

29 November 2021

To: The Independent Board Committee and the Independent Shareholders of Heng Hup Holdings Limited

Dear Sir/Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF PROPERTIES**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 29 November 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, on 30 October 2021, the Vendor entered into the conditional Sale and Purchase Agreement with the Purchaser (an indirect wholly owned subsidiary of the Company), pursuant to which the Vendor agreed to sell, and the Purchaser agreed to acquire the Properties at a consideration of RM9,300,000 (equivalent to approximately HKD17,391,000) (the “**Consideration**”).

With reference to the Board Letter, the Acquisition constitutes discloseable and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders’ approval requirements under the Listing Rules.

The Independent Board Committee comprising Ms. Sai Shiow Yin, Mr. Puar Chin Jong and Mr. Chu Kheh Wee, being all of the independent non-executive Directors, has been formed to advise the Independent Shareholders on (i) whether the terms of the Acquisition are on normal commercial terms and are fair and reasonable; (ii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of the business of the Company; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Acquisition at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Acquisition. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made any independent evaluation or appraisal of the Properties, and we have been furnished with the valuation report on the Properties (the "Valuation Report") as set out in Appendix I to the Circular as prepared by Henry Butcher. Since we are not experts in the valuation of land and property, we have relied solely upon the Valuation Report for the value of the Properties.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Vendor or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

Information on the Group

With reference to the Board Letter, the Company is an investment holding company and its subsidiaries are principally engaged in trading of scrap ferrous metals, used batteries, waste paper and other scraps in Malaysia.

Set out below are the financial information of the Group for the two years ended 31 December 2020 as extracted from the Company's annual report for the year ended 31 December 2020 (the "2020 Annual Report") and for the six months ended 30 June 2021 as extracted from the Company's interim report for the six months ended 30 June 2021 (the "2021 Interim Report"):

	For the six months ended 30 June 2021 <i>(unaudited)</i> RM'000	For the year ended 31 December 2020 <i>(audited)</i> RM'000	For the year ended 31 December 2019 <i>(audited)</i> RM'000	Change from 2019 to 2020 %
Revenue	773,731	868,312	990,604	(12.35)
Gross profit	46,934	48,986	50,352	(2.71)
Net profit and total comprehensive income for the year/period attributable to the owners of the Company	16,241	8,392	6,672	25.78

With reference to the 2020 Annual Report, the Malaysian economy experienced the full impact of the COVID-19 pandemic from the second quarter of FY2020. Despite extreme challenges, the Group quickly adjusted and maintained focus on disciplining cost control and cash-flow to ensure sustainability.

As illustrated in the above table, the Group's revenue amounted to approximately RM868 million for the year ended 31 December 2020 ("FY2020"), representing a decrease of approximately 12.35% as compared to that for the year ended 31 December 2019 ("FY2019"). There was also a slight decrease in the Group's gross profit for FY2020 as compared to that for FY2019. Despite the aforesaid decreases in the Group's revenue and gross profit, the net profit and total comprehensive income attributable to the owners of the Company increased by approximately 25.78% from FY2019 to FY2020. With reference to the 2020 Annual Report and as advised by the Directors, such improvement was mainly due to (i) increased scrap ferrous metal prices and that the Group was able to secure scrap ferrous metal supplies at a better pricing; (ii) better gross profit margin from export sales; and (iii) increase in other income.

With reference to the 2021 Interim Report, the six months ended 30 June 2021 ("1H2021") was a very productive and yet challenging period for the Group. The global economy is slowly getting back to normal even though the COVID-19 pandemic remains a major threat around the globe. As the global economy is slowly recovering around the world, the supply and demand of the steel product has steadily pushed up the steel price since December 2020. The Group's revenue, gross profit and net profit and total comprehensive income attributable to the owners of the Company amounted to approximately RM774 million, RM47 million and RM16 million for 1H2021, representing increases of approximately 132.96%, 137.86% and 946.46% respectively as compared with those for the corresponding period in 2020.

