Grande Capital Limited
均富融資有限公司

22 April 2024

To the Independent Board Committee and the
Independent Shareholders of ***Chuan Holdings Limited***

Dear Sirs/Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF ENTIRE EQUITY INTEREST IN HULETT CONSTRUCTION AND SALE LOANS

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 terms of the Agreement and the transactions contemplated thereunder, details of which are set out in the Letter from the Board (the "**Board Letter**") of the circular issued by the Company dated 22 April 2024 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 14 February 2024, on 14 February 2024 (after trading hours), Mr. Lim, Ms. Yee, Chuan Lim, an indirect wholly-owned subsidiary of the Company, and Hulett Construction entered into the Agreement, pursuant to which Mr. Lim (in respect of the Sale Shares I and the Sale Loans) and Ms. Yee (in respect of the Sale Shares II) have conditionally agreed to sell, and Chuan Lim has conditionally agreed to purchase, the Sale Shares, representing the entire equity interest in Hulett Construction, together with the Sale Loans at the Total Consideration of S$46,700,000.00, which shall be settled:

(a) as to S$8,000,000.00 by the issue of the Promissory Note; and

(b) as to S$38,700,000.00 in cash.

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LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company and is therefore subject to the notification, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Mr. Lim is a controlling Shareholder with interest in 550,505,000 Shares (i.e. approximately 43.54% of the total number of issued Shares) and an executive Director, and Ms. Yee is the spouse of Mr. Lim. As such, both Mr. Lim and Ms. Yee are connected persons of the Company under the Listing Rules and the Acquisition constitutes a connected transaction of the Company and is therefore subject to the reporting, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Lim, who has a material interest in the Acquisition, has abstained from voting on the Board resolution approving the Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the Directors is regarded as having any material interest in the Acquisition and is required to abstain from voting on the Board resolution approving the Agreement and the transactions contemplated thereunder.

INDEPENDENT BOARD COMMITTEE

The Company has established the Independent Board Committee, comprising all three independent non-executive Directors who do not have a material interest in the Acquisition, to consider and to advise the Independent Shareholders whether the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and how to vote on the Agreement and the transactions contemplated thereunder at the EGM, after taking into account the advice of the Independent Financial Adviser.

We, Grande Capital, have been appointed and approved by the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

During the last two years immediately preceding to Latest Practicable Date, Grande Capital was engaged as the independent financial adviser to the independent board committee and the independent shareholders of the Company for the following transactions:

Date of the relevant circular and our letter of advice	Nature of the transaction
11 January 2022	Continuing connected transaction in relation to the supplemental agreement
15 December 2023	Connected transaction in relation to issue of new shares under specific mandate

Notwithstanding the aforesaid engagements, as at the Latest Practicable Date, we were not aware of any relationships or interest between Grande Capital and the Company or any parties that could be reasonably be regarded as hindrance to Grande Capital's independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations. Apart from normal professional fees paid or payable to us in connection with the previous appointments mentioned above as well as this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We are not aware of the existence of or change in any circumstances that would affect our independence. Grande Capital has not acted as a financial adviser to the Company in the last two years. Accordingly, we consider that we are eligible to give independent advice on the terms of the Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all statements, information and representations provided by the Directors and the management of the Company, for which they are solely and wholly responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date.

We have also assumed that all statements of belief, opinion, expectation 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 Directors and the management of the Company. We believe 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, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular, which includes particular 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 materials 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.

This letter is issued for provision of the information to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Agreement and the transactions contemplated thereunder, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Agreement and the transactions contemplated thereunder, we have taken into account the principal factors and reasons set out below:

A. Background information of the Group

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange. The Company is an investment holding company and the principal activities of the Group are (i) the provision of earthworks and ancillary services, including land clearing, demolition, rock breaking, mass excavation, deep basement excavation, foundation excavation, earth disposal, earth filling and shore protection. Certain earthworks projects may require civil engineering works such as road diversions, road reinstatements, overhead bridge, sewerage, drainage, pipe laying and cable trench works; and (ii) the provision of general construction works, including alteration and addition works, which can be classified into interior works or works affecting building systems, or components such as structural works, additions of lifts and reinforcement works, and the construction of new buildings.

Set out below are the audited consolidated financial information of the Group for the two years ended 31 December 2022 as extracted from the Company's annual report for the year ended 31 December 2022 (the "**2022 Annual Report**"):

	For the year ended 31 December 2022	**For the year ended 31 December 2021**	**Year-on-year change**
	S$'000	*S$'000*	*%*
Revenue	88,605	85,416	3.7
Gross profit	6,198	4,337	42.9
Profit for the year	1,723	1,500	14.9

As depicted from the table above, the Group's revenue increased by approximately 3.7% from approximately S$85.4 million for FY2021 to approximately S$88.6 million for FY2022. With reference to the 2022 Annual Report, the increase was mainly attributable to the gradual revival in construction industry in Singapore subsequent to stabilised COVID-19 situation upon the lifting of border and community measures. Nonetheless, the Group's revenue growth was slower than expected largely due to the slower progress of several key infrastructure projects secured in previous years.

The Group's gross profit for the year increased by approximately 42.9% from approximately S$4.3 million for FY2021 to approximately S$6.2 million for FY2022. With reference to the 2022 Annual Report, the increase was mainly attributable to the increase in gross profit margin from approximately 5.1% for FY2021 to approximately 7.0% for FY2022, due to the Group's disciplined financial management, coupled with its pragmatic strategies in enhancing productivity.

