28 June 2019

*To the Independent Board Committee of*
*Kakiko Group Limited*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY
GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED
FOR AND ON BEHALF OF FULL FORTUNE INTERNATIONAL CO., LTD
TO ACQUIRE ALL THE ISSUED SHARES OF
KAKIKO GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY
FULL FORTUNE INTERNATIONAL CO., LTD
AND PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to make recommendations to the independent board committee (the "**Independent Board Committee**") of Kakiko Group Limited (the "**Company**") in relation to the unconditional mandatory cash offer (the "**Offer**") for all the issued shares of the Company (other than those already owned or agreed to be acquired by Full Fortune International Co., Ltd (the "**Offeror**") and parties acting in concert with it) being made by Guotai Junan Securities (Hong Kong) Limited ("**Guotai Junan Securities**") for and on behalf of the Offeror. Details of the Offer are disclosed in the composite offer and response document in respect of the Offer jointly issued by the Offeror and the Company dated 28 June 2019 (the "**Composite Document**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

On 27 May 2019 (before trading hours), the Offeror (being purchaser) entered into the SP Agreement with, among others, the Vendor (being seller) and Mr. Kuah Ann Thia, pursuant to which the Offeror agreed to acquire from the Vendor the Acquired Shares for a consideration of HK$257,100,000 (equivalent to approximately HK$0.4064822 per Acquired Share). Completion took place immediately after signing of the SP Agreement on 27 May 2019.

Astrum Financial Holdings Limited 阿仕特朗金融控股有限公司
Astrum Capital Management Limited 阿仕特朗資本管理有限公司
Room 2704, 27/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong General Line : (852) 3665 8111 Fax : (852) 2559 2880, 2559 7800

Upon Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it owned an aggregate 632,500,000 Shares (representing approximately 51.42% of the issued share capital of the Company). Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

## THE INDEPENDENT BOARD COMMITTEE

Pursuant to Rule 2.1 and Rule 2.8 of the Takeovers Code, the Independent Board Committee comprising all the non-executive Directors, namely Mr. Lu Yong, Mr. Ong Shen Chieh (also known as Mr. Wang Shengjie), Mr. Lau Kwok Fai Patrick and Mr. Lam Raymond Shiu Cheung, has been established to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance of the Offer. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee in this regard. Our appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not connected with the Company, the Vendor, Mr. Kuah Ann Thia, the Offeror or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them and accordingly, are considered suitable to give independent advice to the Independent Board Committee in respect of the Offer. Apart from the normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Vendor, Mr. Kuah Ann Thia, the Offeror or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them.

## BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, amongst others, the Joint Announcement, the annual reports of the Company for the years ended 31 December 2017 and 31 December 2018 (the "**2017 Annual Report**" and "**2018 Annual Report**", respectively), the prospectus of the Company and the information contained in the Composite Document. We have also discussed with and reviewed the information provided by the management of the Group (the "**Management**") regarding the business and outlook of the Group.

We have relied on the information and facts provided, and the opinions expressed, by the Directors and the Management, which we have assumed to be true, accurate, complete and not misleading in all material aspects as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have sought and received confirmation from the Directors and the Management that no material facts have been omitted from the information provided and opinions expressed by them to us. We consider that the information which we have received is sufficient for us to reach our opinion and recommendations as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material information has been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group nor have we carried out any independent verification of the information provided.

We have not considered the tax and regulatory implications on the Independent Shareholders of their acceptances or non-acceptances of the Offer since these are particular to their own individual circumstances. In particular, the Independent Shareholders who are residents outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Offer and, if in any doubt, should consult their own professional advisers.

*For illustration purposes, conversion of S$ into HK$ as stated in this letter was based on the exchange rate of S$0.1758 to HK$1.0000.*

**PRINCIPAL TERMS OF THE OFFER**

Guotai Junan Securities, for and on behalf of the Offeror, makes the Offer to acquire all the Offer Shares on terms set out in the Composite Document in compliance with the Takeovers Code on the following basis:

**For each Offer Share . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . HK$0.4065 in cash**

The Offer Price is approximately equal to but not lower than the purchase price per Acquired Share paid by the Offeror under the SP Agreement. The Offer is unconditional in all respects.

As at the Latest Practicable Date, the Company had 1,230,000,000 Shares in issue, and had no other outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares and the Company had no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date. Taking into account 632,500,000 Shares that are already owned or agreed to be acquired by the Offeror and parties acting in concert with it, a total of 597,500,000 Shares are subject to the Offer.

For further details of the Offer (including the terms and procedures for acceptance of the Offer), please refer to the "Letter from Guotai Junan Capital" as set out on pages 6 to 14 of the Composite Document, Appendix I to the Composite Document and the accompanying Form of Acceptance.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of the Offer, we have considered the following principal factors and reasons:

### 1. Business, financial performance and prospects of the Group

#### *A. Business of the Group*

The Group is principally engaged in the provision of manpower outsourcing and ancillary services, provision of dormitory services, and provision of IT services and construction ancillary services for the building and construction industry.

According to the annual reports of the Company, provision of manpower outsourcing and ancillary services is regarded as the core business of the Group, contributing over 80% of the Group's total revenue for each of the three years ended 31 December 2018. As advised by the Management, the Group provides manpower outsourcing and ancillary services by (i) recruiting, employing, training and remunerating foreign workers from Bangladesh and India as the Group's employees in Singapore, and (ii) deploying them to perform various construction works of different construction trades at the work sites designated by the Group's customers in Singapore.

