



3 February 2023

To: *The independent board committee of Khoon Group Limited*

Dear Sirs,

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

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer, details of which are set out in the Composite Document dated 3 February 2023 jointly issued by the Company and the Offeror to the Shareholders, of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

On 12 December 2022, 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). As disclosed in the announcement jointly issued by the Company and the Offeror on 27 January 2023, Completion took place on 27 January 2023.

Prior to Completion, the Offeror and parties acting in concert with it did not own, control or have direction over any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately following Completion, 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 general offer for all the issued Shares not already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

An Independent Board Committee comprising all the independent non-executive Directors who have no direct or indirect interest in the Offer, namely Ms. Leung Wing Chi Kylie, Mr. Yeo Kwang Maccann and Mr. Hon Chin Kheong (Han Zhenqiang), has been established pursuant to Rule 2.1 of the Takeovers Code to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offer pursuant to Rule 2.1 of the Takeovers Code. The appointment of VBG Capital Limited as the Independent Financial Adviser has been approved by the Independent Board Committee.

## **OUR INDEPENDENCE**

As at the Latest Practicable Date, apart from the existing engagement in connection with the Offer, we confirm that we did not have any significant connection, business, financial or otherwise, with the Company and/or the Offeror or the controlling shareholders of either of them within two years prior to the commencement of the Offer Period, of a kind reasonably likely to create, or create the perception of, a conflict of interest or reasonably likely to affect the objectivity of our advice. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates, the Offeror or parties acting in concert with any of them. We consider ourselves independent to form our opinion in respect of the Offer.

## **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee, we have reviewed or studied, amongst others, (i) the interim reports of the Company for the six months ended 31 December 2020 and 2021 and the annual report of the Company for the financial year ended 30 June 2022 (the “**Annual Report**”); (ii) the Positive Profit Alert Announcement; (iii) the listing prospectus of the Company dated 20 June 2019 (the “**Prospectus**”); (iv) the research information as being presented in the sections headed “Prospects and outlook of the Group” and “The Offer Price” of this letter of advice; and (v) the relevant information contained in the Composite Document.

We have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations as provided to us by the management of the Group and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the management of the Group and the Offeror (where applicable), 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 and the Offeror (where applicable) in the Composite Document 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 Composite Document, or the reasonableness of the opinions expressed by the Company, the Offeror, their respective advisers and/or management (where applicable), which have been provided to us. Our opinion is based on the management of the Group's and the Offeror's representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Offer. 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 and Rule 2 of the Takeovers Code.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than those relating to the Offeror and parties acting in concert with it), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than the opinions expressed by the sole director of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained in the Composite Document misleading.

Mr. Chen, being the sole director and sole shareholder of the Offeror, accepts full responsibility for the accuracy of information contained in the Composite Document (other than those relating to the Vendor, the Guarantors and the Group) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in the Composite Document (other than the opinions expressed by the Guarantors and the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, 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 investigation into the business and affairs of the Company, the Vendor, the Offeror, the Guarantors, Mr. Chen 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 Offer. The Company has been separately advised by its own professional advisers with respect to the Offer and the preparation of the Composite Document (other than this letter of advice).

We have assumed that the Offer will be consummated in accordance with the terms and conditions set forth in the Composite Document without any waiver, amendment, addition or delay of any terms or conditions. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any independent investigation into the accuracy and completeness of such information.

Should there be any material changes to the information affecting our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible in compliance with Rule 9.1 of the Takeovers Code.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

### **(1) Terms of the Offer**

Mighty Divine is, on behalf of the Offeror and in compliance with the Takeovers Code, making the Offer to acquire all the issued Shares (other than those 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 per Sale Share of approximately HK\$0.277 paid by the Offeror under the Share Purchase Agreement.

The Offer is unconditional in all respects and is extended to all Independent Shareholders in accordance with the Takeovers Code.

As at the date of the Joint Announcement, there were 1,000,000,000 Shares in issue and the Company had no other outstanding options, warrants, derivatives or other securities that are convertible or exchangeable into Shares or other relevant securities in the Company (as defined in Note 4 to Rule 22 of the Takeovers Code). As the Offeror and parties acting in concert with it hold in aggregate 550,000,000 Shares immediately following Completion, 450,000,000 Shares will be subject to the Offer.

### **(2) Financial information on the Group**

The Group is a mechanical and electrical engineering (“M&E”) contractor in Singapore specialised in providing electrical engineering solutions. The electrical engineering services of the Group mainly comprise (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.

