			<b>53,431</b>	<b>55,428</b>

**Notes:**

- (1) Figures (including computations and summation) are subject to rounding.
- (2) The respective book value have been translated in S\$ equivalent based on the relevant offshore exchange rate as at 31 December 2018.
- (3) The respective market value have been translated in S\$ equivalent based on the relevant offshore exchange rate as at 30 June 2019 as provided by the Management and on the assumption that the proceeds from the sale of China Properties will be distributed to the Shareholders in Singapore.
- (4) Fair value has been determined by Directors based on capitalisation on net income method

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We understand from the Management that the above investment properties with aggregate net book value of approximately S\$53.4 million accounted for approximately 93.7% of the Group's investment properties as at 31 December 2018. The remaining investment property is the Citimac Property which has been sold in March 2019.

We note from the Independent Valuation Reports that in general, "market value" is intended to *inter-alia* mean the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

In valuing the market value of the Appraised Properties, the Independent Valuers has adopted, *inter-alia* direct comparison method, comparative approach and market value matching method for their valuations.

In general, the direct comparison, comparative approach and market value matching method are based on *inter-alia* the principle of substitution, where comparison is made based on prices realized on actual sales and/or asking prices of comparable properties. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value.

The Directors represented and confirmed the following:-

- (i) The Directors are aware of and satisfied with the selection of the Group's assets for the valuation exercise, being the Appraised Properties. The Appraised Properties in aggregate accounted for approximately 94.6% and 63.3% of the Group's non-current assets and total assets respectively as at 31 December 2018. The properties under the Group PPE with an aggregate net book value of approximately S\$35.3 million as at 31 December 2018 accounted for approximately 98.0% of the Group's total PPE as at 31 December 2018 whilst the investment properties which are valued, with aggregate net book value of approximately S\$53.4 million accounted for approximately 93.7% of the Group's investment properties as at 31 December 2018.
- (ii) Having reviewed the Independent Valuation Reports (*inter alia*, the assumptions, methodology used and information relied upon by the Independent Valuers) as a whole and individually, the Directors are of the opinion that the assumptions and methodology of the Independent Valuation Reports are reasonable. Based on confirmations from the Independent Valuers, the Directors are of the view that the valuation of the Appraised Properties, as at the Latest Practicable Date would not be materially different from that as at the Valuation Dates, and that the Appraised Properties of the Group are fairly stated. As such, we note that no valuation was undertaken in connection with the Offer. As stated in Appendix II of the Circular, as the valuations of the Appraised Properties remained relatively the same as compared with 31 December 2018, based on the confirmations from the Independent Valuers, the Directors are of the view that the Appraised Properties of the Group are fairly stated as at the Latest Practicable Date. As such, no valuation was undertaken in connection with the Offer. As at the Latest Practicable Date, as the valuation of the Appraised Properties remain relatively the same as compared with 31 December 2018, no potential tax liabilities pursuant to Rule 26.3 of the Code are expected on the hypothetical disposal of the Properties. Notwithstanding the above, it is noted that the market value of the Group's investment properties located at 220 Mei Gui Nan Road, Ground Floor Block 20, Shanghai Wai Gao Qiao, Free Trade Zone, Shanghai, China and Chengdu Jinniu District, 777 Jinfu Road Block 32 Unit 11 Jin Fu Hardware Centre, Chengdu Sichuan, China 610031 (collectively, the "**China Properties**") are slightly higher than its net book value as at 31 December 2018 and the Directors and the Management have confirmed and represented that potential tax liabilities of approximately S\$0.5 million may arise in the event the China Properties were to be sold at the amount of their respective estimated values.



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- (iii) To their best knowledge and belief, as at the Latest Practicable Date, save as disclosed in the audited financial statements of the Group as at 31 December 2018, the announcements released by the Company on the SGXNET and the Circular, there have been no known material events that have or will have material impact to the audited statement of financial position of the Group, *inter-alia* assets of the Group, since 31 December 2018.
- (iv) As at the Latest Practicable Date, save as disclosed in this Letter or the Circular, there has been no firm offer for any of the properties owned by the Group. However, the Group had advertised its property at Blk 302 Ubi Ave 1 #01-37 Singapore 400302 for either rental or sale.
- (v) As at the Latest Practicable Date, save for the Appraised Properties which are subject to valuation, there are no material differences between the estimated market values of the assets of the Group *inter-alia* remaining PPE for which no valuation was performed and their respective book values as at 31 December 2018, which would have a material impact on the NAV and NTA of the Group.

We have not made any independent evaluation or appraisal of the Group's assets and we have been furnished by the Company with the Independent Valuation Reports in respect of the market value of the Appraised Properties. With respect to such valuation, we are not experts in the evaluation or appraisal of the Appraised Properties and have relied on the Independent Valuation Reports for the market value of the Appraised Properties and opinion of and confirmation from the Directors.

The aggregate market value of the Appraised Properties as ascribed by the Independent Valuers as at the Valuation Dates is approximately S\$90.7 million.

For illustrative purpose only, the revaluation surplus for the Appraised Properties has been calculated and presented in the table below assuming a hypothetical sale of the Appraised Properties at the market value ascribed by the Independent Valuers above and the proceeds from are distributed to the Shareholders in Singapore. The Directors represented and confirmed that, to the best of their knowledge and based on the information made available to them by the Management, there will be no material differences in the potential tax liability of the Appraised Properties which are subject to valuation were to be sold at the market value as ascribed by the Independent Valuers, save for the China Properties. The Directors confirmed that the valuation ascribed by the Independent Valuers for the China Properties has been deemed accurate and appropriate.

We note from the Management that the aforesaid tax liabilities will not crystallise if the Group does not dispose of its interests in the Appraised Properties. As at the Latest Practicable Date, save as disclosed in the Circular or in this Letter, the Company has no immediate plans to dispose of its interests in the Appraised Properties, save for the property at Blk 302 Ubi Ave 1 #01-37 Singapore 400302 for which potential tax liability has been accounted for as at 31 December 2018.

As such, the aforesaid tax liabilities if any in respect of the Appraised Properties are not likely to crystallise as the Directors have confirmed that there are currently no plans for the disposal of any of the Appraised Properties, save for the property at Blk 302 Ubi Ave 1 #01-37 Singapore 400302 which has been put up for rent or sale.

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<b>Adjusted RNAV and RNTA<sup>(1)</sup></b>	<b>S\$'000</b>
Aggregate market value of the Appraised Properties as at the Valuation Dates	90,728
Less: aggregate net book value of the Appraised Properties as at 31 December 2018	(88,729)
<b>Revaluation surplus from the Appraised Properties</b>	<b>1,999</b>
Adjusted NAV and/or NTA	89,932
Add: Revaluation surplus from the Appraised Properties	1,999
Less: Potential additional tax liabilities <sup>(2)</sup>	(499)
<b>Adjusted RNAV/RNTA (“Adjusted RNAV and/or RNTA”)</b>	<b>91,432</b>
<b>Adjusted RNAV and/or NTA per Share (S\$)<sup>(3)</sup></b>	<b>0.231</b>
<b>Discount of Offer Price from Adjusted RNAV and/or RNTA per Share (%)</b>	<b>(71.9)%</b>

**Notes:**

- (1) *Figures and computations are subject to rounding.*
- (2) *Figure for potential tax liabilities is provided and confirmed by the Management.*
- (3) *Based on the Company’s issued Share capital, comprising 395,103,118 Shares as at the Latest Practicable Date.*

Based on the table above, after taking into account the market value of the Appraised Properties, the Group’s Adjusted RNAV and/or RNTA per Share is approximately S\$0.231. The Offer Price of S\$0.065 for each Offer Share represents a discount of approximately 71.9% from the Group’s Adjusted RNAV and/or RNTA per Share respectively.

While the RNAV and/or RNTA (or Adjusted RNAV and/or NTA) per Share is a relevant basis for comparison, the Independent Directors should note that it is not necessarily a realisable value as the market value of the Appraised Properties and any tax liabilities arising from the sale of the Appraised Properties may vary depending on prevailing market and economic conditions. We wish to highlight that the Group’s RNAV and/or RNTA (or Adjusted RNAV and/or NTA) shown above include the revaluation surplus arising from the hypothetical sale of the Appraised Properties. Shareholders should note that the Group has not realized the surplus on such asset as at the Latest Practicable Date, and that there is no assurance that the revaluation surplus or deficit eventually recorded by the Group on the Appraised Properties (in the event they are disposed) will be the same as indicated above.

In addition, as set out in Section 7 of the Offer Document, the Offeror has no current intentions to (a) introduce any major changes to the existing business of the Company, (b) re-deploy the fixed assets of the Company, or (c) discontinue the employment of the existing employees of the Company or its subsidiaries, in each case, other than in the ordinary and usual course of business. However, the Offeror retains the flexibility at any time to further consider any options or opportunities which may present themselves, and which it regards to be in the interests of the Offeror and/or the Company. Following the close of the Offer, the Offeror will undertake a comprehensive review of the businesses of the Company and the review will help the Offeror to determine the optimal business strategy for the Company.

The above computations and analysis are meant as an illustration and it does not necessary mean or imply that the net realisable value of the Group is as stated above. It also does not imply that the assets or properties of the Group can be disposed of at the estimated values indicated above and that after payment of all liabilities and obligations, the values or amounts as indicated is realisable or distributable to Shareholders. 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

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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 realized or disposed.

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### 9.3 Relative valuation analysis

In evaluating the Offer Price, we have considered the financial performance, financial positions and valuation statistics of selected companies that may, in our view, be broadly comparable to the existing core business of the Group prior to the transaction, which is in (i) the stockist, distribution and retail of bearings and seal products business (the “**Selected Steel Companies**”); and (ii) the investment property business (the “**Selected Property Companies**”), collectively, the “**Selected Comparable Companies**”.

The Selected Comparable Companies have been identified after a search was carried out on the Singapore Stock Exchange Securities Trading Limited (“**SGX-ST**”) and evaluation of the companies operating in the same industry as the Group. We have had discussions with the Directors and Management 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. Notwithstanding our use of these companies for peer analysis, the Selected Comparable Companies may or may not have similar business or operations or similar assets or geographical markets as the Group, and their accounting policies with respect to the values for which the assets or the revenue or cost are recorded or the relevant financial period compared may differ from the Group. In addition, the liquidity of the shares of the Selected Comparable Companies may differ from that of the Shares and shares of the Selected Comparable Companies trade at may be caused by any actual perceived or fundamentally determined risk premiums.

As the Company, has more than one segment of business and the percentage of its revenue or earnings or EBITDA or assets deployed for its various business segments may differ from that for the Selected Comparable Companies, the relative weightage as accorded by us may differ from that as assigned by investors or Shareholders, for the valuation of each of the different business segments. We advise Independent Directors, to note that there may not be any company listed on any relevant stock exchange that is directly comparable to the Group in terms of size, diversity of business activities and products/services, investment property portfolio, branding, geographical spread, track record, prospects, operating and financial leverage, risk profile, quality of earnings and accounting, listing status, existence of intangibles and branding or “internal goodwill or intangible assets”, and such other relevant criteria. We wish to highlight that it may be difficult to place reliance on the comparison of valuation statistics for the Selected Comparable Companies as the business of these companies, their capital structures, growth rates, operating and financial leverage, taxation and accounting policies as well as the liquidity of these shares and the demand/supply conditions for these shares and that of the Group may differ. As such, any comparison made herein is necessarily limited and serves only as an illustrative guide and any conclusion drawn from the comparison may not necessarily reflect the perceived or implied market valuation (as the case may be) of the Group as at the Latest Practicable Date.

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.

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The Selected Steel Companies are set out below.

<b>Selected Steel Companies</b>	<b>Principal activities</b>
Asia Enterprises Holding Limited ("Asia Enterprises")  <i>Listed on SGX-ST</i>	The group is engaged in distribution of a range of steel products to industrial end users.
HG Metal Manufacturing Limited ("HG Metal")  <i>Listed on SGX-ST</i>	The group is engaged in the business of trading of steel products. The company is engaged in the supplying of steel products and includes the holding of investments in subsidiaries in the business of steel distribution and provision of industrial steel services, and produces construction steel products and provides related engineering services.
Hupsteel Limited ("Hupsteel")  <i>Listed on SGX-ST</i>	The group is engaged in trading in industrial steel products. The company is engaged in selling of industrial steel products and general hardware products.
PS Group Holdings Ltd. ("PS Group")  <i>Listed on SGX-ST</i>	The group is engaged in the imports and exports fasteners which include screws, bolts, nuts, pins, anchors, rivets, washers, and clips of various materials.
Sin Ghee Huat Corporation Ltd ("SGH")  <i>Listed on SGX-ST</i>	The group is engaged in the sales and distribution of stainless steel products. The principal activities of the company relate to stockholding and sale of stainless steel products and investment holding.

The Selected Property Companies are set out below.

<b>Selected Property Companies</b>	<b>Principal activities</b>
Goodland Group Limited ("Goodland")  <i>Listed on SGX-ST</i>	The group is engaged in investing in properties to earn rentals and for capital appreciation.
Sing Holdings Limited ("Sing Holdings")  <i>Listed on SGX-ST</i>	The group is engaged in investing and developing in a spectrum of properties ranging from landed houses, apartments, condominiums, office and industrial buildings, factories to warehouses.
Hong Fok Corporation Limited ("Hong Fok")  <i>Listed on SGX-ST</i>	The group is engaged in property investment, property development and construction, property management, investment trading, provision of horticultural services, and investment holding and management.

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

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### Relative Performance of the Group

Selected Comparable Companies	LTM ROE <sup>(1)</sup> (%)	LTM net profit margin <sup>(2)</sup> (%)	LTM asset turnover <sup>(3)</sup> (times)	Total liabilities <sup>(4)</sup> / shareholder equity <sup>(5)</sup> (times)	Total borrowings <sup>(6)</sup> / shareholder equity <sup>(5)</sup> (times)
<b>(A) Selected Steel Companies</b>					
Asia Enterprise	1.2	3.2	0.3	0.1	0.1
HG Metal	n.m. <sup>(7)</sup>	n.m. <sup>(7)</sup>	1.0	0.5	0.2
Hupsteel	2.1	5.0	0.4	0.02	n.a. <sup>(8)</sup>
PS Group	0.6	0.6	0.7	0.4	0.03
SGH	3.1	5.2	0.6	0.1	0.005
<b>MAXIMUM</b>	<b>3.1</b>	<b>5.2</b>	<b>1.0</b>	<b>0.5</b>	<b>0.2</b>
<b>MINIMUM</b>	<b>0.6</b>	<b>0.6</b>	<b>0.3</b>	<b>0.02</b>	<b>0.005</b>
<b>MEDIAN</b>	<b>1.7</b>	<b>4.1</b>	<b>0.6</b>	<b>0.1</b>	<b>0.03</b>
<b>SIMPLE AVERAGE</b>	<b>1.7</b>	<b>3.5</b>	<b>0.6</b>	<b>0.2</b>	<b>0.1</b>

<b>(B) Selected Property Companies</b>					
Goodland	3.0	54.4	0.03	0.4	0.3
Sing Holdings	7.0	16.6	0.2	0.9	0.8
Hong Fok	10.2	137.2	0.04	0.5	0.4
<b>MAXIMUM</b>	<b>10.2</b>	<b>137.2</b>	<b>0.2</b>	<b>0.9</b>	<b>0.8</b>
<b>MINIMUM</b>	<b>3.0</b>	<b>16.6</b>	<b>0.03</b>	<b>0.4</b>	<b>0.3</b>
<b>MEDIAN</b>	<b>7.0</b>	<b>54.4</b>	<b>0.04</b>	<b>0.5</b>	<b>0.4</b>
<b>SIMPLE AVERAGE</b>	<b>6.7</b>	<b>69.4</b>	<b>0.1</b>	<b>0.6</b>	<b>0.5</b>

<b>COMBINED (A) + (B)</b>					
<b>MAXIMUM</b>	<b>10.2</b>	<b>137.2</b>	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>
<b>MINIMUM</b>	<b>0.6</b>	<b>0.6</b>	<b>0.03</b>	<b>0.02</b>	<b>0.005</b>
<b>MEDIAN</b>	<b>3.0</b>	<b>5.2</b>	<b>0.4</b>	<b>0.4</b>	<b>0.2</b>
<b>SIMPLE AVERAGE</b>	<b>3.9</b>	<b>31.7</b>	<b>0.4</b>	<b>0.4</b>	<b>0.2</b>

<b>Group</b>	<b>2.3</b>	<b>2.7</b>	<b>0.5</b>	<b>0.7</b>	<b>0.4</b>
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*Source: The latest annual reports and the announced unaudited financial statements of the respective companies.*

**Notes:**

- (1) The last twelve months ("LTM") return on equity ("ROE") is based on the ratio of the most recent twelve months consolidated net profits after tax attributable to the equity holders to the consolidated equity holders excluding minority interest of the respective companies.
- (2) LTM net profit margin is the ratio of the most recent twelve months consolidated net profits after tax attributable to shareholders to the most recent twelve months total consolidated revenue of the respective companies.
- (3) LTM asset turnover is the ratio of the most recent twelve months 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, if any.
- (5) Shareholders' equity is the consolidated shareholders' funds excluding minority interest of the respective companies.
- (6) Total borrowings include all bank loans and borrowings as well as hire purchase obligations and interest bearing debts, where applicable.
- (7) HG Metal incurred a loss after tax attributable to owners of the Company of approximately S\$4.3 million for the LTM ended 31 March 2019. Hence, HG Metal's LTM ROE and LTM net profit margin ratios are negative and not meaningful.
- (8) Hupsteel does not have any borrowings as at the LTM ended 31 March 2019. Hence, Hupsteel's total borrowings to shareholders' equity ratio is not applicable.

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For illustrative purposes only, we note the following:-

- (i) The Group's LTM ROE and LTM net profit margin are both within the range but lower than both the median and the simple average for the combined ratios of the Selected Comparable Companies.
- (ii) The Group's LTM asset turnover is within the range and higher than both the median and simple average for the combined ratios of the Selected Comparable Companies.
- (iii) The Group's ratio for total liabilities to shareholders' equity is within the range but higher than both the median and the simple average for the combined ratios of the Selected Comparable Companies. Meanwhile, the Group's ratio for total borrowing to shareholders' equity is higher than both the median and the simple average for the combined ratios of the Selected Comparable Companies.

In summary, the historical financial performance of the Group appear to be generally weaker than the simple average and median for the Selected Comparable Companies in terms of its LTM ROE and LTM net profit margin, whilst the financial position of the Group appear to be worse off than the Selected Comparable Companies in terms of its ratio of total liabilities to shareholders' equity, and the ratio of total borrowing to shareholders' equity.

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

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 and position.



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Selected Comparable Companies	Market Capitalisation (S\$ m)	LTM EV/ EBITDA <sup>(1)</sup> (times)	LTM PER <sup>(2)</sup> (times)	P/NAV <sup>(3)</sup> (times)	P/NTA <sup>(4)</sup> (times)	Premium/ (discount) over/from NTA (%)
<b>(A) Selected Steel Companies</b>						
Asia Enterprise	52.7	9.1	45.8	0.6	0.6	(43.5)
HG Metal	26.8	n.m. <sup>(5)</sup>	n.m. <sup>(5)</sup>	0.3	0.3	(72.5)
Hupsteel	145.2	24.8	42.3	0.9	0.9	(11.4)
PS Group	2.4	4.0	38.1	0.2	0.2	(78.4)
SGH	48.8	8.0	18.8	0.6	0.6	(42.5)
<b>MAXIMUM</b>	<b>145.2</b>	<b>24.8</b>	<b>45.8</b>	<b>0.9</b>	<b>0.9</b>	<b>(11.4)</b>
<b>MINIMUM</b>	<b>2.4</b>	<b>4.0</b>	<b>18.8</b>	<b>0.2</b>	<b>0.2</b>	<b>(78.4)</b>
<b>MEDIAN</b>	<b>48.8</b>	<b>8.6</b>	<b>40.2</b>	<b>0.6</b>	<b>0.6</b>	<b>(43.5)</b>
<b>SIMPLE AVERAGE</b>	<b>55.2</b>	<b>11.5</b>	<b>36.3</b>	<b>0.5</b>	<b>0.5</b>	<b>(49.6)</b>
<b>(B) Selected Property Companies</b>						
Goodland	81.1	30.0	13.1	0.4	0.4	(60.5)
Sing Holdings	162.4	8.7	8.7	0.6	0.6	(39.1)
Hong Fok	743.0	6.9	3.9	0.4	0.4	(60.8)
<b>MAXIMUM</b>	<b>743.0</b>	<b>30.0</b>	<b>13.1</b>	<b>0.6</b>	<b>0.6</b>	<b>(39.1)</b>
<b>MINIMUM</b>	<b>81.1</b>	<b>6.9</b>	<b>3.9</b>	<b>0.4</b>	<b>0.4</b>	<b>(60.8)</b>
<b>MEDIAN</b>	<b>162.4</b>	<b>8.7</b>	<b>8.7</b>	<b>0.4</b>	<b>0.4</b>	<b>(60.5)</b>
<b>SIMPLE AVERAGE</b>	<b>328.8</b>	<b>15.2</b>	<b>8.6</b>	<b>0.5</b>	<b>0.5</b>	<b>(53.5)</b>
<b>COMBINED (A) + (B)</b>						
<b>MAXIMUM</b>	<b>743.0</b>	<b>30.0</b>	<b>45.8</b>	<b>0.9</b>	<b>0.9</b>	<b>(11.4)</b>
<b>MINIMUM</b>	<b>2.4</b>	<b>4.0</b>	<b>3.9</b>	<b>0.2</b>	<b>0.2</b>	<b>(78.4)</b>
<b>MEDIAN</b>	<b>66.9</b>	<b>8.7</b>	<b>18.8</b>	<b>0.5</b>	<b>0.5</b>	<b>(52.0)</b>
<b>SIMPLE AVERAGE</b>	<b>157.8</b>	<b>13.1</b>	<b>24.4</b>	<b>0.5</b>	<b>0.5</b>	<b>(51.1)</b>
<b>Group</b>						
<b>Offer Price</b>	<b>25.7</b>	<b>13.6</b>	<b>14.1</b>	<b>0.3<sup>(6)</sup></b>	<b>0.3<sup>(6)</sup></b>	<b>(71.9)</b>

*Source: The latest annual reports and the announced unaudited financial statements of the respective companies.*

**Notes:**

- (1) The LTM EV/EBITDA for the Selected Comparable Companies for is based on the most recent twelve months EBITDA as reported by the respective companies. The EBITDA for Asia Enterprise, HG Metal, Hupsteel, SGH, Goodland, Sing Holdings and Hong Fok are based on the most recent twelve months period ended 31 March 2019. The EBITDA for PS Group is based on the most recent twelve months period ended 31 December 2018.
- (2) The LTM PERs for the Selected Comparable Companies are based on the most recent twelve months earnings after tax as reported by the respective companies. The earnings after tax for Asia Enterprise, HG Metal, Hupsteel, SGH, Goodland, Sing Holdings and Hong Fok are based on the most recent twelve months period ended 31 March 2019. The earnings after tax for PS Group is based on the most recent twelve months period ended 31 December 2018.
- (3) The P/NAV ratios for the Selected Comparable Companies are based on their respective NAV values as set out in their latest available announced audited or unaudited financial statements. The NAV for Asia Enterprise, HG Metal, Hupsteel, SGH, Goodland, Sing Holdings and Hong Fok are based on the latest available announced unaudited financial statements as at 31 March 2019. The NAV for PS Group is based on the latest available announced audited financial statements as at 31 December 2018.
- (4) The P/NTA ratios for the Selected Comparable Companies are based on their respective NTA values as set out in their latest available announced audited or unaudited financial statements. The NTA for Asia Enterprise, HG Metal, Hupsteel, SGH, Goodland, Sing Holdings and Hong Fok are based on the latest available announced unaudited financial statements as at 31 March 2019. The NTA for PS Group is based on the latest available announced audited financial statements as at 31 December 2018.
- (5) HG Metal incurred a loss after tax attributable to owners of the Company and EBITDA of approximately S\$4.3 million and negative S\$0.9 million respectively for the LTM ended 31 March 2019. Hence, HG Metal's LTM PER and LTM EV/EBITDA ratios are negative and not meaningful.

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- (6) For the Group, the P/NAV and P/NTA refers to the ratio of the Offer Price and the Adjusted NAV or NTA per Share (“Adjusted P/RNAV”). Please refer to Section 9.2 of this IFA Letter for the computation of the Group’s Adjusted RNAV and RNTA per Share.

For illustrative purposes only, we note the following:

- (i) The market capitalisation of the Group (as implied by the Offer Price) is lower than any of the Selected Comparable Companies (save for PS Group). We note that trading statistics for companies with higher market capitalisation may be different that those with lower market capitalisation and this may be attributed 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 capitalizations. Hence, comparison of the valuation ratios for the Group and Selected Comparable Companies are necessarily limited and presented herein for illustrative purpose only.
- (ii) The valuation of the Group (as implied by the Offer Price) in terms of LTM EV/EBITDA is within the range and higher than both the simple average and median for Selected Comparable Companies, whilst in terms of LTM PER, it is lower than the median and the simple average for Selected Comparable Companies but still within the range of the Selected Comparable Companies.
- (iii) The valuation of the Group (as implied by the Offer Price, Adjusted RNAV and Adjusted RNTA) in terms of P/NAV and P/NTA ratios is within the range but lower than both the simple average and median for Selected Comparable Companies. It is lower than any of the Selected Comparable Companies (save for the PS Group and HG Metal).

In summary, the valuation of the Group in general, as implied by the Offer Price as compared to Selected Comparable Companies appears to be unfavourable.

The comparison of the valuation ratios between the Group and the Selected Comparable Companies should be assessed in conjunction with: (a) the relatively weaker financial performance and position of the Group as compared to the Selected Comparable Companies; and (b) the trading statistics for the shares of the Selected Comparable Companies are based on transactions which do not result in acquisition of control or super majority control whilst for the Offer, the Offeror’s intention is to buy all the Offer Shares. As at the Offer Announcement Date, the Offeror had already a super majority control over the Company by having an interest of approximately 86.17% of the total number of issued Shares.

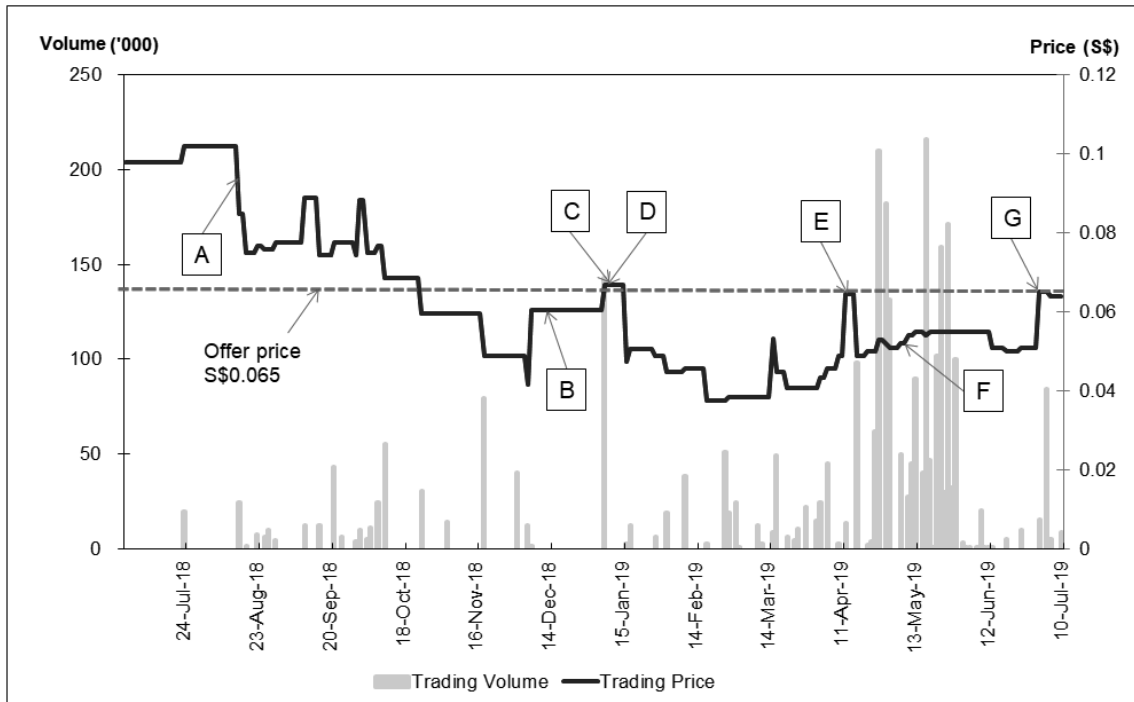
We also wish to highlight that the NAV and NTA based approach of valuing a company is dependent on factors that may differ for each Selected Comparable Companies including, *inter alia*, factors such as depreciation policies. As such, the comparison of the NAV and NTA of the Group with those of the Selected 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, which may differ.

The 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 or the relative desire or intention of the offeror to consolidate or obtain control.

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### 9.4 Market quotation and trading activities for the Shares

The historical price and volume charts for the Shares (based on the closing prices together with the number of Shares traded on a daily basis) for the period commencing from 2 July 2018 (being the Market Day 12 months prior to the Offer Announcement Date) and ending on the Latest Practicable is set out below:–



Source: Bloomberg

#### Notes:

- A. Announcement on response to the queries from the SGX-ST on the financials for 6 months period ended 30 June 2018.
- B. Announcement on inclusion on the SGX-ST Watch-list (under MTP Criteria)
- C. Announcement on proposed Rights Issue
- D. Announcement on the investigations by the Commercial Affairs Department
- E. Shares trade ex-rights
- F. Announcement on results of the Rights Issue
- G. Offer Announcement

For the period commencing from 2 July 2018 and ending on 1 July 2019 (being the Offer Announcement Date) (both dates inclusive), we note that closing prices for the Shares were above the Offer Price on 87 Market Days out of the total 250 Market Days, below the Offer Price on 163 Market Days out of the total 250 Market Days. In addition, for the period commencing from 2 July 2018 and ending on 1 July 2019, the highest transacted prices for the Shares was S\$0.102, which is substantially higher than the Offer Price; but the closing prices for the Shares have declined by approximately 48.0% from S\$0.098 as at 2 July 2018 to S\$0.051 as at 25 June 2019, being the Last Trading Day prior to the Offer Announcement Date. It should be noted that the trading for the Shares was halted from 28 June 2019 and the halt was lifted on 1 July 2019. We note that the prices for the Shares increased to S\$0.065 on 2 July 2019, being the first Trading Day immediately after the Offer Announcement Date.

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It is noted that the Company announced the Rights Issue on 9 January 2019 and the Rights Issue was completed on 15 May 2019. We also note that for the period commencing from 9 January 2019 and ending on 15 May 2019, the market prices for the Shares had decreased from S\$0.082 to S\$0.055 as at the market close on 15 May 2019. During the said period, the total number of Shares traded was approximately 1.3 million Shares representing an average daily trading volume of approximately 15.3 thousand Shares, which is higher as compared to the historical average daily trading volume for the 12 months period prior to the Offer Announcement Date of approximately 11.2 thousand Shares. The fairly active trading volume during this said period would be attributable to the Rights Issue which the Company undertook. The Rights Issue was announced on 9 January 2019, and the Rights Shares were issued and allotted on 14 May 2019 and listed on 15 May 2019.

We note that for the period commencing from 2 July 2019 (being the Market day after the Offer Announcement Date) till 10 July 2019 (being the Latest Practicable Date), the Shares were traded for 4 Market Days out of a total 7 Market Days, and the prices for the Shares were unpinned by the Offer Price, increasing by approximately 25.5% to close at S\$0.064 as at the Latest Practicable Date and remained same or slightly below the Offer Price during the said period.

