

3 February 2023

To the Independent Shareholders:

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
MIGHTY DIVINE SECURITIES LIMITED
FOR AND ON BEHALF OF SOUTHERN HERITAGE LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
KHOON GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED
OR AGREED TO BE ACQUIRED BY SOUTHERN HERITAGE
LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

References are made to (i) the MOU Announcement; (ii) the Joint Announcement in relation to, among other things, the Acquisition and the Offer; (iii) the joint announcement of the Offeror and the Company dated 9 January 2023 in relation to the delay in despatch of the Composite Document; and (iv) the joint announcement dated 27 January 2023 issued by the Offeror and the Company in relation to, among others, the Completion and the Offer. Terms used in this letter shall have the same meanings as defined in this Composite Document unless the context otherwise requires.

As disclosed in the Joint Announcement, on 12 December 2022 (after trading hours), the Vendor, the Guarantors and the Offeror entered into the Share Purchase Agreement pursuant to which the Vendor conditionally agreed to sell and the Offeror conditionally agreed to purchase the Sale Shares, being 550,000,000 Shares (representing 55.0% of the total issued share capital of the Company as at the Latest Practicable Date), for a total cash Consideration of HK\$152,500,000 (being approximately HK\$0.277 per Sale Share).

Immediately after Completion which took place on 27 January 2023 and as at the Latest Practicable Date, the Offeror and parties acting in concert with it hold in aggregate 550,000,000 Shares, representing 55.0% of the total issued share capital of the Company. The Offeror is therefore required under Rule 26.1 of the Takeovers Code to make a mandatory unconditional cash offer for all the issued Shares not already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

Further details of the Offer are set out in the “Letter from Mighty Divine” and Appendix I to this Composite Document of which this letter forms part, and in the accompanying Form of Acceptance.

The purpose of this Composite Document is to provide you with, among other things, information relating to the Group, the Offeror and the Offer, the recommendation of the Independent Board Committee to the Independent Shareholders and the “Letter from the Independent Financial Adviser” to the Independent Board Committee in relation to the Offer.

THE OFFER

As at the Latest Practicable Date, there were 1,000,000,000 Shares in issue.

As at the Latest Practicable Date, the Company had no outstanding warrants, options, derivatives or securities convertible or exchangeable into Shares and the Company had not entered into any agreement for the issue of such securities, options, derivatives or warrants of the Company.

Principal terms of the Offer

As disclosed in the “Letter from Mighty Divine” on pages 7 to 15 of this Composite Document, Mighty Divine is making the Offer for and on behalf of the Offeror to all the Independent Shareholders for all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it) on the following basis:

For each Offer Share

HK\$0.278 in cash

The Offer Price of HK\$0.278 per Offer Share is almost the same as the price of approximately HK\$0.277 per Sale Share paid by the Offeror under the Share Purchase Agreement.

The Offer Shares to be acquired under the Offer shall be fully paid, free from all encumbrances and with all rights and benefits at any time accruing and attached to them, including the rights to receive all dividends and distributions declared, made or paid on or after the date on which the Offer is made, i.e. the date of this Composite Document. As at the Latest Practicable Date, none of the dividends declared by the Company remained unpaid. The Company confirms that it does not intend to declare any dividends during the Offer Period. The Offer is unconditional in all respects. Acceptance of the Offer tendered by the Independent Shareholders shall be unconditional and irrevocable once given and cannot be withdrawn except in circumstances set out in Rule 19.2 of the Takeovers Code.

Your attention is drawn to the further details regarding the procedures for acceptance of the Offer, settlement and acceptance period as set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

INFORMATION OF THE GROUP

The Company was incorporated and registered as an exempted company in the Cayman Islands with limited liability and its issued Shares have been listed on the Main Board of the Stock Exchange since 5 July 2019. The Group is a mechanical and electrical engineering contractor in Singapore specialised in providing electrical engineering solutions. The electrical engineering services of the Group mainly comprise of (i) customisation and/or installation of electrical systems; (ii) assisting in obtaining statutory approvals; and (iii) testing and commissioning, which are widely required in new building developments, redevelopment, additions and alternations works and upgrading projects, involving residential, commercial and industrial buildings.

The following table sets out the shareholding structure of the Company (a) as at the date of the Joint Announcement; and (b) immediately after Completion and before the Offer and as at the Latest Practicable Date:

	As at the date of the Joint Announcement		Immediately after Completion and before the Offer and as at the Latest Practicable Date	
	<i>Number of Shares</i>	<i>Approximate%</i>	<i>Number of Shares</i>	<i>Approximate%</i>
The Offeror and parties acting in concert with it	–	–	550,000,000	55.0
The Vendor	550,000,000	55.0	–	–
The Independent Shareholders	450,000,000	45.0	450,000,000	45.0
Total	<u>1,000,000,000</u>	<u>100</u>	<u>1,000,000,000</u>	<u>100</u>

FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated financial results of the Group for the financial years ended 30 June 2021 and 30 June 2022, prepared in accordance with the relevant accounting principles and financial regulations applicable to the International Financial Reporting Standards:

	For the year ended 30 June 2022 or as at 30 June 2022		For the year ended 30 June 2021 or as at 30 June 2021	
	<i>Equivalent to approximately</i>		<i>Equivalent to approximately</i>	
	S\$	HK\$	S\$	HK\$
Revenue	23,058,355	128,458,802	26,303,945	146,540,084
(Loss) Profit before taxation	(580,968)	(3,236,591)	7,595	42,312
Loss and other comprehensive loss for the year	(617,843)	(3,442,022)	(183,125)	(1,020,195)
Net assets	37,744,831	210,277,610	38,362,674	213,719,632

POSITIVE PROFIT ALERT ANNOUNCEMENT AND PROFIT FORECAST

Reference is made to the Positive Profit Alert Announcement whereby, among others, it was announced that based on the preliminary assessment of the unaudited consolidated management accounts of the Group for the five months ended 30 November 2022, it is expected to record a net profit attributable to owners of the Company for the six months ended 31 December 2022 of not more than approximately S\$0.7 million as compared to a net loss of approximately S\$0.1 million for the corresponding period in 2021 (the “**Positive Profit Alert**”).