With reference to the 2021 Interim Report, the COVID-19 pandemic is expected to remain a challenge throughout the remainder of 2021. However, steel consumption and demand for steel products remain strong, thus the scrap metal price has not been affected. The Group will continue to leverage off on its core competitive advantages and continue to strengthen its market leading position in the Malaysian scrap ferrous metal trading industry, by expanding its supplier and customer bases and increasing its business volume of scrap ferrous metals in both local and export markets.

Information on the Vendor

With reference to the Board Letter, the Vendor is an investment holding company incorporated and existing under the laws of Malaysia with limited liability, which is directly and wholly owned by the Sia Brothers. The Vendor is a connected person of the Company.

Information on the Properties

With reference to the Board Letter, the Properties are three adjoining parcels of agricultural land held under Title No. HSM 4044, HSM 4045, and HSM 4043, Lot No. PT 10541, PT 10542, and PT 10543 respectively, all in Tempat Bukit Cherakah, Mukim of Ijuk, District of Kuala Selangor, State of Selangor, Malaysia with the total land area of approximately 2.4282 hectares.

Reasons for and benefits of the Acquisition

With reference to the Board Letter, the Group has always strived to extend its overseas portfolio by growing its export business while continue to strengthen its position as the leading player in the local market.

The acquisition of the Properties is in line with the Group's priority to develop a new scrapyard in the State of Selangor, Malaysia for its business expansion. The Board believes that the new scrapyard will help the Group to achieve operational efficiency on its logistic management and serve as a risk management strategy on its plan for market diversification.

As illustrated under the section headed "Information on the Group" above, the Group's financial performance was improved in 1H2021 as compared to that for the corresponding period in 2020. According to the 2021 Interim Report, sales volume of the scrap ferrous metal for 1H2021 was 417,584 tonnes, representing an increase of approximately 61.6% as compared to that for the corresponding period in 2020.

Having considered the Group's business expansion and development strategy to increase its business volume of scrap ferrous metals, we concur with the Directors that although the Acquisition is not conducted under the ordinary and usual course of the business of the Company, it is in the interests of the Company and its Shareholders as a whole.

Principal terms of the Sale and Purchase Agreement

Summarised below are the principal terms for the Sale and Purchase Agreement, details of which are set out under the section headed "SALE AND PURCHASE AGREEMENT" of the Board Letter.

Date:

30 October 2021

Parties:

The Vendor and the Purchaser

The Properties:

Three adjoining parcels of agricultural land held under Title No. HSM 4044, HSM 4045, and HSM 4043, Lot No. PT 10541, PT 10542, and PT 10543 respectively, all in Tempat Bukit Cherakah, Mukim of Ijuk, District of Kuala Selangor, State of Selangor, Malaysia with the total land area of approximately 2.4282 hectares.

Consideration:

With reference to the Board Letter, the consideration of RM9,300,000 (equivalent to approximately HKD17,391,000) (the “**Consideration**”) for the Properties is payable by the Purchaser in cash. The Consideration was determined on the basis of normal commercial terms and after arm’s length negotiations between the Vendor and the Purchaser with reference to the preliminary valuation of the Properties of RM9,300,000 (equivalent to approximately HKD17,391,000) as at 28 October 2021 conducted by Henry Butcher by making reference to sales evidence as available in the market. The Consideration will be funded by bank borrowing and the internal resources of the Group.

The Valuation Report

With reference to the Valuation Report, the market value of the Properties (on as is where is basis) as at 28 October 2021 was RM9,300,000 (equivalent to approximately HKD17,391,000) (the “**Valuation**”). Details of the Valuation Report are set out in Appendix I to the Circular.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of Henry Butcher with the Company; (ii) Henry Butcher’s qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by Henry Butcher for preparing the Valuation Report. From the mandate letter and other relevant information provided by Henry Butcher and based on our interview with them, we were satisfied with the terms of engagement of Henry Butcher as well as their qualification for preparation of the Valuation Report. Henry Butcher also confirmed that they are independent to the Group and the Vendor.

The Valuation Report was prepared by Henry Butcher by adopting comparison approach. With reference to the Valuation Report, only one method (i.e. comparison approach) was adopted in valuing the Properties as in Henry Butcher’s opinion, comparison approach is the most appropriate method of valuation to assess the market value of the Properties as they consisting of three adjoining parcels of land without any development order and no detailed development proposal was drawn up for the Properties.