The Group's net profit for the year increased by approximately 14.9% from approximately S$1.5 million for FY2021 to approximately S$1.7 million for FY2022. With reference to 2022 Annual Report, such change was mainly due to (i) the aforesaid increase in the Group's revenue, gross profit and gross profit margin; and (ii) increase in the share of results of associates resulting from the recognition of fair value gain of the Group's property redevelopment project; as partially offset by (i) decrease in other income and gains; and (ii) increase in income tax expenses.

Set out below is the unaudited consolidated financial information of the Group for 1H2023 and the six months ended 30 June 2022 ("**1H2022**") as extracted from the Company's interim report for 1H2023 (the "**2023 Interim Report**"):

	For the six months ended 30 June 2023 *S$'000*	**For the six months ended 30 June 2022** *S$'000*	**Year-on-year change** *%*
Revenue	66,756	42,473	57.2
Gross profit	4,238	3,855	9.9
Profit for the period	1,739	1,331	30.7

As depicted from the table above, the Group's revenue increased by approximately 57.2% from approximately S$42.5 million for 1H2022 to approximately S$66.8 million for 1H2023. With reference to the 2023 Interim Report, the increase was mainly attributable to further resumption of construction activity in Singapore subsequent to the lifting of pandemic-related travel restrictions, resulting more income generation upon project completion.

The Group's gross profit increased by approximately 9.9% from approximately S$3.9 million for 1H2022 to approximately S$4.2 million for 1H2023. With reference to the 2023 Interim Report, the increase was mainly attributable to the increase in revenue and disciplined financial management, while such increase in revenue was offset by the increase in labour and material costs which caused the Group's gross profit margin decreased from approximately 9.1% for 1H2022 to approximately 6.3% for 1H2023.

The Group's net profit increased by approximately 30.7% from approximately S$1.3 million for 1H2022 to approximately S$1.7 million for 1H2023. With reference to the 2023 Interim Report, such change was mainly due to (i) the aforesaid increase in the Group's revenue and gross profit; and (ii) decrease in other expenses for 1H2023 due to the reversal of provision on trade receivables and contract assets; as partially offset by (i) decrease in other income and gains; (ii) increase in administrative and other operating expenses primarily due to the increase in labour overheads; and (iii) increase in income tax expenses.

With reference to the 2023 Interim Report, to further diversify its revenue stream, the Group will strategically pursue opportunities to participate in large-scale infrastructure projects and public housing initiatives that offer higher profit margins. Tourism in Singapore is experiencing a resurgence, with revitalisations of attractions and hotels presenting the Group with promising opportunities in the commercial property sector. The project win at Resorts World Sentosa Festive Hotel has demonstrated that the Group's unwavering tendering efforts and strategic approach are effective in capturing increasing opportunities. Going forward, the Group remains committed to closely monitoring market trends and diligently pursuing a growing number of new opportunities to drive its sustainable long-term revenue growth.

B. Background information of Hulett Construction

Hulett Construction is a company incorporated in Singapore with limited liability and has a paid-up capital of S$1,000,000.00. The principal activity of Hulett Construction is investment holding and its only significant asset is the Property.

As at the Latest Practicable Date, Hulett Construction was owned as to 65% by Mr. Lim and 35% by Ms. Yee.

Set out below is a summary of the financial information in the audited accounts of Hulett Construction for FY2021 and FY2022 and in the unaudited management account of Hulett Construction for FY2023 respectively:

	For the financial year ended 31 December		
	2021	**2022**	**2023**
	S$	*S$*	*S$*
	Approximate (audited)	*Approximate (audited)*	*Approximate (unaudited)*
Revenue	5,623,000.00	6,121,000.00	7,853,000.00
Profit before tax	2,294,000.00	2,663,000.00	4,160,000.00
Profit after tax	1,595,000.00	1,879,000.00	3,160,000.00

The unaudited net asset value of Hulett Construction was approximately S$10,003,000.00 as at 31 December 2023.

The Property

The Property is the piece of leasehold industrial land held under Private Lots Nos.A2163000 and A2163001, also known as Government Survey Lot No.1808L Mukim 13, and situated at 20 Senoko Drive, Singapore 758207 with a land area of approximately 92,987 sq. ft. together with the Building, the 9-storey single-user general industrial factory development comprising warehouse, workshop, production space, ancillary office, temporary secondary workers dormitory, parking lots for heavy vehicles, temporary ancillary staff canteen and other utilities with a total gross floor area of 232,467 sq. ft., erected thereon. The Property is held under the lease entered into between JTC and Hulett Construction with a tenure of 30 years from 16 September 2012, under which JTC shall charge Hulett Construction a monthly land rent of S$17,191.01 (which may be subject to revision based on the market rent as determined by JTC). The Group plans to renew the lease of the Property upon expiry of the existing tenure in 2042.

Lease Agreements

As disclosed in the Announcement, on 14 December 2021, Hulett Construction and Chuan Lim entered into the Master Lease Agreement in relation to the provision of rental services from Hulett Construction to Chuan Lim for a term of two years commencing on 1 January 2022 and ended on 31 December 2023. Pursuant to the Master Lease Agreement, Hulett Construction shall lease to Chuan Lim the Premises comprising (i) the warehouse, workshop and production space with aggregate floor area of 37,899.26 sq. ft.; (ii) the ancillary office with aggregate floor area of 4,684.19 sq. ft.; (iii) the workers dormitory (based on availability and actual need of Chuan Lim); and (iv) the parking lots for heavy vehicles (based on availability and actual need of Chuan Lim), all situated at the Building and shall provide the related management services to Chuan Lim, which shall pay an aggregated sum of the following components in advance on the first day of each calendar month during the term of the Master Lease Agreement:

(a) the Monthly Rent of S$64,812.01, comprising the rentals of (i) the warehouse, workshop and production space of 37,899.26 sq. ft. at the monthly rate of S$56,848.89; and (ii) the ancillary office of 4,684.19 sq. ft. at the monthly rate of S$7,963.12; and

(b) the Other Charges, comprising the aggregated sums of (i) workers dormitory charges at the rate of S$280 per bed; (ii) parking charges at the rate of S$280 per parking lot; and (iii) charges for the utilities and management services provided to the Premises and used by Chuan Lim or any occupier thereof, all of which shall be adjusted and calculated on a monthly basis based on the actual usage of Chuan Lim.