The expected net profit attributable to owners of the Company for the six months ended 31 December 2022 is mainly attributable to the recovery of construction industry in Singapore given the improvement in COVID-19 situation in Singapore. Since July 2022, the entry requirement for Construction, Marine Shipyard and Process sectors work permit holders have been further eased and there have been an influx of migrant workers into Singapore. Consequently, the influx of migrant workers into Singapore have moderated the labour costs and speed up the progress of the Group’s on-going projects and led to an increase in revenue and net profit recognised over the six months ended 31 December 2022.

The Positive Profit Alert constitutes a profit forecast for the purposes of Rule 10 of the Takeovers Code and as it is made during the Offer Period, the Company is required to comply with the requirements under Rule 10 of the Takeovers Code with respect to profit forecasts.

The Positive Profit Alert has been reported on by McMillan Woods (Hong Kong) CPA Limited, the consultant accountant of the Company, and Grande Capital. McMillan Woods (Hong Kong) CPA Limited has reported that, so far as the accounting policies and calculations are concerned, the Positive Profit Alert has been properly compiled in accordance with the bases adopted by the Board as set out in the Positive Profit Alert Announcement and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group and used in the preparation of the audited consolidated financial statements of the Group for the year ended 30 June 2022. Grande Capital is satisfied that the Positive Profit Alert has been made by the Board with due care and consideration. Your attention is drawn to the reports issued by McMillan Woods (Hong Kong) CPA Limited and Grande Capital on the statement in the Positive Profit Alert Announcement set out in Appendix V to this Composite Document.

INTENTIONS OF THE OFFEROR REGARDING THE GROUP

Your attention is drawn to the paragraphs headed “Information on the Offeror” and “Intentions of the Offeror Regarding the Group” in the “Letter from Mighty Divine” as set out on pages 12 to 13 of this Composite Document. The Board is aware of the intentions of the Offeror regarding the Group and is willing to render reasonable co-operation with the Offeror which is in the interests of the Company and the Independent Shareholders as a whole. The Board is aware that the Offeror intends to continue the existing principal business of the Group but will conduct a review to formulate a long-term business strategy for the Group. The Board is also aware that (i) the Offeror has no intention to make material changes to the employment of the management and employees of the Group (except for a proposed change to the members of the Board at a time no earlier than that permitted under the Listing Rules and the Takeovers Code or such later time as the Offeror considers to be appropriate); (ii) the Offeror has no intention to dispose of or redeploy the assets of the Group other than those in its ordinary course of business; (iii) the Offeror has no intention, understanding, negotiation or arrangement (concluded or otherwise) for (a) downsize, cessation or disposal of existing business of the Group; and (b) acquisition of business or assets as of the Latest Practicable Date; and (iv) no investment or business opportunity has been identified nor has the Offeror entered into any agreement, arrangement, understandings or negotiation in relation to the injection of any assets or business into the Group as at the Latest Practicable Date.

PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

The Board is aware that the Offeror does not intend to avail itself of any powers of compulsory acquisition of any Shares outstanding after the close of the Offer. The Company will, together with the Offeror, use reasonable endeavours to maintain the listing status of the Shares on the Stock Exchange and procure that not less than 25% of the entire issued share capital in the Company be held by the public in compliance with the Listing Rules.

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:

- a false market exists or may exist in the trading of the Shares; or
- there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares. Therefore, it should be noted that upon close of the Offer, there may be insufficient public float of the Shares and the trading in the Shares may be suspended until sufficient public float exists for the Shares.

The Offeror intends the Company to remain listed on the Stock Exchange. Mr. Chen, being the sole director of the Offeror, has undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. The Directors have jointly and severally undertaken to the Stock Exchange to take appropriate steps while they remain on the Board to ensure that sufficient public float exists in the Shares after the close of the Offer.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

RECOMMENDATION

The Independent Board Committee, comprising all the independent non-executive Directors, namely, Ms. Leung Wing Chi Kylie, Mr. Yeo Kwang Maccann and Mr. Hon Chin Kheong (Han Zhenqiang), has been established to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, and as to acceptance of the Offer. Your attention is drawn to (i) the "Letter from the Independent Board Committee" as set out on pages 22 to 23 of this Composite Document; and (ii) the "Letter from the Independent Financial Adviser" as set out on pages 24 to 42 of this Composite Document containing their respective advice and recommendation in respect of the Offer and principal factors considered by it in arriving at their recommendation.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this Composite Document. You are also recommended to read carefully Appendix I to this Composite Document and the accompanying Form of Acceptance for further details in respect of the procedures for acceptance of the Offer.

In considering what actions to take in connection with the Offer, you should also consider your own tax positions, if any, and in case of any doubt, consult your own professional advisers.

Yours faithfully,
For and on behalf of the Board of
Khoon Group Limited



Ang Jui Khoon
Chairman and Executive Director