*B.* ***Financial information of the Group***

Set forth below are the audited consolidated financial information of the Group for the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 ("**FY2016**", "**FY2017**" and "**FY2018**", respectively) as extracted from the 2017 Annual Report and the 2018 Annual Report, respectively:

*Table 1: Financial information of the Group*

| | FY2016<br>*S$*<br>(audited) | FY2017<br>*S$*<br>(audited) | FY2018<br>*S$*<br>(audited) |
|---|---|---|---|
| Revenue | 45,050,836 | 44,441,142 | 47,457,263 |
| Manpower outsourcing and ancillary services | 37,977,761 | 36,394,609 | 41,249,556 |
| Dormitory services | 5,464,291 | 5,260,452 | 5,228,727 |
| Construction ancillary services | 716,364 | 2,046,241 | 451,760 |
| IT services | 892,420 | 739,840 | 527,220 |
| Gross profit | 15,512,476 | 11,721,271 | 8,889,834 |
| Profit/(Loss) before taxation | 7,581,541 | 3,146,884 | (3,856,113) |
| Profit/(Loss) attributable to owners of the Company for the year | 6,619,789 | 2,277,773 | (3,538,952) |

| | As at<br>31 December<br>2016<br>*S$*<br>(audited) | As at<br>31 December<br>2017<br>*S$*<br>(audited) | As at<br>31 December<br>2018<br>*S$*<br>(audited) |
|---|---|---|---|
| Non-current assets | 3,435,026 | 5,232,856 | 5,178,933 |
| Current assets | 23,112,473 | 32,886,571 | 28,626,685 |
| Current (liabilities) | (16,555,174) | (8,571,470) | (8,499,639) |
| Net current assets | 6,557,299 | 24,315,101 | 20,127,046 |
| Non-current (liabilities) | (19,813) | (196,872) | (417,819) |
| Equity attributable to owners of the Company | 9,972,512 | 29,351,085 | 24,888,160 |

*Source: the 2017 Annual Report and the 2018 Annual Report* *(i) For the year ended 31 December 2017 (i.e. FY2017)*

In FY2017, the Group recorded total revenue of approximately S$44.4 million, representing a slight decrease of approximately 1.4% as compared to approximately S$45.1 million in FY2016. Such decrease was mainly attributable to the decline in revenue from manpower outsourcing and ancillary services of approximately S$1.6 million due to (i) the adoption of a more aggressive pricing strategy by the Group in order to secure new contracts due to the intensifying competition; and (ii) the rescheduling of several major infrastructure contracts in Singapore in FY2017. The effect of the decrease in revenue from manpower outsourcing and ancillary services was partially offset by the increase in revenue from construction ancillary services of approximately S$1.3 million due to the increase in number of projects awarded to the Group in relation to cleaning services, building maintenance and renovation works in FY2017. The Group's gross profit also decreased by approximately 24.4% from approximately S$15.5 million in FY2016 to approximately S$11.7 million in FY2017, and the gross profit margin decreased by approximately 8.1 percentage points from approximately 34.4% in FY2016 to approximately 26.4% in FY2017. As advised by the Management, the decrease in gross profit margin was mainly due to (i) the adoption of a more aggressive pricing strategy as mentioned above; and (ii) the increase in wages and levies of the foreign workers as a result of (a) the increase in number of workers retained and recruited in preparation for the upcoming large-scale public sector projects; and (b) the increase in levy charges imposed by the Singapore Government during FY2017.

In FY2017, the Group recorded profit attributable to owners of the Company of approximately S$2.3 million, representing a significant decrease of approximately 65.6% as compared to approximately S$6.6 million in FY2016. Such decrease was primarily attributable to (i) the decrease in gross profit of approximately S$3.8 million; and (ii) the non-recurring listing expenses of approximately S$2.3 million incurred by the Group during FY2017 (FY2016: approximately S$0.6 million) in relation to the listing of the issued Shares on the Stock Exchange in October 2017 (the "**Listing**"), which was partially offset by (a) the increase in other income of approximately S$0.9 million; and (b) the decrease in administrative expenses of approximately S$0.8 million.

The total assets of the Group increased by approximately S$11.6 million from approximately S$26.5 million as at 31 December 2016 to approximately S$38.1 million as at 31 December 2017. The total assets of the Group as at 31 December 2017 mainly comprised (i) bank balances and cash of approximately S$21.7 million (31 December 2016: approximately S$15.7 million); (ii) trade receivables of approximately S$8.0 million (31 December 2016: approximately S$5.0 million); (iii) property, plant and equipment of approximately S$3.7 million (31 December 2016: approximately S$3.4 million); (iv) other receivables, deposits and prepayments of approximately S$3.1 million (31 December 2016: approximately S$2.0 million); and (v) other financial assets at fair value through profit or loss of approximately S$1.3 million (31 December 2016: nil).

The total liabilities of the Group decreased by approximately S$7.8 million from approximately S$16.6 million as at 31 December 2016 to approximately S$8.8 million as at 31 December 2017. The total liabilities of the Group as at 31 December 2017 mainly comprised (i) trade and other payables of approximately S$7.4 million (31 December 2016: approximately S$6.8 million); and (ii) income tax payable of approximately S$1.2 million (31 December 2016: approximately S$2.0 million).

The equity attributable to owners of the Company increased drastically by approximately 194.3% from approximately S$10.0 million as at 31 December 2016 to approximately S$29.4 million as at 31 December 2017 as a result of (i) the increase in share capital of approximately S$2.1 million and the increase in share premium of approximately S$15.0 million as a result of the Listing; and (ii) the profits of approximately S$2.3 million recorded in FY2017.