As represented by the Directors, the Group’s electrical engineering services are widely required in new building developments, redevelopment, repair, additions and alterations works to existing buildings and structures (“A&A”), and upgrading projects, and the Group is engaged in both public and private sector projects. In respect of public sector projects, customers of the Group are (i) construction contractors engaged by the Housing & Development Board of the Singapore Government (“HDB”) for new building development and redevelopment projects; and (ii) local statutory bodies in Singapore for A&A and upgrading projects. In general, where HDB has decided to implement a new public residential development, it would invite construction contractors to participate in project tenders for undertaking the building and construction works of the project. As a common industry practice, the selected construction contractors would arrange to sub-contract the electrical engineering works involved to M&E service providers (such as the Group). In respect of private sector projects, customers of the Group are construction contractors engaged by property developers.

Set out below is the key audited consolidated financial information on the Group for the two financial years ended 30 June 2022 and 2021 as extracted from the Annual Report:

	<b>For the financial year ended 30 June 2022</b>	<b>For the financial year ended 30 June 2021</b>
	S\$	S\$
Revenue	23,058,355	26,303,945
Gross profit	1,428,280	2,234,840
Loss and other comprehensive loss for the year	(617,843)	(183,125)
Gross profit margin	6.19%	8.50%

As depicted by the above table, the Group’s revenue shrank by approximately 12.34% from approximately S\$26.3 million for the financial year ended 30 June 2021 to approximately S\$23.1 million for the financial year ended 30 June 2022; and its gross profit shrank by approximately 36.09% from approximately S\$2.2 million to approximately S\$1.4 million during the same financial year. As referred to in the Annual Report, the shrink in revenue was mainly due to the resurgence of the Covid-19 pandemic in Singapore. To combat local transmission amid the resurgence, the Singapore Government implemented several safe management measures at project sites. Border control measures also resulted in severe labour shortage and supply chain issues which significantly affected the progress of the Group’s electrical engineering works, thus less revenue was recognised by the Group. As referred to in the Annual Report, the shrink in gross profit was mainly due to the additional costs incurred, such as the costs of overrun of the on-going projects and the increase in manpower costs resulting from labour shortage, as a result of the Covid-19 pandemic. In addition, the Russo-Ukrainian War added further pressure and disruption to the global supply chain, which in turn boosted inflation significantly and caused a substantial increase in material and transportation costs during the financial year ended 30 June 2022. Consequently, the Group’s gross profit margin for the financial year ended 30 June 2022 decreased to approximately

6.19% from approximately 8.50% for the financial year ended 30 June 2021, and the Group's net loss after tax increased in line with the decrease in revenue and gross profit from approximately S\$0.2 million for the financial year ended 30 June 2021 to approximately S\$0.6 million for the financial year ended 30 June 2022.

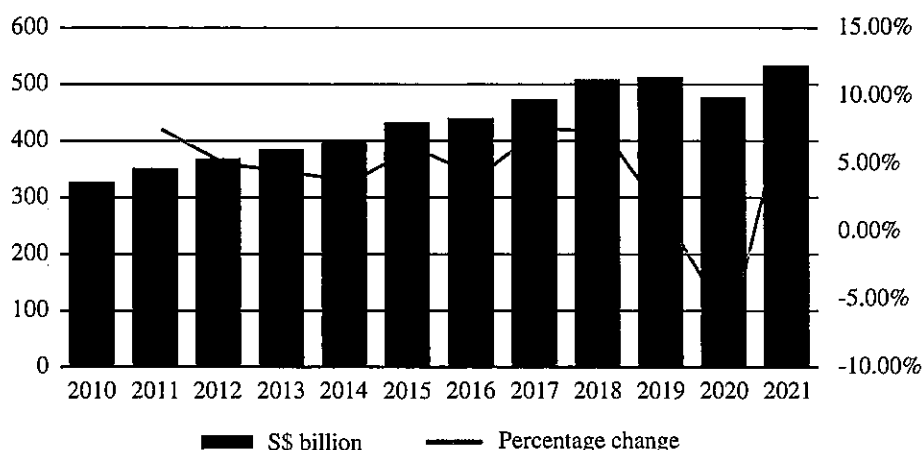
The Company made the Positive Profit Alert Announcement whereby it was disclosed that based on the preliminary assessment of the unaudited consolidated management accounts of the Group for the five months ended 30 November 2022, the Group is expected to record a net profit attributable to owners of the 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 expected net profit attributable to owners of the Company for the six months ended 31 December 2022 was mainly attributable to the recovery of the construction sector in Singapore given the improvement in the Covid-19 situation in Singapore. With reference to the Positive Profit Alert Announcement, 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, thereby moderating the labour costs and speeding up the progress of the Group's on-going projects.