As a general market comparison and observation, the FTSE Straits Times Index (“**FTSE STI**”) increased by approximately 4.1% for the period commencing from 2 July 2018 and ending on the Offer Announcement Date, and subsequently decreased slightly by approximately 0.9% from 2 July 2019, being the Market day after the Offer Announcement Date till the Latest Practicable Date. For the same period commencing from 2 July 2018 and ending on the Offer Announcement Date, the prices for the Shares decreased by approximately 48.0% but increased by approximately 25.5% from 2 July 2019, being the market day immediately after the Offer Announcement Date till the Latest Practicable Date. We observed that the Shares appear to have underperformed the FTSE STI for the 12 months period prior to the Offer Announcement Date but outperformed the FTSE STI for the period immediately after the Offer 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.

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 2 July 2018 to the Latest Practicable Date are set out below:-

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	VWCP per Share <sup>(1)</sup> (S\$)	Premium/ (Discount) of the Offer Price over/from VWCP per Share (%)	Lowest transacted price (S\$)	Highest transacted price (S\$)	Average daily trading volume <sup>(2)</sup> (Shares)	Average daily trading volume as % of free- float <sup>(3)</sup> (%)
<b>For the period 12 months prior to the Offer Announcement Date</b>						
Last 12 months	0.055	18.4%	0.038	0.102	11,227	0.021%
Last 6 months	0.053	23.6%	0.038	0.081	19,286	0.035%
Last 3 months	0.053	22.5%	0.041	0.081	31,781	0.058%
Last 1 month	0.053	22.3%	0.050	0.055	1,785	0.003%
Last transacted price on 25 June 2019 (being the Last Trading Day immediately preceding the Offer Announcement Date) <sup>(4)</sup>	0.051	27.5%	0.051	0.051	10,000	0.018%
<b>For the period on the Market day immediately after the Offer Announcement Date to the Latest Practicable Date</b>						
Till the Latest Practicable Date	0.065	0.2%	0.064	0.068	16,300	0.030%
Last transacted price on 10 July 2019 (being the Latest Practicable Date) <sup>(5)</sup>	0.064	1.6%	0.064	0.064	9,000	0.016%

Source: Bloomberg

**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) Free float refers to the approximately 54,628,352 Shares or approximately 13.8% of the issued Shares held by Public Shareholders, other than the Substantial Shareholders (including the Offeror and its Concert Parties) and Directors as at the Latest Practicable Date and as enumerated in the Circular.
- (4) This represents the last transacted price instead of VWCP for the Shares on 25 June 2019, being the Last Trading Day preceding the Offer Announcement Date.
- (5) This represents the last transacted price instead of VWCP and trading volume for the Shares on 10 July 2019, being the Latest Practicable Date.

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 Offer Price represents:

- (i) a premium of approximately 27.5% over the last transacted price of S\$0.051 per Share on the SGX-ST on 25 June 2019 (being the Last Trading Day for the Shares prior to the Offer Announcement Date);
- (ii) a premium of approximately 18.4%, 23.6%, 22.5% and 22.3% from the VWCP for the Shares for the 12-month, 6-month, 3-month and 1-month period prior to and including the Offer Announcement Date;
- (iii) a premium of approximately 0.2% over the VWCP for the Shares for the period commencing after the Offer Announcement Date and ending on the Latest Practicable Date; and

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- (iv) a premium of approximately 1.6% over the last transacted price for the Shares of S\$0.064 on 10 July 2019, being the Latest Practicable Date.

For illustrative purpose only, based on the number of Shares traded on a daily basis during the period commencing from 2 July 2018 and ending on the Latest Practicable Date, we note that:-

- (i) from 2 July 2018 to 1 July 2019, being the Market Day 12 months prior to and ending on the Last Trading Day prior to the Offer Announcement Date (both dates inclusive), the Shares were only traded on 78 Trading Days out of the total 250 Market Days during the period, with the total number of Shares traded being approximately 2.8 million Shares and an average daily trading volume of approximately 11.2 thousand Shares for the period, which represents approximately 0.003% of the issued Share capital as at the Latest Practicable Date or approximately 0.021% of the issued Share capital held by Public Shareholders as at the Latest Practicable Date.
- (ii) for the period commencing from 2 July 2019, being the Offer Announcement Date, till the Latest Practicable Date (both dates inclusive), Shares were traded on 4 Trading Days out of the total 7 Market Days during the period, with the total number of Shares traded being approximately 114.1 thousand Shares and an average daily trading volume of approximately 16.3 thousand Shares, which represents approximately 0.004% of the issued Share capital as at the Latest Practicable Date or approximately 0.030% of the issued Share capital held by Public Shareholders as at the Latest Practicable Date.

We note that trading for the Shares is erratic and that the number of Shares traded for the 1 year period prior to the Offer Announcement Date is relatively low as compared to the number of issued Shares as at the Latest Practicable Date whilst for the period immediately after the Offer Announcement Date until the Latest Practicable Date, the number of Shares traded remains low as compared to the number of issued Shares as at the Latest Practicable Date. In addition, the Shares were only traded on 78 Trading Days (approximately 31.2%) out of the total 250 Market Days for the period 12-months prior to the Offer Announcement Date and 4 Trading Days out of the total 7 Market Days for the period commencing from the Offer Announcement Date to the Latest Practicable Date. It is generally accepted that the more actively traded the shares, the greater the reliance on market prices as a determination of the fair value of the shares between willing buyer and willing seller. Whilst historically transacted prices for the Shares may not be a meaningful indicator of its fundamental value in view of the lack of liquidity for the Shares (in terms of number of Shares traded on daily basis), they nonetheless represent the prices for transactions between willing buyer and willing seller.

We also note that the number of Shares that were traded on a daily basis for the period commencing on the Market day after the Offer Announcement Date till the Latest Practicable Date is higher than the number of Shares that were traded on a daily basis during the 1 year period prior to the Offer Announcement Date and the Shares were traded on 4 Market Days out of the total 7 Market Days for the said period. As mentioned earlier, the prices for the Shares had significantly outperformed the FTSE STI for the period commencing on the Market day after the Offer Announcement Date to the Latest Practicable Date. The substantial increase in prices for the Shares and the higher average daily trading volume for the Shares subsequent to the Offer Announcement Date may have been underpinned by the Offer. As such, there is no assurance that the observed increase in the average number of Shares traded on a daily basis or the trading activities for the Shares will be maintained or that the transacted prices for the Shares will be the same and at the levels prevailing during the period commencing on the Market day after the Offer Announcement Date and ending on the Latest Practicable Date in the event that the Offer closes.

Independent Directors should note that given the low liquidity of the Shares (in terms of number of Shares traded on daily basis) during the periods observed, the Offer may represent a realistic exit opportunity for the Shareholders to realise their entire investment for cash and that the Offer Price is at a premium above market prices of Shares for periods prior to the Offer Announcement Date. In the absence of the Offer, such an exit for all Shareholders other than the Offeror and its Concert Parties may not be readily available due to the low trading liquidity for the Shares. For illustrative purpose only, based on the average daily trading volume of approximately 11.2 thousand Shares for the period

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12 months prior to the Offer Announcement Date, it would take approximately 4,866 Market Days or more than 19 years (based on 250 Market Days per year) for the Public Shareholders to be able to sell off their 54,628,352 Shares in the market.

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



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### 9.5 Comparison with other successful privatization and delisting transactions in Singapore

For the purpose of providing an illustrative guide as to whether the financial terms of the Offer are fair and reasonable, we have compared the Offer with other selected similar successful transactions by listed companies on the SGX-ST involving:–

- (i) Privatisation by way of general offers (“**Selected Successful Privatisations**”); and
- (ii) Voluntary delisting (“**Selected Successful Delistings**”)

which have been announced since January 2017 and which have since been completed.

In making the comparison herein, we wish to highlight that the companies selected and covered herein are not directly comparable to the Company and may largely differ from the Company in terms of, *inter alia*, size and scale of operations, type and/or composition of business activities and specialization, asset base, geographical spread, track record, financial performance, capital structure, operating and financial leverage, risk profile, liquidity, accounting policies, future prospects and other relevant criteria. Likewise, they involve shares of companies which are quoted, listed and tradeable on the stock exchange. As the Company has more than one segment of business and percentage of its revenue or earnings or EBITDA or assets deployed for its various business segments may differ from the companies whose transactions are reflected in the Selected Successful Privatisations and Selected Successful Delistings, the relative weightage as accorded by us may differ from that as assigned by investors or Shareholders, for the valuation of each of the different business segments. Accordingly, the analysis will be limited and purely for illustrative purpose only.

We wish to highlight that other than the criteria mentioned above, the premium or discount that an offeror pays in any particular take-over varies in different specific circumstances depending on, *inter alia*, factors such as the potential synergy the offeror can gain by acquiring the target, the prevailing market conditions and sentiments, attractiveness and profitability of the target’s business and assets, the possibility of a significant revaluation of the assets to be acquired, existence of intangibles and branding or “internal goodwill or intangible assets”, the availability of substantial cash reserves, the liquidity in the trading of the target company’s shares, the presence of competing bids for the target company and the existing and desired level of control in the target company.

The data used in the table and the companies listed below have been compiled from publicly available information and serves as a guide as to the valuation ratio in connection with privatisations or delisting of companies listed on the SGX-ST without regard to their specific industry characteristics or other considerations. Each of the offers for Selected Successful Privatisations and Selected Successful Delistings must be judged on its own commercial and financial merits. The lists of target companies involved in the Selected Successful Privatisations and Selected Successful Delistings are by no means exhaustive and as such any comparison made only serves as an illustration.

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Selected Successful Privatisations	Premium/(Discount) of offer price over/(from)						
	Date of announcement	% shareholding of the offeror and concert parties at the start of transaction <sup>(1)</sup>	Last transacted price prior to announcement (%)	VWAP for 1 month period prior to announcement (%)	VWAP for 3 month period prior to announcement (%)	P/NAV (times) <sup>(2)</sup>	
Auric Pacific Group Limited	7-Feb-17	80.6	13.4	17.7	23.8	1.2 <sup>(3)</sup>	
Global Premium Hotels Limited	23-Feb-17	71.9	14.1	18.1	21.7	0.5 <sup>(4)</sup>	
CWT Limited	9-Apr-17 <sup>(5)</sup>	65.1	5.9	6.4	14.8	1.5 <sup>(6)</sup>	
Nobel Design Holdings Ltd	2-May-17	64.3	8.5	9.4	15.9	0.7 <sup>(7)</sup>	
Changtian Plastic & Chemical Limited	29-May-17	79.9	45.3	46.6	48.2	0.4 <sup>(8)</sup>	
China Flexible Packaging Holdings Limited	19-Jun-17	58.4	23.2	24.3	28.2	0.6 <sup>(9)</sup>	
GP Batteries International Limited	10-Aug-17 <sup>(10)</sup>	64.9	62.5	62.9	62.7	0.8 <sup>(11)</sup>	
Poh Tiong Choon Logistics Limited	20-Sep-17	66.7	1.6	30.0	41.3	3.1 <sup>(12)</sup>	
Cogent Holdings Limited	3-Nov-17	84.3	5.2	6.2	12.7	1.2 <sup>(13)</sup>	
CWG International Ltd	28-Dec-17	81.1	27.5	29.5	29.2	0.4 <sup>(14)</sup>	
Tat Hong Holdings Ltd	21-Sep-17 <sup>(15)</sup>	0.0	29.9	34.0	35.5	0.7 <sup>(16)</sup>	
Lee Metal Group Ltd	21-Feb-18 <sup>(17)</sup>	48.1	9.1	14.1	21.4	1.0 <sup>(18)</sup>	
Wheelock (Singapore) Properties Limited	19-Jul-18	76.2	22.7	29.0	22.7	0.8 <sup>(19)</sup>	
Keppel Telecommunications & Transportation Ltd	27-Sep-18	79.1	40.4	39.5	34.9	1.2 <sup>(20)</sup>	
M1 Limited	27-Sep-18 <sup>(21)</sup>	33.3	26.3	29.9	29.1	3.9 <sup>(22)</sup>	
Cityneon Holdings Limited	29-Oct-18	69.0	4.1	6.9	11.9	4.5 <sup>(23)</sup>	
PCI Limited	4-Jan-19	0.0	27.9	44.0	47.2	2.0 <sup>(24)</sup>	
Declout Limited	7-Jan-19	60.9	62.5	66.7	66.7	1.3 <sup>(25)</sup>	
Courts Asia Limited	18-Jan-19	0.0	34.9	35.8	34.0	0.6 <sup>(26)</sup>	
Kingboard Copper Foil Holdings Limited	4-Apr-19	88.0	9.1	21.8	28.1	0.9 <sup>(27)</sup>	
800 Super Holdings Limited	6-May-19	77.6	16.1	30.6	31.2	1.8 <sup>(28)</sup>	
<b>MAXIMUM</b>		<b>88.0</b>	<b>62.5</b>	<b>66.7</b>	<b>66.7</b>	<b>4.5</b>	
<b>MINIMUM</b>		<b>0.0</b>	<b>1.6</b>	<b>6.2</b>	<b>11.9</b>	<b>0.4</b>	
<b>MEDIAN</b>		<b>66.7</b>	<b>22.7</b>	<b>29.5</b>	<b>29.1</b>	<b>1.0</b>	
<b>SIMPLE AVERAGE</b>		<b>59.5</b>	<b>23.3</b>	<b>28.7</b>	<b>31.5</b>	<b>1.4</b>	
<b>Group</b>	1-Jul-19	<b>86.2</b>	<b>27.5</b>	<b>18.6</b>	<b>22.0</b>	<b>0.3</b> <sup>(29)</sup>	

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## APPENDIX I – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

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*Source: SGX-ST announcements, offer documents and circulars to shareholders in relation to the respective transactions*

**Notes:**

- (1) *Where applicable, it includes the percentage shareholding of the undertaking shareholder(s) as the date of the offer document.*
- (2) *P/NAV ratios are based on the offer price and NAV per share for the respective companies.*
- (3) *Based on the revalued NAV per share of Auric Pacific Group Limited as at 31 December 2016*
- (4) *Based on the revalued NAV per share of Global Premium Hotels Limited as at 31 December 2016*
- (5) *Based on pre-conditional offer announcement date, being 9 April 2017.*
- (6) *Based on the revalued NAV per share of CWT Limited as at 30 June 2017.*
- (7) *Based on the revalued NAV per share of Nobel Design Holdings Limited as at 31 March 2017.*
- (8) *Based on the revalued NAV per share of Changtian Plastic & Chemical Limited as at 31 March 2017.*
- (9) *Based on the revalued NAV per share of China Flexible Holdings Limited as at 30 June 2017, which includes the net proceeds from the exercise of warrants and the revaluation of appraised assets.*
- (10) *Based on pre-conditional offer announcement date, being 10 August 2017.*
- (11) *Based on the revalued NAV per share of GP Batteries International Limited as at 30 June 2017.*
- (12) *Based on the revalued NAV per share of Poh Tiong Choong Logistics Limited as at 30 June 2017.*
- (13) *Based on the revalued NAV per share of Cogent Holdings Limited as at 30 September 2017.*
- (14) *Based on the revalued NAV per share of CWG International Limited as at 31 December 2017*
- (15) *Based on initial announcement date, being 21 September 2017.*
- (16) *Based on the revalued NAV per share of Tat Hong Holdings Ltd as at the latest reported financial statements.*
- (17) *Based on pre-conditional offer announcement date, being 21 February 2018.*
- (18) *Based on the latest revalued NAV per share of Lee Metal Group Ltd as at 31 March 2018.*
- (19) *Based on the revalued NAV per share of Wheelock (Singapore) Properties Limited as at 30 June 2018.*
- (20) *Based on the historical NAV per share of Keppel Telecommunications & Transportations Ltd as at 30 June 2018.*
- (21) *Based on pre-conditional offer announcement date, being 27 September 2018.*
- (22) *Based on the revalued NAV per share of M1 Limited as at 30 September 2018.*
- (23) *Based on the revalued NAV per share of Cityneon Holdings Limited as at 30 September 2018.*
- (24) *Based on the revalued NAV per share of PCI Limited as at 31 December 2018.*
- (25) *Based on the revalued pro-forma NAV per share of Declout Limited as at 30 September 2018.*
- (26) *Based on the pro-forma NAV per share of Courts Asia Limited as at 15 January 2019.*
- (27) *Based on the revalued NAV per share of Kingboard Copper Foil Holdings Limited as at 31 December 2018.*
- (28) *Based on the unaudited NAV per share of 800 Super Holdings Limited as at 31 March 2019.*
- (29) *Based on the Group's Offer Price and Adjusted RNAV ratio.*

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For illustrative purposes only, we noted the following from the above table:

- (i) As disclosed in the Offer Announcement, the Offeror and its Concert Parties held an aggregate interest of approximately 86.17% in the Share capital of the Company, which is within the range and higher than both the simple average and the median for the percentage of shareholding interest for each of the offeror and parties acting in concert as at the start for the Selected Successful Privatisations.
- (ii) The premium of approximately 27.5% as implied by the Offer Price over the last transacted price for Shares prior to the Offer Announcement Date, is within the range and higher or more favourable than that for the Selected Successful Privatisations, when compared to the simple average and the median. The premium of approximately 18.6% and 22.0% as implied by the Offer Price over the VWAP for the Shares for 1-month period and 3-month period prior to the Last Trading Day respectively are lower or less favourable than the simple average and median for the Selected Successful Privatisations but are still within the range of the Selected Successful Privatisations.
- (iii) Overall the premiums as implied by the Offer Price over the historical last transacted prices (for various periods or dates) for Shares prior to the Offer Announcement Date, are generally lower or less favourable than the simple average and median for the Selected Successful Privatisations but still within the range of the Selected Successful Privatisations.
- (iv) The valuation of the Group (as implied by the Offer Price and Adjusted RNAV) in terms of P/NAV ratio is lower than any of the transactions under the Selected Successful Privatisations.

In summary, the valuation of the Group as implied by the Offer Price in terms of premiums over historical prices for the Shares generally appears to be within the range but less favourable as compared to the simple average and median for the Selected Successful Privatisations. In addition, the valuation of the Group, (as implied by the Offer Price and Adjusted RNAV) in terms of P/NAV ratio appears to be lower than any of the transactions under the Selected Successful Privatisations.

When considered in the context of the shareholding of the Offeror and its Concert Parties as set out in the Offer Announcement, which is within the range and higher than both the simple average and the median for the percentage of shareholding interest for each of the offeror and parties acting in concert as at the start for the Selected Successful Privatisations, the valuation of the Group as implied by the Offer Price in terms of both premiums over historical prices for the Shares and the Adjusted RNAV in terms of P/NAV ratio, appears to be less favourable as compared to the Selected Successful Privatisations.

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### Selected Successful Delistings

Company	Date of announcement	% shareholding of the offeror and concert parties at the start of transaction <sup>(1)</sup>	Premium/(Discount) of offer price over/(from)				P/NAV (times) <sup>(2)</sup>
			Last transacted price prior to announcement (%)	VWAP for 1 month period prior to announcement (%)	VWAP for 3 month period prior to announcement (%)		
Global Logistic Properties Limited	14-Jul-17	36.8	25.2	19.4	17.7	1.1 <sup>(3)</sup>	
Fischer Tech Limited	27-Jul-17	51.3	31.3	46.9	63.6	1.5 <sup>(4)</sup>	
Rotary Engineering Limited	2-Oct-17	0.0	20.1	19.3	25.1	1.3 <sup>(5)</sup>	
Vard Holdings Limited	13-Nov-17	83.5	8.7	16.2	29.3	0.9 <sup>(6)</sup>	
Weiye Holdings Limited	13-Mar-18	66.9	31.3	40.7	44.1	0.3 <sup>(7)</sup>	
LTC Corporation Limited	7-Sep-18	88.4	44.5	46.1	45.4	0.5 <sup>(8)</sup>	
<b>MAXIMUM</b>		<b>88.4</b>	<b>44.5</b>	<b>46.9</b>	<b>63.6</b>	<b>1.5</b>	
<b>MINIMUM</b>		<b>0.0</b>	<b>8.7</b>	<b>16.2</b>	<b>17.7</b>	<b>0.3</b>	
<b>MEDIAN</b>		<b>59.1</b>	<b>28.3</b>	<b>30.1</b>	<b>36.7</b>	<b>1.0</b>	
<b>SIMPLE AVERAGE</b>		<b>54.5</b>	<b>26.9</b>	<b>31.4</b>	<b>37.5</b>	<b>0.9</b>	
<b>Group</b>	<b>1-Jul-19</b>	<b>86.2</b>	<b>27.5</b>	<b>18.6</b>	<b>22.0</b>	<b>0.3<sup>(9)</sup></b>	

Source: SGX-ST announcements, offer documents and circulars to shareholders in relation to the respective transactions

**Notes:**

- (1) Where applicable, it includes the percentage shareholding of the undertaking shareholder(s) as the date of the offer document.
- (2) P/NAV ratios are based on the offer price and NAV per share for the respective companies.
- (3) Based on the implied revalued NAV per share of Global Logistic Properties Limited as at 30 June 2017
- (4) Based on the revalued NAV per share of Fischer Tech Limited as at 31 March 2017.
- (5) Based on the revalued NAV per share of Rotary Engineering Limited as at 30 September 2017.
- (6) Based on the revalued NAV per share of Vard Holdings Limited as at 31 March 2018.
- (7) Based on the revalued NAV per share of Weiye Holdings Limited as at 30 April 2018.
- (8) Based on the revalued NAV per share of LTC Corporation Limited.
- (9) Based on the Group's Offer Price and Adjusted RNAV ratio.

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For illustrative purposes only, we noted the following from the above table:

- (i) As disclosed in the Offer Announcement, the Offeror and its Concert Parties held an aggregate interest of approximately 86.17% in the Share capital of the Company, which is within the range, higher than the simple average and the median for the Selected Successful Delistings.
- (ii) The premium of approximately 27.5% as implied by the Offer Price over the last transacted price for Shares prior to the Offer Announcement Date is within the range and but lower than the simple average and median for the Selected Successful Delistings.

The premium of approximately 18.6% and 22.0% as implied by the Offer Price over the VWAP for the Shares for 1-month period and 3-month period prior to the Last Trading Day respectively are within the range and lower or less favourable than the simple average and median for the Selected Successful Delistings.

- (iii) The valuation of the Group as implied by the Offer Price and the Adjusted RNAV per Share in terms of P/NAV ratio of approximately 0.3 times is within the range, but less favourable than the simple average and the median for the Selected Successful Delistings, and at the same levels as the minimum for the Selected Successful Delistings.

In summary, the valuation of the Group in general, as implied by the Offer Price in terms of premiums over historical prices for the Shares appears to be within the range but less favourable as compared to the simple average and median for the Selected Successful Delistings. In addition, the valuation of the Group in general, as implied by the Offer Price and the Adjusted RNAV per Share in terms of P/NAV ratio appears to be within the range and lower than the simple average and median for the Selected Successful Delistings.

When considered in the context of the shareholding of the Offeror and its Concert Parties as set out in the Offer Announcement, which is within the range, and higher than the simple average and median for the Selected Successful Delistings, the valuation of the Group as implied by the Offer Price in terms of both premiums over historical prices for the Shares and the and the Adjusted RNAV per Share in terms of P/NAV ratio, appears to be less favourable as compared to the Selected Successful Delistings.

## APPENDIX I – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

### 10. OTHER CONSIDERATIONS

#### 10.1 Existing shareholding structure of the Company

The shareholding structure of the Company as at the Latest Practicable Date is outlined below:

	Direct Interests	Deemed Interests	Total interests	% of the issued Share capital as at the Latest Practicable Date <sup>(1)</sup>
<b>Offeror and its Concert Parties</b>				
Offeror <sup>(2)</sup>	324,315,066	-	324,315,066	82.08%
TXH <sup>(2)</sup>	16,159,700	324,315,066	340,474,766	86.17%
<b>Total Shares owned, controlled and agreed to be acquired by Offeror and its Concert Parties</b>			<b>340,474,766</b>	<b>86.17%</b>
<b>Directors (other than the Offeror and its Concert Parties)</b>	Nil	Nil	Nil	Nil
<b>Substantial Shareholders (other than the Offeror)</b>	Nil	Nil	Nil	Nil
<b>Public Shareholdings</b>			54,628,352	13.83%
<b>Total</b>			<b>395,103,118</b>	<b>100.00%</b>

**Notes:**

(1) Based on 395,103,118 Shares as at Latest Practicable Date.

(2) TXH holds 100% of the shares of the Offeror and is deemed to be interested in the Shares held by the Offeror by virtue of Section 4 of the Securities and Futures Act, Chapter 289 of Singapore, as amended or modified from time to time.

We note that as at the Offer Announcement Date, the Offeror and its Concert Parties held 340,474,766 Shares, representing approximately 86.17% of the issued Share capital of the Company. Accordingly, the Offeror already has super majority control over the Company (shareholding exceeding 75%), which places the Offeror and its Concert Parties in a position to have significant influence, *inter-alia*, on the management, operating and financial policies of the Company and ability to pass all ordinary and special resolutions on matters in which the Offeror and its Concert Parties do not have an interest, at general meetings of Shareholders.

Subsequent to the Offer Announcement Date to the Latest Practicable Date, the Offeror did not make any further announcement in connection with changes in its shareholding in the Company or further purchases of Shares.

#### 10.2 Dividend track record

For the purposes of assessing the Offer, we have considered the dividend track record of the Company against the Selected Comparable Companies those from selected alternative investments.

##### Historical dividends paid by the Company

We note that the Company has not declared and paid any dividends in the past three (3) financial years, being FY2016, FY2017 and FY2018. Based on confirmations from Directors, we understand that the Company does not have a fixed dividend policy and the form, frequency, and/or dividend payout will depend on the Company's financial performance and position, project capital expenditure, future investment plans and any other factors that the Directors consider relevant.



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### Investments in selected alternative investments

In evaluating the Offer, we have made comparison of dividend yields that may arise from investments in the Selected Comparable Companies and selected alternative equity investments and/or a broad market index instrument such as the STI Exchange Traded Fund (“**STI ETF**”).

As certain of the Selected Comparable Companies had paid dividends in their respective last financial year, the median for the net dividend yield for the Selected Comparable Companies would necessary be higher and more favourable than the Company.

For illustrative purposes only, the dividend yield for the selected alternative equity investments based on their ordinary cash dividends as declared for each of their most recent financial year are as follows:

STI ETF	30-Jun-18	3.5%
<b>The Company</b>	<b>31-Dec-18</b>	<b>0.0%</b>

#### **Notes:**

- (1) *Net dividend yield for each selected alternative equity investment is based on the net dividend per share divided by the closing market price for each share on the Latest Practicable Date (or where there was no trading on such date, the last available closing market price prior thereto). The aforementioned net dividend yield computed may differ from the actual dividend yield which will vary depending on the actual cost of investment paid by the individual investor.*

We note that the Company’s dividend profile is worst off as compared to the Selected Comparable Companies (save for those which did not pay dividends). As the Company did not pay any dividend in respect of its most recent financial year, hence as compared to the STI ETF, the dividend yield for Company is less favourable. The above analysis is on the assumption that the Company, Selected Comparable Companies and STI ETF maintain their respective net dividend per share at the same level as that in their last financial year.

We wish to highlight that the above dividend analysis serves only as an illustrative guide and is not an indication of the future dividend policy for the Company or the Selected Comparable Companies or the STI ETF. Furthermore, an investment in the equities of the Selected Comparable Companies or the STI ETF also presents different risk-return profiles as compared to an investment in the Shares. Moreover, there is no assurance that the Company or any of the above selected alternative equity investments will continue to pay or not to pay any dividends in the future and/or maintain the level of dividends paid in past periods.

### **10.3 Comparison with the past Rights Issue**

On 9 January 2019 (“**RI Announcement Date**”), the Company announced a renounceable non-underwritten rights issue (“**Rights Issue**”) of up to 234,060,000 new rights Shares (“**Rights Shares**”) at an issue price of S\$0.05 (“**Rights Issue Price**”) for each Right Share, on the basis of one (1) Rights Share for every one (1) existing Share.

For the Rights Issue, we note that TXH had irrevocably undertaken to the Company that she would, *inter alia*, accept, subscribe and pay for (or procure subscription and payment for) in full at the Rights Issue Price an aggregate of 153,928,533 Rights Shares.

At the close of the Rights Issue on 7 May 2019, valid acceptances and excess applications were received for a total of 161,043,118 Rights Shares, representing approximately 68.8% of the total number of 234,060,000 Rights Shares available for subscription and excess applications under the Rights Issue.

We note that TXH was allotted in aggregate 153,928,533 Rights Shares or approximately 95.6% of the total number of Rights Shares which was validly accepted and applied for, under the Rights Issue.

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For illustrative purposes only, we note the following:–

- (i) In nominal terms, the Rights Issue Price for the Rights Issue is lower than the Offer Price with the Offer Price representing a premium of 30% above the Rights Issue Price.
- (ii) The Offer Price represents a premium of approximately 27.5% over the last transacted price for the Shares on the Last Trading Day, whilst the Rights Issue Price for the Rights Issue represents: (a) a discount of approximately 39.0% to the last transacted price of S\$0.082 per Share on the SGX-ST on 8 January 2019, being the last trading day of the Shares immediately prior to the date of the announcement of the Rights Issue; and (b) a discount of approximately 27.8% to the theoretical ex-rights price (“TERP”) of S\$0.069 per Share.
- (iii) The Offer Price represents a discount of approximately 71.9% from the Group’s Adjusted RNAV and/or RNTA per Share, whilst the Rights Issue Price represents a discount of approximately 84.3% from the Group’s NAV and/or NTA per Share of approximately S\$0.3175 as at 30 June 2018 (being the latest available interim financials prior to the announcement of the Rights Issue). Furthermore, as the AR2018 for the Group was already released prior to the closing date for the Rights Issue and the Sale of Citimac Property was announced prior to the closing date of the Rights Issue, we note that any adjustments to the NAV and/or NTA per Share after taking into account the audited financial statements as at 31 December 2018 and effects of Sale of Citimac Property, would not materially change the discount of the Rights Issue Price from the Group’s NAV and/or NTA.

The above comparison between the Offer Price and the Rights Issue Price is necessarily limited and has to be assessed in the context of 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 Rights Issue may have been different from the Offer as well as taking into account the following:-

- (i) Offer Price represents a premium above the last transacted price for the Shares on the Last Trading Day whilst the Rights Issue Price was at a discount of approximately 27.8% to the TERP. However we note that as a rights issue provides, *inter-alia*, “pre-emptive” rights to existing shareholders to subscribe for rights shares in proportion to their shareholdings, it is normally priced at a discount to the market prices of shares.
- (ii) Whilst the Offer Price represents a relatively smaller discount from the Group’s Adjusted RNAV and/or RNTA per Share as compared to the Rights Issue Price viz-a-viz the Group’s NAV and/or NTA per Share (based on its then latest available interim financials prior to the announcement of the Rights Issue), it is not significantly higher. We note that similar observations are made when the Offer Price is evaluated against the Rights Issue Price, in the context of the audited financial statements of the Group for FY2018 and the effects of the Sale of Citimac Property, both of which were released or disclosed prior to the close of the Rights Issue.
- (vi) The Rights Issue was not fully subscribed or applied for or accepted as the actual number of Rights Shares issued was 161,043,118 as compared to the potential number of Rights Shares available of 234,060,000, with the Offeror and its Concert Parties being allotted approximately 95.6% of the total number of Rights Shares which was validly accepted and applied for under the Rights Issue. The relatively low subscription level for the Rights Issue may be an indication of the interest in the Rights Shares, but it does not necessarily reflect the price at which the Shareholders are willing to sell their Shares.

Hence, the comparison between the Offer Price and the Rights Issue Price above is necessarily limited and meant for illustration purpose.

### 10.4 Offer is unconditional

We note that as at the Latest Practicable Date, the Offeror and its Concert Parties hold in aggregate 340,474,766 Shares, constituting approximately 86.17% of the issued Share capital of the Company and that as set out in the Circular; the Offer is unconditional in all respects. Therefore, the Offer is not

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conditional upon the level of acceptances which the Offeror may receive in respect of the Offer.