*(ii) For the year ended 31 December 2018 (i.e. FY2018)*

In FY2018, the Group recorded total revenue of approximately S$47.5 million, representing an increase of approximately 6.8% as compared to approximately S$44.4 million in FY2017. Such increase was mainly attributable to the increase in revenue from manpower outsourcing and ancillary services of approximately S$4.9 million due to the rescheduling of several major infrastructure contracts in Singapore from FY2017 to FY2018 which resulted in an increase in the demand for manpower sourcing services in FY2018. The effect of the improvement in revenue from manpower outsourcing and ancillary services was partially offset by the decrease in revenue from construction ancillary services of approximately S$1.6 million due to the decrease in the number of projects awarded to the Group in relation to cleaning services, building maintenance and renovation works in FY2018. Despite the increase in revenue, the Group's gross profit decreased by approximately 24.2% from approximately S$11.7 million in FY2017 to approximately S$8.9 million in FY2018, and the gross profit margin decreased by approximately 7.6 percentage points from approximately 26.4% in FY2017 to approximately 18.7% in FY2018. The decrease in gross profit margin was mainly due to (i) the increase in wages and levies of the foreign workers as a result of the increase in the number of retained workers in FY2018 as compared to that in FY2017 for the large-scale public sector projects; and (ii) the increase in foreign worker levy charges imposed by the Singapore Government since July 2017.

In FY2018, the Group recorded loss attributable to owners of the Company of approximately S$3.5 million as compared to profit attributable to owners of the Company of approximately S$2.3 million in FY2017. Such change was mainly attributable to (i) the increase in administrative expenses of approximately S$5.7 million (which was, in turn, primarily attributable to (a) the increase in directors' remuneration by approximately S$1.4 million; (b) the increase in staff salaries, bonuses, allowances, welfare and employee benefits by approximately S$2.0 million in FY2018; (c) the increase in travelling and entertainment expenses by approximately S$0.6 million; and (d) the one-off referral fee for leasing of a dormitory of approximately S$0.50 million); and (ii) the decrease in gross profit of approximately S$2.8 million, which was partially offset by the absence of one-off listing expense in FY2018 (FY2017: approximately S$2.3 million).

The total assets of the Group decreased by approximately S$4.3 million from approximately S$38.1 million as at 31 December 2017 to approximately S$33.8 million as at 31 December 2018. The total assets of the Group as at 31 December 2018 mainly comprised (i) bank balances and cash of approximately S$16.0 million (31 December 2017: approximately S$21.7 million); (ii) trade receivables of approximately S$7.5 million (31 December 2017: approximately S$8.0 million); (iii) property, plant and equipment of approximately S$3.2 million (31 December 2017: approximately S$3.7 million); (iv) financial assets at fair value through profit or loss of approximately S$3.0 million (31 December 2017: approximately S$1.4 million); and (v) other receivables, deposits and prepayments of approximately S$2.1 million (31 December 2017: approximately S$3.0 million).

The total liabilities of the Group increased slightly by approximately S$0.1 million from approximately S$8.8 million as at 31 December 2017 to approximately S$8.9 million as at 31 December 2018. The total liabilities of the Group as at 31 December 2018 mainly comprised (i) trade and other payables of approximately S$7.5 million (31 December 2017: approximately S$7.4 million); and (ii) contract liabilities of approximately S$0.6 million (31 December 2017: nil).

The equity attributable to owners of the Company decreased from approximately S$29.4 million as at 31 December 2017 to approximately S$24.9 million as at 31 December 2018. Such decrease was mainly attributable to the loss of approximately S$3.5 million recorded in FY2018.

*(iii) Analysis*

Having considered (i) the decreasing trend of the Group's gross profit for the last three financial years; and (ii) the change from net profit position in FY2017 to net loss position in FY2018, it is uncertain as to whether the Group can improve its financial performance in the near future. Those Independent Shareholders who wish to retain some or all of the Shares should consider the past financial performance of the Group and the business prospects of the Group as detailed in the paragraph headed "C. Business prospects of the Group" below, or otherwise are reminded to closely monitor the development of the Group and the publications of the Company (including the Composite Document) in this regard.

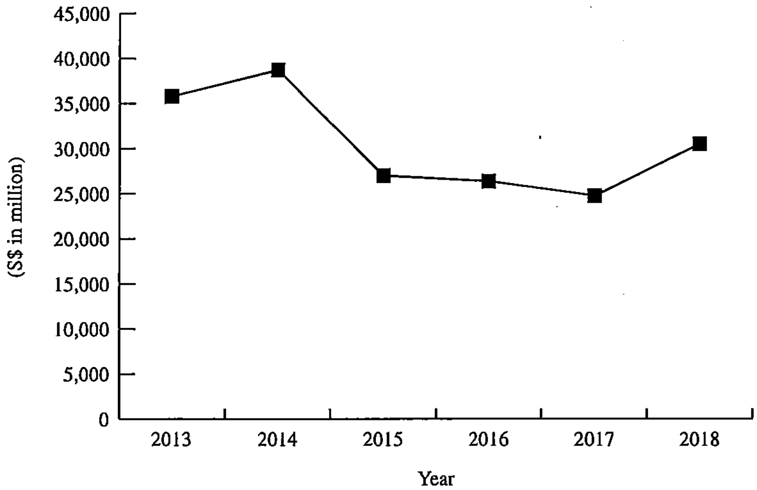
***C. Business prospects of the Group***

The Group is principally engaged in the provision of manpower outsourcing and ancillary services, provision of dormitory services, and provision of IT services and construction ancillary services for the building and construction industry in Singapore.

As advised by the Management, the labour demand for the building and construction industry is highly dependent on the progress of the ongoing projects and may vary from time to time. Therefore, the prospect of the Group is predominately affected by the development of the construction industry in Singapore. As disclosed in the 2018 Annual Report, after Singapore government had imposed cooling measures (including the increase in additional buyer's stamp duty and tightening loan-to-value), the recovery of the building and construction scene in the private sector have been dampened, and the current cycle of en-bloc fever was effectively ended. In January 2019, the Building Construction Authority of Singapore estimated that the total value of construction contracts to be awarded in 2019 could be in the upper limit of S$32 billion. The construction of public infrastructure projects in Singapore helps to mitigate the slow recovery of the private sector and opens up new doors for the industry.