### (3) Prospects and outlook of the Group

The Group's revenue is majorly derived from provision of electrical engineering services to customers in the public sector, which accounted for approximately 70.68% of its total revenue for the financial year ended 30 June 2022. The remaining revenue is derived from the private sector.

#### *Overview on the GDP growth of Singapore*

Set out below is a chart showing the movement of the value and percentage change of the gross domestic product ("GDP") of Singapore between 2010 and 2021:



Source: the Singapore Department of Statistics website (<https://www.singstat.gov.sg/>)

As illustrated above, the GDP of Singapore had been growing persistently from approximately S\$327.0 billion in 2010 to approximately S\$512.2 billion in 2019, but the said persistent growth was deterred by the Covid-19 pandemic in 2020. On average, the annual percentage growth of Singapore’s GDP during the period between 2010 and 2021 was approximately 4.65%. Based on the “Economic Survey of Singapore Third Quarter 2022” published by the Ministry of Trade and Industry of the Singapore Government in November 2022, taking into account (i) the projected slow growth in GDP of the United States of America and the PRC; (ii) the significant uncertainties and downside risks in the global economy; (iii) the growth of the outward-oriented sectors in Singapore is expected to weaken with the deterioration in external demand conditions; and offset by (iv) the growth prospects in several sectors, namely the continued recovery in air travel and international visitor arrivals, the Singapore economy is expected to grow by 0.5% to 2.5% in 2023, which is far less than its historical annual average percentage growth from 2010 to 2021.

### *Overview on the Singapore construction sector*

According to the Building and Construction Authority of Singapore (“BCA”), over the past six years from 2016 to 2021, the total contract awarded value of construction works performed by main contractors (i.e. the full contract awarded to main contractor by developer or owner and including the contract value of works which are further sub-contracted to other contractors of construction works, or in short the “total construction demand”) in Singapore had been fluctuating. After a temporary contraction in 2017, the total construction demand increased from 2018 until 2020 when the Covid-19 pandemic broke out. Despite a quick bounce back in 2021 from backlog projects, the total construction demand has not yet recovered to the pre-pandemic level. The table below demonstrates a full picture of the trend of fluctuation as aforementioned:

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>S\$ million</i>	<i>S\$ million</i>	<i>S\$ million</i>	<i>S\$ million</i>	<i>S\$ million</i>	<i>S\$ million</i>
Total	26,403.8	24,798.5	30,535.2	33,523.8	21,044.8	29,934.4
Public sector	15,393.3	15,835.0	18,296.2	19,026.4	12,171.6	17,841.4
Private sector	11,010.5	8,963.5	12,239.0	14,497.4	8,873.2	12,093.0

*Source: the BCA website (<https://www1.bca.gov.sg/>)*

From the above table, it is further noted that the construction demand of both the public sector and private sector was severely affected by the Covid-19 pandemic in 2020. The revitalisation of the private sector was slower than the public sector. In comparison, the construction demand of the public sector was restored to approximately S\$17.8 billion in 2021, which was approximately 93.77% of the pre-pandemic level; and the construction demand of the private sector was restored to approximately S\$12.1 billion in 2021, which was approximately 83.42% of the pre-pandemic level.

According to the “Singapore’s Construction Demand to Remain Strong in 2023” published by BCA in January 2023, the preliminary total construction demand for 2022 reached approximately S\$29.8 billion; while the projected figure for 2023 is S\$27 billion to S\$32 billion. For the medium-term between 2024 and 2027, the total construction demand is forecasted to be S\$25 billion to S\$32 billion per year. The BCA’s forecasts suggest that the growth of the Singapore construction sector has seemingly leveled off. After the quick bounce back in 2021 from backlog projects, demand of the Singapore construction sector is likely to stay in the range of S\$25 billion to S\$32 billion per year in the medium-term between 2024 and 2027, failing to surpass the summit of approximately S\$33.5 billion in 2019.