As Hulett Construction is owned as to 65% by Mr. Lim, a controlling Shareholder with interest in 550,505,000 Shares (i.e. approximately 43.54% of total number of issued Shares) and an executive Director, and 35% by Ms. Yee, the spouse of Mr. Lim, it is a connected person of the Company under the Listing Rules and the transactions contemplated under the Master Lease Agreement constituted a connected transaction and continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Company had complied with all the applicable Listing Rules requirements in respect thereof. For further details, please refer to the Announcement.

In contemplation of the Completion, which was targeted to take place in or about end of March 2024, on 30 December 2023, Hulett Construction and Chuan Lim entered into the New Master Lease Agreement in relation to the provision of rental services from Hulett Construction to Chuan Lim for a term of three months commencing from 1 January 2024 to 31 March 2024 (which is subsequently extended to 31 May 2024 pursuant to the Lease Extension Agreement). Save for the increment of the rate of the workers dormitory charges from S$280 per bed to S$450 per bed and the aforesaid term of the New Master Lease Agreement, all other terms and conditions under the New Master Lease Agreement remain the same as the Master Lease Agreement.

Prior to the Completion, the transactions contemplated under the New Master Lease Agreement shall constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the transactions contemplated under the New Master Lease Agreement (as extended by the Lease Extension Agreement) are conducted on normal commercial terms or better, and one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect thereof exceed 5% but are all less than 25% and the total consideration thereof is less than HK$10,000,000, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement and annual review but are exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Based on the information provided by Mr. Lim and Ms. Yee, approximately 90% of the portions of the Building unoccupied by Chuan Lim (with the workers dormitory in the Building being fully let) are let under various lease agreements yielding a total monthly rental income of approximately S$440,000.00 with the latest lease agreement expiring on 30 April 2025. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for Cheng Yap Construction Pte. Ltd., a company incorporated in Singapore with limited liability which is owned as to 100% by Mr. Lim Cheng Yap, a brother of Mr. Lim, all other tenants are Independent Third Parties.

The abovementioned existing lease agreements will not be terminated and will continue pursuant to the terms thereof after the Completion. Upon the Completion, the transactions contemplated under the existing lease agreement with Cheng Yap Construction Pte. Ltd. will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and based on the information provided by Mr. Lim and Ms. Yee, are conducted on normal commercial terms or better, and all the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect thereof are less than 5% and the total consideration thereof is less than HK$3,000,000.00. As such, the same will be fully exempt from the reporting, announcement, circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. After the Completion, the Group will review the leasing arrangements with all tenants regularly and comply with all applicable Listing Rules requirements in respect thereof should the circumstances so arise.

C. Reasons for and benefits of the Acquisition

As stated in the Board Letter, Hulett Construction has let parts of the Property to the Group since the completion of redevelopment of the Property in or about April 2016. As at the Latest Practicable Date, the Premises let to Chuan Lim under the New Master Lease Agreement formed less than 30% of the total area of the Property. For the remaining portions of the Building unoccupied by Chuan Lim, approximately 90% of the remaining portions are let under various lease agreements yielding a total monthly rental income of approximately S$440,000, according to the Board Letter. The ancillary office of the Premises has been used as the Group's head office and the remaining portions thereof have been used for the Group's operations, as well as workers dormitory and carparks for heavy vehicles.

We understand from the management and note from the circular of the Group dated 15 December 2023 that the Group has been actively capturing business opportunities arising from the resumption of the construction activity and has the need to increase its working capital, production capacity and workforce, including acquisition of construction equipment and machineries (e.g. excavation machines and tipper trucks) and recruitment of more foreign workers to cater the growing business scale of the Group. In light of the growing business scale of the Group, the Group would need more workers dormitories to house its newly recruited foreign workers and more parking lots and warehouses for construction equipment and machineries. We understand from the management that, although the Group could lease part of the workers dormitories, carparks or warehouses operated by the third parties for its future expansion, the management are of the view that the Group could achieve operational and management efficiency by consolidating all its workforce, heavy vehicles, construction equipment and machineries within a single building, and preferably at the existing Property let by Hulett Construction to avoid unnecessary business disruption costs incurred in relation to the relocation of the Group's office, operation space, warehouse, workers dormitory and parking lots.

We note from the 2022 Annual Report that the Group incurred rental expenses of approximately S$2.4 million for the existing use of the Premises under the Master Lease Agreement for FY2022. Pursuant to the New Master Lease Agreement, the Monthly Rent payable by the Group is S$64,812.01 per month and the New Other Charges (amount of which is based on availability and actual need of the Group) involve an increment of the rate of the workers dormitory charges from S$280 per bed to S$450 per bed. Accordingly, based on (i) the previous use of the Premises; (ii) the existing business and operations of the Group, including the number of projects secured by the Group; and (iii) the business expansion plan of the Group, and with reference to the rental expenses of the Group incurred for FY2022 and FY2023, it is expected that the Group should be able to save rental expenses of not less than S$2.5 million per annum as a result of the Acquisition, which in turn, would improve the financial performance of the Group.