We have conducted research on the construction industry in Singapore through public domains. Set out below is the diagram showing the total value of contracts awarded in the public and private sector in Singapore from 2013 to 2018:

**Chart 1: Total value of contracts awarded in the public and private sector in Singapore**




*Source: Department of Statistics Singapore*

As shown in Chart 1 above, the total value of contracts awarded in the public and private sector in Singapore exhibited a generally downward trend from approximately S$35,803.6 million in 2013 to approximately S$24,798.5 million in 2017 but rebounded to approximately S$30,535.2 million in 2018. It is expected that the construction demand over the medium term will continue to be supported by the large-scale public infrastructure projects (such as the Cross Island Line, developments at Jurong Lake District and Changi Airport Terminal 5). According to the forecast on construction demand published by the Building and Construction Authority of Singapore, the value of contracts awarded in the public and private sector is projected to be in the upper limit of S$32.0 billion in 2019 as compared to that of S$30.5 billion in 2018. Such positive projection is primarily based on the rise in public construction demand boosted by major infrastructure projects and a pipeline of major industrial building projects in Singapore while the demand arising from private sectors is expected to remain relatively stable. The total forecasted demand is expected to further increase to a range between S$27.0 billion and S$34.0 billion per year for 2020 and 2021 and between S$28.0 billion and S$35.0 billion per year for 2022 and 2023. The sustained growth in construction industry is expected to provide a positive impact on the prospect of the Group.

Despite the optimistic outlook of the construction industry in Singapore, the increasing foreign worker levy may be a non-negligible factor which might hinder the development and prospect of the Group. In the past few years, the Ministry of Manpower of Singapore ("**MOM**") has introduced various measures to reduce the country's dependency on foreign construction workers. In particular, the monthly rate of foreign worker levy for basic skilled workers under the construction sector has increased from S$550 to S$650 effective from 1 July 2016 and further increased to S$700 effective from 1 July 2017. As advised by the Management, the increase in foreign worker levy (which is fully absorbed by the Group during its operation) was one of the major factors that led to the increase in the operation costs of the Group. The increase in foreign worker levy, together with the increase in foreign workers' wages and workers' related costs (which are fully absorbed by the Group during its operation) and the increase in depreciation of property, plant and equipment, led to the decrease in gross profit margin from approximately 34.4% in FY2016 to approximately 18.7% in FY2018. Should the MOM continues to introduce more measures with an aim to reducing the dependency on foreign construction workers in future, the prospect of the Group would be inevitably affected.

In view of the above, we are of the opinion that there remains uncertain in the future performance of the Group.

## 2. Principal terms of the Offer

Guotai Junan Securities, for and on behalf of the Offeror, makes the Offer to acquire all the Offer Shares on terms set out in the Composite Document in compliance with the Takeovers Code on the following basis:

**For each Offer Share . . . . . . . . . . . . . . . . . . . . . . . . . HK$0.4065 in cash**

The Offer Price is approximately equal to but not lower than the purchase price per Acquired Share paid by the Offeror under the SP Agreement. The Offer is unconditional in all respects.

As at the Latest Practicable Date, the Company had 1,230,000,000 Shares in issue, and had no other outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares and the Company had no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date. Taking into account 632,500,000 Shares that are already owned or agreed to be acquired by the Offeror and parties acting in concert with it, a total of 597,500,000 Shares will be subject to the Offer.

The Offer Price of HK$0.4065 per Offer Share represents:

(i) a discount of approximately 75.80% to the closing price of HK$1.680000 per Share as quoted on the Stock Exchange immediately before trading in the Shares were halted on 27 May 2019 and being the Last Trading Day;

(ii) a discount of approximately 75.80% to the average closing price of HK$1.680000 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day (the "**5-day Average Price**");

(iii) a discount of approximately 76.50% to the average closing price of HK$1.730000 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day (the "**10-day Average Price**");

(iv) a discount of approximately 77.90% to the average closing price of approximately HK$1.839333 per Share as quoted on the Stock Exchange for the last thirty (30) consecutive trading days up to and including the Last Trading Day (the "**30-day Average Price**");

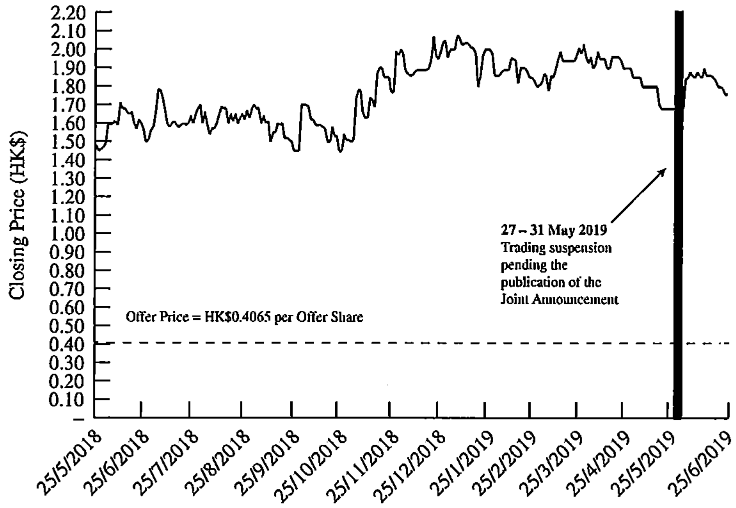
(v) a premium of approximately 253.2% over the audited consolidated net asset value attributable to owners of the Company of approximately S$0.020234 per Share (equivalent to approximately HK$0.115096) as at 31 December 2018, the date to which the latest audited consolidated financial results of the Company were made up; and

(vi) a discount of approximately 76.9% to the closing price of HK$1.760000 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

### *A. Historical price performance of the Shares*

Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 25 May 2018, being the twelve-month period prior to the Last Trading Day, up to and including the Latest Practicable Date (the "**Review Period**"):

**Chart 2: Share price performance during the Review Period**




*Source: the website of the Stock Exchange (www.hkex.com.hk)*

*Note:* Trading in the Shares was suspended from 27 May 2019 to 31 May 2019 pending the publication of the Joint Announcement.