### 10.5 No revision of the Offer Price

We note from Section 2.1 of the Offer Document that the Offer Price is final and the Offeror does not intend to revise the Offer Price and therefore, in accordance with Rule 20.2 of the Code, the Offeror will not be allowed to subsequently amend the terms of the Offer, including the Offer Price.

It is also noted from Section 2.2 of the Offer Document that if any distribution as defined or described therein ("**Distribution**") is or has been announced, declared, paid or made by the Company in respect of the Offer Shares on or after the Offer Announcement Date, the Offeror reserves the right to reduce the Offer Price by an amount equivalent to the amount of such Distribution.

### 10.6 Alternative takeover offer

The Directors confirmed that (a) no other third parties have approached the Company with an intention to make an offer for the Company; and (b) apart from the Offer being made by the Offeror, no other third party has made a firm offer for the Company as at the Latest Practicable Date.

We note that as at the Latest Practicable Date, the Offeror and its Concert Parties hold in aggregate 340,474,766 Shares, constituting approximately 86.17% of the issued Share capital of the Company

Under such circumstances, any competing offer for Shares is unlikely to be forthcoming without the support of the Offeror in view of its majority or super majority control as represented by the percentage of the total number of Shares that the Offeror holds. Thus, the possibility of an alternative offer from parties other than the Offeror will be significantly reduced.

### 10.7 Control over the Company

As at the Latest Practicable Date, the Offeror and its Concert Parties has super majority control over the Company, which places the Offeror in a position to significantly influence, *inter alia*, the management, operating and financial policies of the Company and ability to pass all ordinary and special resolutions on matters in which the Offeror and its Concert Parties do not have an interest, at general meetings of Shareholders.

### 10.8 Listing Status and Compulsory Acquisition

#### Listing status

We note from Section 9.1 of the Offer Document that under Rule 723 of the listing manual of the SGX-ST (the "**Listing Manual**"), the Company must ensure that at least 10% of the total number of issued Shares (excluding any Shares held in treasury) is at all times held in public hands (the "**Free Float Requirement**"). Pursuant to Rule 1105 of the Listing Manual, upon an announcement by the Offeror that acceptances have been received pursuant to the Offer that bring the holdings owned by the Offeror and its Concert Parties to above 90% of the total number of issued Shares (excluding any Shares held in treasury), the SGX-ST **may suspend** the trading of the Shares until it is satisfied that at least 10% of the total number of issued Shares (excluding any Shares held in treasury) are held by at least 500 Shareholders who are members of the public.

Rule 1303(1) of the Listing Manual provides that if the Offeror succeeds in garnering acceptances exceeding 90% of the total number of issued Shares (excluding any Shares held in treasury), thus causing the percentage of the total number of issued Shares (excluding any Shares held in treasury) held in public hands to fall below 10%, the SGX-ST will suspend trading of the Shares only at the close of the Offer.

We note that as at the Latest Practicable Date, the Offeror and its Concert Parties hold in aggregate approximately 86.17% of the issued Share capital of the Company, and to reach or cross the threshold for the suspension of trading pursuant to the Free Float Requirement, it would require the Offer to be accepted by approximately 3.83% of the issued Share capital of the Company (or about 27.67% of Offer Shares other than those owned by TXH).

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Under Rule 724(1) of the Listing Manual, if the Free Float Requirement is not satisfied, the Company must, as soon as possible, announce that fact and the SGX-ST may suspend trading of all the Shares. Rule 724(2) of the Listing Manual states that the SGX-ST may allow the Company a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of the Shares held in public hands to at least 10%, failing which the Company may be removed from the Official List of the SGX-ST.

**The Offeror does not intend to preserve the listing status of the Company. In the event that, *inter alia*, the Free Float Requirement is not satisfied, the Offeror intends to delist the Company and does not intend to take any step for the public float to be restored and/or for any trading suspension of the Shares by the SGX-ST to be lifted.**

### Compulsory acquisition

We note from Section 9.2 of the Offer Document that pursuant to Section 215(1) of the Companies Act, if the Offeror receives valid acceptances of the Offer and/or acquires such number of Offer Shares from the date of the Offer otherwise than through valid acceptances of the Offer in respect of not less than 90 per cent. of the total number of Shares in issue (excluding treasury Shares) as at the close of the Offer (other than those already held by the Offeror, its related corporations or their respective nominees as at the date of the Offer), the Offeror would be entitled to exercise the right to compulsorily acquire all the Offer Shares of Shareholders who have not accepted the Offer (the “**Dissenting Shareholders**”) on the same terms as those offered under the Offer.

**In such event, the Offeror intends to exercise its right to compulsorily acquire all the Offer Shares not acquired under the Offer. The Offeror will then proceed to delist the Company from the SGX-ST.**

Dissenting Shareholders have the right under and subject to Section 215(3) of the Companies Act, to require the Offeror to acquire their Shares in the event that the Offeror, its related corporations or their respective nominees acquire, pursuant to the Offer, such number of Shares which, together with the Shares held by the Offeror, its related corporations or their respective nominees, comprise 90 per cent. or more of the total number of issued Shares (excluding treasury Shares). Dissenting Shareholders who wish to exercise such right are advised to seek their own independent legal advice. Unlike Section 215(1) of the Companies Act, the 90 per cent. threshold under Section 215(3) of the Companies Act does not exclude Shares held by the Offeror, its related corporations or their respective nominees as at the date of the Offer.

As stated in the Offer Document, the Offeror intends to privatise the Company and does not intend to preserve the listing status of the Company. **In the event that the trading of Shares on the SGX-ST is suspended pursuant to the Listing Manual, the Offeror intends to delist the Company and does not intend to take any step for the public float to be restored and/or for any trading suspension of the Shares by the SGX-ST to be lifted.**

### **10.9 Watch List and CAD Investigations**

The information in connection with the Watch List and the investigation by the Commercial Affairs Department of Singapore (“**CAD**”), as extracted from paragraph 10 of Appendix II of the Circular, are set out in italics below. We recommend that Shareholders read the contents therein carefully.

#### **“10. SGX-ST WATCH LIST AND CAD INVESTIGATIONS**

**10.1** *The Company was placed on the SGX-ST Watch-list under the minimum trading price entry criteria with effect from 5 December 2018. An issuer on the relevant Watch-list may be removed from that Watch-list if it satisfies the following requirements, where applicable:*

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*The issuer:*

- (i) records a volume-weighted average price of at least S\$0.20 over the last six (6) months; and*
  - (ii) an average daily market capitalisation of S\$40 million or more over the last six (6) months.*
- 10.2** *Pursuant to Rule 1313(2) of the Listing Manual of the SGX-ST, the Company must, for the period in which it remains on the Watch-list, provide the market with a quarterly update on its efforts and the progress made in meeting the exit criterion of the Watch-list. Please refer to the announcement on 14 January 2019 on the unaudited financial statements of the Group for the year ended 31 December 2018 for an update on the Group's financial performance and position.*
- 10.3** *Shareholders should note that the Company must meet the criteria in Section 10.1(a) above in order to avoid delisting. If the Company fails to satisfy the criteria set out in Section 10.1(a) of this Offer Document by 4 December 2021, being 36 months from the date on which it was placed on the Watch-list, the SGX-ST may either remove the Company from the Official List of the Mainboard of the SGX-ST, or suspend trading of the Shares (without the agreement of the Company) with a view to removing the Company from the Official List of the Mainboard of the SGX-ST.*
- 10.4** *In view of the Company being on the Watch-list, it is very unlikely that the Company can find new investors, or improve its currently illiquid and thinly traded Shares, in order to exit the Watch-list.*
- 10.5** *The Board had announced on 4 May 2018 that the Company and its subsidiary, KHPL, had received a letter from the CAD to assist with investigations into a potential offence under the Securities and Futures Act pursuant to the provisions of the Criminal Procedure Code. To-date, the matter is still pending."*

The Directors confirmed to the best of their knowledge and based on information available to them, there have been no other development on the matter pertaining to the CAD, other than those that are already announced and/or disclosed in the Circular.

### **10.10 Offeror's intention for the Company**

As set out in Section 7 of the Offer Document, the Offeror has no current intentions to (a) introduce any major changes to the existing business of the Company, (b) re-deploy the fixed assets of the Company, or (c) discontinue the employment of the existing employees of the Company or its subsidiaries, in each case, other than in the ordinary and usual course of business. However, the Offeror retains the flexibility at any time to further consider any options or opportunities which may present themselves, and which it regards to be in the interests of the Offeror and/or the Company. Following the close of the Offer, the Offeror will undertake a comprehensive review of the businesses of the Company and the review will help the Offeror to determine the optimal business strategy for the Company.

### **10.11 Past takeover**

On 4 June 2014, Raffles United Pte. Ltd ("**RUPL**" or "**Offeror 2014**") announced that it had purchased a total 73,192,000 ordinary shares in Kian Ho Bearings Ltd ("**KH**", former name of the Company), representing approximately 31.27% of the issued and paid-up share capital of KH, at S\$0.235 in cash per share. Following the acquisition, RUPL, together with its concerted parties, owns 123,228,000 ordinary shares in the capital of KH representing approximately 52.65% of its issued and paid-capital.

Accordingly RUPL, in accordance to the Code, made a mandatory general offer ("**Offer 2014**") for all the remaining Shares, then in issue and not owned or controlled or agreed to be acquired by the Offeror 2014 and parties acting in concert with it.

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For illustrative purposes only, we note the following:–

- The offer price under the 2014 Offer (“**Offer Price 2014**”) was S\$0.235, which is approximately 261.5% higher than the current Offer Price of S\$0.065.
- The Group’s financial performance in FY 2013 is comparable to FY2018; as it recorded revenues and net profit attributable to the owners of the Company of approximately S\$78.8 million and S\$1.3 million respectively in FY2013 as compared to revenue of approximately S\$68.4 million and net profit attributable to the owners of the Company of approximately S\$1.8 million in FY2018. The Group’s equity base was approximately S\$75.5 million as at the end of FY2013 (FY2018: approximately S\$79.1 million).
- Whilst the Offeror 2014 and parties acting in concert, held a majority shareholding of 52.65% (or having a statutory control) on 4 June 2014, the Offeror and its Concert Parties hold an aggregate of 340,474,766 Shares representing approximately 86.17% of the total number of issued Shares (or having super majority control).
- The Company was not placed on the SGX-ST Watch List (under the MTP criteria) during Offer 2014. In addition, for the current Offer the Offeror has stated its intention not to preserve its listing status and exercise its compulsory acquisition rights if the relevant thresholds are met. Meanwhile, the Offer 2014 was made to comply with the requirements of the Code and the intention of the Offeror 2014 was to maintain the listing status of the Company on the SGX-ST.
- The Offer Price 2014 implied a valuation multiple of P/RNTA of approximately 0.7 times, while the current valuation of the Group as implied by the Offer Price and the Adjusted RNTA per Share in terms of P/RNTA ratio is approximately 0.3 times.
- The valuation of the Group (as implied by the Offer Price and Adjusted RNTA) in terms of the P/NTA ratio is within the range but lower than the median for the Selected Comparable Companies. It is lower than any of the Selected Comparable Companies (save for the PS Group and HG Metal).

However the valuation of the Group (as implied by its Offer Price 2014 and then RNTA) in terms of the P/NTA ratio is within the range, and comparable to the median for the then comparable companies.

In summary, the valuation of the Group (as implied by the Offer Price and Adjusted RNTA) in terms of the P/NTA ratio, relative to its peers, generally appears to be less favourable as compared to similar ratios for Offer 2014.

- The valuation of the Group, in terms of LTM EV/EBITDA and LTM PER, for the current Offer are multiples of 13.6 times and 14.1 times respectively. This is lower than the EV/EBITDA and PER multiples for Offer 2014 of 23.7 times and 42.8 times respectively.

For the current Offer, the LTM EV/EVBITDA was higher than the median for the Selected Comparable Companies whilst the LTM PER is lower than the median for the Selected Comparable Companies. However similar valuation multiples for Offer 2014, were both higher than the median of the then comparable companies.

In summary, the valuation of the Group as implied by the Offer Price in terms of LTM EV/EBITDA and LTM PER relative to its peers, generally appears to be less favourable as compared to similar ratios for Offer 2014.

From the above observations, it does appear that the current Offer Price is less favourable as compared to the Offer Price 2014.

The above comparison is limited and has to be assessed in the context of 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 conditions for the current Offer may have been different from Offer 2014.



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Hence, the comparison between the Offer and Offer 2014 above is necessarily limited and meant for illustration purpose.

### 10.12 Material Litigations

We note from the Circular that on 28 December 2017, the Board announced that the Company and its wholly-owned subsidiary Kian Ho Pte Ltd (“KHPL”) had, on 26 December 2017, been served with a writ of summons endorsed with a statement of claim, filed by Shenzhen Zhaoheng Industrial Co., Ltd (“SZZH”) in the High Court of the Republic of Singapore (“HC/S1210/2017”) dated 22 December 2017. SZZH is claiming from the Company a sum of approximately S\$335,000 and from KHPL a sum of approximately S\$215,000. The Company and KHPL have disputed the claims made by SZZH of which a trial was held on 22 and 23 April 2019.

As at the Latest Practicable Date, the decision of the High Court of the Republic of Singapore on the above proceedings is still pending.

Save as disclosed in the Appendix II of the Circular, as at the Latest Practicable Date:

- a) neither the Company nor any of its subsidiaries is engaged in any material litigation or arbitration proceedings, as plaintiff or defendant, which might materially and adversely affect the financial position of the Company and its subsidiaries, taken as a whole; and
- b) the Directors are not aware of any litigation, claim or proceedings pending or threatened against the Company or any of its subsidiaries or of any fact likely to give rise to any litigation, claims or proceedings which might materially and adversely affect the financial position of the Company and its subsidiaries, taken as a whole.

### 10.13 Material Contracts with interested persons

Save as disclosed in Appendix V of this Circular, neither the Company nor its subsidiaries has entered into any material contract (other than in the ordinary course of business) with interested persons during the period commencing three years prior to the Offer Announcement Date and ending on the Latest Practicable Date.

## 11. OPINION

In arriving at our opinion in respect of the Offer, we have taken into account, *inter alia*, the following factors which we consider to have a significant bearing on our assessment as summarised below and as elaborated elsewhere in this Letter. In connection with the Appraised Properties, and such other assets of the Group, the Company did not commission any valuation in connection with the Offer. We have relied on the Director’s confirmation that (a) the valuation of the Appraised Properties as at the Latest Practicable Date would not be materially different from that as at the Valuation Dates, and that the Appraised Properties of the Group are fairly stated; and (b) as at the Latest Practicable Date, save for the Appraised Properties which are subject to valuation, there are no material differences between the estimated market values of the assets of the Group *inter alia* remaining PPE for which no valuation was performed and their respective book values as at 31 December 2018, which would have a material impact on the NAV and NTA of the Group. Accordingly, our views, recommendation and opinion are necessarily limited and subject to these matters.

This is purely a summary of the factors that have been highlighted in this Letter and Shareholders should be advised to read the following in conjunction with, and in the context of, the full text of this Letter:-

- (a) The rationale for the Offer, intention of the Offeror and the listing status of the Company as set out in the Offer Document.
- (b) The historical financial performance and position of the Group as set out in paragraph 9.1 of this Letter. The Group recorded a loss of attributable to owners of the Company of approximately S\$7.0 million in FY2016, but turned around and posted net profits attributable to owners of the Company of approximately S\$3.4 million and S\$1.8 million in FY2017 and



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FY2018 respectively. The Group's shareholders' equity strengthened and increased from approximately S\$68.0 million as at 31 December 2016 to approximately S\$79.1 million as at 31 December 2018. However the net working capital position for the Group had weakened and declined from approximately S\$21.1 million as 31 December 2016, to approximately S\$16.8 million as at 31 December 2017 and at 31 December 2018. Due to the enlarged shareholders' equity and coupled with declining bank borrowings, the bank gearing ratio has improved (decreased from approximately 0.8 times as at 31 December 2016, to approximately 0.5 times as at 31 December 2017 and 0.4 times as at 31 December 2018). Though the net cash flow from operations for the Group were positive during the period reviewed, it had declined from approximately S\$13.9 million in FY2016 to approximately S\$6.0 million in FY2018.

The Directors 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 FY2018, and the Company's announcements released on the SGXNET, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance.

- (c) The historical financial performance of the Group appears to be weaker as compared to the Selected Comparable Companies – this is evident from the Group's relatively lower LTM ROE and LTM net profit margin, higher ratios for total liabilities to shareholders' equity and total borrowings to shareholders' equity ratios. The LTM assets turnover ratio as compared to Selected Comparable Companies is slightly more favourable in terms of the median and the simple average.
- (d) The Offer Price (as set out in Section 9 of this Letter) after taking into account, *inter alia*, the following factors:-
- (i) The Offer Price represents a substantial discount of approximately 80.8% from the Group's NAV and/or NTA per Share as at 31 December 2018.
  - (ii) The Offer Price is substantially lower than the MTP for shares listed on the Mainboard of the SGX-ST.
  - (iii) The Offer Price represents a substantial discount of approximately 71.4% over the Adjusted NAV and/or NTA per Share per Share for the Group (after taking into account the net proceeds from the Right Issue, the Sale of Citimac Property and the net gain on Acee Disposal). In the event that the Group's Adjusted Cash per Share is deducted from the Offer Price and likewise from the Group's Adjusted NAV and/or NTA per Share, the Offer Price less Adjusted Cash per Share represents a discount of approximately 81.3% from the Group's Adjusted NAV and/or NTA per Share less Adjusted Cash per Share.
  - (iv) The Offer Price represents a substantial discount of approximately 71.9% from the Group's Adjusted RNAV and/or RNTA per Share respectively.
  - (v) The Offer Price represents a premium of approximately 27.5% over the last transacted price of S\$0.051 per Share for the Shares on the SGX-ST on 25 June 2019, being the Last Trading Day immediately preceding the Offer Announcement Date.
  - (vi) The Offer Price represents a premium of approximately 18.4%, 23.6%, 22.5% and 22.3% over the VWCP for the Shares for the 12-month, 6-month, 3 month and 1 month period prior to the Last Trading Day immediately preceding the Offer Announcement Date respectively.
  - (vii) The Offer Price represents a premium of approximately 0.2% over the VWCP for the Shares for the period commencing on the Market Day immediately after the Offer Announcement Date and ending on the Latest Practicable Date.
  - (viii) The Offer Price represents a premium of approximately 1.6% over the last transacted price of S\$0.064 per Share on the SGX-ST on 10 July 2019, being the Latest Practicable Date.

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- (ix) The Offer Price is not favourable when compared with the valuation of Selected Comparable Companies - the valuation of the Group in terms P/NAV, P/NTA, ratios (as implied by the Offer Price and the Group's Adjusted RNAV and/or RNTA per Share) appears to be less favourable as compared to the simple average and the median of Selected Comparable Companies. It is further noted that the valuation of the Group in terms of LTM PER (as implied by the Offer Price) appears to be less favourable as compared to the median of Selected Comparable Companies. However, the valuation of the Group (as implied by the Offer Price) in terms of LTM EV/EBITDA appears to be more favourable as compared to the simple average and the median of Selected Comparable Companies.

Such comparison should be reviewed in conjunction with the following: (a) the Group's relatively weaker financial position (in terms of the ratios of total liabilities to shareholders' equity, and total borrowings to shareholders' equity), the Group's financial performance (in terms of LTM ROE and LTM net profit margin) appears to be weaker than any of the combined Selected Comparable Companies; and (b) the trading statistics for the shares of Selected Comparable Companies are based on transactions which do not result in acquisition of control whilst for the Offer, the Offeror's intention is to delist and privatise the Company (as at the Offer Announcement Date, the Offeror and its Concert Parties had already a super majority control over the Company by having an interest in 340,474,766 Shares, representing approximately 86.17% of the total number of issued Shares).

- (x) The Offer Price is not favourable when compared with Selected Successful Privatisations. In summary, the valuation of the Group as implied by the Offer Price in terms of premiums over historical prices for the Shares generally appears to be within the range but less favourable as compared to the simple average and median for the Selected Successful Privatisations. In addition, the valuation of the Group, (as implied by the Offer Price and Adjusted RNAV) in terms of P/NAV ratio appears to be lower than any of the transactions under the Selected Successful Privatisations.
- (xi) The Offer Price is not favourable when compared with Selected Successful Delistings. In summary, the valuation of the Group in general, as implied by the Offer Price in terms of premiums over historical prices for the Shares appears to be within the range but less favourable as compared to the simple average and median for the Selected Successful Delistings. In addition, the valuation of the Group in general, as implied by the Offer Price and the Adjusted RNAV per Share in terms of P/NAV ratio appears to be within the range and lower than the simple average and median for the Selected Successful Delistings.
- (xii) Comparison on a relative basis, with the Rights Issue Price. The Offer Price representing a discount of approximately 71.9% from the Group's Adjusted RNAV and/or NTA per Share, as compared to the Rights Issue Price representing a discount of approximately 84.3% from the Group's NAV and/or NTA per Share of approximately S\$0.3175 as at 30 June 2018 (being the latest available interim financials prior to the announcement of the Rights Issue), is not significantly higher. We note that similar observations are made when the Offer Price is evaluated against the Rights Issue Price, in the context of the audited financial statements of the Group for FY2018 and the effects of the Sale of Citimac Property both of which were released or disclosed prior to the close of the Rights Issue.
- (xiii) The Offer Price is not favourable when compared with the previous Offer 2014. In summary, the valuation of the Group (as implied by the Offer Price and Adjusted RNTA) in terms of the P/NTA ratio, relative to its peers, generally appears to be less favourable as compared to similar ratios for Offer 2014. Likewise, the valuation of the Group as implied by the Offer Price in terms of LTM EV/EBITDA and LTM PER relative to its peers, generally appears to be less favourable as compared to similar ratios for Offer 2014.
- (e) As at the Offer Announcement Date, the Offeror and its Concert Parties held Shares, constituting approximately 86.17 % of the issued Share capital of the Company. Accordingly,

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the Offeror already has super majority control over the Company, which places the Offeror and its Concert Parties in a position to have significant influence, *inter alia*, on the management, operating and financial policies of the Company and ability to pass all ordinary resolution on matters in which the Offeror and its Concert Parties do not have an interest, at general meetings of Shareholders. Subsequent to the Offer Announcement Date to the Latest Practicable Date, the Offeror did not make any further announcement in connection with changes in its shareholding in the Company or further purchases of Shares.

Competing offer for the Shares (if any) is unlikely to be forthcoming without the support of the Offeror in view of its super majority control as represented by the percentage of the total number of Shares that the Offeror and its Concert Parties hold. Thus, the possibility of an alternative offer from parties other than the Offeror will be significantly reduced.

- (f) We note that the Company had not declared any dividends for the last three financial years. As such, if compared to the Selected Comparable Companies or STI ETF, the net dividend yield for Shares, are on a relative basis unfavourable.
- (g) As set out in the Offer Document, the Offer Price is final and the Offeror does not intend to increase the Offer Price.
- (h) The Directors' confirmation that (a) no other third parties have approached the Company with an intention to make an offer for the Company; and (b) apart from the Offer being made by the Offeror, no other third party has made a firm offer for the Company as at the Latest Practicable Date.
- (i) Other considerations are set out in Section 9 or other such sections of this Letter.

In summary, having regard to our analysis and the consideration in this Letter (including, *inter alia*, its limitation and constraints and in the absence of a valuation in connection with the Offer) and after having considered carefully the information available to us and based on market, economic and other relevant considerations prevailing as at the Latest Practicable Date, and subject to our terms of reference, we are of the opinion that, in the absence of an alternative offer, the financial terms of the Offer is, on balance, **NOT FAIR** and **NOT REASONABLE**.

For the purposes of evaluation of the Offer from a financial point of view, we have adopted the approach that the term "fair and reasonable" comprises two distinct concepts:

- (i) Whether the Offer is "fair" relates to the value of the offer price which is based strictly on the evaluation of the Offer Price (i.e. by looking at the financial or fundamental analyses of the Offer Price as set out in this Letter and based on information known to us or which is publicly available).
- (ii) Whether the Offer is "reasonable", after taking into consideration the actual and potential financial impact of other circumstances surrounding the Offer and the Company which we consider relevant (being both quantitative and qualitative factors available and made known to us).

We consider the financial terms of the Offer to be **NOT FAIR**, from a financial point of view after factoring, *inter alia*, the following:-

- (i) The Offer Price is at a steep discount of approximately 71.9% from the Group's Adjusted RNAV and/or RNTA per Share and furthermore the valuation of the Group as implied by the Offer Price and the Adjusted RNAV and/or RNTA per Share in terms of P/NAV ratio of approximately 0.3 times is lower than any of the transactions under the Selected Successful Privatisations and only at the same levels as the minimum for the Selected Successful Delistings.
- (ii) Unfavourable comparison with the valuation of Selected Comparable Companies. Whilst the valuation of the Group (as implied by the Offer Price) in terms of LTM EV/EBITDA appears to be more favourable as compared to the simple average and the median of the Selected Comparable Companies, the valuation of the Group in terms P/NAV, P/NTA, ratios (as implied

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by the Offer Price and the Group's Adjusted RNAV and/or RNTA per Share) appears to be less favourable as compared to the simple average and the median of Selected Comparable Companies. It is further noted that the valuation of the Group in terms of LTM PER (as implied by the Offer Price) appears to be less favourable as compared to the simple average and median of Selected Comparable Companies.

- (iii) The Offer as compared against the Selected Successful Privatisations and the Selected Successful Delistings in the context of the implied premiums of the Offer Price over historical prices for the Shares for the 3 month and 1 month period (prior to the Announcement) appears to be within the range but less favourable as compared to the simple average and median for both the Selected Successful Privatisations and the Selected Successful Delistings.
- (iv) Unfavourable comparison of the Offer Price against the Rights Issue Price.
- (v) Unfavourable comparison of the Offer as compared to the previous offer in 2014.

We consider the financial terms of the Offer to be, on balance, **NOT REASONABLE**, from a financial point of view after factoring, *inter alia*, the following:-

- (i) Less favourable comparison with Selected Successful Privatisations. In summary, the valuation of the Group as implied by the Offer Price in terms of premiums over historical prices for the Shares generally appears to be within the range but less favourable as compared to the simple average and median for the Selected Successful Privatisations.
- (ii) Less favourable comparison with Selected Successful Delistings. In summary, the valuation of the Group in general, as implied by the Offer Price in terms of premiums over historical prices for the Shares appears to be within the range but less favourable as compared to the simple average and median for the Selected Successful Delistings.
- (iii) The Offer Price is at a steep discount of approximately 71.9% from the Group's Adjusted RNAV and/or RNTA per Share and furthermore the valuation of the Group as implied by the Offer Price and the Adjusted RNAV and/or RNTA per Share in terms of P/NAV ratio of approximately 0.3 times is lower than any of the transactions under the Selected Successful Privatisations and only at the same levels as the minimum for the Selected Successful Delistings.

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### **ACA's Recommendation on the Offer**

Based on our assessment of the financial terms of the Offer as at the Latest Practicable Date (without considering any acceptance(s) of the Offer or any change in the shareholding of the Offeror and its Concert Parties subsequent to the Latest Practicable Date) as set out above, we advise the Independent Directors that they should recommend that Shareholders **REJECT** the Offer.

The Shareholders should note that in the event the Free Float Requirement is not satisfied, the Offeror does not intend to take any step for the public float to be restored and/or for any trading suspension of the Shares by the SGX-ST to be lifted. As at the Offer Announcement Date, the Offeror and its Concert Parties had already a super majority control over the Company by having an interest of approximately 86.17% of the total number of issued Shares and to reach or cross the threshold for the suspension of trading pursuant to the Free Float Requirement, it would require the Offer to be accepted by approximately 3.83% of the issued Share capital of the Company (or about 27.67% of Offer Shares other than those owned by TXH). As at the Latest Practicable Date, the Free Float Requirement remains satisfied.

The Shareholders should monitor and take into account the acceptance level in conjunction with the Free Float Requirement and note that in the event the Free Float Requirement is not satisfied, the rejection of the Offer may result in them holding suspended or delisted Shares. In the event of suspension and a delisting, it is likely to be difficult for Shareholders who do not accept the Offer to sell their Shares in the absence of a public market for the Shares. The Shareholders should take into account the risk of holding suspended or delisted Shares and evaluate such risk of in conjunction with, *inter alia*, their specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints or plans of any individual Shareholder, or group of Shareholders.

### **Matters to highlight**

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

1. If the Shareholders are considering selling their Offer Shares in the open market, they should be aware that the current market prices and trading volumes for the Shares may have been supported by the Offer and may not be maintained at current levels when the Offer closes. It should be noted that for the period commencing on the Market Day immediately after the Offer Announcement Date to the Latest Practicable Date, the transacted prices for the Shares have always been lower than the Offer Price and the Offer Price represents a small premium of approximately 1.6% over the last transacted price of S\$0.064 per Share on the SGX-ST on 10 July 2019, being the Latest Practicable Date.
2. The Shareholders should note that the number of Shares traded for the 1 year period prior to the Offer Announcement Date is relatively low as compared to the number of issued Shares as at the Latest Practicable Date whilst for the period immediately after the Offer Announcement Date until the Latest Practicable Date, the number of Shares traded remains low as compared to the number of issued Shares as at the Latest Practicable Date. In addition, the Shares were only traded on 78 Trading Days (approximately 31.2%) out of the total 250 Market Days for the period 12-months prior to the Offer Announcement Date and 4 Trading Days out of the total 7 Market Days for the period commencing from the Offer Announcement Date to the Latest Practicable Date.
3. The Offeror has stated in the Offer Document that it will not revise the Offer Price of S\$0.065 per Offer Share.
4. Whilst the possibility of a higher offer from a third party cannot be ruled out, as at the Latest Practicable Date, we are not aware of any publicly available evidence of an alternative offer for the Shares. Shareholders should be aware that the chances of such an alternative offer for Shares being made by a third party may be affected by the fact that as at the Latest Practicable Date, the Offeror and its Concert Parties hold in aggregate of 340,474,766 Shares, representing approximately 86.17% of the total number of issued Shares.

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5. The Offeror is making the Offer with a view to delist and privatise the Company from the SGX-ST and if entitled to under the Companies Act, the Offeror intends to compulsorily acquire all the Offer Shares.

**In the event the Company does not meet the Free Float Requirement, the Offeror does not intend to preserve the listing status of the Company and does not intend to take any steps for any trading suspension in the securities of the Company to be lifted.**

**In the event that the trading of Shares on the SGX-ST is suspended pursuant to Rule 724, Rule 1105 or Rule 1303(1) of the Listing Manual, the Offeror does not intend to preserve the listing status of the Company and has no intention of undertaking or supporting any action for any such trading suspension by the SGX-ST to be lifted.**

The Shareholders should therefore monitor the acceptance level and note that in the event the Free Float Requirement is not satisfied, the rejection of the Offer will result in them holding suspended or delisted Shares. In the event of suspension and a delisting, it is likely to be difficult for Shareholders who do not accept the Offer to sell their Shares in the absence of a public market for the Shares.

6. The Directors confirmed that as at the Latest Practicable Date and save for matters disclosed in the Circular, this Letter, the audited financial statements for the Group for FY2018, and the Company's announcements released on the SGXNET, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance.
7. Our scope does not require us and we have not made any independent evaluation of the Group (including without limitation, market value or economic potential) or appraisal of the Group's assets and liabilities (including without limitation where applicable PPE and investment properties) 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 including, inter alia, the contracts that the Group has entered into or are about to enter into, save for the Independent Valuation Reports in respect of the market value of the Appraised Properties as at their respective Valuation Dates. Notwithstanding, the Directors have confirmed that no valuation was undertaken, in connection with Offer.
8. The Company was placed on the SGX-ST Watch List under the MTP entry criteria with effect from 5 December 2018. Shareholders should note that the Company must meet the criteria, *inter alia* (i) records a volume-weighted average price of at least S\$0.20 over the last six (6) months; and (ii) an average daily market capitalisation of S\$40 million or more over the last six (6) months, in Section 10.1(a) above in order to avoid delisting. If the Company fails to satisfy the said criteria by 4 December 2021, being 36 months from the date on which it was placed on the Watch-list, the SGX-ST may either remove the Company from the Official List of the Mainboard of the SGX-ST, or suspend trading of the Shares (without the agreement of the Company) with a view to removing the Company from the Official List of the Mainboard of the SGX-ST.