The residual method is essentially a means of valuing land/property by reference to its development potential by deducting costs and developer's profit from its estimated completed development value. The formulation of a reasonable hypothetical development scheme which produces the optimum value of the property being assessed is essential for all residual method. As there is no development order and detailed development proposal drawn up for the Properties, it is impractical for Henry Butcher to adopt residual method. As such, Henry Butcher did not adopt residual method in arriving at the market value of the Properties.

Having considered that, among the two commonly adopted valuation approaches (i.e. comparison approach and residual method), comparison approach is the most appropriate method of valuation to assess the market value of the Properties in Henry Butcher's opinion and the residual method is impractical as illustrated above, we did not cross-check the Valuation with other valuation approach.

We further reviewed and enquired into Henry Butcher on the methodology adopted and the basis and assumptions adopted in the Valuation Report in order for us to understand the Valuation Report.

With reference to the Valuation Report, in arriving at its opinion of value based on as is where is basis, Henry Butcher took into consideration amongst others, certain transactions (as set out under the Valuation Report) (the "**Comparable Transactions**") which it extracted from the Malaysian Department of Property Valuation and Services. We understood that such transactions were conducted in 2019.

With reference to the Valuation Report, there was no recent transaction of similar properties recorded within the vicinity of the Properties in the past 18 months. Nevertheless, Henry Butcher is of the view that the valuation is fair since the asking price for the market activities in relation to vacant lands and/or potential lands for development within the vicinity have remain consistent throughout the years since 2019.

With reference to the Board Letter, the Board also refers to the internal searches conducted by the Company on the leading and most common used portal (the "**Portal**") for market activities involving properties in Malaysia. The Board notes that there is one agriculture land (the "**Comparable Land**") located in the nearest proximity of the Properties currently available for sale. The asking price of the Comparable Land as at the Latest Practicable Date was RM2.1 million, calculated at RM32.14 per square foot (the "**PSF Asking Price**"). In the meantime, the Board notes that only the lands located at the better location fronting onto the main road of an already developed industrial park and other existing infrastructures will have a higher asking price compared to the Comparable Land. Given the reasons above, the Board is of the view that the asking price for the Comparable Land is sufficient to reflect that the actual transaction price of the Comparable Transactions in 2019 is still relevant to the current market and compatible with the Valuation.

For our due diligence purpose, we checked the information of the Comparable Land from the Portal (https://www.propertyguru.com.my/commercial-property/puncak-alam-puncak-alam-for-sale-by-anson-lee-33164796?utm_campaign=my-pg-site-share-other-na-disih-clink&utm_medium=organic&utm_source=pg) and noted that:

- (i) The Portal is hosted by PropertyGuru Group which was, according to the Portal, a property technology company founded in 2007 and its success is firmly rooted in solving a very big consumer pain-point – making finding a home a straightforward and transparent process for everyone involved. With this focus at PropertyGuru Group's core, it is now the leading proptech company in five markets across South East Asia.
- (ii) The PSF Asking Price was RM32.14 for the Comparable Land, which was within the land value (per square foot) range and adjusted land value (per square foot) range of the Comparable Transactions.

Having considered the above and that (i) the Comparable Transactions are the latest transactions that Henry Butcher could find; and (ii) Henry Butcher made appropriate adjustments to the land value of the Comparable Transactions and adopted the best comparable transaction among them according to Henry Butcher's expertise and experience, we do not doubt the adoption of the Comparable Transactions under the Valuation Report.

During our discussion with Henry Butcher, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Report.

Having considered (i) the Consideration equals to the Valuation; and (ii) our independent work performed on the Valuation Report as set out above, we are of the view that the Consideration is fair and reasonable.

Taking into account the principal terms of the Sale and Purchase Agreement as set out above, we consider that the terms of the Acquisition are fair and reasonable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Acquisition are on normal commercial terms and are fair and reasonable; and (ii) although the Acquisition is conducted in the ordinary and usual course of the business of the Company, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited



Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *For identification purpose only*