In addition to the relief of rental expenses burden, the Acquisition also allows the Group to further broaden its revenue stream. We understand from the management that the other portions of the Building unoccupied by the Group shall continue to be leased to the other tenants after the Completion. As stated in the Board Letter, approximately 90% of the portions of the Building unoccupied by the Group (with the workers dormitory in the Building being fully let) are let under various lease agreements yielding a total monthly rental income of approximately S$440,000.00 with the latest lease agreement expiring on 30 April 2025, which is equivalent to an annual rental income of approximately S$5.3 million. We note from the 2022 Annual Report that the Group recorded an annual rental income from the investment property of approximately S$111,000. The Acquisition would improve the rental income generated, diversify the Group's revenue stream and provide a more stable source of income.

Taking into account of the abovementioned, we are of the view that although the Acquisition is not in the ordinary and usual course of the business of the Group, the Acquisition is in the interests of the Company and the Shareholders as a whole.

D. Principal terms of the Agreement

Date

14 February 2024

Parties

(1) Mr. Lim (as vendor of the Sale Shares I and the Sale Loans);

(2) Ms. Yee (as vendor of the Sale Shares II);

(3) Chuan Lim (as purchaser); and

(4) Hulett Construction (as target company).

Assets to be Acquired

Pursuant to the Agreement:

(a) Mr. Lim has conditionally agreed to sell, and Chuan Lim has conditionally agreed to purchase, the Sale Shares I, representing 65% of the entire equity interest in Hulett Construction, at the consideration of S$27,755,000.00 together with the Sale Loans at the consideration of S$4,000,000.00; and

(b) Ms. Yee has conditionally agreed to sell, and Chuan Lim has conditionally agreed to purchase, the Sale Shares II, representing 35% of the entire equity interest in Hulett Construction, at the consideration of S$14,945,000.00.

The Sale Shares, comprising the Sale Shares I and the Sale Shares II, represent the entire equity interest in Hulett Construction.

The Sale Loans of S$4,000,000.00 are all the loans due and owing by Hulett Construction to Mr. Lim. Pursuant to the Agreement, Mr. Lim shall assign the Sale Loans to Chuan Lim upon the Completion.

Consideration

The Total Consideration of S$46,700,000.00, comprising (i) S$27,755,000.00 for the Sale Shares I and S$4,000,000.00 for the Sale Loans; and (ii) S$14,945,000.00 for the Sale Shares II, shall be settled by Chuan Lim in the following manner:

(a) as to S$8,000,000.00, representing approximately 17.13% of the Total Consideration, shall be satisfied by way of the issue of the Promissory Note in the principal amount of S$8,000,000.00 to Mr. Lim on the Completion Date; and

(b) as to S$38,700,000.00, representing approximately 82.87% of the Total Consideration, shall be settled in cash to Mr. Lim and Ms. Yee in the respective amounts of S$23,755,000.00 and S$14,945,000.00 within three Business Days from the Completion Date.

The Cash Consideration will be funded (i) as to S$6,980,000.00 by internal resources of the Group; and (ii) as to S$31,720,000.00 by banking facilities available to the Enlarged Group.

The aforesaid allocation as to settlement of the Total Consideration is based on (i) the Group's cash and cash equivalent of approximately S$30,000,000.00 as at 31 December 2023, of which S$6,980,000.00 (i.e. approximately 23.27%) will be used for the settlement of part of the Cash Consideration; (ii) the Group's level of cash and cash equivalent which is deemed adequate to finance its operations, in particular, the working capital for tender bids, day-to-day business operations and expansions, and mitigate any foreseen fluctuation in cash flows to effectively address the liquidity risk of the Group; (iii) the banking facilities available to the Enlarged Group and the terms thereof; and (iv) the net proceeds of approximately HK$15,000,000.00 (approximately S$2,586,000.00) raised by the Company by the issue of the new Shares under the specific mandate granted to the Directors by the Shareholders at the extraordinary general meeting of the Company on 4 January 2024, of which HK$3,900,000.00 (equivalent to approximately S$672,000.00) is intended to be utilised for leasing or acquisition of industrial property for the Group's use.

The Total Consideration was determined after arm's length negotiations among the parties to the Agreement with reference to, among others, (i) the preliminary valuation of the Property of S$75,000,000.00 as at 30 November 2023, which was appraised by the Independent Valuer based on the direct comparison method; (ii) the preliminary valuation of Hulett Construction of approximately S$51,650,000.00 as at 30 November 2023, which was appraised by the Independent Valuer based on the summation method under the cost approach; (iii) the payment terms of the Total Consideration and the assignment of the Sale Loans; and (iv) the reasons for and benefits of the Acquisition as elaborated in the section headed "REASONS FOR AND BENEFITS OF THE ACQUISITION" in the Board Letter.

E. Assessment of the Total Consideration

The Total Consideration is arrived at by adding the consideration for the Sale Shares of S$42,700,000, and the consideration for the Sale Loans of S$4,000,000 on a dollar-for-dollar basis, and is approximately 16.08% discount to the total sum of the valuation of Hulett Construction (i.e. S$51,650,000) and the Sale Loans.

In assessing the fairness and reasonableness of the determination of the consideration for the Sale Shares, we have obtained and reviewed the valuation report of Hulett Construction (the "**Equity Valuation Report**") and the valuation report of the Property (the "**Property Valuation Report**", together as the "**Valuation Reports**"). We noted that (i) both Valuation Reports were prepared by the Independent Valuer; (ii) the appraised value of Hulett Construction as at 30 November 2023 of approximately S$51.7 million, which was appraised by the Independent Valuer based on the summation method under cost approach; and (iii) the appraised value of the Property as at 30 November 2023 of approximately S$75.0 million, which was appraised by the Independent Valuer based on the direct comparison method. Details of the relevant Valuation Reports are set out in Appendix VI and Appendix VII to the Circular.