### **Limitations**

It is also to be noted that as trading of the Shares is subject to possible market fluctuations and accordingly, our advice on the Offer does not and cannot take into account the future trading activities or patterns or price levels that may be established for the Shares since these are governed by factors beyond the ambit of our review and also such advice, if given, would not fall within our terms of reference in connection with the Offer.

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



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## APPENDIX I – LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS

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### 12. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders **who wish to accept the Offer** must do so not later than 5.30 p.m. (Singapore time) on 14 August 2019, and should take note of the procedures for acceptance of the Offer as set out in Appendix 5 of the Offer Document. Shareholders should note that the Offeror had indicated in the Offer Document that it has no intention of extending the Offer beyond the Closing Date. Accordingly, the Offer will not be open for acceptance beyond 5:30 p.m. on the Closing Date, and acceptances received after 5:30 p.m. on the Closing Date will be rejected.

Acceptances should be completed and returned as soon as possible and, in any event, so as to be received, on behalf of the Offeror, by the CDP (in respect of the FAA) or the Share Registrar (in respect of the FAT), as the case may be, not later than the Closing Date.

Shareholders **who do not wish to accept the Offer** need not take any further action in respect of the Offer Document, the FAA and/or the FAT which have been sent to them.

This Letter is addressed to the Independent Directors in connection with and for the sole purpose of their evaluation of the financial terms of the Offer. Whilst a copy of this Letter may be included in the Circular, neither the Company nor the Directors nor the Shareholders, 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. 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. Save as disclosed, 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 Shareholders in relation to the Offer and the issue of the Circular (as well as any information therein) 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



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## APPENDIX II – ADDITIONAL GENERAL INFORMATION

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### 1. DIRECTORS

The names, addresses and descriptions of the Directors as at the Latest Practicable Date are as follows:

<b>Name</b>	<b>Address</b>	<b>Designation in the Company</b>
Tan Saik Hock	c/o 5 Changi South Street 3 Singapore 486117	Non-Executive Independent Chairman
Teo Teng Beng	c/o 5 Changi South Street 3 Singapore 486117	Managing Director
Teh Geok Koon	c/o 5 Changi South Street 3 Singapore 486117	Executive Director cum Chief Operating Officer
Lee Joo Hai	c/o 5 Changi South Street 3 Singapore 486117	Non-Executive Independent Director
Ngoi Sing Shang	c/o 5 Changi South Street 3 Singapore 486117	Non-Executive Independent Director

### 2. PRINCIPAL ACTIVITIES

Founded in 1956 as a sole proprietorship and subsequently incorporated in Singapore on 3 November 1973, RUH is one of the largest stockists, distributors and retailers of bearings and seal products in South-East Asia and the Far East, catering primarily to bearing wholesalers, replacement markets and original equipment manufacturers. RUH was listed on the SGX-ST Dealing and Automated Quotation on 10 November 1995 and upgraded to the SGX-ST Mainboard on 2 February 1998.

The principal activities of the Company and its subsidiaries as at the Latest Practicable Date are those relating to:

- (i) distribution, retailing and application of bearings and seals in South East Asia and the Far East that caters primarily to the wholesale, maintenance, repair, and overhaul, and original equipment manufacturer (OEM) markets;
- (ii) property investment, including collection of rent, capital growth potential and/or provision of property related services and facilities and/or the investment in or acquisition or disposal of shares or interests in any entity that holds property related assets;
- (iii) property development, including the acquisition, development and/or sale of property related assets and/or investment in or acquisition or disposal of shares or interests in any entity that undertakes such property development activities; and
- (iv) offering gearbox and electrical products to distributors, retailers and contractors as well as beauty products to consumers.

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## APPENDIX II – ADDITIONAL GENERAL INFORMATION

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### 3. SHARE CAPITAL

#### 3.1 Issued share capital of the Company

As at the Latest Practicable Date, the issued and paid-up share capital of the Company is S\$39,580,081.90 comprising 395,103,118 Shares. The Company has only one class of shares, being ordinary shares, with equal ranking rights to dividend, voting at general meetings and return of capital.

The Company does not have treasury Shares as at the Latest Practicable Date.

#### 3.2 Capital, Dividends and Voting

The rights of Shareholders in respect of capital, dividends and voting are contained in the Company's Constitution, which is available for inspection at the Company's registered office at 5 Changi South Street 3, Singapore 486117. The relevant provisions in the Constitution relating to the rights of Shareholders in respect of capital, dividends and voting have been extracted and reproduced in Appendix III to this Circular. Capitalised terms and expressions not defined in the extracts have the meanings ascribed to them in the Constitution and/or the Companies Act.

#### 3.3 Number of Shares issued since the end of the last financial year

As at the Latest Practicable Date, save for the newly allotted 161,043,118 Shares in relation to the renounceable non-underwritten rights issue exercise pursuant to the circular to Shareholders dated 22 March 2019, there has been no issue of new Shares by the Company since 31 December 2018, being the end of the last financial year.

Shareholders should refer to the Company's circular dated 22 March 2019 and the announcements released by the Company on SGXNET for further details on the renounceable non-underwritten rights issue exercise.

#### 3.4 Convertible Instruments

As at the Latest Practicable Date, the Company has not granted any other instruments convertible into, rights to subscribe for, and options in respect of, securities being offered for or which carry voting rights affecting any Shares.

### 4. DISCLOSURE OF INTERESTS

#### 4.1 Interests of the Company in Offeror Securities

The Company does not have any direct or deemed interests in the Offeror Securities as at the Latest Practicable Date.

#### 4.2 Dealings in Offeror Securities by the Company

The Company has not dealt for value in the Offeror Securities during the period commencing six (6) months prior to the Offer Announcement Date and ending on the Latest Practicable Date.

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## APPENDIX II – ADDITIONAL GENERAL INFORMATION

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### 4.3 Interests of the Directors in Offeror Securities

As at the Latest Practicable Date, none of the Directors has any direct or deemed interests in the Offeror Securities.

### 4.4 Dealings in Offeror Securities by the Directors

None of the Directors has dealt for value in the Offeror Securities during the period commencing six (6) months prior to the Offer Announcement Date and ending on the Latest Practicable Date.

### 4.5 Interests of the Directors in Company Securities

As at the Latest Practicable Date, none of the Directors have any direct or deemed interests in the Company Securities.

### 4.6 Dealings in Company Securities by the Directors

As at the Latest Practicable Date, none of the Directors has dealt for value in the Company Securities during the period commencing six (6) months prior to the Offer Announcement Date and ending on the Latest Practicable Date.

### 4.7 Interests of the IFA in Company Securities

None of the IFA or any funds whose investments are managed by the IFA on a discretionary basis owns or controls any Company Securities as at the Latest Practicable Date.

### 4.8 Dealings in Company Securities by the IFA

None of the IFA or any funds whose investments are managed by the IFA on a discretionary basis has dealt for value in any Company Securities during the period commencing six (6) months prior to the Offer Announcement Date and ending on the Latest Practicable Date.

### 4.9 Intentions of the Directors in respect of their Shares

As disclosed in paragraph 4.5 above, none of the Directors have any direct or deemed interests in the Company Securities.

## 5. OTHER DISCLOSURES

### 5.1 Directors' service contracts

As at the Latest Practicable Date:

- (a) there are no service contracts between any of the Directors or proposed directors with the Company or any of its subsidiaries which have more than 12 months to run and which are not terminable by the employing company within the next 12 months without paying any compensation; and
- (b) there are no such contracts entered into or amended during the period commencing six (6) months prior to the Offer Announcement Date and ending on the Latest Practicable Date.

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## APPENDIX II – ADDITIONAL GENERAL INFORMATION

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### 5.2 Arrangements affecting Directors

- (a) As at the Latest Practicable Date, it is not proposed that any payment or other benefit shall be made or given to any Director or director of any other corporation which is by virtue of Section 6 of the Companies Act deemed to be related to the Company, as compensation for loss of office or otherwise in connection with the Offer.
- (b) As at the Latest Practicable Date, there are no agreements or arrangements made between any Director and any other person in connection with or conditional upon the outcome of the Offer.
- (c) As at the Latest Practicable Date, there are no material contracts entered into by the Offeror in which any Director has a material personal interest, whether direct or indirect.

### 6. MATERIAL CONTRACTS WITH INTERESTED PERSONS

Save as disclosed in Appendix VI to this Circular, neither the Company nor its subsidiaries has entered into material contracts (not being a contract entered into in the ordinary course of business) with persons who are Interested Persons during the period beginning three (3) years before the Offer Announcement Date, and ending on the Latest Practicable Date.

### 7. MATERIAL LITIGATION

As at the Latest Practicable Date, save as disclosed below, neither the Company nor its subsidiaries is engaged in any material litigation or arbitration proceedings, as plaintiff or defendant, which might materially and adversely affect the financial position of the Company or the Group, taken as a whole. As at the Latest Practicable Date, the Directors are not aware of any litigation, claims or proceedings pending or threatened against the Company or any of its subsidiaries or of any facts likely to give rise to any litigation, claims or proceedings which might materially and adversely affect the financial position of the Company and its subsidiaries taken as a whole.

- (a) Claim by Shenzhen Zhaoheng Industrial Co., Ltd

On 28 December 2017, the Board announced that the Company and its wholly-owned subsidiary Kian Ho Pte Ltd (“KHPL”) had, on 26 December 2017, been served with a writ of summons endorsed with a statement of claim, filed by Shenzhen Zhaoheng Industrial Co., Ltd (“SZZH”) in the High Court of the Republic of Singapore (HC/S1210/2017) dated 22 December 2017. SZZH is claiming from the Company a sum of approximately S\$335,000 and from KHPL a sum of approximately S\$215,000. The Company and KHPL have disputed the claims made by SZZH of which a trial was held on 22 and 23 April 2019.

Please refer to the announcement dated 28 December 2017 made by the Company for further details on the above.

As at the Latest Practicable Date, the decision of the High Court of the Republic of Singapore on the above proceedings is still pending.

## APPENDIX II – ADDITIONAL GENERAL INFORMATION

### 8. FINANCIAL INFORMATION

#### 8.1 Consolidated Statements of Comprehensive Income

A summary of the audited consolidated statement of comprehensive income of the Group for FY2016, FY2017 and FY2018 is set out below.

The following summary financial information should be read together with the audited financial statements for the relevant periods and related notes thereto. The audited financial statements for FY2018 are also set out in Appendix IV to this Circular.

<b>Consolidated Income Statement/ Consolidated Statement of Other Comprehensive Income (S\$'000)</b>	<b>Audited FY2018</b>	<b>Audited FY2017</b>	<b>Audited FY2016</b>
Revenue	68,443	72,974	71,441
Other income including interest income	94	31	90
Changes in inventories	(430)	(7,886)	(24,252)
Raw materials and consumables used	(52,990)	(50,344)	(34,165)
Staff costs	(7,585)	(7,409)	(7,694)
Depreciation of property, plant and equipment	(955)	(879)	(867)
Foreign exchange loss, net	(983)	(278)	(128)
Impairment loss recognised on trade debtors	(227)	(89)	(212)
Write-back of/(provision for) slow moving inventories	943	886	(4,187)
Impairment loss reversed/(recognised) on amounts due from an associate	73	(250)	(400)
Impairment loss reversed/(recognised) on sundry debtors	117	(295)	–
Impairment loss on other investments	–	(57)	–
Gain on change in fair value of investment properties	323	408	(73)
Plant and equipment written off, net/Gain on disposal of plant and equipment	(32)	58	–
Loss on disposal of a subsidiary	–	–	(1,302)
Non-controlling interest share on waiver of intercompany trade debts on disposal of a subsidiary	–	–	(147)
Other operating expenses	(3,261)	(2,804)	(3,670)
Finance costs	(1,031)	(1,053)	(1,321)
Share of results of associates	16	10	308
<b>Profit before tax</b>	<b>2,515</b>	<b>3,023</b>	<b>(6,579)</b>
Income tax (expense)/credit	(642)	623	(163)
<b>Profit for the year</b>	<b>1,873</b>	<b>3,646</b>	<b>(6,742)</b>

## APPENDIX II – ADDITIONAL GENERAL INFORMATION

Consolidated Income Statement/ Consolidated Statement of Other Comprehensive Income (S\$'000)	Audited FY2018	Audited FY2017	Audited FY2016
<b>Attributable to:</b>			
Owners of the Company	1,827	3,394	(6,989)
Non-controlling interests	46	252	247
	<b>1,873</b>	<b>3,646</b>	<b>(6,742)</b>
Other comprehensive income, net of tax	5,307	649	(20)
<b>Total comprehensive income for the year</b>	<b>7,180</b>	<b>4,295</b>	<b>(6,762)</b>
<b>Attributable to:</b>			
Owners of the Company	7,131	4,037	(7,042)
Non-controlling interests	49	258	280
	<b>7,180</b>	<b>4,295</b>	<b>(6,762)</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (cent)	0.78	1.45	(2.99)
Dividend per share (cent)	–	–	–

### 8.2 Consolidated Statements of Financial Position

A summary of the audited consolidated statement of financial position of the Group as at 31 December 2017 and as at 31 December 2018 is set out below.

The following summary should be read together with the audited financial statements for FY2018 and related notes thereto. The audited financial statements for FY2018 are also set out in Appendix IV to this Circular.

Statement of Financial Position (S\$'000)	As at 31 December 2018	As at 31 December 2017
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	36,019	29,355
Investment in associates	780	764
Investment properties	57,031	56,818
	<b>93,830</b>	<b>86,937</b>
<b>Current assets</b>		
Trade and other receivables	10,831	13,722
Other debtors	81	332
Prepayments	302	231
Amount due from an associate	–	8
Inventories	30,234	29,721
Cash and cash equivalents	4,847	6,128
	<b>46,295</b>	<b>50,142</b>
<b>Total assets</b>	<b>140,125</b>	<b>137,079</b>

## APPENDIX II – ADDITIONAL GENERAL INFORMATION

Statement of Financial Position (S\$'000)	As at 31 December 2018	As at 31 December 2017
<b>EQUITY AND LIABILITIES</b>		
<b>Current liabilities</b>		
Interest bearing loans and borrowings	12,800	10,109
Trade creditors and accruals	13,313	13,500
Other creditors	844	1,014
Amounts due to related parties	2,384	2,389
Provision for taxation	119	124
	<b>29,460</b>	<b>27,136</b>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	18,410	26,080
Deferred tax liabilities	4,124	3,027
	<b>22,534</b>	<b>29,107</b>
<b>Capital and Reserves</b>		
Equity attributable to owners of the Company	79,098	71,967
Non-controlling interests	9,033	8,869
<b>Total equity</b>	<b>88,131</b>	<b>80,836</b>
<b>Total equity and liabilities</b>	<b>140,125</b>	<b>137,079</b>

### 8.3 Material changes in financial position

Save as disclosed in this Circular and publicly available information on the Company, there are no known material changes in the financial position of the Company as at the Latest Practicable Date since 31 December 2018, being the date to which the last published audited financial statements of the Company were made up.

### 8.4 Significant accounting policies

The significant accounting policies of the Group which are disclosed in notes 2 & 3 of the audited consolidated financial statements of the Group for FY2018 are reproduced in Appendix IV to this Circular.

Save as disclosed in this Circular and publicly available information on the Company (including but not limited to that contained in the audited financial statements of the Company for FY2016, FY2017 and FY2018), there were no significant accounting policies or any points from the notes of the accounts of the Company which are of major relevance for the interpretation of the accounts.



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## APPENDIX II – ADDITIONAL GENERAL INFORMATION

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### 8.5 Material Changes in Information

As at the Latest Practicable Date, there was a change in the use of the Company's property known as 302 Ubi Avenue 1 #01-37, Singapore 400302 (the "**Property**"). Previously, the Property was used as a branch outlet for the Group's electrical operations. The Company now intends for the Property to be put up for rent or sale.

Save as disclosed in this Circular and save for the information relating to the Company and the Offer that is publicly available, there has been no material change in any information previously published by or on behalf of the Company during the period commencing from the Offer Announcement Date and ending on the Latest Practicable Date.

### 9. VALUATION OF PROPERTIES

The Company has received confirmations from independent valuers that there are no material changes to the independent valuations of all properties ("**Properties**") of the Group as at 30 June 2019 as compared with 31 December 2018.

As the valuations of the Properties remained relatively the same as compared with 31 December 2018 based on the confirmations from the independent valuers, the Directors are of the view that the Properties of the Group are fairly stated as at the Latest Practicable Date. As such, no valuation was undertaken in connection with the Offer.

As at the Latest Practicable Date, as the valuation of the Properties remain relatively the same as compared with 31 December 2018, no potential tax liabilities are expected on the hypothetical disposal of the Properties.

### 10. SGX-ST WATCH LIST AND CAD INVESTIGATIONS

**10.1** The Company was placed on the SGX-ST Watch-list under the minimum trading price entry criteria with effect from 5 December 2018. An issuer on the relevant Watch-list may be removed from that Watch-list if it satisfies the following requirements, where applicable:

The issuer:

- (i) records a volume-weighted average price of at least S\$0.20 over the last six (6) months; and
- (ii) an average daily market capitalisation of S\$40 million or more over the last six (6) months.

**10.2** Pursuant to Rule 1313(2) of the Listing Manual of the SGX-ST, the Company must, for the period in which it remains on the Watch-list, provide the market with a quarterly update on its efforts and the progress made in meeting the exit criterion of the Watch-list. The Company has made an announcement in relation to this on 13 May 2019.

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## APPENDIX II – ADDITIONAL GENERAL INFORMATION

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**10.3** Shareholders should note that the Company must meet the criteria in Section 10.1(a) above in order to avoid delisting. If the Company fails to satisfy the criteria set out in Section 10.1(a) of this Offer Document by 4 December 2021, being 36 months from the date on which it was placed on the Watch-list, the SGX-ST may either remove the Company from the Official List of the Mainboard of the SGX-ST, or suspend trading of the Shares (without the agreement of the Company) with a view to removing the Company from the Official List of the Mainboard of the SGX-ST.

**10.4** In view of the Company being on the Watch-list, it is very unlikely that the Company can find new investors, or improve its currently illiquid and thinly traded Shares, in order to exit the Watch-list.

**10.5** The Board had announced on 4 May 2018 that the Company and its subsidiary, KHPL, had received a letter from the CAD to assist with investigations into a potential offence under the Securities and Futures Act pursuant to the provisions of the Criminal Procedure Code. To-date, the matter is still pending.

### **11. GENERAL INFORMATION**

**11.1** All expenses and costs incurred by the Company in relation to the Offer will be borne by the Company.

**11.2** The IFA has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of (i) its name and all references thereto, and (ii) the IFA Letter containing its advice to the Independent Directors in respect of the Offer as set out in Appendix I to this Circular and all references thereto, in the form and context in which they appear in this Circular.

### **12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the registered office of the Company at Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623, during normal business hours for the period during which the Offer remains open for acceptance:

- (a) the Constitution of the Company;
- (b) the annual reports of the Company for FY2016, FY2017 and FY2018;
- (c) the IFA Letter as set out in Appendix I to this Circular;
- (d) the material contracts with Interested Persons as disclosed in Appendix V to this Circular; and
- (e) the letter of consent referred to in paragraph 11.2 to this Appendix II above.

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## APPENDIX III – RELEVANT EXTRACTS FROM THE COMPANY’S CONSTITUTION

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The provisions in the Constitution relating to the rights of Shareholders in respect of capital, dividends and voting have been reproduced below:

### ISSUE OF SHARES

- 4.(A) Subject to these presents, no shares may be issued by the Directors without the prior approval of the Company in General Meeting pursuant to Section 161 of the Act, but subject thereto and the terms of such approval, and to Article 5, and to any special rights attached to any shares for the time being issued, the Directors may allot (with or without conferring a right of renunciation) or grant options over or otherwise dispose of the same to such persons on such terms and conditions and for such consideration and at such time and whether or not subject to the payment of any part of the amount thereof in cash or otherwise as the Directors may think fit, and any shares may, subject to compliance with Sections 70 and 75 of the Act, be issued with such preferential, deferred, qualified or special rights, privileges, conditions or restrictions, whether as regards dividend, return of capital, participation in surplus, voting, conversion or otherwise, as the Directors may think fit, and preference shares may be issued which are or at the option of the Company are liable to be redeemed, the terms and manner of redemption being determined by the Directors in accordance with the Act, Provided Always that:–
- (a) any other issue of shares, the aggregate of which would exceed the limit referred to in Article 5(B), shall be subject to the approval of the Company in General Meeting;
  - (b) no shares shall be issued to transfer a controlling interest in the Company without the specific prior approval of the Company in General Meeting; and
- (B) The Directors may, at any time after the allotment of any share but before any person has been entered in the Register of Members as the holder, recognize a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose.
- (C) Except so far as otherwise provided by the conditions of issue or by these presents, all new shares shall be issued subject to the provisions of the Statutes and of these presents with reference to allotment, payment of calls, lien, transfer, transmission, forfeiture or otherwise.
5. The shares may be divided into several classes, and there may be attached thereto respectively any preferential, deferred or other special rights, privileges, conditions or restrictions as to dividend, capital, voting or otherwise.
- (A) Subject to any direction to the contrary that may be given by the Company in General Meeting, or except as permitted under the rules of the Singapore Exchange Securities Trading Limited, all new shares shall before issue be offered to such persons who as at the date (as determined by the Directors) of the offer are entitled to receive notices from the Company of General Meetings in proportion, as nearly as the circumstances admit, to the number of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to

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### **APPENDIX III – RELEVANT EXTRACTS FROM THE COMPANY’S CONSTITUTION**

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accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered under this Article 5(A).

- (B) Notwithstanding Article 5(A), the Company may by Ordinary Resolution in General Meeting give to the Directors a general authority, either unconditionally or subject to such conditions as may be specified in the Ordinary Resolution, to issue shares (whether by way of rights, bonus or otherwise) where:–
- (a) the aggregate number of shares to be issued pursuant to the Ordinary Resolution (including shares to be issued in pursuance of instruments made or granted pursuant to the Ordinary Resolution) shall be subject to such limits and manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited; and
  - (b) unless previously revoked or varied by the Company in General Meeting, such authority to issue shares does not continue beyond the conclusion of the Annual General Meeting of the Company next following the passing of the Ordinary Resolution or the date by which such Annual General Meeting is required to be held, or the expiration of such other period as may be prescribed by the Statutes (whichever is the earliest).
- (C) The Company may, notwithstanding Article 5(A) above, authorize the Directors not to offer new shares to members to whom by reason of foreign securities laws, such offers may not be made without registration of the shares or a prospectus or other document, but to sell the entitlements to the new shares on behalf of such members on such terms and conditions as the Company may direct.
6. The Company may pay commissions or brokerage on any issue of shares at such amount or rate and in such manner as the Directors may deem fit. Such commissions or brokerage may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other.
7. Where any shares are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a lengthened period, the Company may pay interest on so much of that share capital as is for the time being paid up for the period and charge the same to capital as part of the cost of the construction of the works or buildings or the provision of the plant, subject to the conditions and restrictions mentioned in the Act.
8. The Company shall not exercise any right in respect of treasury shares other than as provided by the Act. Subject thereto, the Company may hold or deal with its treasury shares in the manner authorised by, or prescribed pursuant to, the Act.
- (A) Preference shares may be issued subject to such limitation thereof as may be prescribed by any Stock Exchange upon which shares in the Company may be listed. The total number of issued preference shares shall not exceed the total number of the issued ordinary shares issued at any time. Preference shareholders shall have the same rights as ordinary shareholders as regards receiving of notices, reports and balance-sheets and

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## APPENDIX III – RELEVANT EXTRACTS FROM THE COMPANY’S CONSTITUTION

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attending General Meetings of the Company, and preference shareholders shall also have the right to vote at any meeting convened for the purpose of reducing capital or winding-up or sanctioning a sale of the undertaking of the Company or when the proposal to be submitted to the meeting directly affects their rights and privileges or when the dividend on the preference shares is more than six months in arrear.

- (B) The Company has power to issue further preference capital ranking equally with, or in priority to, preference shares already issued.

### VARIATION OF RIGHTS

- 9.(A) Whenever the share capital of the Company is divided into different classes of shares, the variation or abrogation of the special rights attached to any class may, subject to the provisions of the Act, be made either with the consent in writing of the holders of three-quarters of the issued shares of the class or with the sanction of a Special Resolution passed at a separate General Meeting of the holders of the shares of the class (but not otherwise) and may be so made either whilst the Company is a going concern or during or in contemplation of a winding-up. To every such separate General Meeting all the provisions of these presents relating to General Meetings of the Company and to the proceedings thereat shall *mutatis mutandis* apply, except that the necessary quorum shall be two or more persons holding at least one-third of the issued shares of the class present in person or by proxy or attorney and that any holder of shares of the class present in person or by proxy or attorney may demand a poll and that every such holder shall on a poll have one vote for every share of the class where the class is a class of preference shares within the meaning of Section 180(2) of the Act, Provided Always that where the necessary majority for such a Special Resolution is not obtained at such General Meeting, the consent in writing, if obtained from the holders of three-quarters of the issued shares of the class concerned within two months of such General Meeting, shall be as valid and effectual as a Special Resolution carried at such General Meeting.
- (B) The provisions in Article 9(A) shall *mutatis mutandis* apply to any repayment of preference capital (other than redeemable preference capital) and any variation or abrogation of the rights attached to preference shares or any class thereof.
10. The special rights attached to any class of shares having preferential rights shall not unless otherwise expressly provided by the terms of issue thereof be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or all respects *pari passu* therewith but in no respect in priority thereto.

### ALTERATION OF SHARE CAPITAL

11. The Company may by Ordinary Resolution:–
- (a) consolidate and divide all or any of its shares;
  - (b) subject to the provisions of the Statutes, sub-divide its shares, provided always that in such subdivision, the proportion between the amount paid and the amount (if any) unpaid on each sub-divided shares shall be the same as it was in the case of the original share from which it was derived; and the resolution whereby any share is

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sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have any such preferred, deferred, qualified or other special rights, or be subject to any such restrictions, as the Company has the authority to attach to new shares; and/or

- (c) subject to the provisions of the Statutes, convert or exchange any class of shares into or for any other class of shares.
- 12.(A) The Company may reduce its share capital or any other undistributable reserve in any manner permitted, and with, and subject to, any incident authorized, and consent or confirmation required, by law.
- (B) Without prejudice to the generality of Article 12(A), the Company may, subject to and in accordance with the Statutes, purchase or otherwise acquire its issued share on such terms and in such manner as the Company may from time to time think fit. Any share that is so purchased or acquired by the Company shall, unless held in treasury in accordance with the Act, be deemed to be cancelled immediately on purchase or acquisition. On the cancellation of a share as aforesaid, the rights and privileges attached to that share shall expire, and the number of the issued shares of the Company shall be diminished by the number of the share so cancelled, and where any such cancelled share was purchased or acquired out of the capital of the Company, the amount of the share capital of the Company shall be reduced accordingly.

#### SHARE CERTIFICATES

- 13.(A) Every share certificate shall be issued under the Seal and shall specify the number and class of shares to which it relates and the amount paid and amount (if any) unpaid thereon. No certificate shall be issued representing shares of more than one class. Every member shall be entitled to receive share certificates in reasonable denominations for his holding and where a charge is made for certificates, such charge shall not exceed \$2.00 or such other fee as the Directors may from time to time determine having regard to any limitation thereof as may be prescribed by any stock exchange upon which the Company may be listed.
- (B) The provisions in this Article and in Articles 14 to 17 (so far as they are applicable) shall not apply to transfer of book-entry securities.
- 14.(A) The Company shall not be bound to register more than three persons as the holder of a share except in the case of executors or administrators of the estate of a deceased member.
- (B) In the case of a share held jointly by several persons, the Company shall not be bound to issue more than one certificate therefore and delivery of a certificate to any one of the joint holders shall be sufficient delivery to all.
15. Every person whose name is entered as a member in the Register of Members shall (in the case of a transfer of shares) be entitled, within fifteen market days after the date of lodgement of any transfer, or (subject to the provisions of the Statutes) such longer period of time as may be approved by the stock exchange upon which the shares in the Company

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may be listed, to one certificate for all his shares of any one class or to several certificates in reasonable denominations each for a part of the shares so allotted or transferred.

- 16.(A) Where a member transfers part only of the shares comprised in a certificate or where a member requires the Company to cancel any certificate or certificates and issue new certificates for the purpose of subdividing his holding in a different manner, the old certificate or certificates shall be cancelled and a new certificate or certificates for the balance of such shares (in the case of transfer) and the whole of such shares (in the case of sub-division) shall be issued in lieu thereof and the member shall pay (in the case of sub-division) a maximum fee of S\$2.00 for each new certificate or such other fee as the Directors may from time to time determine having regard to any limitation thereof as may be prescribed by any stock exchange upon which the shares in the Company may be listed. Where some only of the shares comprised in a share certificate are transferred, the new certificate for the balance of such shares shall be issued in lieu thereof without charge.
- (B) Any two or more certificates representing shares of any one class held by any member may at his request be cancelled and a single new certificate for such shares issued in lieu thereof without charge.
17. Subject to the provisions of the Statutes, if any share certificates shall be defaced, worn-out, destroyed, lost or stolen, it may be renewed on such evidence being produced and a letter of indemnity (if required) being given by the shareholder, transferee, person entitled, purchaser, member company of the stock exchange upon which the shares in the Company may be listed or on behalf of its or their client or clients as the Directors shall require, and in the case of defacement or wearing out, on delivery up of the old certificate, and in any case on payment of such sum not exceeding \$2.00 as the Directors may from time to time require. In the case of destruction, loss or theft, a shareholder or person entitled to such replacement certificate, shall also bear the loss and pay to the Company all expenses incidental to the investigations by the Company of the evidence of such destruction or loss.

#### CALL ON SHARES

18. The Directors may from time to time make calls upon the members in respect of any moneys unpaid on their shares but subject always to the terms of issue of such shares. A call shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed and may be made payable by instalments.
19. Each member shall (subject to receiving at least fourteen days’ notice specifying the time or times and place of payment) pay to the Company at the time or times and place so specified the amount called on his shares. The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof. A call may be revoked or postponed as the Directors may determine.
20. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate (not exceeding ten per cent. per annum) as the Directors may determine but the Directors shall be at liberty in any case or cases to waive payment of such interest in whole or in part.



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21. Any sum which by the terms of issue of a share becomes payable upon allotment or at any fixed date shall for all the purposes of these presents be deemed to be a call duly made and payable on the date on which by the terms of issue the same becomes payable. In the case of non-payment, all the relevant provisions of these presents as to payment of interest and expenses, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.
22. The Directors may on the issue of shares differentiate between the holders as to the amount of calls to be paid and the times of payment.
23. The Directors may if they think fit receive from any member willing to advance the same all or any part of the moneys uncalled and unpaid upon the shares held by him and such payment in advance of calls shall extinguish *pro tanto* the liability upon the shares in respect of which it is made and upon the moneys so received (until and to the extent that the same would but for such advance become payable) the Company may pay interest at such rate (not exceeding eight per cent. per annum) as the member paying such sum and the Directors may agree. Capital paid on shares in advance of calls shall not, whilst bearing interest, confer a right to participate in profits.