As illustrated in Chart 2 above, during the Review Period, the closing price of the Shares ranged from the lowest closing price of HK$1.450 per Share as recorded on 28 May 2018, 24 September 2018, 26 September 2018, 27 September 2018, 24 October 2018 and 25 October 2018 to the highest closing price of HK$2.070 per Share as recorded on 19 December 2018, 7 January 2019 and 8 January 2019, with an average price of approximately HK$1.762 per Share. The Offer Price falls below the closing price of the Shares throughout the Review Period and represents (i) a discount of approximately 72.0% to the lowest closing price of the Shares; (ii) a discount of approximately 80.4% to the highest closing price of the Shares; and (iii) a discount of approximately 76.9% to the average closing price of the Shares during the Review Period, respectively.

During the period from 25 May 2018 to 31 October 2018, the closing price of the Shares remained relatively stable and traded within the range from HK$1.450 per Share to HK$1.780 per Share. The closing price of the Shares then exhibited an increasing trend and recorded the highest point of HK$2.070 per Share on 19 December 2018. We have enquired the Management regarding the increasing trend of the Share price and were advised that they are not aware of any particular reason that led to the increasing trend of the price of the Shares.

Thereafter, the closing price of the Shares exhibited a decreasing trend and closed at HK$1.680 per Share on the Last Trading Day (i.e. 24 May 2019). We have enquired the Management regarding the downward trend of the share price and were advised that save for (i) the profit warning announcement of the Company published on 16 January 2019; and (ii) the annual results announcement of the Company for FY2018 published on 28 March 2019, they are not aware of other particular reason that led to the decreasing trend of the price of the Shares.

At the request of the Company, trading in the Shares was suspended from 27 May 2019 to 31 May 2019 pending the publication of the Joint Announcement. Following the resumption of trading, the closing price of the Shares increased by approximately 9.5% to HK$1.840 per Share on 3 June 2019 (being the first trading day after the publication of the Joint Announcement) as compared to that of HK$1.680 per Share on the Last Trading Day. The closing price of the Shares, in general, fluctuated within a narrow range between HK$1.760 per Share and HK$1.900 per Share during the period commencing from 3 June 2019 to the Latest Practicable Date (the "**Post-announcement Period**"). As at the Latest Practicable Date, the closing price of the Shares was HK$1.760 per Share.

Independent Shareholders should note that the information set out above is not an indicator of the future performance of the Shares and that the price of the Shares may increase or decrease from its closing price after the Latest Practicable Date.

## B. *Historical trading volume of the Shares*

The following table sets out the trading volume of the Shares during the Review Period:

*Table 2: Trading volume of the Shares during the Review Period*

| Month/period | Total trading volume *(No. of Shares)* | No. of trading days | Average daily trading volume *(No. of Shares)* | Percentage of the average daily trading volume to the total number of issued Shares *(Note 2)* | Percentage of the average daily trading volume to the number of issued Shares held by public Shareholders *(Note 3)* | Percentage of the Average Market Volume *(Note 4)* |
|---|---|---|---|---|---|---|
| May 2018 (from 25 May 2018) | 2,845,000 | 5 | 569,000 | 0.046% | 0.095% | 0.299% *(Note 5)* |
| June 2018 | 10,905,000 | 20 | 545,250 | 0.044% | 0.091% | 0.326% |
| July 2018 | 7,240,000 | 21 | 344,762 | 0.028% | 0.058% | 0.272% |
| August 2018 | 2,765,000 | 23 | 120,217 | 0.010% | 0.020% | 0.293% |
| September 2018 | 4,601,000 | 19 | 242,158 | 0.020% | 0.041% | 0.285% |
| October 2018 | 1,680,000 | 21 | 80,000 | 0.007% | 0.013% | 0.329% |
| November 2018 | 5,520,000 | 22 | 250,909 | 0.020% | 0.042% | 0.289% |
| December 2018 | 6,395,000 | 19 | 336,579 | 0.027% | 0.056% | 0.240% |
| January 2019 | 3,575,000 | 22 | 162,500 | 0.013% | 0.027% | 0.276% |
| February 2019 | 1,890,000 | 17 | 111,176 | 0.009% | 0.019% | 0.320% |
| March 2019 | 3,100,000 | 21 | 147,619 | 0.012% | 0.025% | 0.327% |
| April 2019 | 3,000,000 | 19 | 157,895 | 0.013% | 0.026% | 0.303% |
| May 2019 *(Note 1)* | 450,000 | 16 | 28,125 | 0.002% | 0.005% | 0.314% |
| June 2019 (up to the Latest Practicable Date) | 2,875,000 | 16 | 179,688 | 0.015% | 0.030% | N/A |

*Source: the website of the Stock Exchange (www.hkex.com.hk)*

*Notes:*

1. Trading in the Shares was suspended from 27 May 2019 to 31 May 2019 pending the publication of the Joint Announcement.

2. The calculation is based on the average daily trading volume of the Shares divided by the total issued share capital of the Company as at the Latest Practicable Date (i.e. 1,230,000,000 Shares).