#### *The continuous trend of rising costs*

According to the “Economic Survey of Singapore 2021” published by the Ministry of Trade and Industry of the Singapore Government in February 2022, in 2021, the domestic supply price and manufactured products price indices rose by approximately 15.2% and 9.5% respectively; whereas the import and export price indices rose by approximately 11.6% and 11.3% respectively. The year-on-year growth of the overall unit labour cost in 2021 was approximately 4.2%. In particular, the overall unit labour cost rose by approximately 6.7% year-on-year in the fourth quarter of 2021, with the construction sector registering the distinctive largest jump (approximately 34.8%). As predicted by the Ministry of Trade and Industry of the Singapore Government, the overall unit labour cost is likely to continue to rise on account of sustained wage. Concurrently, the costs of utilities, fuel and transportation are expected to rise due to higher global oil prices, which shall be elevated amidst the tight supply conditions as well as the geopolitical tensions between Russia and Ukraine and in the Middle East region.

For instance, based on the BCA’s announced “Building Works Tender Price Index”, tender prices in the construction sector rose by approximately 14.5% in 2021 mainly due to significant increases in the cost of manpower and key construction materials.

#### *Our view*

As depicted in the section headed “Financial information on the Group” of this letter of advice, as a result of largely the Covid-19 pandemic and the surging costs attributable to a number of factors, the Group’s financial performance has worsened in the recent financial years. Having considered the uncertainties associated with the financial performance and prospects of the Group as elaborated above, including (i) the expected relatively stagnant GDP growth of Singapore in 2023; (ii) the Singapore construction sector may lack a strong driving force to achieve rapid growth in the medium-term; (iii) the continuous trend of rising costs; and (iv) the unexpected waves of the Covid-19 pandemic and the potential intensifying geopolitical tensions, the Group would continue to operate in a challenging environment in the short-term. Notwithstanding the possible improvement in profitability for the six months ended 31 December 2022, the Group’s recovery momentum may be uncertain.



#### **(4) Historical dividend payment of the Company**

The Company does not have a specific dividend policy. As stated in the Prospectus, the proposal of payment and the amount of dividends for the future years will be made at the discretion of the Board subject to the Cayman Islands law and the Company's articles, and will depend on the Company's general business condition and strategies, cash flows, financial results and capital requirements, interests of the Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that the Board deems relevant. There has not been any dividend declared or paid by the Company over the past three financial years ended 30 June 2022 since the listing of Shares on the Stock Exchange and up to the Latest Practicable Date.

The Company further confirmed that as at the Latest Practicable Date, (i) it had not declared any dividend which had not yet paid; and (ii) it did not have any intention to declare or pay any future dividend or make other distributions prior to and including the Closing Date.

With the foregoing being the case, investment in the Shares would be less attractive, especially for those Shareholders who opt for dividend income from their investment.

#### **(5) Information on the Offeror**

To provide Independent Shareholders with basic information regarding the background of the Offeror, set out below is the key information on the Offeror as extracted from the "Letter from Mighty Divine" of the Composite Document:

"The Offeror is a company incorporated in the BVI with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, save for entering into of the Share Purchase Agreement, the Offeror did not engage in any other business activities."

"Mr. Chen is the sole ultimate beneficial owner and sole director of the Offeror. Mr. Chen is a Cambodian, who holds a bachelor's degree of Business Administration from National University of Management, Kingdom of Cambodia. He is one of the founders, the director and chairman of Prince Real Estate (Cambodia) Group Co., Ltd., the holding company for a group of companies principally engaged in property related industry which includes the development and leasing of commercial and residential properties in Cambodia. Mr. Chen has over ten years of experience in the areas of property agency and development. In addition, Mr. Chen has over six years of experience in internet industry, and is a director of certain companies which are principally engaged in the provision of information technology solutions and internet services (such as web hosting, enterprise network and broadband internet services) in Cambodia and Singapore. Mr. Chen has been an executive director of Geotech Holdings Limited (stock code: 1707), the shares of which are listed on the Main Board of the Stock Exchange, since December 2018. He is also the chairman and controlling shareholder of Geotech Holdings Limited as at the Latest Practicable Date."

## (6) Intentions of the Offeror regarding the Group

To provide Independent Shareholders with information regarding the intentions of the Offeror, set out below is the Offeror's intentions on the Group's business and Board composition as extracted from the "Letter from Mighty Divine" of the Composite Document:

"The Offeror intends to continue the employment of the existing 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). The Offeror also intends to continue the existing principal business of the Group. However, the Offeror will conduct a detailed review on the operation and business activities of the Group (the "**Detailed Review**") to formulate a long-term business strategy for the Group. Subject to the results of such Detailed Review, the Offeror may explore other business and/or seek to expand the geographical coverage of the principal business of the Group in addition to the market of Singapore (the "**Other Business Explorations**"). As at the Latest Practicable Date, no Detailed Review had been conducted by the Offeror and accordingly, no further details of the Other Business Explorations are available."