#### FORFEITURE AND LIEN

24. If a member fails to pay in full any call or instalment of a call on the due date for payment thereof, the Directors may at any time thereafter serve a notice on him requiring payment of so much of the call or instalment as is unpaid together with any interest which may have accrued thereon and any expenses incurred by the Company by reason of such non-payment.
25. The notice shall name a further day (not being less than fourteen days from the date of service of the notice) on or before which and the place where the payment required by the notice is to be made, and shall state that in the event of non-payment in accordance therewith the shares on which the call has been made will be liable to be made forfeit.
26. If the requirements of any such notice as aforesaid are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls and interest and expenses due in respect thereof has been made, be made forfeit by a resolution of the Directors to that effect. Such forfeiture shall include all dividends declared in respect of the forfeit share and not actually paid before forfeiture. The Directors may accept a surrender of any share liable to be made forfeit hereunder.
27. A share so made forfeit or surrendered shall become property of the Company and may be sold, re-allotted or otherwise disposed of either to the person who was before such forfeiture or surrender the holder thereof or entitled thereto or to any other person upon such terms and in such manner as the Directors shall think fit, and at any time before a sale, re-allotment or disposal, the forfeiture or surrender may be cancelled on such terms as the Directors shall think fit. The Directors may, if necessary, authorise some person to transfer a share so made forfeit or surrendered to any such other person as aforesaid.
28. A member whose shares have been made forfeit or surrendered shall cease to be a member in respect of such shares but shall notwithstanding the forfeiture or surrender remain liable to pay to the Company all moneys which at the date of forfeiture or surrender

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were presently payable by him to the Company in respect of such shares with interest thereon at eight per cent. per annum (or such lower rate as the Directors may determine) from the date of forfeiture or surrender until payment and the Directors may at their absolute discretion enforce payment without any allowance for the value of such shares at that time of forfeiture or surrender or waive payment in whole or in part.

29. The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys called or payable at a fixed time in respect of such share and for all moneys as the Company may be called upon by law to pay in respect of the shares of the member or deceased member. The Directors may waive any lien which has arisen and may resolve that any share shall for some limited period be exempt wholly or partially from the provisions of this Article 29.
30. The Company may sell in such manner as the Directors think fit any share on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable nor until the expiration of fourteen days after a notice in writing stating and demanding payment of the sum presently payable and giving notice of intention to sell in default shall have been given to the holder for the time being of the share or the person entitled thereto by reason of his death or bankruptcy.
31. The net proceeds of such sale after payment of the costs of such sale shall be applied in or towards payment or satisfaction of the debts or liabilities and any residue shall be paid to the person entitled to the shares at the time of the sale or to his executors, administrators or assigns, as he may direct. For the purpose of giving effect to any such sale, the Directors may authorize some person to transfer the shares sold to the purchaser.
32. A statutory declaration in writing that the declarant is a Director or the Secretary of the Company and that a share has been duly made forfeit or surrendered or sold to satisfy a lien of the Company on a date stated in the declaration shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share. Such declaration and the receipt by the Company of the consideration (if any) given for the share on the sale, re-allotment or disposal thereof together with the share certificate delivered to a purchaser or allottee thereof shall (subject to the execution of a transfer if the same be required) constitute a good title to the share and the person to whom the share is sold, re-allotted or disposed of shall be registered as the holder of the share and shall not be bound to see to the application of the purchase money (if any) nor shall his title to the share be affected by any irregularity or invalidity in the proceedings relating to the forfeiture, surrender, sale, re-allotment or disposal of the share.

#### **TRANSFER OF SHARES**

33. All transfers of shares shall be effected by written instruments of transfer in the form for the time being approved by the Directors and each stock exchange upon which the shares in the Company may be listed. An instrument of transfer shall be signed by or on behalf of both the transferor and the transferee and be witnessed, provided that CDP shall not be required to sign, as transferee, any instrument of transfer relating to any transfer of shares to it during such period as the Directors may think fit. The transferor shall be deemed to remain the holder of the shares concerned until the name of the transferee is entered in the Register of Members in respect thereof.

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34. The Registers of Members and of Transfers may be closed at such times and for such periods as the Directors may from time to time determine, Provided Always that such Registers shall not be closed for more than thirty days in any year, and that the Company shall give prior notice of each such closure, as may be required, to any stock exchange upon which the shares in the Company may be listed, stating the period and purpose or purposes for which such closure is made.
- 35.(A) There shall be no restriction on the transfer of fully paid up shares (except where required by law or by the rules, bye-laws or listing rules of any stock exchange on which the shares in the Company may be listed) but the Directors may in their discretion decline to register any transfer of shares upon which the Company has a lien, and in the case of shares not fully paid up, may refuse to register a transfer to a transferee of whom they do not approve, Provided Always that in the event of the Directors refusing to register a transfer of shares, the Company shall within ten market days after the date on which the application for a transfer of shares was made, serve a notice in writing to the applicant stating the facts which are considered to justify the refusal as required by the Statutes.
- (B) The Directors may decline to register any instrument of transfer unless:–
- (a) such fee not exceeding S\$2.00 as the Directors may from time to time require is paid to the Company in respect thereof;
  - (b) the amount of proper duty (if any) with which each instrument of transfer is chargeable under any law for the time being in force relating to stamps is paid;
  - (c) the instrument of transfer is deposited at the Office or at such place (if any) as the Directors may appoint, accompanied by the certificates of the shares to which the transfer relates, a certificate of payment of stamp duty (if any) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of the person so to do; and
  - (d) the instrument of transfer is in respect of only one class of shares.
36. All instruments of transfer which are registered may be retained by the Company.
37. The Company shall be entitled to destroy all instruments of transfer which have been registered at any time after the expiration of six years from the date of registration thereof and all dividend mandates and notifications of change of address at any time after the expiration of six years from the date of recording thereof and all share certificates which have been cancelled at any time after the expiration of six years from the date of the cancellation thereof and it shall conclusively be presumed in favour of the Company that every entry in the Register of Members purporting to have been made on the basis of an instrument of transfer or other document so destroyed was duly and properly made and every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and every share certificate so destroyed was a valid and effective certificate duly and properly cancelled and every other document hereinbefore mentioned so destroyed was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company, Provided Always that:–
- (a) the provisions aforesaid shall apply only to the destruction of a document in good faith and without notice of any claim (regardless of the parties thereto) to which the document might be relevant;

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- (b) nothing herein contained shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any other circumstances which would not attach to the Company in the absence of this Article; and
- (c) references herein to the destruction of any document include references to the disposal thereof in any manner.

#### **TRANSMISSION OF SHARES**

- 38. In case of the death of a member, the survivors or survivor where the deceased was a joint holder, and the executors or administrators of the deceased where he was a sole or only surviving holder, shall be the only person(s) recognized by the Company as having any title to his interest in the shares, but nothing in this Article shall release the estate of a deceased holder (Whether sole or joint) from any liability in respect of any share held by him.
- 39. Any person becoming entitled to a share in consequence of the death or bankruptcy of a member may (subject as hereinafter provided) upon supplying to the Company such evidence as the Directors may reasonably require to show his title to the share, elect either to be registered himself as holder of the share or to have another person nominated by him registered as the transferee thereof. If the person so becoming entitled elects to be registered himself, he shall deliver or send to the Company a notice in writing signed by him stating that he so elects. If he elects to have another person registered he shall testify his election by executing to that person a transfer of the share. All the limitations, restrictions and provisions of these presents relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or transfer as aforesaid as if the death or member had not occurred and the notice or transfer were a transfer executed by such member.
- 40. Save as otherwise provided by or in accordance with these presents, a person becoming entitled to a share in consequence of the death or bankruptcy of a member (upon supplying to the Company such evidence as the Directors may reasonably require to show his title to the share) shall be entitled to the same dividends and other advantages as those to which he would be entitled if he were the registered holder of the share except that he shall not be entitled in respect thereof (except with the authority of the Directors) to exercise any right, conferred by membership in relation to meetings of the Company until he shall have been registered as a member in respect of the share.
- 41. There shall be paid to the Company in respect of the registration of any probate or letters of-administration or certificate of death or stop notice or power of attorney or other document relating to or affecting the title to any shares or otherwise for making any entry in the Register of Members affecting the title to any shares such fee not exceeding S\$2.00 as the Directors may from time to time require or prescribe.

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### CENTRAL DEPOSITORY SYSTEM

42. A reference to a member shall be a reference to a registered holder of shares in the Company, or where such registered holder is CDP, the depositors on behalf of whom CDP holds the shares, Provided that:–
- (a) a Depositor shall only be entitled to attend any General Meeting and to speak and vote thereat if his name appears on the Depository Register maintained by CDP forty-eight (48) hours before the General Meeting as a Depositor on whose behalf CDP holds shares in the Company, the Company being entitled to deem each such Depositor, or each proxy of a Depositor who is to represent the entire balance standing to the Securities Account of the Depositor, to represent such number of shares as is actually credited to the Securities Account of the Depositor as at such time, according to the records of CDP as supplied by CDP to the Company, and where a Depositor has apportioned the balance standing to his Securities Account between two proxies, to apportion the said number of shares between the two proxies in the same proportion as previously specified by the Depositor in appointing the proxies; and accordingly no instrument appointing a proxy of a Depositor shall be rendered invalid merely by reason of any discrepancy between the proportion of Depositor’s shareholding specified in the instrument of proxy, or where the balance standing to a Depositor’s Securities Account has been apportioned between two proxies the aggregate of the proportions of the Depositor’s shareholding they are specified to represent, and the true balance standing to the Securities Account of a Depositor as at the time of the General Meeting, if the instrument is dealt with in such manner as is provided above;
  - (b) the payment by the Company to CDP of any dividend payable to a Depositor shall to the extent of the payment discharge the Company from any further liability in respect of the payment;
  - (c) the delivery by the Company to CDP of provisional allotments or share certificates in respect of the aggregate entitlements of Depositors to new shares offered by way of rights issue or other preferential offering or bonus issue shall to the extent of the delivery discharge the Company from any further liability to each such Depositor in respect of his individual entitlement; and
  - (d) the provisions in these presents relating to the transfers, transmissions or certification of shares shall not apply to the transfer of book-entry securities (as defined in the Statutes).

### EXCLUSION OF EQUITIES

43. Except as required by the Statutes or law, no person shall be recognized by the Company as holding any share upon any trust, and the Company shall not be bound by or compelled in any way to recognize (even when having notice thereof) any equitable, contingent, future or, partial interest in any share, or any interest in any fractional part of a share, or (except only as by these presents or by the Statutes or law otherwise provided) any other right in respect of any share, except an absolute right to the entirety thereof in the registered holder and nothing in these presents contained relating to CDP or to Depositors or in any depository agreement made by the Company with any common depository for shares shall in any circumstances be deemed to limit, restrict or qualify the above.

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### STOCK

44. The Company may from time to time by Ordinary Resolution convert any paid-up shares into stock and may from time to time by like resolution reconvert any stock into paid-up shares.
45. The holders of stock may transfer the same or any part thereof in the same manner and subject to the same Articles as and subject to which the shares from which the stock arose might previous to conversion have been transferred (or as near thereto as circumstances admit) but no stock shall be transferable except in such units as the Directors may from time to time determine.
46. The holders of stock shall, according to the number of stocks unit held by them, have the same rights, privileges and advantages as regards dividend, return of capital, voting and other matters, as if they held the shares from which the stock arose; but no such privilege or advantage (except as regards participation in the profits or assets of the Company) shall be conferred by the number of stock units which would not, if existing in shares, have conferred such privilege or advantage, and no such conversion shall affect or prejudice any preference or other special privileges attached to the shares so converted.

### GENERAL MEETINGS

47. An Annual General Meeting shall be held once in every year, at such time (within a period of not more than four (4) month after the close of the financial year of the Company or such other period as prescribed by the Act and the by-laws and listing rules of the Stock Exchange or other legislation applicable to the Company from time to time) and place as may be determined by the Directors. All other General Meetings shall be called Extraordinary General Meetings.
48. The Directors may whenever they think fit, and shall on requisition in accordance with the Statutes, proceed with proper expedition to convene an Extraordinary General Meeting.

### NOTICE OF GENERAL MEETINGS

49. Subject to any requirements of the Statutes or the listing rules for the giving of notice of resolutions, any General Meeting at which it is proposed to pass a special resolution or (save as provided by the Act) a resolution of which special notice is required, shall be called by at least twenty-one days’ notice in writing and any Annual General Meeting and any other Extraordinary General Meeting by at least fourteen days’ notice in writing (exclusive of the day on which the notice is served or deemed to be served but inclusive of the day of the meeting for which the notice is given) in the manner hereinafter mentioned to such persons as are under the provisions of these Articles and the Statutes entitled to receive notice from the Company and at least fourteen days’ notice of such meeting shall be given by one advertisement in the daily press circulating in Singapore and in writing to any stock exchange upon which the Company may be listed. Provided that a General Meeting notwithstanding that it has been called by a shorter notice than that specified above shall be deemed to have been duly called if it is so agreed:
  - (a) in the case of an Annual General Meeting, by all the members entitled to attend and vote thereat; and



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- (b) in the case of an Extraordinary General Meeting, by a majority in number of the members having a right to attend and vote thereat, being a majority together holding not less than 95 percent of the total voting rights of all the members having a right to vote at that Meeting.

The accidental omission to give such notice to, or the non-receipt of such notice by, any member shall not invalidate the General Meeting for which the notice was given or any resolution passed or proceedings at any General Meeting.

- 50.(A) Every notice calling a General Meeting shall specify the place and the day and hour of the meeting, and there shall appear with reasonable prominence in every such notice a statement that a member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him and that a proxy need not be a member of the Company.
  - (B) In the case of an Annual General Meeting, the notice shall also specify the meeting as such.
  - (C) In the case of any General Meeting at which business other than routine business (“special business”) is to be transacted, the notice shall specify the general nature of such business, and if any resolution is to be proposed as a Special Resolution, the notice shall contain a statement to that effect.
- 51. Routine business shall mean and include only business transacted at an Annual General Meeting of the following classes, that is to say:–
  - (a) declaring dividends;
  - (b) receiving and adopting the accounts, the reports of the Directors and Auditors and other documents required to be attached or annexed to the accounts;
  - (c) appointing or re-appointing Directors to fill vacancies arising at the meeting on retirement whether by rotation or otherwise;
  - (d) re-appointing the retiring Auditors (unless they were last appointed otherwise than by the Company in a General Meeting); and
  - (e) fixing the remuneration of the Auditors or determining the manner in which such remuneration is to be fixed.
- 52. Any notice of a General Meeting to consider special business shall be accompanied by a statement regarding the effect of any proposed resolution on the Company in respect of such special business.

### PROCEEDINGS AT GENERAL MEETINGS

- 53. The Chairman of the Board of Directors, failing whom the Deputy Chairman, shall preside as chairman at a General Meeting. If there be no such Chairman or Deputy Chairman, or if at any meeting neither be present within five minutes after the time appointed for holding the meeting and willing to act, the Directors present shall choose one of their number (or,



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- if no Director be present or if all Directors present decline to take the chair, the members present shall choose one of their number) to be the chairman of the meeting.
54. No business other than the appointment of a chairman shall be transacted at any General Meeting unless a quorum is present at the time when the meeting proceeds to business. Save as herein otherwise provided, the quorum at any General Meeting shall be two members present in person or by proxy.
55. If within thirty minutes from the time appointed for a General Meeting (or such longer interval as the chairman of the meeting may think fit to allow) a quorum is not present, the meeting, if convened on the requisition of members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week (or if that day is a public holiday then to the next business day following that public holiday) at the same time and place or such other day, time or place as the Directors may by not less than ten days’ notice appoint.
56. The chairman of any General Meeting at which a quorum is present may with the consent of the meeting (and shall if so directed by the meeting) adjourn the meeting from time to time (or *sine die*) and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place. Where a meeting is adjourned *sine die*, the time and place for the adjourned meeting shall be fixed by the Directors. When a meeting is adjourned for thirty days or more or *sine die*, not less than seven days’ notice of the adjourned meeting shall be given in like manner as in the case of the original meeting.
57. Save as hereinbefore expressly provided, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned business.
58. If an amendment shall be proposed to any resolution under consideration but shall in good faith be ruled out of order by the chairman of the meeting, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling. In the case of a resolution duly proposed as a Special Resolution, no amendment thereto (other than a mere clerical amendment to correct a patent error) may in any event be considered or voted upon.
59. At any General Meeting a resolution put to the vote of the meeting shall be decided by poll.
60. Whenever a poll is required, it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the chairman of the meeting may direct, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was taken. The chairman of the meeting may (and if so directed by the meeting shall) appoint scrutineers and may adjourn the meeting to some place and time fixed by him for the purpose of declaring the result of the poll.
61. In the case of an equality of votes on a poll, the chairman of the meeting at which the poll is taken shall be entitled to a casting vote.

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62. A poll taken on any question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the meeting) and place as the chairman of the meeting may direct. No notice need be given of a poll not taken immediately.

#### VOTES OF MEMBERS

63. Subject and without prejudice to any special rights or restrictions as to voting for the time being attached to any special class of shares for the time being forming part of the capital of the Company and to Article 8, every member entitled to vote may vote in person or by proxy. The chairman of the meeting shall determine which proxy shall be entitled to vote where a member is represented by two proxies, and on a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder. A member who is bankrupt shall not, while his bankruptcy continues, be entitled to exercise his rights as a member, or attend, vote or act at any meeting of the Company.
64. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members or, as the case may be, the order in which the names appear in the Depository Register in respect of the joint holding.
65. Where in Singapore or elsewhere, a receiver or other person (by whatever name called) has been appointed by any court claiming jurisdiction in that behalf to exercise powers with respect to the property or affairs of any members on the ground (however formulated) of mental disorder, the Directors may in their absolute discretion, upon or subject to production of such evidence of the appointment as the Directors may require, permit such receiver or other person on behalf of such member, to vote in person or by proxy at any General Meeting, or to exercise any other right conferred by membership in relation to meetings of the Company.
66. No member shall be entitled in respect of shares held by him to vote at a General Meeting either personally or by proxy or to exercise any other right conferred by membership in relation to meetings of the Company if any call or other sum payable by him to the company in respect of such shares remains unpaid.
67. No objection shall be raised as to the admissibility of any vote except at the meeting or adjourned meeting at which the vote objected to is or may be given or tendered and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection shall be referred to the chairman of the meeting whose decision shall be final and conclusive.
68. On a poll, votes may be given either personally or by proxy and a person entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.
- 69.(A) A member shall not be entitled to appoint more than two proxies to attend and vote at the same General Meeting, Provided that if a member shall nominate two proxies then the member shall specify the proportion of his shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.
- (B) A proxy need not be a member of the Company.

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### **APPENDIX III – RELEVANT EXTRACTS FROM THE COMPANY’S CONSTITUTION**

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- 70.(A) An instrument appointing a proxy for any member shall be in writing in any usual or common form or in any other form which the Directors may approve and:–
- (a) in the case of an individual member, shall be signed by the member or his attorney duly authorised in writing; and
  - (b) in the case of a member which is a corporation shall be either given under its common seal or signed on its behalf by an attorney duly authorised in writing or a duly authorized officer of the corporation.
- (B) The signatures on an instrument of proxy need not be witnessed. Where an instrument appointing a proxy is signed on behalf of a member by an attorney, the letter or power of attorney or a duly certified copy thereof shall (failing previous registration with the Company) be lodged with the instrument of proxy pursuant to the next following Article, failing which the instrument of proxy may be treated as invalid.
71. An instrument appointing a proxy must be left at such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified, at the Office) not less than forty-eight hours before the time appointed for the holding of the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used, and in default shall not be treated as valid. The instrument shall, unless the contrary is stated thereon, be valid as well for any adjournment of the meeting as for the meeting to which it relates, Provided that any instrument of proxy relating to more than one meeting (including any adjournment thereof) having once been so delivered for the purposes of any meeting shall not require again to be delivered for the purposes of any subsequent meeting to which it relates.
72. An instrument appointing a proxy shall be deemed to include the right to speak at the meeting.
73. A vote cast by proxy shall not be invalidated by the previous death or insanity of the principal or by the revocation of the appointment of the proxy or of the authority under which the appointment was made provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Office at least one hour before the commencement of the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) the time appointed for the taking of the poll at which the vote is cast.

#### **CORPORATIONS ACTING BY REPRESENTATIVES**

74. Any corporation which is a member of the Company may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the Company. The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company and such corporation shall for the purposes of these presents (but subject to the Act) be deemed to be present in person at any such meeting if a person so authorized is present thereat.

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## APPENDIX III – RELEVANT EXTRACTS FROM THE COMPANY’S CONSTITUTION

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### RESERVES

122. The Directors may from time to time set aside out of the profits of the Company and carry to reserve such sums as they think proper which, at the discretion of the Directors, shall be applicable for any purpose to which the profits of the Company may properly be applied and pending such application may either be employed in the business of the Company or be invested. The Directors may divide the reserve into such special funds as they think fit and may consolidate into one fund any special funds or any parts of any special funds into which the reserve may have been divided. The Directors may also, without placing the same to reserve, carry forward any profits. In carrying sums to reserve and in applying the same, the Directors shall comply with the provisions (if any) of the Statutes.

### DIVIDENDS

123. The Company may by Ordinary Resolution declare dividends but no such dividend shall exceed the amount recommended by the Directors.
124. If and so far as in the opinion of the Directors, the profits of the Company justify such payments, the Directors may declare and pay the fixed dividends on any class of shares carrying a fixed dividend expressed to be payable on fixed dates on the half-yearly or other dates prescribed for the payment thereof and may also from time to time declare and pay interim dividends on shares of any class of such amounts and on such dates and in respect of such periods as they think fit.
125. Subject to any rights or restrictions attached to any shares or class of shares and except as otherwise permitted under the Act:
- (a) all dividends in respect of shares must be paid in proportion to the number of shares held by a member but where shares are partly paid all dividends must be apportioned and paid proportionately to the amounts paid or credited as paid on the partly paid shares; and
  - (b) all dividends must be apportioned and paid proportionately to the amounts so paid or credited as paid during any portion or portions of the period in respect of which the dividend is paid.

For the purposes of this Article, an amount paid or credited as paid on a share in advance of calls is to be ignored.

126. No dividend shall be paid otherwise than out of profits available for distribution under the provision of the Statutes or, pursuant to Section 69 of the Act and in the form of stock dividends, out of the share premium account.
127. No dividend or other monies payable on or in respect of a share shall bear interest as against the Company.
- 128.(A) The Directors may retain any dividend or other monies payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

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### APPENDIX III – RELEVANT EXTRACTS FROM THE COMPANY’S CONSTITUTION

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- (B) The Directors may retain the dividends payable upon shares in respect of which any person is under the provisions as to the transmission of shares hereinbefore contained entitled to become a member, or which any person is under those provisions entitled to transfer, until such person shall become a member in respect of such shares or shall transfer the same.
129. The waiver in whole or in part of any dividend on any share by any document (whether or not under seal) shall be effective only if such document is signed by the member (or the person entitled to the share in consequence of the death or bankruptcy of the holder) and delivered to the Company and if or to the extent that the same is accepted as such or acted upon by the Company.
130. The Company may upon the recommendation of the Directors by Ordinary Resolution direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid-up shares or debentures of any other company) and the Directors shall give effect to such resolution. Where any difficulty arises with regard to such distribution, the Directors may settle the same as they think expedient and in particular, may issue fractional certificates, may fix the value for distribution of such specific assets or any part thereof, may determine that cash payments shall be made to any member upon the footing of the value so fixed in order to adjust the rights of all parties and may vest any such specific assets in trustees as may seem expedient to the Directors.
131. Any dividend or other moneys payable in cash on or in respect of a share may be paid by cheque or warrant sent through the post to the registered address appearing in the Register of Members or (as the case may be) the Depository Register of the member or person entitled thereto (or, if two or more persons are registered in the Register of Members or (as the case may be) entered in the Depository Register as joint holders of the share or are entitled thereto in consequence of the death or bankruptcy of the holder, to any one of such persons) or to such person and such address as such member or person or persons may by writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent or to such person as the holder or joint holders or person or persons entitled to the share in consequence of the death or bankruptcy of the holder may direct and payment of the cheque or warrant by the banker upon whom it is drawn shall be a good discharge to the Company. Every such cheque or warrant shall be sent at the risk of the person entitled to the money represented thereby.
132. If two or more persons are registered in the Register of Members or (as the case may be) the Depository Register as joint holders of any share, or are entitled jointly to a share in consequence of the death or bankruptcy of the holder, any one of them may give effectual receipts for any dividend or other moneys payable or property distributable on or in respect of the share.
133. Any resolution declaring a dividend on shares of any class, whether a resolution of the Company in General Meeting or a resolution of the Directors, may specify that the same shall be payable to the persons registered as the holders of such shares in the Register of Members or (as the case may be) the Depository Register at the close of business on a particular, date and thereupon the dividend shall be payable to them in accordance with their respective holdings so registered, but without prejudice to the rights *inter se* in respect of such dividend of transferors and transferees of any such shares.

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### APPENDIX III – RELEVANT EXTRACTS FROM THE COMPANY’S CONSTITUTION

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134.(A) The Directors may, with the sanction of an Ordinary Resolution of the Company (including any Ordinary Resolution passed pursuant to Article 5(B)):

(a) issue bonus shares for which no consideration is payable to the Company to the persons registered as holders of shares in the Register of Members or (as the case may be) in the Depository Register at the close of business on:

(i) the date of the Ordinary Resolution (or such other date as may be specified therein or determined as therein provided); or

(ii) (in the case of an Ordinary Resolution passed pursuant to Article 5(B)) such other date as may be determined by the Directors,

in proportion to their then holdings of shares; and/or

(b) capitalize any sum standing to the credit of any of the Company’s reserve accounts or other undistributable reserve or any sum standing to the credit of the profit and loss account or otherwise available for distribution, by appropriating such sum to the persons registered as the holders of shares in the Register of Members or (as the case may be) the Depository Register at the close of business on:

(i) the date of the Ordinary Resolution (or such other date as may be specified therein or determined as therein provided); or

(ii) (in the case of an Ordinary Resolution passed pursuant to Articles 5(B)) such other date as may be determined by the Directors,

in proportion to their then holdings of shares and applying such sum on their behalf in paying up in full new shares or (subject to any special rights previously conferred on any shares or class of shares for the time being issued) new shares of any other class not being redeemable shares, for allotment and distribution credited as fully paid up to and amongst them as bonus shares in the proportion aforesaid.

(B) The Directors may do all acts and things considered necessary or expedient to give effect to any such bonus issue and/or capitalization under Article 134(A), with full power to the Directors to make such provisions as they think fit for any fractional entitlements which would arise on the basis aforesaid (including provisions whereby fractional entitlements are disregarded or the benefit thereof accrues to the Company rather than to the members concerned). The Directors may authorize any person to enter on behalf of all the members interested into agreement with the Company providing for any such bonus issue or capitalization and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF RAFFLES UNITED HOLDINGS LTD

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the accompanying financial statements of Raffles United Holdings Ltd (the “Company”) and its subsidiaries (the “Group”) which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies, as set out on pages 42 to 104.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the “Act”) and Singapore Financial Reporting Standards (International) (“SFRS(I)s”) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

#### Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (“SSAs”). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (“ACRA”) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (“ACRA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Key Audit Matters

#### Our audit performed and responses thereon

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##### Allowance for Inventory Obsolescence

Due to the nature of the Group's business, the Group has significant inventory balances relating to bearings and seals which are carried at the lower of cost and net realisable value. The determination of the net realisable value is critically dependent upon the management's assessment of the inventory obsolescence.

This assessment involves the exercise of significant judgement in determining the allowance for inventory obsolescence which includes the age and type of inventory items, likelihood of obsolescence, presence of distributorships, past history of sales transactions, the condition of the inventory items, the demand for the products and whether the allowance for inventory is adequate such that they are carried in the Group's accounting records at the lower of cost or net realisable value.

The Group's disclosure on inventories is set out in Note 18 to the financial statements.

We performed procedures to understand management's methodology and process of assessing for inventory obsolescence and challenged on the appropriateness of the methodology applied by management in calculating the allowance for inventory obsolescence. We also challenged management's judgement on the adequacy of the allowance recorded by reviewing the bases of allowance held across the Group and recalculating the allowance and testing the reliability of the data used on a sample basis to underlying supporting documents.



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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF RAFFLES UNITED HOLDINGS LTD

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### Key Audit Matters

### Our audit performed and responses thereon

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#### Investment properties – Valuation of investment properties

As at 31 December 2018, the Group has a portfolio of investment properties, which represented a significant portion of assets on the Statement of Financial Position, at \$57.0 million. These investment properties are substantially located in Singapore and are stated at fair value, determined based on valuations by professional external valuers engaged by the Group.

The valuation of the properties requires the application of significant judgement and estimation in the selection of the appropriate valuation methodology to be used and in estimating the key assumptions applied. These key assumptions include market comparables used, taking into consideration for differences such as location, size and tenure. A change in the key assumptions will have an impact on the valuation.

Disclosure on key assumptions and valuation techniques of investment properties are found in Note 14 to the financial statements.

We performed procedures to assess the objectivity and independence of the external valuers. We also evaluated the competence and qualification of the external valuers.

We considered the appropriateness of the valuation techniques used by the external valuers, taking into account the profile of the investment properties. We held discussions with management and the external valuers, and compared the key assumptions used against externally published market comparables or industry data where available.

We also considered the adequacy of the disclosures in the financial statements, including the description and appropriateness of the inherent degree of subjectivity and key assumptions in the estimates.

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#### Trade receivables – Allowance for doubtful debts

As at 31 December 2018, the Group has outstanding trade receivables of \$10.8 million, which represented 23% of the Group's current assets. The recoverability of the trade receivables and the level of allowance for doubtful debts are considered to be a significant risk due to the importance of cash collections in relation to the working capital management of the business.

Significant judgement by management is required in determining the appropriate level of allowance to be held, in particular, in respect of significant past due trade receivables.

The Group's disclosure on trade receivables is set out in Note 16 to the financial statements.

We performed procedures to understand management's process over the monitoring of trade receivables, the collection process and assessment of allowance for doubtful trade receivables.

We reviewed the appropriateness of the Group's methodology on allowance for trade receivables and assessed the adequacy of the allowance, including discussing with management on the credit quality and collectability of significant past due trade receivables.

We assessed the reasonableness of the allowance for doubtful debts by comparing the ageing of the trade receivables between the current and prior period. For significant past due amounts yet to be collected, we considered amongst other factors, such as past payment history, settlement arrangements, subsequent receipts and on-going business dealings with the debtors involved to assess the appropriateness of any allowance for doubtful debts to be made.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF RAFFLES UNITED HOLDINGS LTD

### INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

Management is responsible for the other information. The other information comprises the Chairman's Statement, Letter to Shareholders, Sustainability Report, Financial Highlights, Corporate Governance Report, Directors' Statement and Interested Person Transactions, but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Shareholders Information, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Shareholders Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

### RESPONSIBILITIES OF MANAGEMENT AND DIRECTORS FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF RAFFLES UNITED HOLDINGS LTD

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by the subsidiary corporation incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this Independent Auditor's Report is Hoe Chi-Hsien.