3. The calculation is based on the average daily trading volume of the Shares divided by the number of Shares held by public Shareholders as at the Latest Practicable Date (i.e. 597,500,000 Shares).

4. Percentage of the Average Market Volume (as defined below) is provided for reference only and the figures are calculated by dividing the total market capitalization based on the HKEx Monthly Market Highlights published in the website of the Stock Exchange.

5. The percentage of the Average Market Volume (as defined below) in May 2018 represents the Average Market Volume (as defined below) for the whole month of May 2018.

As illustrated in Table 2 above, the average daily trading volume for the respective month/period during the Review Period ranged from approximately 28,125 Shares to approximately 569,000 Shares, representing approximately 0.002% to approximately 0.046% of the total number of issued Shares as at the Latest Practicable Date, or approximately 0.005% to approximately 0.095% of the total number of issued Shares held by public Shareholders as at the Latest Practicable Date.

During the period from 25 May 2018 to the Last Trading Day prior to the publication of the Joint Announcement (the "**Pre-announcement Period**"), we noted that the average daily trading volume of the Shares in May 2018 and June 2018 were comparatively high. We have enquired the Management regarding the relatively high trading volume of the Shares and were advised that save for the announcement of the Company dated 11 May 2018 in respect of the disposal of 290,000,000 Shares by the Vendor (the then Controlling Shareholder), they are not aware of other particular reason that led to the comparatively high trading volume of the Shares.

Save for the comparatively high daily trading volume of the Shares in May 2018 and June 2018 as discussed above, the average daily trading volume of the Shares was relatively thin during the Pre-announcement Period. On 3 June 2019 (being the first trading day after the publication of the Joint Announcement), the trading volume of the Shares increased to approximately 475,000 Shares, which was higher than the average daily trading volumes of approximately 220,269 Shares during the Pre-announcement Period. We believe that such increase in trading volume of the Shares was likely to be due to the market reaction to the announcement of the Offer. However, the overall liquidity of the Shares during the Post-announcement Period still remained low, with an average daily trading volume of approximately 179,688 Shares.

In addition, we also make reference to the trading liquidity of the securities market in Hong Kong. The above table also shows the percentage of the average daily turnover to the total market capitalisation of the listed securities in the Stock Exchange (the "**Average Market Volume**") for the period from May 2018 to May 2019, according to the HKEx Monthly Market Highlights published in the website of the Stock Exchange. It is also noted that the percentage of the Average Market Volume was higher than the percentage of the average daily trading volume to total number of Shares in issue in each month during the Review Period, we therefore consider that the trading volume of the Shares is relatively thin during the Review Period.

Accordingly, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price. Therefore, we are of the view that the Offer represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of the Shares, to dispose of part or all of their Shares at the Offer Price if they are unable to sell the Shares in the open market at a price higher than the Offer Price.

***C. Comparison with other comparable companies***

In assessing the fairness and reasonableness of the Offer Price, we attempted to compare the Offer Price against the market valuation of other comparable companies using the price-to-earnings ratio ("**PE ratio**") and the price-to-book ratio ("**PB ratio**"), which are commonly used valuation multiples. However, since the Company recorded a loss attributable to owners of the Company in FY2018, the assessment of the fairness and reasonableness of the Offer Price by using the implied PE ratio is not applicable.

The Group is principally engaged in the provision of manpower outsourcing and ancillary services, provision of dormitory services, and provision of IT services and construction ancillary services for the building and construction industry. As disclosed in the 2018 Annual Report, approximately 86.9% of the total revenue of the Group in FY2018 was generated from the manpower outsourcing and ancillary services in Singapore (the "**Relevant Business**"). Therefore, we attempted to identify companies listed on the Stock Exchange based on the criteria that over 80% of the revenue for the latest full financial year was generated from the Relevant Business. Based on the information available from the website of the Stock Exchange, we have identified an exhaustive list of 2 companies (the "**Comparable Companies**") which met the above-mentioned selection criteria. The relevant details of the Comparable Companies are set forth in Table 3 below:

*Table 3: Details of the Comparable Companies*

| Company name (Stock code) | Principal activities | Market capitalization as at the Latest Practicable Date *(HK$'000)* | (Loss) attributable to equity holders in the latest full financial year prior to the Latest Practicable Date *(Note 1)* *(HK$'000)* | Net assets attributable to equity holders based on the latest published financial statements prior to the Latest Practicable Date *(Note 2)* *(HK$'000)* | PB ratio *(times)* |
|---|---|---|---|---|---|
| SingAsia Holdings Limited (8293) | Engaged in the provision of manpower outsourcing, recruitment, training and cleaning services | 215,000 | (17,543) | 28,574 | 7.52 |
| Omnibridge Holdings Limited (8462) | Engaged in the provision of human resources outsourcing services and human resources recruitment services | 153,000 | (14,243) | 97,730 | 1.57 |
| | | | | Maximum: | 7.52 |
| | | | | Minimum: | 1.57 |
| | | | | Average: | 4.54 |
| | | | | Median: | 4.54 |
| The Company | | 499,995 *(Note 3)* | | 141,609 | 3.53 |

*Sources: the website of the Stock Exchange (www.hkex.com.hk) and the financial reports of the respective Comparable Companies*

*Notes:*

1. Based on the figures of the respective Comparable Companies as published in the latest published annual reports.

2. Based on the figures of the respective Comparable Companies as published in the latest published annual reports or interim reports.

3. The market capitalization of the Company is calculated based on the Offer Price and the number of issued Shares as at the Latest Practicable Date (i.e. 1,230,000,000 Shares).