"Save for the Offeror's intention regarding the Group as set out above, (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 at 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."

"The Offeror intends to nominate new Director(s), in particular those with experience in similar business of the Group, to the Board with effect from a date which is no earlier than such date as permitted under the Takeovers Code or such later date as the Offeror considers to be appropriate. As at the Latest Practicable Date, the Offeror had not reached any decision as to the Board composition following the close of the Offer, in particular, the Offeror has not identified any candidate to be nominated as a new Director nor any existing Director to be replaced."

From the above disclosures, Independent Shareholders should note that (i) the Offeror's past business experience and exposure was primarily focused on the area of property agency and development, information technology and internet industry; (ii) the Offeror may explore other business for the Group, yet as at the Latest Practicable Date no investment or business opportunities had been identified; and (iii) the Offeror was in the course of identifying new candidates to the Board and had not reached any decision as to the Board composition as at the Latest Practicable Date. In light of the above, the principal business of the Group may be expanded and the senior management team of the Company may change after the Offer.

## (7) The Offer Price

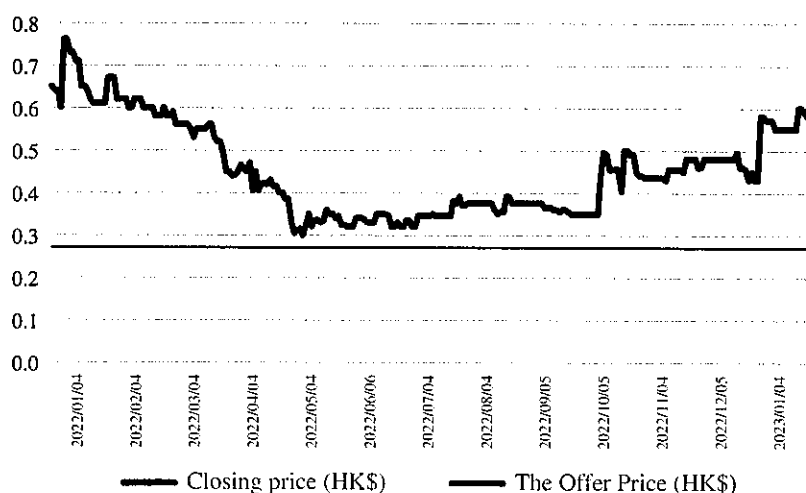
### *Offer Price comparison*

The Offer Price of HK\$0.278 per Offer Share represents:

- (a) a discount of approximately 52.07% to the closing price of HK\$0.580 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 43.84% to the closing price of HK\$0.495 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 42.44% to the average closing price of approximately HK\$0.483 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (d) a discount of approximately 42.32% to the average closing price of approximately HK\$0.482 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Day;
- (e) a discount of approximately 40.22% to the average closing price of approximately HK\$0.465 per Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day; and
- (f) a premium of approximately 32.38% over the audited consolidated net asset value attributable to owners of the Company (“NAV”) per Share of approximately HK\$0.210 as at 30 June 2022 (based on a total of 1,000,000,000 Shares in issue as at the Latest Practicable Date and the audited NAV of S\$37,744,831 (equivalent to approximately HK\$210,277,610) as at 30 June 2022).

### *Historical price performance of the Shares*

The chart below displays the movement of the closing prices of the Shares within the period from 1 January 2022 up to the Latest Practicable Date (the “Review Period”), being the approximate one-year period preceding and including the Latest Practicable Date, to illustrate the general trend and level of movement of the closing prices of the Shares for a reasonable long recent period up to the Latest Practicable Date:



Source: the Stock Exchange website ([www.hkex.com.hk](http://www.hkex.com.hk))

*Notes:*

- (1) Trading in the Shares on the Stock Exchange was halted from 26 July 2022 to 27 July 2022 (morning session) pending the release of the MOU Announcement.
- (2) Trading in the Shares on the Stock Exchange was halted from 13 December 2022 to 19 December 2022 (both dates inclusive) pending the release of the Joint Announcement.