Deloitte & Touche LLP  
Public Accountants and  
Chartered Accountants  
Singapore

4 February 2019

**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
OF THE GROUP FOR FY2018**

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	Group	
		2018 \$'000	2017 \$'000
Revenue	5	68,443	72,974
Other income including interest income	6	94	31
Changes in inventories	7	(430)	(7,886)
Raw materials and consumables used	7	(52,990)	(50,344)
Staff costs	7	(7,585)	(7,409)
Depreciation of property, plant and equipment	11	(955)	(879)
Foreign exchange loss, net		(983)	(278)
Impairment loss recognised on trade debtors	16	(227)	(89)
Write-back of provision for slow-moving inventories, net	7	943	886
Impairment loss reversed/(recognised) on amounts due from an associate	13	73	(250)
Impairment loss reversed/(recognised) on sundry debtors	17	117	(295)
Impairment loss on other investments	15	–	(57)
Gain on changes in fair value of investment properties	14	323	408
Plant and equipment written off, net/Gain on disposal of plant and equipment		(32)	58
Other operating expenses		(3,261)	(2,804)
Finance costs	8	(1,031)	(1,053)
Share of results of associates	13	16	10
<b>Profit before tax</b>		<b>2,515</b>	<b>3,023</b>
Income tax (expense)/credit	9	(642)	623
<b>Profit for the year</b>	7	<b>1,873</b>	<b>3,646</b>
<b>Profit attributable to:</b>			
Owners of the Company		1,827	3,394
Non-controlling interests		46	252
		<b>1,873</b>	<b>3,646</b>
<b>Earnings per share</b>			
– Basic (cents)	10	0.78	1.45
– Fully diluted (cents)	10	0.78	1.45

See accompanying notes to financial statements.

**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
OF THE GROUP FOR FY2018**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Group	
	2018 \$'000	2017 \$'000
<b>Profit for the year</b>	1,873	3,646
<b>Other comprehensive income:</b>		
<i>Item that will not be reclassified subsequently to profit or loss</i>		
Revaluation of land and buildings, net of tax	4,419	510
	4,419	510
<i>Item that may be reclassified subsequently to profit or loss</i>		
Foreign currency translation	888	139
	888	139
<b>Other comprehensive income for the year, net of tax</b>	5,307	649
<b>Total comprehensive income for the year</b>	7,180	4,295
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	7,131	4,037
Non-controlling interests	49	258
	7,180	4,295

See accompanying notes to financial statements.

**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
OF THE GROUP FOR FY2018**

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	Group			Company		
		31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
<b>ASSETS</b>							
<b>Non-current assets</b>							
Property, plant and equipment	11	36,019	29,355	23,767	26,876	22,483	22,590
Investment in subsidiaries	12	–	–	–	13,051	13,762	14,445
Investment in associates	13	780	764	764	453	453	463
Investment properties	14	57,031	56,818	56,527	4,520	4,520	4,130
Other investments	15	–	–	57	–	–	57
		<u>93,830</u>	<u>86,937</u>	<u>81,115</u>	<u>44,900</u>	<u>41,218</u>	<u>41,685</u>
<b>Current assets</b>							
Trade debtors	16	10,831	13,722	14,311	–	–	–
Other debtors	17	81	332	958	27	44	896
Prepayments		302	231	124	15	3	3
Amounts due from subsidiaries	12	–	–	–	30,433	28,090	23,914
Amounts due from an associate	13	–	8	724	–	–	354
Inventories	18	30,234	29,721	36,721	–	–	–
Cash at banks and on hand	25	4,847	6,128	11,414	36	118	6,197
		<u>46,295</u>	<u>50,142</u>	<u>64,252</u>	<u>30,511</u>	<u>28,255</u>	<u>31,364</u>
<b>Total assets</b>		<u>140,125</u>	<u>137,079</u>	<u>145,367</u>	<u>75,411</u>	<u>69,473</u>	<u>73,049</u>
<b>EQUITY AND LIABILITIES</b>							
<b>Current liabilities</b>							
Interest bearing loans and borrowings	19	12,800	10,109	28,349	8,000	8,800	14,714
Trade creditors and accruals	20	13,313	13,500	11,325	577	411	434
Other creditors	20	844	1,014	1,007	28	388	70
Amounts due to related parties	21	2,384	2,389	2,393	–	–	–
Provision for taxation		119	124	53	–	–	–
		<u>29,460</u>	<u>27,136</u>	<u>43,127</u>	<u>8,605</u>	<u>9,599</u>	<u>15,218</u>
<b>Net current assets</b>		<u>16,835</u>	<u>23,006</u>	<u>21,125</u>	<u>21,906</u>	<u>18,656</u>	<u>16,146</u>
<b>Non-current liabilities</b>							
Interest bearing loans and borrowings	19	18,410	26,080	23,437	–	–	–
Deferred tax liabilities	22	4,124	3,027	2,750	3,229	2,364	2,267
		<u>22,534</u>	<u>29,107</u>	<u>26,187</u>	<u>3,229</u>	<u>2,364</u>	<u>2,267</u>
<b>Total liabilities</b>		<u>51,994</u>	<u>56,243</u>	<u>69,314</u>	<u>11,834</u>	<u>11,963</u>	<u>17,485</u>
<b>Net assets</b>		<u>88,131</u>	<u>80,836</u>	<u>76,053</u>	<u>63,577</u>	<u>57,510</u>	<u>55,564</u>
<b>Equity attributable to owners of the Company</b>							
Share capital	23	31,658	31,658	31,658	31,658	31,658	31,658
Assets revaluation reserve		16,820	12,401	11,891	15,402	11,180	10,705
Foreign currency translation reserve		(5,145)	(6,030)	(6,163)	–	–	–
Revenue reserve		35,765	33,938	30,544	16,517	14,672	13,201
		<u>79,098</u>	<u>71,967</u>	<u>67,930</u>	<u>63,577</u>	<u>57,510</u>	<u>55,564</u>
Non-controlling interests	12	9,033	8,869	8,123	–	–	–
<b>Total equity</b>		<u>88,131</u>	<u>80,836</u>	<u>76,053</u>	<u>63,577</u>	<u>57,510</u>	<u>55,564</u>
<b>Total equity and liabilities</b>		<u>140,125</u>	<u>137,079</u>	<u>145,367</u>	<u>75,411</u>	<u>69,473</u>	<u>73,049</u>

See accompanying notes to financial statements.

**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
OF THE GROUP FOR FY2018**

## STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Group	Share capital (Note 23) \$'000	Assets revaluation reserve <sup>(1)</sup> \$'000	Foreign currency translation reserve <sup>(2)</sup> \$'000	Revenue reserve \$'000	Attributable to owners of the Company \$'000	Non- controlling interests \$'000	Total equity \$'000
<b>Balance at 1 January 2017</b>	31,658	11,891	(6,163)	30,544	67,930	8,123	76,053
Profit for the year	–	–	–	3,394	3,394	252	3,646
Other comprehensive income for the year	–	510	133	–	643	6	649
Total comprehensive income for the year	–	510	133	3,394	4,037	258	4,295
<u>Contributions by and distributions to owners</u>							
Acquisition of a subsidiary	–	–	–	–	–	488	488
Total transactions with owners recognised directly in equity	–	–	–	–	–	488	488
<b>Balance at 31 December 2017</b>	<b>31,658</b>	<b>12,401</b>	<b>(6,030)</b>	<b>33,938</b>	<b>71,967</b>	<b>8,869</b>	<b>80,836</b>
<b>Balance at 1 January 2018</b>	<b>31,658</b>	<b>12,401</b>	<b>(6,030)</b>	<b>33,938</b>	<b>71,967</b>	<b>8,869</b>	<b>80,836</b>
Profit for the year	–	–	–	1,827	1,827	46	1,873
Other comprehensive income for the year	–	4,419	885	–	5,304	3	5,307
Total comprehensive income for the year	–	4,419	885	1,827	7,131	49	7,180
<u>Contributions by and distributions to owners</u>							
Capital injection by non-controlling shareholders of a subsidiary	–	–	–	–	–	115	115
Total transactions with owners recognised directly in equity	–	–	–	–	–	115	115
<b>Balance at 31 December 2018</b>	<b>31,658</b>	<b>16,820</b>	<b>(5,145)</b>	<b>35,765</b>	<b>79,098</b>	<b>9,033</b>	<b>88,131</b>



**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
OF THE GROUP FOR FY2018**

## STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Company	Share capital (Note 23) \$'000	Assets revaluation reserve <sup>(1)</sup> \$'000	Revenue reserve \$'000	Total equity \$'000
<b>Balance at 1 January 2017</b>	31,658	10,705	13,201	55,564
Profit for the year	–	–	1,471	1,471
Other comprehensive income for the year	–	475	–	475
Total comprehensive income for the year	–	475	1,471	1,946
<b>Balance at 31 December 2017</b>	31,658	11,180	14,672	57,510
<b>Balance at 1 January 2018</b>	<b>31,658</b>	<b>11,180</b>	<b>14,672</b>	<b>57,510</b>
Profit for the year	–	–	1,845	1,845
Other comprehensive income for the year	–	4,222	–	4,222
Total comprehensive income for the year	–	4,222	1,845	6,067
<b>Balance at 31 December 2018</b>	<b>31,658</b>	<b>15,402</b>	<b>16,517</b>	<b>63,577</b>

(1) **Assets revaluation reserve**

The assets revaluation reserve represents increases in fair value of land and buildings, net of tax and decreases to the extent that such decrease relates to an increase of the same asset previously recognised in other comprehensive income. The assets revaluation reserve is not available for distribution to the Company's shareholders.

(2) **Foreign currency translation reserve**

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

See accompanying notes to financial statements.

**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
OF THE GROUP FOR FY2018**

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	2018 \$'000	2017 \$'000
<b>Operating activities</b>		
Profit before tax	2,515	3,023
Adjustments for:		
Depreciation of property, plant and equipment	955	879
Impairment loss recognised on trade debtors	227	89
Write-back of provision for slow-moving inventories, net	(943)	(886)
Impairment loss (reversed)/recognised on sundry debtors	(117)	295
Impairment loss (reversed)/recognised on amounts due from an associate	(73)	250
Gain on changes in fair value of investment properties	(323)	(408)
Plant and equipment written off, net/Gain on disposal of plant and equipment	32	(58)
Share of results of associates	(16)	(10)
Fair value loss on other investments	–	57
Foreign currency adjustments	993	292
Interest expense	1,031	1,053
Interest income	(3)	(7)
<b>Operating cash flows before changes in working capital</b>	<b>4,278</b>	<b>4,569</b>
<b>Changes in working capital</b>		
Decrease in inventories	407	8,036
Decrease in trade debtors	2,624	2,146
Decrease in amounts due from an associate	81	466
Decrease in other debtors	285	226
(Decrease)/Increase in trade creditors and accruals	(60)	565
Decrease in other creditors	(167)	(41)
Decrease in trade amounts owing to related parties	(5)	(5)
<b>Cash flows generated from operations</b>	<b>7,443</b>	<b>15,962</b>
Income tax (paid)/received	(434)	849
Interest paid	(1,031)	(1,053)
Interest income received	3	7
<b>Net cash flows generated from operating activities</b>	<b>5,981</b>	<b>15,765</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(2,347)	(5,753)
Acquisition of a subsidiary (Note 12)	–	400
Dividends received from an associate	–	10
Proceeds from disposal of plant and equipment	–	73
<b>Net cash flows used in investing activities</b>	<b>(2,347)</b>	<b>(5,270)</b>
<b>Financing activities</b>		
Proceeds from term loans from banks	26,023	22,973
Repayment of term loans from banks	(31,002)	(38,111)
Proceeds from trade financing	625	13,367
Repayment of trade financing	(625)	(13,985)
Capital injection by non-controlling shareholders of a subsidiary	115	–
<b>Net cash flows used in financing activities</b>	<b>(4,864)</b>	<b>(15,756)</b>
Net decrease in cash and cash equivalents	(1,230)	(5,261)
Effect of exchange rate changes on cash and cash equivalents	(51)	(25)
Cash and cash equivalents at 1 January	6,128	11,414
<b>Cash and cash equivalents at 31 December (Note 25)</b>	<b>4,847</b>	<b>6,128</b>

See accompanying notes to financial statements.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

### 1. CORPORATE INFORMATION

Raffles United Holdings Ltd (the “Company”) is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited.

The registered office and principal place of business of the Company is located at No. 5 Changi South Street 3, Singapore 486117. The financial statements are presented in Singapore Dollars (SGD).

The Company is a subsidiary of Raffles United Pte Ltd, incorporated in Singapore, which is also the Company’s immediate and ultimate holding company.

The principal activities of the Company are those of investment holding. The principal activities of the subsidiaries and associates are disclosed in Notes 12 and 13 to the financial statements respectively.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 4 February 2019.

For all periods up to and including the year ended 31 December 2017, the financial statements were prepared in accordance with the previous framework, Financial Reporting Standards in Singapore (“FRSs”). These financial statements for the year ended 31 December 2018 are the first set that the Group and the Company have prepared in accordance with Singapore Financial Reporting Standards (International) (“SFRS(I)”). Details of first-time adoption of SFRS(I) are included in Note 2.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 *Basis of preparation*

The financial statements have been prepared in accordance with the historical cost basis except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards (International) (“SFRS(I)s”).

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of SFRS(I) 2 *Share-based Payment*, leasing transactions that are within the scope of SFRS(I) 1-17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in SFRS(I) 1-2 *Inventories* or value in use in SFRS(I) 1-36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – Unobservable inputs for the asset or liability.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 *Adoption of a new financial reporting framework*

The Group and the Company adopted the new financial reporting framework – Singapore Financial Reporting Standards (International) (“SFRS(I)”) for the first time for financial year ended 31 December 2018 and SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International) has been applied in the first set of SFRS(I) financial statements. SFRS(I) is identical to the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IASB).

As a first-time adopter of SFRS(I), the Group and the Company have applied retrospectively, accounting policies based on each SFRS(I) effective as at end of the first SFRS(I) reporting period (31 December 2018), except for areas of exceptions and optional exemptions set out in SFRS(I) 1. In the first set of SFRS(I) financial statements for the financial year ended 31 December 2018, an additional opening statement of financial position as at date of transition (1 January 2017) is presented, together with related notes. Reconciliation statements from previously reported FRS amounts and explanatory notes on transition adjustments are not presented for equity as at date of transition (1 January 2017) and as at end of last financial period under FRS (31 December 2017), and for total comprehensive income and cash flows reported for the last financial period under FRS (for the year ended 31 December 2017) as there were no changes compared to amounts previously reported.

There is no significant change to the Group’s and the Company’s previous accounting policies under FRS or material adjustments on the initial transition to the new framework, as (i) Management has not elected to take up any transition exemptions under SFRS(I) 1; (ii) the application of SFRS(I) 9 impairment requirements has not resulted in any material adjustment to allowance recognised; and (iii) no changes to the revenue recognition policy was assessed to be required upon application of SFRS(I) 15.

### 2.3 *Standards issued but not effective*

At the date of authorisation of these financial statements, the following SFRS(I) pronouncements are expected to have an impact to the Group and the Company in the periods of their initial application.

#### SFRS(I) 16 *Leases*

##### Effective for annual periods beginning on or after 1 January 2019

SFRS(I) 16 was issued in December 2017. The standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The identification of leases, distinguishing between leases and service contracts are determined on the basis of whether there is an identified asset controlled by the customer.

Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). The Standard maintains substantially the lessor accounting approach under the predecessor FRS 17 *Leases* (“FRS 17”).

Management is currently assessing the possible impact of implementing SFRS(I) 16. As at 31 December 2018, the Group had certain non-cancellable operating lease commitments of \$6,132,000 as disclosed in Note 27 to the financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease under SFRS(I) 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of SFRS(I) 16. The new requirement to recognise a right-of-use asset and a related lease liability is not expected to have a significant impact on the amounts recognised in the financial statements of the Group and management is currently assessing its potential impact. Management does not anticipate that the application of SFRS(I) 16 will have a significant impact on the financial statements of the Company as the Company does not have any non-cancellable operating lease commitments.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

#### Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 *Basis of consolidation (Continued)*

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable SFRS(I)s). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under SFRS(I) 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's financial statements, investments in subsidiaries and an associate are carried at cost less any impairment in net recoverable value that has been recognised in profit or loss.

#### Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under the SFRS(I) are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with SFRS(I) 1-12 *Income Taxes* and SFRS(I) 1-19 *Employee Benefits* respectively;
- Liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with share-based payment awards transactions of the acquirer in accordance with the method in SFRS(I) 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with SFRS(I) 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another SFRS(I).

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 *Basis of consolidation (Continued)*

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year from acquisition date.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

#### Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of the associate are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with SFRS(I) 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of SFRS(I) 9 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with SFRS(I) 1-36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with SFRS(I) 1-36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with SFRS(I) 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.



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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 *Basis of consolidation (Continued)*

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

### 2.5 *Foreign currency*

The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The Group's consolidated financial statements are presented in SGD, which is also the Company's functional currency.

#### (a) **Transactions and balances**

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to the profit or loss of the Group on disposal of the foreign operation.

#### (b) **Group companies**

The assets and liabilities of the Group's foreign operations are translated into SGD at the rate of exchange prevailing at the reporting date and income and expenses are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income and accumulated under foreign currency translation reserve in equity. On disposal of a foreign operation, all of the accumulated foreign currency translation reserve in respect of that particular operation attributable to the owner of the company are reclassified to profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

In consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of foreign currency translation reserve.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.6 *Property, plant and equipment*

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset, is transferred directly to accumulated profits on retirement or disposal of the asset.

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land has an unlimited useful life and therefore is not depreciated. Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Freehold buildings	–	50 years
Leasehold land and buildings	–	30 to 66 years (over the terms of lease) (2017: 30 to 63 years)
Motor vehicles, machine handling equipment (MHE) and forklifts	–	5 to 6 years
Computer equipment	–	3 to 5 years
Renovation, signboards, furniture and fittings	–	4 to 10 years
Office equipment	–	5 to 10 years
Plant and machinery	–	5 to 10 years

The residual values, useful life and depreciation method are reviewed at end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to revenue reserve. No transfer is made from the asset revaluation reserve to revenue reserve except when an asset is derecognised.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 *Investment properties*

Investment properties are properties that are held to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties.

Investment properties are initially measured at cost, including transaction costs. Subsequent to recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the year of retirement or disposal.

### 2.8 *Impairment of non-financial assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Reversal is recognised in the profit or loss unless the asset is measured at revalued amount, in which case the reversal in excess of impairment loss previously recognised through the profit or loss is treated as a revaluation increase.

### 2.9 *Financial instruments*

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.10 *Financial assets*

Financial assets are recognised on the statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

#### Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

#### Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any allowance.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.10 *Financial assets (Continued)*

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss.

#### *Financial assets at FVTPL*

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value as at each reporting date, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "Foreign exchange loss, net" line item.

#### **Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.11 *Impairment of financial assets*

The Group recognises a loss allowance for expected credit losses (“ECL”) on investments in debt instruments that are measured at amortised cost or at FVTOCI. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 months ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group’s debtors operate as well as consideration of various external sources of actual and forecast economic information that relate to the Group’s core operations, namely the sale of bearings, seals, electrical and beauty products and property investment.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating performance or results of the debtor; and
- an actual or expected significant adverse change in the regulatory or economic environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are generally more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.11 *Impairment of financial assets (Continued)*

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

#### *Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 120 days past due based on factors considered such as past payment history, ongoing business dealings, settlement arrangements and financial status of the debtor, being reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

In considering the 90 days past due deemed defaulted presumption, it is not expected to be significantly consequential on the amount of expected credit losses measured because of the counterbalancing interaction between the way the Group defines default and the credit losses that arise as a result of that definition of default. Differences in default definition for the Group is not as pertinent because the Group does not have to determine the significant increase in credit risk indicators given that the Group has simplified approach to impairment model.

#### *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower; or
- (b) a breach of contract, such as a default or past due event; or
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

#### *Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.



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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.11 *Impairment of financial assets (Continued)*

#### *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract or invoice and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group or individual basis.);
- Past-due status;
- Nature or industry of debtors; and
- External credit ratings where available.

The grouping is reviewed periodically by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12 months ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

### 2.12 *Inventories*

Inventories, which consist of bearings, seals, electrical and beauty products for resale, are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and conditions are accounted for at purchase costs on a first-in first-out basis. Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### 2.13 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand and fixed deposits which are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.14 *Financial liabilities*

Financial liabilities include trade and other creditors, amounts due to subsidiaries and related parties and interest bearing loans and borrowings.

#### **Initial recognition and measurement**

Financial liabilities are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified by the Group according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

#### **Subsequent measurement**

After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis except for short-term balances when the effect of discounting is immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

#### **Derecognition**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

#### **Offsetting arrangements**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Group and the Company has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. A right to set-off must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

### 2.15 *Borrowings*

Interest-bearing loans and borrowings and bank overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Interest expense calculated using the effective interest method is recognised over the term of the borrowings.

All borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group and the Company incurs in connection with the borrowing of funds.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.16 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made on the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### 2.17 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

### 2.18 Employee benefits

#### (a) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Company makes contributions to the Central Provident Fund (CPF) scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

#### (b) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to reporting date.

### 2.19 Taxes

#### (a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in the profit or loss except to the extent that the tax relates to items recognised outside the profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.19 Taxes (Continued)

#### (b) Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period. Except for investment properties measured using the fair value model, the measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Group has not rebutted the presumption that the carrying amount of the investment properties will be recovered entirely through sale.

Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.20 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### As lessee

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.21(b).

### 2.21 Revenue recognition

The Group recognises revenue from contracts with customers for the sale of goods based on the five-step model as set out below:

- (i) Identify contract with a customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.
- (ii) Identify performance obligations in the contract. A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- (iii) Determine the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- (iv) Allocate the transaction price to the performance obligations in the contract. For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- (v) Recognise revenue when (or as) the Group satisfies a performance obligation.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

#### (a) Sale of goods

The Group sells a range of bearings, seals, electrical and beauty products to distributors, stockists, contractors and salon customers. Revenue is recognised when control of the goods has been transferred, being when the goods have been shipped or delivered to the specific location. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when onselling the goods and bears the risks of obsolescence and loss in relation to the goods.

A receivable is recognised by the Group when the goods are delivered to the specific location as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.21 *Revenue recognition (Continued)*

#### (a) **Sale of goods** (Continued)

The Group also sells its range of bearings, seals, electrical and beauty products to retail or end-user customers through its branches and e-commerce outlets. Revenue from the sale of goods is recognised when a Group entity sells a product to the customer. Payment of the transaction price is due immediately when the customer purchases the products.

Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

#### (b) **Rental income**

Rental income arising from operating leases on investment properties are accounted for on a straight-line basis over the lease terms on ongoing leases.

#### (c) **Interest income**

Interest income is recognised on time proportion basis using the effective interest method.

#### (d) **Dividends**

Dividend income is recognised when the Group's right to receive payment is established.

### 2.22 *Segment reporting*

For management purposes, the Group is organised into operating segments based on the type of goods supplied and services provided which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the chief operating decision makers of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 4, including the factors used to identify the reportable segments and the measurement basis of segment information.

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions would be reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### **Critical judgements in applying the Group's accounting policies**

Management is of the opinion that any instances of application of judgement are not expected to have a significant effect on the amounts recognised in the financial statements, except for judgements relating to accounting estimates as discussed below.

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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

#### (a) Impairment of investments in subsidiaries and associates and amounts due from subsidiaries and associates

During the year, the Company performed an assessment of impairment for the investment in subsidiaries and associates and amounts due from subsidiaries and associates based on the recoverable amounts of the subsidiaries and associates as disclosed in Notes 12 and 13 to the financial statements. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the market and economic environment in which the subsidiaries operate and economic performance of these subsidiaries and associates.

The carrying amount of the Company's investment in subsidiaries and associates and amounts due from subsidiaries and associates at the end of the reporting period are disclosed in Notes 12 and 13 to the financial statements.

#### (b) Loss allowance on trade receivables

The Group assesses at each reporting date the allowance required for its receivables. The Group considers factors such as the probability of significant financial difficulties of the debtor, historical defaults or significant delay in payments and economic conditions. Significant judgement is made by management in determining the amount and timing of future cash flows, estimated based on historical loss experience for assets with similar credit risk characteristics and any relevant forward-looking adjustments, including taking into consideration the credit-worthiness, past collection history, settlement arrangements, subsequent receipts and on-going dealings with the debtor. The carrying amount of the Group's receivables at the reporting date is disclosed in Note 16 to the financial statements.

#### (c) Valuation of investment properties

The Group's investment properties are stated at their estimated fair values which are mainly estimated using valuations determined annually by independent professional valuers.

In determining fair values, the valuers have used valuation techniques (including direct comparison method) which involve estimates and significant unobservable inputs which are disclosed in Note 14. The direct comparison method involves the analysis of comparable sales of similar properties and adjusting prices to that reflective of the investment properties such as location, size and tenure.

In relying on the valuation reports, management has exercised its judgement and is satisfied that the valuation methods and estimates are reflective of current market conditions. The carrying amounts of investment properties at the end of the reporting period are disclosed in Note 14 to the financial statements.

#### (d) Assessment of inventories write-down

Management reviews the valuation of inventories periodically for excess inventories, obsolescence and declines in net realisable value below cost is recorded against the inventories balance. These reviews require management to consider the age and type of inventories, likelihood of obsolescence, distributorships, past sales history and the demand for the products. The Group has been establishing itself in overseas markets through its subsidiaries. During the year, management continues to review the bases on which the allowance is estimated to align to the Group's business strategy based on knowledge and past experience and determines the bases to remain unchanged from prior year.

The carrying amounts of the inventories are disclosed in Note 18 to the financial statements.



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## APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2018

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# NOTES TO THE FINANCIAL STATEMENTS

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### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### (e) Disposal of investment property

On 29 January 2019, the Company announced that it has signed the applicable transfer documents in relation to the collective sale of a freehold warehouse unit at Citimac Industrial Complex #02-03 Singapore 368240 (“warehouse unit”) (Note 14) for \$6,133,000, which was due to complete on 6 March 2019, subject to full compliance of all owners with regards to the execution of documents in relation to the collective sale by 30 January 2019. Upon completion, the Company and the Group would record a net gain on disposal from this transaction amounting to \$2,491,000 and cashflow from investing activities amounting to \$6,133,000.

The directors had applied their judgement that the warehouse unit is not classified as non-current asset held-for-sale under SFRS(I) 5 as at the end of the reporting period, due to prolonged uncertainties on the completion of the collective sale since commencement and actions from opposing unit holders. They assessed that only upon the notification and signing of the relevant transfer documents, will the relevant conditions in SFRS(I) 5 be met.

### 4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the type of goods supplied and services provided.

The Group is organised into three main business units – Bearings and Seals, Property and Others.

The Group’s reportable operating divisions are as follows:

Bearings and Seals <sup>(1)</sup>	:	Distributors, stockists, retailers and end-users.
Property	:	Property investment and property development services.
Others	:	Distributors and retailers of gearbox products and distributors and retailers of beauty products.

(1) Includes Electrical which was previously in “Others”.

The Group’s operating businesses are organised and managed separately according to the type of goods supplied and services provided by the Group’s operating divisions, with each segment representing a strategic business unit that offers different products and services. During the year, the electrical operations (previously in “Others”) have been merged under the Group’s subsidiary, Kian Ho Pte Ltd (“KHPL”) to provide wider offerings of Electrical, Bearings and Seals products to our customers under KHPL. Accordingly, the Company had reorganised the segments whereby the electrical operations results have been reclassified to the Bearings and Seals segment. The others business segment now refers to the gearbox and beauty divisions of the Group. The beauty division currently consists of OPI nail polish products. The segment information for the comparative year has been updated to reflect the above change.

The Bearings and Seals segment offers bearings, seals and electrical products that are used widely in many industries such as the semi-conductor industry, the automobile industry and the construction industry. The Property segment, on the other hand, is held for collection of rent, capital growth potential and/or provision of property related services and facilities and/or the investment in or acquisition or disposal of shares or interests in any entity that holds property related assets; and property development activities that include the acquisition, development and/or sale of property related assets, and/or the investment in or acquisition or disposal of shares or interests in any entity that undertakes such property development activities. As at the end of the reporting period, the Group has not yet started the property development business. The Others segment are the new business units of the Group having started in 2017, offering gearbox products to distributors as well as beauty products to consumers. Segment accounting policies are the same as the policies described in Note 2.

Chief operating decision makers of the Group monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

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#### 4. SEGMENT INFORMATION (CONTINUED)

The following tables present revenue and profit information regarding industry segments for the years ended 31 December 2018 and 2017 and certain assets and liabilities information regarding industry segments as at 31 December 2018 and 2017 for the Group.

##### Business segments

	Bearings and Seals <sup>(1)</sup>		Property		Others <sup>(1)</sup>		Total	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<i>Segment revenue</i>								
Revenue from external customers	<u>65,495</u>	<u>70,595</u>	<u>1,908</u>	<u>2,094</u>	<u>1,040</u>	<u>285</u>	<u>68,443</u>	<u>72,974</u>
Segment results	<u>1,733</u>	<u>1,843</u>	<u>1,766</u>	<u>2,175</u>	<u>28</u>	<u>41</u>	<u>3,527</u>	<u>4,059</u>
<i>Adjustments A</i>								
Interest income							<u>3</u>	<u>7</u>
Finance costs							<u>(1,031)</u>	<u>(1,053)</u>
Share of results of associates							<u>16</u>	<u>10</u>
Profit before tax							<u>2,515</u>	<u>3,023</u>
<i>Other business segment information</i>								
Capital expenditure	<u>2,343</u>	<u>5,753</u>	<u>–</u>	<u>–</u>	<u>4</u>	<u>–</u>	<u>2,347</u>	<u>5,753</u>
Depreciation	<u>955</u>	<u>879</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>955</u>	<u>879</u>
Other non-cash expense/(income)	<u>107</u>	<u>25</u>	<u>(323)</u>	<u>(408)</u>	<u>(4)</u>	<u>4</u>	<u>(220)</u>	<u>(379)</u>

(1) The electrical operations previously in "Others" segment are now included as part of "Bearings and Seals" segment.

	Bearings and Seals			Property			Others			Total		
	2018 \$'000	2017 \$'000	2016 \$'000	2018 \$'000	2017 \$'000	2016 \$'000	2018 \$'000	2017 \$'000	2016 \$'000	2018 \$'000	2017 \$'000	2016 \$'000
Segment assets	<u>81,421</u>	<u>78,897</u>	<u>87,532</u>	<u>57,475</u>	<u>57,288</u>	<u>57,014</u>	<u>449</u>	<u>130</u>	<u>–</u>	<u>139,345</u>	<u>136,315</u>	<u>144,546</u>
<i>Adjustments B</i>												
Investment in associates										<u>780</u>	<u>764</u>	<u>764</u>
Other investments										<u>–</u>	<u>–</u>	<u>57</u>
Per consolidated statement of financial position										<u>140,125</u>	<u>137,079</u>	<u>145,367</u>
Segment liabilities	<u>30,762</u>	<u>26,771</u>	<u>39,204</u>	<u>16,965</u>	<u>26,267</u>	<u>27,307</u>	<u>24</u>	<u>54</u>	<u>–</u>	<u>47,751</u>	<u>53,092</u>	<u>66,511</u>
<i>Adjustments C</i>												
Provision for taxation										<u>119</u>	<u>124</u>	<u>53</u>
Deferred tax liabilities										<u>4,124</u>	<u>3,027</u>	<u>2,750</u>
Per consolidated statement of financial position										<u>51,994</u>	<u>56,243</u>	<u>69,314</u>

##### Adjustments A

These items are added to/(deducted from) segment profit to arrive at 'profit before tax' presented in the consolidated statement of profit or loss.

Non-cash expense/(income) information presented above consists of foreign currency adjustments, plant and equipment written off, net (gain)/loss on disposal of plant and equipment, gain on changes in fair value of investment properties, impairment loss recognised on trade debtors, impairment loss reversed/(recognised) on amounts due from an associate, impairment loss reversed/(recognised) on sundry debtors, impairment loss on other investments, write-back on provision for slow-moving inventories, and share of results of associates as presented in the consolidated statement of cash flows.

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#### 4. SEGMENT INFORMATION (CONTINUED)

##### Business segments (Continued)

##### Adjustments B and C

These items are added to segment assets/liabilities to arrive at total assets/liabilities reported in the consolidated statement of financial position.