For our due diligence purpose, we have reviewed the supporting documents on the qualifications, experience and expertise of the Independent Valuer and discussed the same with the Independent Valuer. In particular, we noted that the person signing the Equity Valuation Report, being the director of the Independent Valuer, is a member of Hong Kong Institute of Certified Public Accountants, a holder of Chartered Financial Analyst, and is accredited in business valuation by the American Institute of Certified Public Accountants, with over 10 years of experience in handling business valuation in Hong Kong, the PRC, Australia and the United States, etc. We also noted that the person signing the Property Valuation Report, being the senior associate director of the Independent Valuer, is a Registered Professional Surveyor (General Practice Division), a member of Hong Kong Institute of Surveyors and a member of Royal Institution of Chartered Surveyors, with over 25 years of experience in handling property valuations in Hong Kong, Singapore and the PRC, etc. Based on the above, we are satisfied with the competence of the Independent Valuer in respect of the preparation of the Valuation Report.

We have also reviewed the Independent Valuer's terms of engagement including its scope of work and discussed with the Independent Valuer the work it has performed as regards to the Valuation Reports. We are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuation Reports. The Independent Valuer also confirmed its independence from the Group, Hulett Construction, Mr. Lim, Ms. Yee and their respective connected persons as at the Latest Practicable Date.

Valuation of Hulett Construction

The Company engaged the Independent Valuer to conduct the valuation on the fair value of Hulett Construction as at 30 November 2023. According to the Equity Valuation Report, the valuation of Hulett Construction was approximately S$51.7 million as at 30 November 2023. The Total Consideration is then arrived at by adding the consideration for the Sale Shares of S$42,700,000 and the consideration for the Sale Loans of S$4,000,000.00 on a dollar-for-dollar basis, and is approximately 16.08% discount to the total sum of the valuation of Hulett Construction and the Sale Loans.

Valuation methodology and assumptions

For our due diligence purpose, we have reviewed the Equity Valuation Report prepared by the Independent Valuer and discussed with the Independent Valuer regarding the methodology adopted and the basis and assumptions used in the valuation. The Equity Valuation Report was prepared by the Independent Valuer by adopting summation method under the cost approach. We understand from the Independent Valuer that the Independent Valuer has considered the three generally accepted approaches, which are commonly adopted approaches for valuation of business and are also consistent with normal market practice, namely market approach, income approach and cost approach:

– Market approach refers to a general way of determining the economic value of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have previously been sold. Value is established based on the principle of comparison. This simply means that if one thing is similar to another and could be used for the other, then they must be equal. Furthermore, the price of two alike and similar items should be approximate to one another. As advised by the Independent Valuer, as Hulett Construction has not recently been sold in a transaction appropriate for consideration under the basis of value, e.g. recent round of equity financing or recent transfer of shares in Hulett Construction between existing or new shareholder(s) (if any), the transaction price of which would have served as a direct reference of market value; and there is no publicly available information regarding the possible recent observable transactions in substantially similar businesses to Hulett Construction which is a property holding company, market approach was not adopted by the Independent Valuer.

- Income approach refers to a general way of determining the economic value of a business, business ownership interest, security, or intangible asset by using one or more methods that convert anticipated benefits into a present value amount. In the income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the valuation date, business risks associated with the industry in which the company operates, and other risks specific to the asset being valued. The Independent Valuer considered income approach is not appropriate due to reasonable projections of the amount and timing of future income are not available for the valuation of Hulett Construction, and the financial projections require inputs of different assumptions which might inherit uncertainty.

- Cost approach refers to a general way of determining the economic value of a business, business ownership interest, security, or intangible asset by using one or more methods based on the value of the assets net of liabilities. Value is established based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. The Independent Valuer considered that the principal asset of Hulett Construction would be the Property and its value could be readily determined with reference to the valuation of the Property. Therefore, the Independent Valuer adopted the cost approach for the valuation of Hulett Construction.

For our due diligence purpose, we have attempted to cross-check the valuation of Hulett Construction as at the valuation date via different approaches. For market approach, we noted that Hulett Construction has not recently been sold in a transaction and we have conducted independent research in respect of the recent observable transactions since the fourth quarter of 2023 ("**2023Q4**"), in substantially similar businesses to Hulett Construction which is a property holding company. However, there was no such transaction according to the research results from the public domain. We have subsequently conducted relevant research for the past twelve months while no such transaction was noted from the public domain. Given the lack of comparable transactions, we are not able to obtain market value that can be served as a direct reference under market approach. We have subsequently attempted to consider the income approach, and noted that the parameters required and assumptions under the income approach may not be easily verified or reasonably justified, and therefore income approach is considered to be inappropriate. According to the International Valuation Standard, the cost approach should be applied and afforded significant weight if it is able to recreate an asset with substantially the same utility as the subject asset. Taking into consideration that the principal asset of Hulett Construction would be the Property and the subject asset value could be readily determined with reference to the valuation of the Property, we consider that the cost approach is the most appropriate approach for the valuation of Hulett Construction.