From the above chart, we noted that the closing prices of the Shares on the Stock Exchange had been moving downward considerably from the peak of HK\$0.760 per Share on 7 January 2022 and 10 January 2022 to the floor of HK\$0.300 per Share on 12 May 2022. After reaching the floor, the closing prices of the Shares rebounded slightly and stayed between HK\$0.300 per Share and HK\$0.400 per Share during the period from mid-May 2022 to early-October 2022. There had been a sudden upsurge in the Share price from HK\$0.350 per Share on 6 October 2022 to HK\$0.495 per Share on 10 October 2022. We have enquired into the Directors for the probable reasons for such sudden upsurge and the Directors advised us that they were not aware of any affirmative happenings which might have affected the Share price. Thereafter, the closing prices of the Shares had been moving in the range of HK\$0.400 per Share and HK\$0.500 per Share up to the Last Trading Day. The Shares resumed trading on 20 December 2022 upon release of the Joint Announcement, and the Share price had stayed relatively stable at around HK\$0.450 per Share since the resumption and up to 31 December 2022. From 3 January 2023 to the Latest Practicable Date, the Share price rose further to HK\$0.55 or above.

As such, it is noted that the Offer Price of HK\$0.278 has been below the historical closing prices of the Shares during the entire Review Period. Specially, the Offer Price represents discounts of approximately 7.33%, 63.42% and 38.77%, respectively, to the lowest closing price of HK\$0.300 per Share, the highest closing price of HK\$0.760 per Share and the average closing price of approximately HK\$0.454 per Share within the Review Period.

***Historical NAV per Share***

A comparison between the Offer Price and the NAV per Share over the recent two financial years of the Group is shown in the following table:

<b>NAV per Share (<i>Note</i>)</b>	<b>% of premium of the Offer Price over the NAV per Share</b>
Approximately HK\$0.210 as at 30 June 2022	32.38%
Approximately HK\$0.218 as at 31 December 2021	27.50%
Approximately HK\$0.219 as at 30 June 2021	26.94%
Approximately HK\$0.224 as at 31 December 2020	24.11%

*Note:* Calculated based on (i) a total of 1,000,000,000 Shares in issue throughout the recent two financial years of the Company and as at the Latest Practicable Date; (ii) the NAV (which mainly comprised contract assets and bank balances and cash) as at the respective interim period/annual year end date; and (iii) the exchange rate, i.e. the buying telegraphic transfer rate as quoted from The Hong Kong Association of Banks, as of the respective indicated date.

As shown above, notwithstanding that the Offer Price has been below the historical closing prices of the Shares during the entire Review Period, it is at constant increasing premiums over the NAV per Share over the recent two financial years of the Group. In view of the nature of the NAV as being explained in the sub-section headed “Comparison with other comparable companies” of this letter of advice, we are of the view that a direct comparison between the Offer Price and the NAV per Share, regardless of the movement of the closing prices of the Shares, may provide Shareholders with reference to the fairness and reasonableness of the Offer Price.

### *Historical trading liquidity of the Shares*

The number of trading days, the average daily number of the Shares traded per month, and the respective percentages of the Shares’ monthly trading volume as compared to (i) the total number of issued Shares held by the public as at the Latest Practicable Date; and (ii) the total number of issued Shares as at the Latest Practicable Date during the Review Period are tabulated as below:

Month	Number of trading days in each month	Average daily trading volume (the “Average Volume”) (Number of Shares)	% of the Average	% of the Average
			Volume to total number of issued Shares held by the public as at the Latest Practicable Date <sup>(Note 3)</sup>	Volume to total number of issued Shares as at the Latest Practicable Date <sup>(Note 4)</sup>
2022				
January	21	203,048	0.0451	0.0203
February	17	26,824	0.0060	0.0027
March	23	494,261	0.1098	0.0494
April	18	211,556	0.0470	0.0212
May	20	499,600	0.1110	0.0500
June	21	77,714	0.0173	0.0078
July	19	135,158	0.0300	0.0135
August	23	24,000	0.0053	0.0024
September	21	17,905	0.0040	0.0018
October	20	139,200	0.0309	0.0139
November	22	52,000	0.0116	0.0052
1 December to the Last Trading Day	8	34,000	0.0076	0.0034
20 December to 31 December 2022	7	248,000	0.0551	0.0248
2023				
1 January to the Latest Practicable Date	18	157,333	0.0350	0.0157

Source: the Stock Exchange website ([www.hkex.com.hk](http://www.hkex.com.hk))

*Notes:*

- (1) Trading in the Shares on the Stock Exchange was halted from 26 July 2022 to 27 July 2022 (morning session) pending the release of the MOU Announcement.
- (2) Trading in the Shares on the Stock Exchange was halted from 13 December 2022 to 19 December 2022 (both dates inclusive) pending the release of the Joint Announcement.
- (3) Based on 450,000,000 Shares held by the public as at the Latest Practicable Date.
- (4) Based on 1,000,000,000 Shares in issue as at the Latest Practicable Date.