However, we noted that the closing price of shares of SingAsia Holdings Limited (stock code: 8293) ("**SingAsia Holdings**") experienced a significant drop from HK$4.890 per share on 24 June 2019 to HK$0.172 per share on 25 June 2019 (i.e. the Latest Practicable Date), representing a decrease of approximately 96.5%. The market capitalization of SingAsia Holdings dropped from approximately HK$6,112.5 million as at 24 June 2019 to approximately HK$215.0 million as at 25 June 2019, and the PB ratio of SingAsia Holdings decreased tremendously from approximately 213.92 times as at 24 June 2019 to approximately 7.52 times as at 25 June 2019. In order to avoid the distortion of the result of our analysis, we consider it suitable and reasonable to exclude SingAsia Holdings from our analysis.

After the exclusion of SingAsia Holdings, there would only be one Comparable Company (namely Omnibridge Holdings Limited (stock code: 8462)) available for our analysis. In view of the insufficiency of sample size, we consider that the assessment of the fairness and reasonableness of the Offer Price by comparing the implied PB ratios of the Company and that of the Comparable Companies is not meaningful and representative.

In this regard, we relaxed the selection criteria to companies listed on the recognized stock exchanges of the Asia-Pacific region and with over 80% of the revenue for the latest full financial year generated from the Relevant Business (the "**Relaxed Selection Criteria**"). We conducted a research on comparable companies through Bloomberg based on the Relaxed Selection Criteria and however, save for the two aforementioned Comparable Companies, we were unable to identify other companies which satisfy the Relaxed Selection Criteria.

In view of the above, we consider that there is no indicative and representative comparable analysis available for assessing the fairness and reasonableness of the Offer Price.

***D. Conclusion***

Notwithstanding that the Offer Price represents a premium of approximately 253.2% over the consolidated net asset value attributable to owners of the Company as at 31 December 2018, having considered the fact that:

(i) the Offer Price is lower than the closing price of the Shares throughout the Review Period;

(ii) the Offer Price represents a deep discount (i.e. over 75%) to the Share closing price on the Last Trading Day, the 5-day Average Price, the 10-day Average Price and the 30-day Average Price;

(iii) the Offer Price represents (a) a deep discount of approximately 72.0% to the lowest closing price of HK$1.450 per Share as quoted on the Stock Exchange during the Review Period; and (b) a deep discount of approximately 80.4% to the highest closing price of HK$2.070 per Share as quoted on the Stock Exchange during the Review Period; and

(iv) a discount of approximately 76.9% to the closing price of HK$1.76 per Share as quoted on the Stock Exchange on the Latest Practicable Date,

we are of the view that the Offer Price is not fair and reasonable so far as the Independent Shareholders are concerned.

## 3. Information on the Offeror and the intention of the Offeror in relation to the Group

### *A. Information on the Offeror*

As stated in the "Letter from Guotai Junan Capital", the Offeror is an international business company incorporated in the Republic of Seychelles and principally engages in the business of investment holding. As at the Latest Practicable Date, the Offeror was the beneficial owner of 632,500,000 Shares and was wholly-owned by Mr. Chen.

Mr. Chen, aged 44, has approximately 20 years of experience in the real estate and construction industry, particularly in operation and strategic management. Mr. Chen completed his undergraduate studies in economic management at the Army Officer Academy of People's Liberal Army of China* (中國人民解放軍南京炮兵學院) in June 2012.

Mr. Chen is the chairman of the board of directors of Shanghai Jinhai Corporate Development Group Company Limited* (上海今海企業發展(集團)有限公司), a company founded by him in 2002 and principally engages in real estate development, such as construction of commercial plaza and residential buildings, and property management, including dormitories and commercial plaza. He has also acted as the chairman of the board of directors of each of Shanghai Guobao Property Company Limited* (上海國寶置業有限公司) since March 2006 and Shanghai Laiyada Property Development Company Limited* (上海來亞達置業發展有限公司) since March 2011 whose principal businesses also include real estate development and property management. His responsibilities include, amongst others, overseeing the progress of development and construction projects and liaising with construction contractors on various aspects, including manpower and resources allocation.

Mr. Chen is currently the executive deputy chairman (執行副會長) of Ningbo Chamber of Commerce in Shanghai (上海市寧波商會). From September 2015 to October 2017, he was the non-executive director of Vision Fame International Holding Limited (stock code: 1315), the shares of which are listed on the main board of the Stock Exchange. Save as disclosed above, Mr. Chen has not held any other directorships in any other publicly listed companies in the three years preceding the date of this Composite Document.

***B. Intention of the Offeror***

As stated in the "Letter from Guotai Junan Capital", it is the Offeror's intention to acquire a majority interest in the Company pursuant to the SP Agreement and the Offer. The intention of the Offeror is that the Company's existing principal activities, namely provision of manpower outsourcing and ancillary services, provision of dormitory services, provision of IT services and provision of construction ancillary services in Singapore, will be maintained. As set out in the paragraph headed "*Information on the Offeror*", Mr. Chen has been acting as director of several companies in the industries of real estate development, building construction and property (including dormitories) management for years and has obtained experience in construction contracting and the related staffing arrangement. Given that the Company's principal activities are also related to building construction and dormitory operation, the Offeror will, leverage on Mr. Chen's experience in real estate development and property management, assist the Company in reviewing its business and operations and financial position of the Group in order to seek for new business opportunities to enhance and strengthen the business of the Group.

The Offeror has no intention to introduce major changes to the existing operation and business of the Group, including any redeployment of fixed assets other than those in its ordinary course of business. As at the Latest Practicable Date, the Offeror (i) had not discussed with anyone; (ii) had not contemplated; (iii) had not entered into any negotiation; nor (iv) had any intention to enter into any negotiation, of the disposal of the existing business or assets of the Company; and/or the acquisition of new business or assets by the Company. Save for the proposed change(s) to the composition of the Board as mentioned below, the Offeror has no plan to terminate the employment of any other employees or other personnel of the Group. However, subject to the results of the review regarding the business and financial position of the Group, the Offeror reserves the right to make any changes that it deems necessary or appropriate to the Group's businesses and operations to increase the value of the Group.