Pursuant to the International Valuation Standard, there are three conventional valuation methods under the cost approach, namely replacement cost method, reproduction cost method and summation method. With reference to the Equity Valuation Report, as Hulett Construction is an investment holding company having the Property as principal asset, the Independent Valuer considered that summation method would be the most appropriate method for the valuation of Hulett Construction. According to the International Valuation Standard, replacement cost method refers to a method that indicates value by calculating the cost of a similar asset offering equivalent utility. Reproduction cost method refers to a method under the cost that indicates value by calculating the cost to recreating a replica of an asset. The summation method is also referred to as the underlying asset method, it is typically used for investment companies or entities for which value is primarily a factor of the values of their holdings. The key steps in summation method are valuing each of the component assets that are part of the subject asset using the appropriate valuation approaches and methods and adding the value of the component assets together to reach the value of the subject asset.

For our due diligence purpose, we have attempted to cross-check the valuation results under replacement cost method and reproduction cost method. We have conducted independent research on recent observable transactions since 2023Q4, in substantially similar businesses to Hulett Construction which is a property holding company with similar asset offering equivalent utility. We have also conducted research on the appropriate cost data that is required to recreate a replica of Hulett Construction, such as major assets and liabilities of Hulett Construction, to estimate the cost of reproduction. However, there was no such transaction or appropriate cost data according to the research results from the public domain. We have subsequently conducted relevant research for the past twelve months while no such information was noted from the public domain. Given the lack of relevant information, we were not able to assess the valuation results under such two methods. According to the International Valuation Standard, the summation method is typically used for investment companies or entities for which value is primarily a factor of the values of their holdings. Given that the principal asset of Hulett Construction is the Property in which the value of the Property is primarily a factor of the value of Hulett Construction, we consider that summation method is the most appropriate method for the valuation of Hulett Construction.

As advised by the Independent Valuer, the use of summation method under the cost approach relates to the valuation of assets and liabilities of Hulett Construction as at 30 November 2023, which includes current assets, non-current assets, current liabilities and non-current liabilities. Details of which are set forth below:

(a) Current assets

As at 30 November 2023, the book value of current assets of Hulett Construction amounted to approximately S\$0.8 million, comprising cash and cash equivalents of approximately S\$0.6 million, trade receivables of approximately S\$0.1 million, and other current assets of approximately S\$0.1 million. In appraising the market value of the current assets of Hulett Construction, the Independent Valuer based on its book value from the management account of Hulett Construction as at 30 November 2023. In view of the nature and liquidity of current assets, the Independent Valuer considered that they reflected the fair value and were relatively insignificant as compared to the market value of the Property. Therefore, market value adjustment to the current assets was not necessary and the market value of current assets was the same as its book value.

(b) Non-current assets

As at 30 November 2023, the book value of non-current assets of Hulett Construction amounted to approximately S$31.7 million, mainly comprising the Property and right-of-use asset (land) of approximately S$31.7 million. In appraising the market value of the Property, the Independent Valuer performed an independent valuation to appraise the market value of the Property as at 30 November 2023 of approximately S$75.0 million. Please refer to "Valuation of the Property" below for further analysis.

(c) Current and non-current liabilities

As at 30 November 2023, the book value of total current and non-current liabilities of Hulett Construction amounted to approximately S$22.8 million, comprising total borrowings of approximately S$16.4 million, which mainly include the mortgage loan in relation to the Property, term loan and lease liabilities, amount due to a director of S$4.0 million, provision for income tax of approximately S$0.9 million and other liabilities of approximately S$1.6 million. In appraising the market value of the liabilities of Hulett Construction, the Independent Valuer based on its book value from the management account of Hulett Construction as at 30 November 2023. We understand that the Independent Valuer has obtained and reviewed the financial breakdown and other supporting documents and financial records in respect of the non-current liabilities such as the lease liabilities schedule and loan agreements of Hulett Construction, and concluded that the carrying amount should reflect its fair value with respect to the terms and conditions of the loans. Therefore, the market value of liabilities was the same as its book value.

Based on the summation approach under the cost approach relates to the valuation of assets and liabilities of Hulett Construction as at 30 November 2023, the implied equity value before valuation adjustments of Hulett Construction amounted to approximately S$53.0 million as at 30 November 2023.

Discount for lack of control

Discount for lack of control ("**DLOC**") is a valuation adjustment applied to reflect downward adjustment with regard to ability to make decisions and changes resulting from lack of control over the subject asset. Based on the International Valuation Standard, a DLOC may be appropriate to apply when valuing a subject asset that reflects a minority interest. We understand that the Independent Valuer did not apply DLOC as Hulett Construction will be wholly-owned by the Group after the acquisition and we are of the view that no DLOC adjustment is appropriate and consistent with the relevant valuation standard.

Discount for lack of marketability

We understand that the Independent Valuer has applied a discount for lack of marketability ("**DLOM**") of approximately 2.55% in the valuation of Hulett Construction. We have discussed with and was advised by the Independent Valuer that the DLOM reflects the concept that when comparing otherwise identical assets, a readily marketable asset would have a higher value than an asset with a long marketing period or restrictions on the ability to sell the asset, and is a valuation adjustment used to reflect difference in the value for non-marketable assets. In view of the fact that Hulett Construction is a private company, DLOM is applied in the valuation of Hulett Construction. To estimate the DLOM applicable to Hulett Construction, which can be characterised as an asset holding company, the Independent Valuer adopted the observed DLOM from close-end funds. A closed-end fund, like a public company, issues a set number of shares in an initial public offering and trades on an exchange. Its share price is primarily determined by the total value of the assets it holds, and also determined by investor demand and perception on marketability. Thus, closed-end funds can trade at a discount or premium from their net asset values.

We note that the Independent Valuer determined the DLOM with reference to the Pluris DLOM Database, a database studying DLOM from actual transactions in restricted stock private placements. The real estate investment trusts are establishments primarily engaged in closed-end investments in real estate or related mortgage assets operating. We understand that the Independent Valuer has applied filter of real estate investment trusts in Pluris DLOM database, and arrived at a median DLOM of 2.55% with reference to common stock discounts of list of filtered transactions.