As depicted by the above table, trading in the Shares had been extremely thin (around or below 0.1000% of the total number of issued Shares held by the public as at the Latest Practicable Date) during the Review Period. In this relation, we further noted that there were nearly half of the trading days (117 out of the total 258 trading days) on which the trading volume was nil. As such, it is uncertain as to whether there would be sufficient liquidity in the Shares in the foreseeable future for the Independent Shareholders to dispose of their Shares in the open market without causing market price slump of the Shares. We therefore consider that the Offer provides the Independent Shareholders, particularly those with sizeable shareholdings, with a readily available exit opportunity to realise part or all of their investment in the Shares and redeploy the cash received from accepting the Offer into other investment opportunities, if they wish to do so.

Nonetheless, if any Independent Shareholders who would like to realise their investment in the Shares are able to dispose of their Shares in the open market and/or identify potential purchaser(s) to acquire their Shares at a price higher than the Offer Price, those Independent Shareholders may consider not accepting the Offer but selling their Shares in the open market and/or to such potential purchaser(s), as they wish to do so and as they think fit having regard to their own circumstances, in case the net proceeds from the sales of their Shares would exceed the net amount receivable under the Offer.

Furthermore, those Independent Shareholders who, after reading through the Positive Profit Alert Announcement, the recent financial statements of the Group as released by the Company and the Composite Document, are optimistic about the future financial performance of the Group after the Offer, may, having regard to their own circumstances, consider retaining part or all of their Shares.

Accordingly, Independent Shareholders should closely monitor the market price and liquidity of the Shares during the Offer Period and carefully consider the relevant risks and uncertainties based on their individual risk preference and tolerance level. Those Independent Shareholders who decide to retain part or all of their investment in the Shares should also carefully monitor the financial performance of the Group as well as the intentions of the Offeror in relation to the Company in the future, and the potential difficulties they may encounter in disposing of their investment in the Shares after the close of the Offer.

### *Comparison with other comparable companies*

As the trading multiples analysis (including the price-to-earnings ratio (“P/E”), price-to-sales ratio (“P/S”) and price-to-book ratio (“P/B”)) is a commonly adopted valuation method in the market, to further assess the fairness and reasonableness of the Offer Price, we have in the first place researched for Hong Kong listed companies which are engaged in similar line of business as the Group, being the provision of electrical engineering services and with business presence in Singapore. There are two exhaustive Hong Kong listed companies which met our selection criteria (the “**Hong Kong Comparable Companies**”).

Given the relatively limited sample size, we have further extended our research to include listed companies in Singapore which are principally engaged in the provision of electrical engineering services in Singapore, and found two exhaustive Singapore listed companies which met our selection criteria (the “**Singapore Comparable Companies**”). While we understand that the Stock Exchange and the Singapore Stock Exchange differ in various aspects such as total market capitalisation and overall trading environment, general trading volume and stock performance, we are of the view that the Singapore Comparable Companies may provide Independent Shareholders with additional information for consideration purpose taking into account that those Singapore Comparable Companies are operating in similar business and the same geographical location as the Group.

Although the Hong Kong Comparable Companies and the Singapore Comparable Companies vary in financial performance, operation and prospects, capital structure and market capitalisation as compared to the Company, the comparable analysis is meant to cover a list of comparable companies and form a reasonable sample size to reflect the value of comparable companies in the same industry for fair and reasonable comparison. Considering the fact that (i) the Company and those comparable companies are all categorised as small cap companies (i.e. companies with market capitalisation of below HK\$10 billion) and their market capitalisation are all below HK\$1 billion; (ii) the principal business of the Group and those comparable companies is similar and during the selection process, we have ensured that over 70% of the revenue of the comparable companies was derived from M&E services; and (iii) the geographical coverage of the Group and those comparable companies is the same, we are of the view that the Hong Kong Comparable Companies and the Singapore Comparable Companies are representative and sufficient.