##### Geographical information

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Revenue		Non-current assets		
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2016 \$'000
Singapore	25,421	27,916	87,439	80,761	74,975
Other ASEAN countries	26,580	27,569	1,283	1,313	1,101
Other Asian countries	13,420	14,179	4,328	4,099	4,218
Western countries	2,820	3,020	–	–	–
Others	202	290	–	–	–
	<b>68,443</b>	<b>72,974</b>	<b>93,050</b>	<b>86,173</b>	<b>80,294</b>

Non-current assets information presented above consist of property, plant and equipment, and investment properties as presented in the consolidated statement of financial position.

##### Information about major customers

The Group is not significantly reliant on revenue derived from any major customers or group of customers.

#### 5. REVENUE

The Group derives its revenue from the transfer of goods and services at a point in time and over time in the following major product/service lines. This is consistent with the revenue that is disclosed for each reportable segment under SFRS(I) 8 (see Note 4).

A disaggregation of the Group's revenue for the year is as follows:

	Group	
	2018 \$'000	2017 \$'000
Sale of goods – Bearings, seals and electrical <sup>(1)</sup>	65,495	70,595
Sale of goods – Others <sup>(1)</sup>	1,040	285
Property rental income	1,908	2,094
	<b>68,443</b>	<b>72,974</b>

(1) Recognised at a point in time

There are no performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the reporting period.

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### 6. OTHER INCOME INCLUDING INTEREST INCOME

	Group	
	2018 \$'000	2017 \$'000
Interest income from bank	3	7
Others	91	24
	94	31

### 7. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Group	
	2018 \$'000	2017 \$'000
<b>Staff costs (excluding Directors' remuneration)</b>		
Salaries and bonus	5,578	5,492
Employer's contribution to defined contribution plans	590	567
Other benefits	432	367
	6,600	6,426
<b>Directors' remuneration</b>		
Company	764	807
Subsidiaries	221	176
	985	983
Aggregate staff costs	7,585	7,409
Cost of inventories recognised as expense	53,420	58,230
Write-back of provision for slow-moving inventories, net	(943)	(886)
Impairment loss on other investments	–	57
Audit fees:		
– auditors of the Company		
– Company	45	45
– A subsidiary	25	25
– other auditors		
– Current year	66	69
– Underprovision in prior year	2	–
Total audit fees	138	139
Aggregate amount of fees for auditors	138	139

### 8. FINANCE COSTS

	Group	
	2018 \$'000	2017 \$'000
<b>Interest expense on:</b>		
Term loans	1,004	1,029
Trust receipts	2	1
Others	25	23
	1,031	1,053

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**9. INCOME TAX EXPENSE/(CREDIT)**

	Group	
	2018 \$'000	2017 \$'000
Current tax	467	504
Overprovision of current income tax in respect of prior years	(35)	(1,293)
Deferred tax (Note 22)	198	71
Under provision of deferred tax in respect of prior years (Note 22)	12	95
<b>Total income tax expense/(credit)</b>	<b>642</b>	<b>(623)</b>

Domestic income tax is calculated at 17% (2017: 17%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Reconciliation of the tax expense and the product of accounting profit multiplied by the applicable income tax rate for the Group is as follows:

	Group	
	2018 \$'000	2017 \$'000
Profit before tax	2,515	3,023
Tax at the applicable tax rate of 17% (2017: 17%)	428	514
Effect of reduction in tax rate	–	(26)
Expenses not deductible in determining taxable profit	559	204
Tax effect of income not taxable for tax purposes	(164)	(240)
Tax effect of different applicable tax rates for foreign subsidiaries	237	152
Benefits of previously unrecognised tax losses	(529)	(171)
Effect of partial tax exemption and tax relief	(53)	(86)
Overprovision in respect of prior years	(23)	(1,198)
Deferred tax asset not recognised	187	228
<b>Total income tax expense/(credit)</b>	<b>642</b>	<b>(623)</b>

**10. EARNINGS PER SHARE**

Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to owners of the Company of \$1,827,000 (2017: \$3,394,000) by weighted average number of ordinary shares 234,060,000 (2017: 234,060,000) outstanding during the year. The fully diluted earnings per share and basic earnings per share are the same because there are no dilutive shares.

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### 11. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land \$'000	Freehold buildings \$'000	Leasehold land and buildings \$'000	Motor vehicles, MHE and forklifts \$'000	Computer equipment \$'000	Renovation, signboards, furniture and fittings \$'000	Office equipment \$'000	Plant and machinery \$'000	Total \$'000
<b>Cost/valuation</b>									
At 1 January 2018									
Cost	–	–	–	900	1,312	1,412	771	2,507	6,902
Valuation	4,666	1,070	22,773	–	–	–	–	–	28,509
	4,666	1,070	22,773	900	1,312	1,412	771	2,507	35,411
Revaluation surplus	7	34	5,278	–	–	–	–	–	5,319
Elimination on revaluation	–	(34)	(651)	–	–	–	–	–	(685)
Additions	–	–	2,153	132	31	18	13	–	2,347
Write-off	–	–	–	–	(7)	(3)	(20)	–	(30)
Disposal	–	–	–	(160)	(1)	(17)	(2)	–	(180)
Exchange adjustments	1	–	1	(2)	–	(19)	(2)	–	(21)
At 31 December 2018	<u>4,674</u>	<u>1,070</u>	<u>29,554</u>	<u>870</u>	<u>1,335</u>	<u>1,391</u>	<u>760</u>	<u>2,507</u>	<u>42,161</u>
<b>Representing:</b>									
Cost	–	–	–	870	1,335	1,391	760	2,507	6,863
Valuation	4,674	1,070	29,554	–	–	–	–	–	35,298
At 31 December 2018	<u>4,674</u>	<u>1,070</u>	<u>29,554</u>	<u>870</u>	<u>1,335</u>	<u>1,391</u>	<u>760</u>	<u>2,507</u>	<u>42,161</u>
<b>Cost/valuation</b>									
At 1 January 2017									
Cost	–	–	–	642	1,282	1,359	733	2,507	6,523
Valuation	356	143	22,775	–	–	–	–	–	23,274
	356	143	22,775	642	1,282	1,359	733	2,507	29,797
Revaluation surplus	(5)	25	591	–	–	–	–	–	611
Elimination on revaluation	–	(20)	(601)	–	–	–	–	–	(621)
Additions	4,310	920	–	358	37	88	40	–	5,753
Acquisition of a subsidiary	–	–	–	126	4	3	14	–	147
Write-off	–	–	–	–	(1)	(3)	(8)	–	(12)
Disposal	–	–	–	(225)	(10)	(30)	(5)	–	(270)
Exchange adjustments	5	2	8	(1)	–	(5)	(3)	–	6
At 31 December 2017	<u>4,666</u>	<u>1,070</u>	<u>22,773</u>	<u>900</u>	<u>1,312</u>	<u>1,412</u>	<u>771</u>	<u>2,507</u>	<u>35,411</u>
<b>Representing:</b>									
Cost	–	–	–	900	1,312	1,412	771	2,507	6,902
Valuation	4,666	1,070	22,773	–	–	–	–	–	28,509
At 31 December 2017	<u>4,666</u>	<u>1,070</u>	<u>22,773</u>	<u>900</u>	<u>1,312</u>	<u>1,412</u>	<u>771</u>	<u>2,507</u>	<u>35,411</u>

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**11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Group	Freehold land \$'000	Freehold buildings \$'000	Leasehold land and buildings \$'000	Motor vehicles, MHE and forklifts \$'000	Computer equipment \$'000	Renovation, signboards, furniture and fittings \$'000	Office equipment \$'000	Plant and machinery \$'000	Total \$'000
<b>Accumulated depreciation</b>									
At 1 January 2018	–	–	–	485	1,247	1,283	637	2,404	6,056
Charge for the year	–	34	651	110	40	40	54	26	955
Write-off	–	–	–	–	(5)	–	(15)	–	(20)
Disposal	–	–	–	(135)	(1)	(21)	(1)	–	(158)
Elimination on revaluation	–	(34)	(651)	–	–	–	–	–	(685)
Exchange adjustments	–	–	–	(2)	–	(2)	(2)	–	(6)
At 31 December 2018	<u>–</u>	<u>–</u>	<u>–</u>	<u>458</u>	<u>1,281</u>	<u>1,300</u>	<u>673</u>	<u>2,430</u>	<u>6,142</u>
<b>Accumulated depreciation</b>									
At 1 January 2017	–	–	–	583	1,219	1,275	574	2,379	6,030
Charge for the year	–	20	600	86	35	42	71	25	879
Write-off	–	–	–	–	(1)	(3)	(8)	–	(12)
Disposal	–	–	–	(212)	(8)	(30)	(5)	–	(255)
Acquisition of a subsidiary	–	–	–	29	3	2	8	–	42
Elimination on revaluation	–	(20)	(601)	–	–	–	–	–	(621)
Exchange adjustments	–	–	1	(1)	(1)	(3)	(3)	–	(7)
At 31 December 2017	<u>–</u>	<u>–</u>	<u>–</u>	<u>485</u>	<u>1,247</u>	<u>1,283</u>	<u>637</u>	<u>2,404</u>	<u>6,056</u>
<b>Net carrying amount</b>									
At 31 December 2018	<u>4,674</u>	<u>1,070</u>	<u>29,554</u>	<u>412</u>	<u>54</u>	<u>91</u>	<u>87</u>	<u>77</u>	<u>36,019</u>
At 31 December 2017	<u>4,666</u>	<u>1,070</u>	<u>22,773</u>	<u>415</u>	<u>65</u>	<u>129</u>	<u>134</u>	<u>103</u>	<u>29,355</u>
At 1 January 2017	<u>356</u>	<u>143</u>	<u>22,775</u>	<u>59</u>	<u>63</u>	<u>84</u>	<u>159</u>	<u>128</u>	<u>23,767</u>



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**11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Company	Leasehold land and buildings \$'000	Motor vehicles, MHE and forklifts \$'000	Computer equipment \$'000	Renovation, signboards, furniture and fittings \$'000	Office equipment \$'000	Plant and machinery \$'000	Total \$'000
<b>Cost/valuation</b>							
At 1 January 2018							
Cost	–	130	1,205	1,163	599	2,507	5,604
Valuation	22,249	–	–	–	–	–	22,249
	22,249	130	1,205	1,163	599	2,507	27,853
Revaluation surplus	5,087	–	–	–	–	–	5,087
Elimination on revaluation	(607)	–	–	–	–	–	(607)
Additions	–	–	14	–	–	–	14
Disposal	–	(112)	(1)	–	–	–	(113)
At 31 December 2018	<u>26,729</u>	<u>18</u>	<u>1,218</u>	<u>1,163</u>	<u>599</u>	<u>2,507</u>	<u>32,234</u>
<b>Representing:</b>							
Cost	–	18	1,218	1,163	599	2,507	5,505
Valuation	26,729	–	–	–	–	–	26,729
At 31 December 2018	<u>26,729</u>	<u>18</u>	<u>1,218</u>	<u>1,163</u>	<u>599</u>	<u>2,507</u>	<u>32,234</u>
<b>Cost/valuation</b>							
At 1 January 2017							
Cost	–	130	1,197	1,163	585	2,507	5,582
Valuation	22,259	–	–	–	–	–	22,259
	22,259	130	1,197	1,163	585	2,507	27,841
Revaluation surplus	572	–	–	–	–	–	572
Elimination on revaluation	(582)	–	–	–	–	–	(582)
Additions	–	–	10	–	14	–	24
Disposals	–	–	(2)	–	–	–	(2)
At 31 December 2017	<u>22,249</u>	<u>130</u>	<u>1,205</u>	<u>1,163</u>	<u>599</u>	<u>2,507</u>	<u>27,853</u>
<b>Representing:</b>							
Cost	–	130	1,205	1,163	599	2,507	5,604
Valuation	22,249	–	–	–	–	–	22,249
At 31 December 2017	<u>22,249</u>	<u>130</u>	<u>1,205</u>	<u>1,163</u>	<u>599</u>	<u>2,507</u>	<u>27,853</u>

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**11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Company	Leasehold land and buildings \$'000	Motor vehicles, MHE and forklifts \$'000	Computer equipment \$'000	Renovation, signboards, furniture and fittings \$'000	Office equipment \$'000	Plant and machinery \$'000	Total \$'000
<b>Accumulated depreciation</b>							
At 1 January 2018	–	128	1,167	1,151	520	2,404	5,370
Charge for the year	607	1	26	9	39	26	708
Elimination on revaluation	(607)	–	–	–	–	–	(607)
Disposal	–	(112)	(1)	–	–	–	(113)
At 31 December 2018	–	17	1,192	1,160	559	2,430	5,358
<b>Accumulated depreciation</b>							
At 1 January 2017	–	126	1,141	1,142	463	2,379	5,251
Charge for the year	582	2	26	9	57	25	701
Elimination on revaluation	(582)	–	–	–	–	–	(582)
At 31 December 2017	–	128	1,167	1,151	520	2,404	5,370
<b>Net carrying amount</b>							
At 31 December 2018	26,729	1	26	3	40	77	26,876
At 31 December 2017	22,249	2	38	12	79	103	22,483
At 1 January 2017	22,259	4	56	21	122	128	22,590

- (a) The Group engaged independent valuers who have the appropriate qualifications and recent experience in the fair value measurement of the properties in the relevant locations to determine the fair value of the land and buildings. The valuations were made at year end on the basis of direct comparison with recent transactions of comparable properties within the vicinity and open market value.

The Group classified fair value measurement using a fair value hierarchy that reflects the nature and complexity of the significant inputs used in making the measurement. As at end of 31 December 2018, 31 December 2017 and 1 January 2017, the fair value measurements of the Group's land and buildings are classified within Level 3 of the fair value hierarchy. There were no transfers between different levels during the year.

Management considers that certain unobservable inputs used in the fair value measurement of the Group's land and buildings are sensitive to the fair value measurement. The following information is relevant for the Group's land and buildings:

Property Location	Significant unobservable input(s)	Range	Sensitivity
Singapore	Price per square metre of strata floor area	\$630 – \$25,830 (31 December 2017: \$630 – \$26,000) (1 January 2017: \$620 – \$1,960)	Any significant isolated increase (decrease) would result in a significantly higher (lower) fair value measurement.
Malaysia	Price per square metre of strata land area	\$970 – \$1,030 (31 December 2017: \$900 – \$1,350) (1 January 2017: \$940 – \$1,330)	Any significant isolated increase (decrease) would result in a significantly higher (lower) fair value measurement.

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**11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

The carrying amounts of land and buildings if measured using the cost model, would be as follows:

	Group			Company		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
Net carrying value	17,477	15,672	10,750	9,964	10,262	10,560

(b) As at 31 December 2018, the Group's freehold and leasehold properties with net carrying amounts of \$885,000 (31 December 2017: \$883,000; 1 January 2017: \$871,000) are pledged as collateral for bank facilities (Note 19).

(c) Properties owned by the Group include:

Property location <i>Held by the Company</i>	Area (sq m)	Usage	Tenure years
27A Jurong Port Road #01-42 Singapore 619101	158	JTC single storey corner terrace workshop	15.10.2012 to 15.10.2024
No. 5 Changi South Street 3 Singapore 486117	9,390	Centralised office cum warehouse	16.9.1997 to 16.9.2057
387F Woodlands Road Singapore 677951	149	Shop	19.1.1992 to 18.1.2022
<b><i>Held by subsidiaries</i></b>			
359 Jalan Besar Singapore 208992	236	Shop	Freehold
302 Ubi Avenue 1 <sup>(1)</sup> #01-37 Singapore 400302	124	Shop	10.04.2018 to 02.10.2044
43, 43A, 43B, 43C Jln Glasair Taman Tasek Johor Bahru Malaysia	470	4 storey shophouse unit	Freehold
Lot nos: 0009, 0010, 0011 Resource Complex Ground Floor 33 Jln Segambut Atas Segambut Kuala Lumpur, Malaysia	588	Ground floor corner shop unit	03.10.1978 to 02.10.2044
63 Jln Lim Swee Sim Kluang, Malaysia	150	2 storey shophouse	Freehold

(1) Acquired during the year.

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**12. INVESTMENT IN SUBSIDIARIES**

	<b>31 December 2018 \$'000</b>	<b>Company 31 December 2017 \$'000</b>	<b>1 January 2017 \$'000</b>
Unquoted shares at cost	13,097	12,997	12,207
Less: Allowance for impairment loss	(704)	(555)	(319)
	<b>12,393</b>	12,442	11,888
Loans to subsidiaries	3,639	5,121	6,987
Less: Allowance for impairment loss	(2,981)	(3,801)	(4,430)
	<b>13,051</b>	13,762	14,445
Amounts due from subsidiaries – trade	15,036	22,684	20,504
Amounts due from subsidiaries – non-trade	15,397	5,406	3,410
Amounts due from subsidiaries (Note 16)	<b>30,433</b>	28,090	23,914

In 2018, net allowance for impairment loss amounting to \$149,000 (31 December 2017: \$236,000; 1 January 2017: Nil) was made in respect of the Company's investments in a subsidiary to reduce the carrying value of the investments to recoverable amounts determined based on net asset value of respective subsidiaries, which approximated the fair value less costs to sell.

During the year ended 31 December 2018, allowance for impairment loss amounting to \$820,000 (31 December 2017: \$629,000; 1 January 2017: \$1,545,000) in respect of the Company's loans to subsidiary was reversed due to repayment and positive results from a certain subsidiary.

The amounts due from subsidiaries are unsecured, non-interest bearing, and repayable on demand.

Certain amounts due from and to subsidiaries have been offset in accordance with the Company's accounting policy. The following is the analysis of the Company's gross amounts due from subsidiaries balances for statement of financial position purposes:

	<b>31 December 2018 \$'000</b>	<b>Company 31 December 2017 \$'000</b>	<b>1 January 2017 \$'000</b>
Amounts due from subsidiaries	32,616	32,299	28,248
Amounts due to subsidiaries	(2,183)	(4,209)	(4,334)
Net amounts presented in the statement of financial position	<b>30,433</b>	28,090	23,914

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

### 12. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries as at 31 December 2018 are as follows:

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity and voting power held by the Group		
		31 December 2018 %	31 December 2017 %	1 January 2017 %
<b><u>Bearings and Seals segment:</u></b>				
Kian Ho Pte Ltd <sup>1</sup> (Singapore)	Dealer in bearings and seals, electrical and gearbox products (Singapore)	100	100	100
Raffles Logistics Operations Pte Ltd <sup>6</sup> (Singapore)	Logistics services (Singapore)	100	100	100
Kian Ho Bearings (M) Sdn. Bhd. <sup>3</sup> (Malaysia)	Dealer in bearings and seals (Malaysia)	100	100	100
Acker Machinery (Shanghai) Co., Ltd <sup>3</sup> (China)	Dealer in bearings and seals (China)	100	100	100
Kian Ho Shanghai Co., Ltd <sup>7</sup> (China)	Dormant (China)	100	100	100
Kian Ho (H.K.) Company Limited <sup>5</sup> (Hong Kong)	Dormant (Hong Kong)	100	100	100
PT. Kian Ho Indonesia <sup>4</sup> (Indonesia)	Dealer in bearings and seals and gearbox products (Indonesia)	95	95	95
Kian Ho (Vietnam) Co., Ltd <sup>2</sup> (Vietnam)	Dealer in bearings and seals (Vietnam)	100	100	100
KH Bearings and Seals Australia Pty Ltd <sup>7</sup> (Australia)	Dormant (Australia)	100	100	100
Excel (Hangzhou) Power Transmissions Co., Ltd <sup>7</sup> (China)	Dormant (China)	70	70	70
<b><u>Directly held by Kian Ho Bearings (M) Sdn Bhd</u></b>				
KWP Engineering & Industrial Supply Sdn. Bhd. <sup>3</sup> (Malaysia)	Dealer in bearings and seals (Malaysia)	60	60	60
<b><u>Directly held by Kian Ho Pte Ltd</u></b>				
PT. Radiant Thompson Indonesia <sup>7</sup> (Indonesia)	Dormant (Indonesia)	51	51	–

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**12. INVESTMENT IN SUBSIDIARIES (CONTINUED)**

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity and voting power held by the Group		
		31 December 2018 %	31 December 2017 %	1 January 2017 %
<b>Property segment:</b>				
Raffles Acres Pte Ltd (Singapore) <sup>6</sup>	Property investment (Singapore)	100	100	100
Raffles Land & Investments Pte Ltd (Singapore) <sup>6</sup>	Property investment (Singapore)	100	100	100
Raffles Majestic Realty Pte Ltd (Singapore) <sup>6</sup>	Property investment (Singapore)	100	100	100
Raffles Capital Enterprise Pte Ltd (Singapore) <sup>6</sup>	Property investment (Singapore)	51	51	51
Raffles Land Management Pte Ltd (Singapore) <sup>6</sup>	Property investment (Singapore)	100	100	–
Raffles Property Management Pte Ltd (Singapore) <sup>7</sup>	Dormant (Singapore)	100	100	100
Raffles Global Investments Pte Ltd (Singapore) <sup>7</sup>	Dormant (Singapore)	100	100	100
Raffles Majestic Investments Pte Ltd (Singapore) <sup>7</sup>	Dormant (Singapore)	100	100	100
Raffles Realty Investments Pte Ltd (Singapore) <sup>7</sup>	Dormant (Singapore)	100	100	–
Raffles Century Properties Pte Ltd (Singapore) <sup>7</sup>	Dormant (Singapore)	100	100	–
Raffles Royal Property Pte Ltd (Singapore) <sup>7</sup>	Dormant (Singapore)	100	100	–
Raffles Capital Land Pte Ltd (Singapore) <sup>7</sup>	Dormant (Singapore)	100	100	–

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**12. INVESTMENT IN SUBSIDIARIES (CONTINUED)**

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity and voting power held by the Group		
		31 December 2018	31 December 2017	1 January 2017
		%	%	%
<b>Other segment:</b>				
Acee Electric Pte Ltd (Singapore) <sup>6</sup>	Dormant (Singapore)	70	70	–
Raffles Beaute Pte Ltd (Singapore) <sup>7</sup>	Investment Holding (Singapore)	100	100	–
<u>Directly held by Raffles Beaute Pte Ltd</u>				
Allure Beaute International Pte Ltd (Singapore) <sup>6</sup>	Dealer in beauty products (Singapore)	100	100	–
Allureate Beaute Pte Ltd (Singapore) <sup>7</sup>	Dormant (Singapore)	100	100	–

- 1 Audited by Deloitte & Touche LLP, Singapore.
- 2 Audited by member firms of Deloitte Touche Tohmatsu Limited.
- 3 Audited by member firms of Ernst & Young Global.
- 4 Audited by member firms of Nexia International.
- 5 Audited by Dicky Lau & Co.
- 6 Audited by Alfred PF Shee & Co.
- 7 Unaudited as these are dormant and not significant to the Group

**Details of non-wholly owned subsidiaries that have material non-controlling interests**

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of company (Country of incorporation)	Proportion of ownership interests and voting rights held by non-controlling interests			(Loss)/Profit allocated to non-controlling interests			Accumulated non-controlling interests		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	%	%	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Raffles Capital Enterprise Pte Ltd (Singapore)	49	49	49	90	204	217	8,379	8,289	8,085
Individually immaterial subsidiaries with non-controlling interests				(44)	48	30	654	580	38
Total							<u>9,033</u>	<u>8,869</u>	<u>8,123</u>



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**12. INVESTMENT IN SUBSIDIARIES (CONTINUED)**

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	Raffles Capital Enterprise Pte Ltd		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
Non-current assets	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
Current assets	<u>48</u>	<u>2,154</u>	<u>2,226</u>
Current liabilities	<u>(9,291)</u>	<u>(3,173)</u>	<u>(3,156)</u>
Non-current liabilities	<u>(3,656)</u>	<u>(12,063)</u>	<u>(12,569)</u>
Equity attributable to owners of the company	<u>8,722</u>	<u>8,629</u>	<u>8,416</u>
Non-controlling interests	<u>8,379</u>	<u>8,289</u>	<u>8,085</u>
Revenue	<u>718</u>	<u>942</u>	<u>933</u>
Expenses	<u>(535)</u>	<u>(525)</u>	<u>(491)</u>
Profit for the year	<u>183</u>	<u>417</u>	<u>442</u>
Profit attributable to owners of the company	<u>93</u>	<u>213</u>	<u>225</u>
Profit attributable to the non-controlling interests	<u>90</u>	<u>204</u>	<u>217</u>
Profit for the year	<u>183</u>	<u>417</u>	<u>442</u>
Total comprehensive income attributable to owners of the company	<u>93</u>	<u>213</u>	<u>225</u>
Total comprehensive income attributable to the non-controlling interests	<u>90</u>	<u>204</u>	<u>217</u>
Total comprehensive income for the year	<u>183</u>	<u>417</u>	<u>442</u>
Net cash inflow from operating activities	<u>283</u>	<u>773</u>	<u>751</u>
Net cash outflow from financing activities	<u>(349)</u>	<u>(774)</u>	<u>(728)</u>
Net cash (outflow)/inflow	<u>(66)</u>	<u>(1)</u>	<u>23</u>

**Acquisition of a subsidiary**

**2017**

On 1 March 2017, the Group acquired 70% of the issued and paid-up share capital of Acee Electric Pte Ltd ("Acee") through subscription of 116,667 new ordinary shares in the capital of Acee for a total subscription price of \$689,500 based on the unaudited management accounts of Acee as at 31 January 2017. This transaction has been accounted for by the acquisition method of accounting.

As at 31 December 2017, the Group has injected \$341,000 cash capital into Acee which is equivalent to 70% of its net tangible assets at fair value as at the acquisition date. The remaining balance to be injected into Acee is contingent on the amount of subsequent collection of certain trade receivables and sale of certain inventories as at the acquisition date by 28 February 2018. Management estimated the fair value of the contingent consideration to be \$348,500.

Management estimated fair value of the identifiable assets and liabilities of Acee as at the acquisition date as follows:

	Total \$'000
Non-current assets	122
Current assets	2,279
Current liabilities	(1,721)
Non-current liabilities (Note 19)	(192)
Non-controlling interest	(488)
Net assets acquired and liabilities assumed	<u>–</u>

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**12. INVESTMENT IN SUBSIDIARIES (CONTINUED)**

**Acquisition of a subsidiary (Continued)**

**Net cash inflow on acquisition of a subsidiary**

	<b>Total \$'000</b>
Cash and cash equivalent balances acquired	400

**Disposal of subsidiaries**

**2016**

*Ascend Bearings Co., Ltd (“ABC”)*

On 30 November 2016, the Group entered into a sale and purchase agreement to fully dispose its interest in its subsidiary, ABC, to the non-controlling interest of ABC. As a consequence of the disposal, there was a one-off loss due to the waiver of intercompany trade debts which was attributable to the non-controlling shareholder.

Details of disposal are as follows:

**Carrying amounts of net assets disposed**

	<b>Total \$'000</b>
Total non-current assets	44
Total current assets	14,000
Total current liabilities	(9,905)
Total non-current liabilities	(146)
Net assets derecognised	3,993
<b>Consideration received:</b>	
Total consideration received/receivable	1,037
	<b>Total \$'000</b>
<b>Net cash outflow arising on disposal</b>	
Cash and cash equivalents disposed of	107

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**13. INVESTMENT IN ASSOCIATES**

	Group			Company		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
	Unquoted shares at cost	453	453	453	453	453
Share of post-acquisition reserves, net of dividends received	327	311	311	–	–	–
	<b>780</b>	<b>764</b>	<b>764</b>	<b>453</b>	<b>453</b>	<b>463</b>
Amounts due from an associate – trade	677	758	1,224	596	737	854
Provision for doubtful debts, associate – trade	(677)	(750)	(500)	(596)	(737)	(500)
Amounts due from an associate – trade (Note 16)	–	8	724	–	–	354

The Group has not recognised losses relating to Kian Ho Bearings (Thailand) Co., Ltd where its share of losses exceeds the Group's interest in this associate. The Group's cumulative share of unrecognised losses at the end of the reporting period was \$313,000 (2017: \$310,000), of which \$3,000 (2017: \$213,000) was the share of the current year's loss. The Group has no obligation in respect of these losses.

Impairment loss reversal of \$73,000 (2017: \$250,000 impairment recognised) in respect of repayment from an associate which has been credited/charged to profit or loss during the year.

Details of the associates are as follows:

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity and voting power held by the Group		
		31 December 2018 %	31 December 2017 %	1 January 2017 %
Poh Leng Realty Pte Ltd (Singapore) <sup>1</sup>	Property investment (Singapore)	20.14	20.14	20.14
Kian Ho Bearings (Thailand) Co., Ltd <sup>2</sup> (Thailand)	Dormant (Thailand)	49	49	49

- 1 Audited by Christopher Chan & Associates.  
2 Unaudited as dormant.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

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### 13. INVESTMENT IN ASSOCIATES (CONTINUED)

The summarised financial information of the associates (not adjusted for the proportion of ownership interest held by the Group), adjusted for differences in accounting policies between the Group and the associates are as follows:

	31 December 2018 \$'000	Group 31 December 2017 \$'000	1 January 2017 \$'000
<b>Assets and liabilities</b>			
Non-current assets	7,100	7,120	7,126
Current assets	260	332	1,314
Total assets	<u>7,360</u>	<u>7,452</u>	<u>8,440</u>
Non-current liabilities	438	458	(24)
Current liabilities	1,082	1,224	2,244
Total liabilities	<u>1,520</u>	<u>1,682</u>	<u>2,220</u>
<b>Results</b>			
Revenue	404	1,293	1,815
Profit/(Loss) for the year	73	(390)	1,499
Dividends received from associates during the year	–	10	–

Reconciliation of the above summarised financial information to the carrying amount of the interests in associates recognised in the consolidated financial statements:

	31 December 2018 \$'000	Group 31 December 2017 \$'000	1 January 2017 \$'000
Net assets of associates	5,840	5,770	6,220
Share of net assets of associates	968	956	1,178
Cumulative share of unrecognised losses	313	310	97
Pre-acquisition reserves	(543)	(543)	(543)
Exchange difference	42	41	32
Carrying amount of the Group's interest in associates	<u>780</u>	<u>764</u>	<u>764</u>

### 14. INVESTMENT PROPERTIES

	Group			Company		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
Balance at 1 January	56,818	56,527	56,809	4,520	4,130	4,130
Gain/(Loss) on changes in fair value	323	408	(73)	–	390	–
Exchange differences	(110)	(117)	(209)	–	–	–
Balance at 31 December	<u>57,031</u>	<u>56,818</u>	<u>56,527</u>	<u>4,520</u>	<u>4,520</u>	<u>4,130</u>

Fair value adjustments related to investment properties classified under Level 3 of the fair value hierarchy included in profit or loss amounted to a gain of \$323,000 (2017: \$408,000).

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**14. INVESTMENT PROPERTIES (CONTINUED)**

The property rental income earned by the Group from its investment properties, most of which are leased out under operating leases, amounted to \$1,908,000 (2017: \$2,094,000). Direct operating expenses arising on the investment properties in the year amounted to \$242,000 (2017: \$264,000).