As advised by the Independent Valuer and based on our independent research, the Pluris DLOM Database is an independent research database commonly referenced by professional valuers. It is also noted that the filter applied by the Independent Valuer in the database is real estate investment trusts, which is a category under Standard Industrial Classification ("**SIC**") Codes. According to the SIC manual, such category refers to establishments primarily engaged in close-end investments in real estate or related mortgage assets operating. We also noted that SIC codes include major categories such as industrial applications and services, office of energy & transportation, office of real estate & construction (which includes real estate investment trusts), office of manufacturing, office of life sciences, office of technology, office of trade & services and office of Finance, in which only categories in relation to real estate investment trusts is considered the most relevant to the business operation of Hulett Construction. We are of the view that the DLOM of approximately 2.55% applied by the Independent Valuer for the valuation of Hulett Construction is fair and justifiable.

During our review, we noted that the valuation of Hulett Construction was conducted based on the key assumptions that, among others, there would be no material adverse changes in the existing political, legal, commercial and banking regulations, fiscal policies, foreign trade and economic conditions as well as the current laws of taxation in the regions and countries where Hulett Construction currently operates in and carrying on its businesses. In addition, among others, the Independent Valuer assumed that all relevant legal approvals, business certificates and bank credit approval have been procured, in place and in good standing prior to commencement of operations by Hulett Construction under the normal courses of business. We have obtained the business profile of Hulett Construction filed with the Singapore's Accounting and Corporate Regulatory Authority, the licence to operate a foreign employee dormitory of Hulett Construction, and title search document of the Property and noted that Hulett Construction is the current owner of the Property. We have also reviewed the appraisal assumptions in the Equity Valuation Report as set out in Appendix VII to the Circular. As advised by the Independent Valuer, the abovementioned assumptions are in line with market practice. We have also performed independent research on equity valuation reports published in the past twelve months, which we have reviewed 30 equity valuation reports published by listed issuers and noted that the abovementioned assumptions are common assumptions adopted in the majority of the equity valuation reports, and we have not identified any major factors that cause us to doubt the reasonableness of the key assumptions adopted by the Independent Valuer, we are therefore of the view that the assumptions adopted in the valuation are reasonable. During the course of our discussion with the Independent Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the valuation methodology and the principal basis and assumptions adopted in arriving at the appraised value of Hulett Construction.

Based on our review of the Equity Valuation Report and discussion with the Independent Valuer regarding, among others, the scope of work and experiences of the Independent Valuer, the reasons and appropriateness of adopting the summation method under the cost approach for the valuation of Hulett Construction, the basis, assumptions and methodology adopted in the Equity Valuation Report, and the valuation work and adjustments performed by the Independent Valuer, nothing has come to our attention that causes us to doubt the fairness and reasonableness of the preparation of the Equity Valuation Report.

Valuation of the Property

In assessing the fairness and reasonableness of the Total Consideration, we have also reviewed the Property Valuation Report as set out in Appendix VI to the Circular. According to the Property Valuation Report, the appraised value of the Property was approximately S$75.0 million as at 30 November 2023.

Valuation methodology and assumptions

For our due diligence purpose, we reviewed the Property Valuation Report prepared by the Independent Valuer and discussed with the Independent Valuer regarding the methodology adopted and the basis and assumptions used in the valuation. The Property Valuation Report was prepared by the Independent Valuer by adopting the direct comparison method. Upon our further enquiry with the Independent Valuer, we understand that the Independent Valuer has considered various valuation methodologies, including direct comparison method, profit method and cost method. Profit method is not considered appropriate as plenty of assumptions are involved in formulating the financial projection of the Property, and the assumptions might not be able to reflect the uncertainties in the future performance of the Property and improper assumptions will impose significant impact on the fair value, whereas cost method, which establishes value based on the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation, will generally only be considered if there lacks market comparables. Direct comparison method is adopted based on the principle of substitution, where comparison is made based on prices realised 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. According to the International Valuation Standard, the direct comparison method (also known as market approach) is commonly applied for the valuation of real property interests. As confirmed by the Independent Valuer, and taking into consideration that (i) there are readily identifiable market comparables; (ii) the availability of reliable, verifiable and relevant recent market information; and (iii) the direct comparison method is universally considered as the most accepted valuation methodology for valuing most forms of property, direct comparison method is adopted rather than alternative valuation methodologies and is considered to be the most appropriate valuation methodology for valuation of the Property. For our due diligence purpose, we have tried to cross-check the valuation using other valuation methodologies. We have attempted to consider the profit method, and noted that the parameters required and assumptions under the profit method may not be easily verified or reasonably justified, while the cost method required to analyse appropriate cost data on the current cost of replacing an asset with its modern equivalent asset, such as construction costs and other overheads including materials and labour costs, to estimate the cost of replacement. According to the International Valuation Standard, such method may be used as the primary approach when there is either no evidence of transaction prices for similar property or no identifiable actual or notional income stream. Having considered that (i) there are readily identifiable market comparables; (ii) based on the International Valuation Standard and our independent research on property valuation reports published in the past twelve months, which we have reviewed 45 property valuation reports published by listed issuers and noted that the direct comparison method (also known as market approach) is commonly applied for the valuation of real property interests in the majority of the property valuation reports; and (iii) fewer assumptions and uncertainties in arriving the valuation result, we are of the view that direct comparison method is considered to be the most appropriate valuation methodology for the valuation of the Property.