### C. *Proposed Change to the Board Composition of the Company*

As stated in the "Letter from Guotai Junan Capital", as at the Latest Practicable Date, the Board comprised Mr. Kuah and Ms. Dolly Hwa Ai Kim (also known as Dolly Ke Aijin) as executive Directors; Mr. Lu Yong as non-executive Director; and Mr. Ong Shen Chieh (also known as Mr. Wang Shengjie), Mr. Lau Kwok Fai Patrick and Mr. Lam Raymond Shiu Cheung as independent non-executive Directors.

Pursuant to the SP Agreement, all of the abovementioned existing Directors may resign with effect from the earliest time permitted under the Takeovers Code. Such resignation will be made in compliance with the Takeovers Code and the Listing Rules.

The Offeror intends to nominate new Directors, including Mr. Chen to the Board with effect from the earliest time as permitted under the Takeovers Code and such proposed nomination of new Directors have not yet been finalised as at the date of this Composite Document. Any such appointment will be made in compliance with the Takeovers Code and the Listing Rules and further announcement for details of the change of the Board composition and biographies of Directors will be made by the Company as and when appropriate. Please refer to the paragraph headed "Information on the Offeror" above for the biographical details of Mr. Chen.

Save for the change(s) to the composition of the Board as mentioned above, the Offeror has no intention to introduce any significant changes to the management of the Group, or to discontinue the employment of the employees, following completion of the Offer.

### D. *Public Float and Maintaining the Listing Status of the Company*

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public, or if the Stock Exchange believes that:

(i) a false market exists or may exist in the trading of the Shares; or

(ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

As stated in the "Letter from Guotai Junan Capital", the Offeror intends the Company to remain listed on the Stock Exchange. The existing Director(s) and the sole director of the Offeror have jointly and severally undertaken and the new Directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Company's Shares.

As the Company and the Offeror are unable to ascertain at this stage the level of acceptances by Independent Shareholders under the Offer, they have not decided the exact steps/actions that will be taken by them after the close of the Offer to restore the public float of the Shares, if required. Notwithstanding this, the Company and the Offeror consider that the appropriate actions to be taken shall include placing down of sufficient number of accepted Shares by the Offeror and/or issue of new Shares by the Company for this purpose. The Company and the Offeror will issue a separate announcement as and when necessary in this regard.

**OPINION AND RECOMMENDATION**

Notwithstanding that (i) the financial performance of the Group is not positive (please refer to the paragraph headed "B. Financial information on the Group" under the section headed "1. Business, financial performance and prospects of the Group" above); (ii) it is uncertain as to whether the Group can improve its financial performance in near future (please refer to our analysis as set out in the paragraph headed "B. Financial information on the Group" under the section headed "1. Business, financial performance and prospects of the Group" above); and (iii) the Offer Price represents a premium of approximately 253.2% over the consolidated net asset value attributable to owners of the Company as at 31 December 2018, taking into consideration the above-mentioned principal factors and reasons, in particular the following:

(i) the Offer Price is lower than the closing price of the Shares throughout the Review Period;

(ii) the Offer Price represents a deep discount (i.e. over 75%) to the Share closing price on the Last Trading Day, the 5-day Average Price, the 10-day Average Price and the 30-day Average Price;

(iii) the Offer Price represents (a) a deep discount of approximately 72.0% to the lowest closing price of HK$1.450 per Share as quoted on the Stock Exchange during the Review Period; and (b) a deep discount of approximately 80.4% to the highest closing price of HK$2.070 per Share as quoted on the Stock Exchange during the Review Period; and

(iv) a discount of approximately 76.9% to the closing price of HK$1.760 per Share as quoted on the Stock Exchange on the Latest Practicable Date,

we consider that the terms of the Offer is not fair and reasonable so far as the Independent Shareholders are concerned. On such basis, we do not recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

Nevertheless, we would also like to remind the Independent Shareholders to closely monitor the market price and liquidity of the Shares during the Offer Period and consider accepting the Offer, instead of selling their Shares in the open market, where possible, if the net amount receivable under the Offer exceed the net proceeds from such sales.

In addition, given that the trading volume of the Shares were thin during the Review Period, disposal of large block of Shares in the open market may trigger a significant downside pressure on the trading price of the Shares. We therefore anticipate that the Independent Shareholders (especially those with sizeable shareholdings) may encounter difficulties in selling a significant number of Shares in the open market without disturbing the market price within a short period of time. Notwithstanding the unfairness and unreasonableness of the Offer (in particular, the Offer Price), the Independent Shareholders who believe that they will be unable to sell the Shares in the open market at a price higher than the Offer Price because of their sizable shareholdings and the liquidity of the Shares may consider accepting the Offer as an exit alternative for their investments in the Shares.

The Independent Shareholders are also reminded to read carefully the procedures for accepting the Offer, details of which are set out in Appendix I to the Composite Document and the accompanying Form of Acceptance, if they wish to accept the Offer.

Yours faithfully,
For and on behalf of
**Astrum Capital Management Limited**

| | |
|---|---|
| **Hidulf Kwan** | **Rebecca Mak** |
| *Managing Director* | *Director* |

*Note:* Mr. Hidulf Kwan has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and has participated in and completed various independent financial advisory transactions.

Ms. Rebecca Mak has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2011 and has participated in and completed various independent financial advisory transactions.

* *for identification purpose only*