Details of the investment properties held by the Group are as follows:

Property location	Area (sq m)	Usage	Tenure years	Fair value		
				31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
Citimac Industrial Complex #02-03 Singapore 368240 <sup>(1)</sup>	436	Warehouse unit	Freehold	3,600	3,600	3,210
Poh Leng Building #04-01 21 Moonstone Lane Singapore 328462	140	Flatted factory unit in an industrial building	Freehold	920	920	920
296/298/300/302/304/306/308 Lavender Street Singapore 338808/338809/ 338810/338811/338812/ 338813/338814	1,218	Shophouse unit	Freehold	30,000	30,000	30,000
No. 220, Mei Gui Nan Road, Ground Floor Block 20 Shanghai Wai Gao Qiao Free Trade Zone, Shanghai, China	2,100	Ground floor warehouse	12.6.1993 to 12.6.2048	3,657	3,429	3,527
Chengdu Jinniu District, No. 777 Jinfu Road, Block 32 Unit 11 Jin Fu Hardware Centre Chengdu, Sichuan China 610031	260	Shophouse unit	07.07.2006 to 06.7.2046	614	629	648
Block 302 Ubi Avenue 1 #01-65 Singapore 400302	54	HDB shop	07.11.2015 to 31.10.2084	2,490	2,490	2,490
1 Sophia Road #01-01 to 08 Peace Centre Singapore 228149	260	Commercial unit	30.12.2015 to 01.06.2069	9,750	9,750	9,551
1 Sophia Road #02-01/02 Peace Centre Singapore 228149	260	Commercial unit	30.12.2015 to 01.06.2069	6,000	6,000	6,181
				<b>57,031</b>	<b>56,818</b>	<b>56,527</b>

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### 14. INVESTMENT PROPERTIES (CONTINUED)

- (1) Subsequent to the end of financial year, the directors had, on 28 January 2019, signed the transfer documents as part of a collective sale, which is expected to complete in March 2019 subject to full compliance of all owners with regards to the execution of documents in relation to the collective sale. The directors considered that the collective sale value of the Group's warehouse unit included a collective sales premium which the buyer is willing to pay and acquire the whole development of Citimac Industrial Complex over the fair value of the warehouse unit as at 31 December 2018. As a result, the fair market value of the warehouse unit using market comparables as disclosed in Note 14 is the relevant measure to reflect the warehouse unit's value as at 31 December 2018.

The Group's investment properties in Singapore are stated at fair value, which has been determined based on valuations performed as at year end. The valuations were performed by independent valuers with recognised and relevant professional qualifications and with recent experience in the location and category of the properties being valued. The valuations were made on the basis of direct comparison with recent transactions of comparable properties within the vicinity.

The Group's investment properties in China are stated at fair value which has been determined based on capitalisation of net income method, where the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units. The capitalisation rate adopted is made by reference to the yield rates observed for similar properties in the locality during the tenancy period.

The Group classified fair value measurement using a fair value hierarchy that reflects the nature and complexity of the significant inputs used in making the measurement. As at end of 31 December 2018, the fair value measurements of the Group's investment properties are classified within Level 3 (31 December 2017: Level 3; 1 January 2017: Level 3) of the fair value hierarchy. There were no transfers between different levels in the fair value hierarchy during the year.

Management considers that certain unobservable inputs used in the fair value measurement of the Group's investment properties are sensitive to the fair value measurement. The following information is relevant for the Group's investment properties:

<u>Property Location/Type</u>	<u>Significant unobservable input(s)</u>	<u>Range</u>	<u>Sensitivity</u>
Singapore (Commercial Units)	Price per square metre of strata floor area	\$6,250 – \$9,150 (31 December 2017: \$5,850 – \$8,600) (1 January 2017: \$5,850 – \$7,680)	Any significant isolated increase/ (decrease) would result in a significantly higher/(lower) fair value measurement
Singapore (Retail Units)	Price per square metre of strata floor area	\$11,390 – \$50,700 (31 December 2017: \$11,390 – \$60,290) (1 January 2017: \$15,090 – \$51,640)	Any significant isolated increase/ (decrease) would result in a significantly higher/(lower) fair value measurement
China (Commercial Units)	Capitalisation rate	7% – 7.5% (31 December 2017: 6.5% – 7%) (1 January 2017: 6.5% – 7%)	Any significant isolated increase/ (decrease) would result in a significantly lower/(higher) fair value measurement
	Monthly market rent	Average of \$11 – \$17 (31 December 2017: \$11 – \$17) (1 January 2017: \$10 – \$16) per square metre ("sqm") per month.	Any significant isolated increase/ (decrease) would result in a significantly higher/(lower) fair value measurement

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**14. INVESTMENT PROPERTIES (CONTINUED)**

As at 31 December 2018, investment properties amounting to \$48,240,000 (31 December 2017: \$48,240,000; 1 January 2017: \$48,222,000) included in the above balances were mortgaged to banks as security for borrowings. Information relating to the Group's loans and borrowings is disclosed in Note 19 to the financial statements.

**15. OTHER INVESTMENTS**

	Group and Company		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
<b>Financial assets at fair value through profit or loss</b>			
Unquoted equity shares at fair value:			
At beginning of the year	–	57	57
Fair value loss during the year	–	(57)	–
At end of the year	–	–	57

**16. TRADE AND OTHER RECEIVABLES**

	Group			Company		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
Trade debtors	11,907	14,635	14,874	–	–	–
Notes receivables	40	79	148	–	–	–
	<b>11,947</b>	14,714	15,022	–	–	–
Loss allowance for doubtful debts – trade	<b>(1,116)</b>	(992)	(711)	–	–	–
	<b>10,831</b>	13,722	14,311	–	–	–
Amounts due from subsidiaries (Note 12)	–	–	–	30,433	28,090	23,914
Amounts due from an associate – net (Note 13)	–	8	724	–	–	354
Other debtors (Note 17)	81	332	958	27	44	896
Total trade and other receivables	<b>10,912</b>	14,062	15,993	<b>30,460</b>	28,134	25,164
<b>Add:</b>						
Cash at banks and on hand (Note 25)	<b>4,847</b>	6,128	11,414	<b>36</b>	118	6,197
Total financial assets at amortised cost	<b>15,759</b>	20,190	27,407	<b>30,496</b>	28,252	31,361
<b>Add:</b>						
Other investments (Note 15)	–	–	57	–	–	57
Total financial assets	<b>15,759</b>	20,190	27,464	<b>30,496</b>	28,252	31,418

Trade and other receivables are non-interest bearing and are generally on 30 to 90 days' (2017: 30 to 90 days') credit terms.

Notes receivables relate to bills of exchange and have an average maturity of up to 180 days (2017: 180 days). These receivables issued by customers are interest-free.



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### 16. TRADE AND OTHER RECEIVABLES (CONTINUED)

Loss allowance for trade receivables is always measured at an amount equal to lifetime expected credit losses (ECL). The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtors, adjusted for factors that may be specific to the debtors such as general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has recognised a significant loss allowance against its receivables over 120 days past due because historical experience has indicated that most of these receivables are generally not recoverable, unless the Group has reasonable and supportable information that demonstrates otherwise.

The following table details the risk profile of trade receivables from contracts with customers based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

31 December 2018	Trade receivables – days past due			Total \$'000
	Not past due \$'000	1 to 120 days \$'000	>120 days \$'000	
Trade receivables	6,818	3,944	1,185	11,947
Less: individually assessed debtors	(3,315)	(1,136)	(493)	(4,944)
Adjusted trade receivables	3,503	2,808	692	7,003
ECL	22	44	1,050	1,116
Less: ECL for individually assessed debtors	(22)	(42)	(360)	(424)
Adjusted ECL	*	2	690	692
Expected credit loss rate	**	**	100%	
<b>31 December 2017</b>				
Trade receivables	8,778	4,432	1,504	14,714
Less: Individually assessed debtors	(2,556)	(652)	(648)	(3,856)
Adjusted trade receivables	6,222	3,780	856	10,858
ECL	*	27	965	992
Less: ECL for individually assessed debtors	*	(6)	(118)	(124)
Adjusted ECL	*	21	847	868
Expected credit loss rate	**	**	99%	
<b>1 January 2017</b>				
Trade receivables	9,317	3,589	2,116	15,022
Less: Individually assessed debtors	(5,792)	(1,189)	(1,497)	(8,478)
Adjusted trade receivables	3,525	2,400	619	6,544
ECL	*	1	710	711
Less: ECL for individually assessed debtors	*	(1)	(101)	(102)
Adjusted ECL	*	*	609	609
Expected credit loss rate	**	**	98%	

\* denotes amount less than \$1,000.

\*\* denotes amount less than 1%.

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**16. TRADE AND OTHER RECEIVABLES (CONTINUED)**

The table below shows the movement in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach set out in SFRS(I) 9:

	31 December 2018 \$'000	Group 31 December 2017 \$'000	1 January 2017 \$'000
Trade receivables	1,116	992	711
Less: Loss allowance	(1,116)	(992)	(711)
	–	–	–
Movement in loss allowance account:			
Lifetime ECL – credit impaired			
At 1 January	992	711	523
Charge for the year	720	423	346
Written off	(104)	(321)	(12)
Written back	(493)	(334)	(134)
Acquisition of a subsidiary	–	524	–
Exchange differences	1	(11)	(12)
At 31 December	1,116	992	711

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in financial difficulties and/or have defaulted on payments. These receivables are not secured by any collateral or credit enhancements. The Group's trade receivables that are past due at the reporting date but not impaired relates to debtors where there is no change in credit quality of these customers as the Group had assessed them to be recoverable based on past payment history, ongoing dealings and settlement arrangements, including subsequent receipts received after year-end.

**17. OTHER DEBTORS**

	Group			Company		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
Sundry debtors	183	510	858	178	295	852
Loss allowance	(178)	(295)	–	(178)	(295)	–
	5	215	858	–	–	852
Deposits	76	117	100	27	44	44
	81	332	958	27	44	896

In 2016, included in sundry debtors is the deferred consideration of \$558,000 accounted for on the sale of shares of a Taiwan subsidiary to its minority shareholder (Note 12). This was fully repaid in 2017.

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**17. OTHER DEBTORS (CONTINUED)**

In 2016, included in sundry debtors is the deferred consideration of \$425,000 accounted for on the sale of shares of a China subsidiary to its minority shareholder in 2015, for which an amount of \$300,000 remained outstanding as at 31 December 2016. In 2017, full provision was made on the remaining balance of \$295,000 of which \$117,000 was collected during the year.

	Group and Company		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
Movement in loss allowance account:			
At 1 January	295	–	–
Charge for the year	–	295	–
Written back	(117)	–	–
	<u>178</u>	<u>295</u>	<u>–</u>

**18. INVENTORIES**

	Group		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
Finished goods	29,409	28,719	35,276
Inventories-in-transit	825	1,002	1,445
	<u>30,234</u>	<u>29,721</u>	<u>36,721</u>

The inventories are stated net of allowance as follows:

	Group		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
At 1 January	4,793	5,926	2,122
(Written-back)/Charge for the year, net	(943)	(886)	4,187
Written off	(684)	(211)	(356)
Acquisition of a subsidiary	–	52	–
Exchange differences	(21)	(88)	(27)
At 31 December	<u>3,145</u>	<u>4,793</u>	<u>5,926</u>

During the year ended 31 December 2018 and 31 December 2017, previous write-downs have been reversed as a result of the sale of goods (that were previously written down) being sold above the previous net realisable value.

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**19. INTEREST BEARING LOANS AND BORROWINGS**

	Group			Company		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
	Repayable within 12 months:					
Trust receipts						
– unsecured	–	–	618	–	–	–
Term loans						
– secured	1,100	1,309	1,017	–	–	–
– unsecured	11,700	8,800	26,714	8,000	8,800	14,714
	<b>12,800</b>	10,109	28,349	<b>8,000</b>	8,800	14,714
Repayable after 12 months:						
Term loans						
– secured	18,410	26,080	23,437	–	–	–
	<b>31,210</b>	36,189	51,786	<b>8,000</b>	8,800	14,714

Bank borrowings of certain subsidiaries are secured on certain freehold and leasehold land and properties (Note 11), investment properties (Note 14) and corporate guarantees from holding company (Note 30(d)).

The term loans for Group and Company are repayable in fixed monthly, quarterly or half yearly instalments over a period ranging from 1 month to 3 months for the unsecured loans and up to 24 years for the secured loans. Other borrowings are repayable within twelve months.

The floating rate term loans bear interest of approximately 1.78% to 3.15% (31 December 2017: 1.40% to 2.75%; 1 January 2017: 1.76% to 2.75%) per annum, and are repriced on monthly to half-yearly basis.

As at 1 January 2017, trust receipts had an average maturity of 90 to 120 days and bore interest ranging from 1% to 2.55% per annum.

*Reconciliation of liabilities arising from financing activities*

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

Group

	<u>\$'000</u>
Loans and borrowings:	
As at 1 January 2017	51,786
Acquisition of a subsidiary	159
Financing cash flow <sup>(1)</sup>	(15,756)
As at 31 December 2017	36,189
Capital injection by non-controlling shareholders of a subsidiary	(115)
Financing cash flow <sup>(1)</sup>	(4,864)
As at 31 December 2018	<b>31,210</b>

(1) The cash flows make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows.

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### 20. TRADE AND OTHER CREDITORS

	Group			Company		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
	Trade creditors and accruals	13,313	13,500	11,325	577	411
<b>Other creditors</b>						
Contract liabilities	417	492	418	12	–	–
Rental deposits	380	394	417	8	6	14
Sundry creditors	47	128	84	8	382	56
Derivatives	–	–	88	–	–	–
	844	1,014	1,007	28	388	70
Amounts due to related parties (Note 21)	2,384	2,389	2,393	–	–	–
Loans and borrowings (Note 19)	31,210	36,189	51,786	8,000	8,800	14,714
Less: Contract liabilities and derivatives	(417)	(492)	(506)	(12)	–	–
Total financial liabilities carried at amortised cost	<u>47,334</u>	<u>52,600</u>	<u>66,005</u>	<u>8,593</u>	<u>9,599</u>	<u>15,218</u>

Trade and other creditors are non-interest bearing. Trade creditors are normally settled on 30 to 90 days terms (2017: 30 to 90 days terms) while other creditors are normally settled on 30 days terms (2017: 30 days terms).

During the financial year ended 31 December 2018, the deferred consideration of \$348,500 has been waived following the transfer of operations from Acee to KHPL during the year to provide wider offerings of products to our customers under KHPL.

As at 31 December 2017, included in the Company's sundry creditors is a deferred consideration of \$348,500 arising from acquisition of Acee (Note 12).

Contract liabilities mainly represent amounts received in advance of delivery for sale of goods. Information on revenue recognition of sale of goods is disclosed in Note 2.21 and Note 5. This amount is recognised as contract liabilities until the goods have been delivered to the customer.

### 21. AMOUNTS DUE TO RELATED PARTIES

	Group		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
<b>Trade:</b>			
Amounts due to companies in which non-controlling shareholders of a subsidiary have interest in	–	5	9
<b>Non-trade:</b>			
Amounts due to non-controlling shareholders of a subsidiary	2,384	2,384	2,384
Total amounts due to related parties	<u>2,384</u>	<u>2,389</u>	<u>2,393</u>

The amounts due to the above related parties are unsecured, non-interest bearing and are due within 12 months from the financial year ended.

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**22. DEFERRED TAXATION**

Deferred taxation as at 31 December relates to the following:

	Group						Company								
	Consolidated statement of financial position			Consolidated statement of profit or loss			Consolidated equity			Statement of financial position			Equity		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Deferred tax liabilities</b>	<b>107</b>	<b>103</b>	<b>107</b>	<b>4</b>	<b>(4)</b>	<b>(13)</b>	<b>-</b>	<b>-</b>	<b>102</b>	<b>102</b>	<b>102</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation															
Revaluations to fair value:															
– Investment properties	903	824	826	102	21	22	-	-	-	-	-	-	-	-	-
– Freehold and leasehold land and buildings	3,357	2,459	2,357	-	-	-	900	101	3,134	2,269	2,172	865	97		
Other temporary differences	(24)	(64)	(14)	28	(82)	(13)	-	-	(7)	(7)	(7)	-	-	-	-
Tax losses	(219)	(295)	(626)	76	231	(211)	-	-	-	-	-	-	-	-	-
	<b>4,124</b>	<b>3,027</b>	<b>2,750</b>	<b>210</b>	<b>166</b>	<b>(215)</b>	<b>900</b>	<b>101</b>	<b>3,229</b>	<b>2,364</b>	<b>2,267</b>	<b>865</b>	<b>97</b>		
Deferred tax expense/(income) (Note 9)															

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### 22. DEFERRED TAXATION (CONTINUED)

Certain deferred tax assets and liabilities have been offset in accordance with the Group and Company's accounting policy. The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	Group			Company		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
Deferred tax liabilities	4,356	3,377	3,276	3,229	2,364	2,267
Deferred tax assets	(232)	(350)	(526)	–	–	–
	<b>4,124</b>	<b>3,027</b>	<b>2,750</b>	<b>3,229</b>	<b>2,364</b>	<b>2,267</b>

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is \$16,151,000 (31 December 2017: \$15,406,000; 1 January 2017: \$14,567,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Subject to the agreement by the tax authorities, at the end of the reporting period, the Group and Company has unutilised tax losses of \$13,324,000 (31 December 2017: \$15,066,000; 1 January 2017: \$13,936,000) and \$1,043,000 (31 December 2017: \$2,095,000; 1 January 2017: \$1,569,000) respectively, available for offset against future profits. A deferred tax asset at the Group and Company has been recognised in respect of \$966,000 (31 December 2017: \$1,305,000; 1 January 2017: \$2,114,000) and \$Nil (31 December 2017: \$Nil; 1 January 2017: \$Nil), respectively of such losses. No deferred tax asset has been recognised at the Group and Company in respect of the remaining \$12,358,000 (31 December 2017: \$13,761,000; 1 January 2017: \$11,822,000) and \$1,043,000 (31 December 2017: \$2,095,000; 1 January 2017: \$1,569,000) respectively due to the unpredictability of future profit streams.

### 23. SHARE CAPITAL

	Group and Company					
	31 December 2018 '000	31 December 2017 '000	1 January 2017 '000	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
	<b>No. of shares</b>					
<b>Issued and fully paid ordinary shares:</b>						
Balance at beginning and end of the year	<b>234,060</b>	234,060	234,060	<b>31,658</b>	31,658	31,658

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

### 24. DIVIDEND

There was no declared and paid dividend in 2018 and 2017.

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**25. CASH AND CASH EQUIVALENTS**

Certain cash at banks earn interest at floating rates based on daily bank deposit rates.

	Group			Company		
	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000	31 December 2018 \$'000	31 December 2017 \$'000	1 January 2017 \$'000
Cash at banks and on hand	4,847	6,128	11,414	36	118	6,197
Cash and cash equivalents in the statement of cash flows	4,847	6,128	11,414	N/A	N/A	N/A

**26. DERIVATIVES**

	Group		
	Contract/ Notional amount \$'000	Assets \$'000	Liabilities \$'000
31 December 2018 Forward currency contracts	–	–	–
31 December 2017 Forward currency contracts	136	–	*
1 January 2017 Forward currency contracts	2,445	–	(88)

Forward currency contracts are used to manage significant foreign currency risk arising from the Group's sales and purchases denominated in EUR, JPY and USD where practicable and are due for settlement within 6 months (2017: 6 months) from the end of the reporting period.

Net unrealised loss on derivatives of \$Nil (2017: \$1,000) has been included in foreign exchange loss in the consolidated statement of profit or loss.

\* denotes amount less than \$1,000

**27. COMMITMENTS**

**(a) Capital commitments**

	Group	
	31 December 2018 \$'000	31 December 2017 \$'000
Commitment for acquisition of an investment property	–	1,948



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**27. COMMITMENTS (CONTINUED)**

**(b) Operating lease commitments**

*As lessee*

The Group leases certain properties under lease agreements for operating use. The leases expire at various dates till 2057. Minimum lease payment recognised as an expense in profit or loss for the financial year ended 31 December 2018 amounted to \$595,000 (2017: \$712,000).

Future minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	31 December 2018 \$'000	31 December 2017 \$'000
Not later than one year	419	449
Later than one year but not later than five years	863	892
Later than five years	4,850	5,001
	6,132	6,342

*As lessor*

The Group has entered into commercial property leases on its investment properties. Rental income earned for these leases are disclosed in Note 5 to the financial statements.

Future minimum lease payments receivable under non-cancellable operating leases as at 31 December are as follows:

	Group	
	31 December 2018 \$'000	31 December 2017 \$'000
Not later than one year	1,310	1,940
Later than one year but not later than five years	335	1,386
	1,645	3,326

**28. CONTINGENT LIABILITY**

On 28 December 2017, the Board announced that the Company and its wholly-owned subsidiary Kian Ho Pte Ltd (“KHPL”) had, on 26 December 2017, been served with a writ of summons endorsed with a statement of claim, filed by Shenzhen Zhaoheng Industrial Co., Ltd (“SZZH”) in the High Court of the Republic of Singapore (“HC/S1210/2017”) dated 22 December 2017. SZZH is claiming from the Company a sum of approximately \$335,000 and from KHPL a sum of approximately \$215,000. The Company and KHPL have disputed the claims made by SZZH and the trial of HC/S 1210/2017 is currently fixed for April 2019.

The Group’s legal counsel has advised that the Company and KHPL has more than an even chance of succeeding in its defence against the claim and the Board does not consider that there is currently any probability of loss, and accordingly no provision for any liability has been made in these financial statements.

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**29. SIGNIFICANT RELATED PARTY TRANSACTIONS**

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group entities with related parties took place during the year at terms and rates agreed between the parties:

**(a) Sale and purchase of goods and services and other transactions**

	Group	
	2018 \$'000	2017 \$'000
Purchase of goods/services from companies in which non-controlling shareholders of a subsidiary have interest in	117	201
Sale of goods to an associate	7	13
	7	13

**(b) Compensation of directors and key management personnel**

	Group	
	2018 \$'000	2017 \$'000
– Directors of the Company		
Short-term benefits	744	782
Post-employment benefits	20	25
– Other directors of subsidiaries		
Short-term benefits	211	157
Post-employment benefits	10	19
– Key management personnel		
Short-term benefits	649	691
Post-employment benefits	68	60
	68	60

**30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise bank loans and overdraft and cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group may also enter into derivative transactions, including principally interest rate swaps and forward currency contracts as and when it is required. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of financing.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

**(a) Foreign currency risk**

The Group has exposure to foreign currency risks as a result of transactions denominated in a currency other than the respective functional currencies of Group entities, arising from sales and purchases, mainly by movements in exchange rates for the United States Dollars (USD). The Group's trade receivable and trade payable balances at the reporting date have similar exposures.

The Group aims to use forward currency contracts to minimise currency exposures. It is the Group's policy not to enter into forward contracts until a firm payment commitment is in place. The Group reviews regularly the currency exposures and enters into forward contracts as and when deemed necessary. The Group does not use forward currency contracts for speculative trading purposes.

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

### 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### (a) Foreign currency risk (Continued)

The Group is also exposed to currency translation risk arising from its net investments in foreign operations, including Malaysia, Indonesia, People's Republic of China (PRC) and Hong Kong. The Group's investments are not hedged as currency positions in the subsidiaries are considered to be long term in nature.

Significant financial assets of the Group and Company that are not denominated in the functional currencies of the respective entities amounted to \$5,440,000 (31 December 2017: \$6,549,000; 1 January 2017: \$9,263,000) and \$1,030,000 (31 December 2017: \$1,585,000; 1 January 2017: \$1,222,000) respectively denominated in United States dollars.

Significant financial liabilities of the Group that are not denominated in the functional currencies of the respective entities amounted to \$3,512,000 (31 December 2017: \$3,861,000; 1 January 2017: \$2,819,000) denominated in United States dollars.

The sensitivity rate used is 5% which is the change in foreign exchange rate that management deems reasonably possible which will affect outstanding foreign currency denominated monetary items at period end.

For the Company, if the United States dollars was to strengthen/weaken by 5% against the Singapore dollar, profit before tax will increase/decrease by \$52,000 (31 December 2017: increase/decrease by \$79,000; 1 January 2017: increase/decrease by \$61,000).

For the Group, if the United States dollar was to strengthen/weaken by 5% against the Singapore dollar, profit before tax will increase/decrease by \$96,000 (31 December 2017: increase/decrease by \$134,000; 1 January 2017: \$322,000).

#### (b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from interest bearing loans and borrowings.

##### Sensitivity analysis for interest rate risk

If interest rates had been 100 basis points higher or lower with all other variables were held constant, the Group's and Company's profit for the financial year ended 31 December 2018 would decrease/increase by \$312,000 (31 December 2017: \$362,000; 1 January 2017: \$512,000) and \$80,000 (31 December 2017: \$88,000; 1 January 2017: \$147,000) respectively.

#### (c) Credit risk

Credit risk is the risk that may arise on outstanding financial instruments should a counterparty default on its obligation. The Group and the Company have no significant concentration of credit risk with any single customer or group of customers. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group and the Company minimise credit risk by dealing exclusively with reputable counterparties.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

**30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**(c) Credit risk (Continued)**

The Group develops and maintains its credit risk grading to categorise according to their degree of risk of default. The Group uses its own internal trading records to rate its major customers and other debtors.

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit-impaired
In default	Amount is >120 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off

The assessment of the credit quality and exposure to credit risk of the Group's trade and other receivables have been disclosed in Note 16. The tables below detail the credit quality of the Group's financial assets and other items, as well as maximum exposure to credit risk by credit risk rating grades:

The table below details the credit quality of the Group's financial assets as well as maximum exposure to credit risk by credit risk rating grades:

Group	Note	Internal credit rating	12-month or lifetime ECL \$'000	Gross carrying amount \$'000	Loss allowance \$'000	Net carrying amount \$'000
<b>31 December 2018</b>						
Trade receivables	16	(i)	Lifetime ECL (simplified approach)	11,947	(1,116)	10,831
Other receivables	17	Performing	12-month ECL	259	(178)	81
					<u>(1,294)</u>	
<b>31 December 2017</b>						
Trade receivables	16	(i)	Lifetime ECL (simplified approach)	14,714	(992)	13,722
Other receivables	17	Performing	12-month ECL	627	(295)	332
					<u>(1,287)</u>	

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**30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

(c) **Credit risk (Continued)**

<b>Group</b>	<b>Note</b>	<b>Internal credit rating</b>	<b>12-month or lifetime ECL \$'000</b>	<b>Gross carrying amount \$'000</b>	<b>Loss allowance \$'000</b>	<b>Net carrying amount \$'000</b>
<b>1 January 2017</b>						
Trade receivables	16	(i)	Lifetime ECL (simplified approach)	15,022	(711)	14,311
Other receivables	17	Performing	12-month ECL	958	–	958
					(711)	
<b>Company</b>						
<b>31 December 2018</b>						
Other receivables	17	Performing	12-month ECL	205	(178)	27
Amount due from subsidiaries	16	Performing	12-month ECL	30,433	–	30,433
					(178)	
<b>Company</b>						
<b>31 December 2017</b>						
Other receivables	17	Performing	12-month ECL	339	(295)	44
Amount due from subsidiaries	16	Performing	12-month ECL	28,090	–	28,090
					(295)	
<b>Company</b>						
<b>1 January 2017</b>						
Other receivables	17	Performing	12-month ECL	896	–	896
Amount due from subsidiaries	16	Performing	12-month ECL	23,914	–	23,914
					–	

- (i) For trade and other receivables, the Group has applied the simplified approach in SFRS(I) 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items based on historical credit loss experience and the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Notes 16 and 17 include further details on the loss allowance for these receivables.

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## **NOTES TO THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

**30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**(c) Credit risk (Continued)**

Exposure to credit risk

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by:

- the carrying amount of each class of financial assets recognised in the statements of financial position and
- an amount of \$53,084,000 (2017: \$69,754,000) (Note 30(d)) relating to corporate guarantees given by the Company to financial institutions in connection with the financing facilities given to the subsidiaries and an associate.

Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement.

**(d) Liquidity risk**

Liquidity risk is the risk that the Group and the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's and the Company's liquidity risk management policy is to maintain sufficient liquid financial assets and stand-by credit facilities with various banks.

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

**30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**(d) Liquidity risk (Continued)**

**Analysis of financial instruments by remaining contractual maturities**

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the reporting date based on contractual undiscounted repayment obligations. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which is not included in the carrying amount of the financial liability on the statement of financial position.

	31 December 2018			31 December 2017			1 January 2017					
	One year or less \$'000	More than one year up to five years \$'000	Adjustments \$'000	Total \$'000	One year or less \$'000	More than one year up to five years \$'000	Adjustments \$'000	Total \$'000	One year or less \$'000	More than one year up to five years \$'000	Adjustments \$'000	Total \$'000
<b>Group</b>												
Non-interest bearing	16,124	-	-	16,124	16,411	-	16,411	14,219	-	-	-	14,219
Variable interest rate instruments (Note 19)	12,819	22,607	(4,216)	31,210	10,199	32,024	36,189	28,375	29,969	(6,558)	51,786	
	<u>28,943</u>	<u>22,607</u>	<u>(4,216)</u>	<u>47,334</u>	<u>26,610</u>	<u>32,024</u>	<u>52,600</u>	<u>42,594</u>	<u>29,969</u>	<u>(6,558)</u>	<u>66,005</u>	
<b>Company</b>												
Non-interest bearing	593	-	-	593	799	-	799	504	-	-	-	504
Variable interest rate instruments (Note 19)	8,011	-	(11)	8,000	8,818	-	8,800	14,727	-	(13)	14,714	
	<u>8,604</u>	<u>-</u>	<u>(11)</u>	<u>8,593</u>	<u>9,617</u>	<u>-</u>	<u>9,599</u>	<u>15,231</u>	<u>-</u>	<u>(13)</u>	<u>15,218</u>	

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

**30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**(d) Liquidity risk (Continued)**

The Company has given corporate guarantees of \$53,084,000 (31 December 2017: \$69,754,000; 1 January 2017: \$54,118,000) to financial institutions in connection with financing facilities given to the subsidiaries.

The maximum amount of the corporate guarantee provided by the Company to its subsidiaries are allocated to the earliest period in which the guarantee could be called are as follows:

	<b>One year or less \$'000</b>	<b>Total \$'000</b>
At 31 December 2018	<b>53,084</b>	<b>53,084</b>
At 31 December 2017	69,754	69,754
At 1 January 2017	54,118	54,118

Non-derivative financial assets

The Group's and Company's non-derivative financial assets are due on demand or within 12 months from the end of reporting period and are interest free.

No sensitivity analysis is prepared on the Group's financial assets as the management does not expect any material effect on the Group's profit or loss arising from the effects of reasonably possible changes to interest rates on interest bearing financial assets at the end of the reporting period.

**31. FAIR VALUE OF FINANCIAL INSTRUMENTS**

**A. Fair value of financial instruments that are carried at fair value**

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy:

**Group**

	<b>(Level 1) \$'000</b>	<b>(Level 2) \$'000</b>	<b>(Level 3) \$'000</b>	<b>Total \$'000</b>
Financial liabilities:				
Derivatives (Note 26)				
– Forward currency contracts:				
At 31 December 2018	–	–	–	–
At 31 December 2017	–	*	–	*
At 1 January 2017	–	(88)	–	(88)

\* denotes amount less than \$1,000

The fair value of forward foreign exchange contracts is determined using observable quoted forward currency rates for equivalent instruments with similar quantum and maturity dates as at the reporting date. Accordingly, these investments are classified as Level 2.

There was no transfer between Level 1 and Level 2 of the fair value hierarchy during the year and prior years.



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# NOTES TO THE FINANCIAL STATEMENTS

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### 31. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### B. Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

Management has determined that the carrying amounts of cash and short term deposits, trade and other receivables, bank borrowings, trade and other payables, amount due from an associate, amount due from/to related parties and bank loans, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are re-priced frequently.

### 32. CAPITAL MANAGEMENT

The capital structure of the Group consists of equity attributable to owners of the parent, comprising issued capital and reserves.

The Group manages its capital and structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

### 33. SUBSEQUENT EVENT

On 9 January 2019, the Company announced that it is proposing to undertake a renounceable non-underwritten rights issue of up to 234,060,000 new ordinary shares in the capital of the Company, subject to approval of shareholders.

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## APPENDIX V – MATERIAL CONTRACTS WITH INTERESTED PERSONS

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No.	Date of contract	Names of parties	Description	Consideration	Salient terms and conditions
1.	15 September 2016	(1) Teo Xian-Hui Amanda Marie (2) Acker Machinery (Shanghai) Co., Ltd	Rental expenses for premises at 5th floor, Sapphire Tower No.267 Tianmu Zhong Road, Shanghai, China	Annual rent of \$143,000	The demised premises are let out to the Shanghai subsidiary of the Company for the term from 1 October 2016 to 30 September 2019.

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