As discussed with the Independent Valuer, when valuing the Property using the direct comparison method, the Independent Valuer had identified and analysed various comparable properties of similar usage (industrial) in the vicinity. Specifically, the selection criteria including (i) the property type of comparable properties is industrial; (ii) the location of the comparable properties is located in the close proximity to the Property; and (iii) the offering date of the comparable properties is in 2023Q4 which aligns to the valuation date. We have also performed independent research on property valuation reports published in the past twelve months, which we have reviewed 45 property valuation reports published by listed issuers and noted that the property type, the location and the offering date which should align to the valuation date are commonly used selection criteria for the selection of comparable properties in the majority of the property valuation reports, and we have not identified any major factors that cause us to doubt the reasonableness of the selection criteria and are of the view that the selection criteria regarding the similar usage and nearby location of the comparable properties are fair and reasonable. We have also gone through the comparable selection process together with the Independent Valuer by applying the same selection criteria and obtained the same results. We further noted that in valuing the Property, the Independent Valuer had made due adjustments to the unit rates of these comparable properties to reflect factors including but not limited to time, location, size, amenities, and land tenure. Based on the discussion and our independent research, the information of the comparable properties is consistent with online public information. We understand that these adjustments are reasonable accounts for any differences between the Property and the chosen comparables. We have also performed independent research on property valuation reports published in the past twelve months, which we have reviewed 45 property valuation reports published by listed issuers and noted that these adjustments are commonly applied in the majority of the property valuation reports, and we have not identified any major factors that cause us to doubt the reasonableness of the application of adjustments by the Independent Valuer. We noted that upward adjustment in the unit rate has been made to inferior factors and downward adjustment in the unit rate has been made to superior factors of the comparable properties and we are of the view that such adjustments applied to the unit rates of the comparable properties are fair and reasonable and align with industry practices based on the results of our independent research as mentioned above. We have reviewed the computation of the value of each comparable property and noted that the unit rate of the Property is within the range of the adjusted unit rates of the comparable properties identified in the Property Valuation Report. Hence, we are of the view that this approach aligns with industry best practices and ensures that the valuation considers the unique characteristics of the Property while maintaining consistency and comparability with similar properties in the market.

During our review, we noted that the valuation was conducted based on the key assumptions that, among others, the Property have been constructed, occupied and used in full compliance with, and without contravention of all ordinances, except only where otherwise stated. It is further assumed that, for any use of the Property upon which the Property Valuation Report is based, all licenses, permit, certificates, and authorisations have been obtained. We have obtained the title search document of the Property and noted that the current owner of the Property is Hulett Construction, and the licence to operate a foreign employee dormitory of Hulett Construction. We have also reviewed the appraisal assumptions in the Property Valuation Report as set out in Appendix VI to the Circular. As advised by the Independent Valuer, the abovementioned assumptions are in line with market practice. We have also performed independent research on property valuation reports published in the past twelve months, which we have reviewed 45 property valuation reports published by listed issuers and noted that the abovementioned assumptions are common assumptions adopted in the majority of the property valuation reports, and we have not identified any major factors that cause us to doubt the reasonableness of the key assumptions adopted by the Independent Valuer. We are therefore of the view that the assumptions adopted in the valuation are reasonable. During the course of our discussion with the Independent Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the valuation methodology and the principal basis and assumptions adopted in arriving at the appraised value of the Property.

Based on our review of the Property Valuation Report and discussion with the Independent Valuer regarding, among others, the scope of work and experiences of the Independent Valuer, the reasons and appropriateness of adopting the direct comparison method for the valuation of the Property, the basis, assumptions and methodology adopted in the Property Valuation Report, and the valuation work and adjustments performed by the Independent Valuer, nothing has come to our attention that causes us to doubt the fairness and reasonableness of the preparation of the Property Valuation Report.

Conclusion of Total Consideration

Taking into account the above, given (i) the Total Consideration was determined based on the Valuation Reports which we consider fair and reasonable as discussed above; (ii) the Total Consideration represents discount to the valuation of Hulett Construction and the Sale Loans; (iii) the Total Consideration was determined based on arm's length negotiation among the parties to the Agreement; and (iv) the potential reasons and benefits as stated in the section headed "Reasons for and benefits of the Acquisition", we are of the view that the Total Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

F. Financial effects of the Acquisition

Upon the Completion, Hulett Construction will be owned as to 100% by Chuan Lim, and accordingly, become an indirect wholly-owned subsidiary of the Company. The financial results of Hulett Construction will be consolidated in the consolidated financial statements of the Group.

Assets and Liabilities

The unaudited consolidated total assets, total liabilities and net assets of the Group as at 30 June 2023 as extracted from the 2023 Interim Report were approximately S$114,153,000, S$23,604,000 and S$90,549,000, respectively. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix V to the Circular, assuming the Acquisition had completed on 30 June 2023, the unaudited pro forma total assets, total liabilities and net assets of the Enlarged Group would have been approximately S$172,749,000.00, S$82,428,000.00 and S$90,321,000.00 respectively.

Earnings

The audited net profit attributable to the owners of the Company of the Group for FY2022 as extracted from the 2022 Annual Report was approximately S$1,723,000. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix V to the Circular, assuming the Acquisition had completed on 1 January 2022, the Enlarged Group would have recorded a net profit of approximately $2,658,000.00.

It is noted that the above analyses are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group would be after the Completion.

RECOMMENDATION

Having taken into consideration the principal factors discussed above, we are of the view that (i) the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable; and (ii) although the Acquisition is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, and 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 Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Grande Capital Limited

Sumwing Shum
Managing Director

Mr. Sumwing Shum is licensed under the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity and is currently a responsible officer and sponsor principal of Grande Capital. Mr. Shum has over 9 years of experience in the corporate finance industry.