Among the trading multiples, the P/E is inapplicable as the Group was loss making in its latest financial year. Hence, the P/S, a valuation benchmark to value non-profit making business, is used instead. Furthermore, revenue is the top-level parameter of a company’s financial performance and is less susceptible to accounting manipulations. As for the P/B, as set out in the sub-section headed “Historical NAV per Share” of this letter of advice, contract assets is a key component of the NAV. For instance, it represented approximately 78.01% of the NAV for the financial year ended 30 June 2022. As advised by the Directors, contract assets in the financial statements of the Group arises when the Group has completed the provision of services but has not received the underlying service fee until the relevant work is certified by a relevant qualified expert. As such, contract assets is in essence the delayed/anticipated cash inflows to the Group which is similar to receivables, and the NAV could be an indicator of the financial status of the Group. Hence, the P/B is used by us too.

The following tables set out (i) the P/Ss and P/Bs of the Hong Kong Comparable Companies and the Singapore Comparable Companies based on their closing share price as at the Latest Practicable Date and their latest published financial information; and (ii) the implied P/S and P/B of the Company based on the Offer Price and its latest published financial information:

***The Hong Kong Comparable Companies***

<b>Company name (Stock code)</b>	<b>Principal business</b>	<b>P/S (times)</b>	<b>P/B (times)</b>	<b>Market capitalisation based on closing share price as at the Latest Practicable Date (HK\$ million)</b>
Grandshores Technology Group Limited (1647)	Providing integrated building services (with a focus on maintenance and installations of M&E systems and including minor repairs and improvement works) and undertaking building and construction works.	0.55	0.41	139.82
Solis Holdings Limited (2227)	Design, building and installations of M&E systems.	1.26	0.39	105.29

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



*The Singapore Comparable Companies*

<b>Company name (Stock code)</b>	<b>Principal business</b>	<b>P/S (times)</b>	<b>P/B (times)</b>	<b>Market capitalisation based on closing share price as at the Latest Practicable Date (S\$ million)</b>
Progen Holdings Ltd (583)	Trading, contracting, servicing and maintenance of air-conditioning and mechanical ventilation systems and rental of building space.	4.85	0.76	19.14
Natural Cool Holdings Limited (5IF)	Provision of various M&E services including air- conditioning, paint and coatings and other technology.	0.04	0.37	6.51

*Source: the Singapore Stock Exchange website (<https://www.sgx.com/>)*

*The Company*

<b>Company name (Stock code)</b>	<b>Principal business</b>	<b>P/S (times)</b>	<b>P/B (times)</b>	<b>Market capitalisation based on closing share price as at the Latest Practicable Date (HK\$ million)</b>
Khoon Group Limited (924)	A Singapore-based investment holding company primarily engaged in the provision of electrical engineering services.	2.16	1.32	580

*Source: the Stock Exchange web-site ([www.hkex.com.hk](http://www.hkex.com.hk))*

As illustrated by the above table, the implied P/S of the Company (based on the Offer Price) is substantially higher than the P/Ss of the Hong Kong Comparable Companies and is higher than the P/S of one of the two Singapore Comparable Companies; whereas the implied P/B of the Company (based on the Offer Price) is substantially higher than the P/Bs of both the Hong Kong Comparable Companies and the Singapore Comparable Companies.

## **RECOMMENDATION**

Having considered the principal factors and reasons as discussed above and summarised below:

- (a) as a result of largely the Covid-19 pandemic and the surging costs attributable to a number of factors, the Group's financial performance has worsened in the recent financial years;
- (b) in light of the uncertainties associated with the financial performance and prospects of the Group as elaborated in the section headed "Prospects and outlook of the Group" of this letter of advice, including (i) the expected relatively stagnant GDP growth of Singapore in 2023; (ii) the Singapore construction sector may lack a strong driving force to achieve rapid growth in the medium-term; (iii) the continuous trend of rising costs; (iv) the unexpected waves of the Covid-19 pandemic and the intensifying geopolitical tensions, the Group would continue to operate in a challenging environment in short-term. Notwithstanding the possible improvement in profitability for the six months ended 31 December 2022, the Group's recovery momentum may be uncertain;
- (c) given that there has not been any dividend declared or paid by the Company over the past three financial years ended 30 June 2022 since the listing of Shares on the Stock Exchange and up to the Latest Practicable Date, and the Company does not have any intention to declare or pay any future dividend or make other distributions prior to and including the Closing Date, investment in the Shares would be less attractive, especially for those Shareholders who opt for dividend income from their investment;
- (d) as set forth in the section headed "Intentions of the Offeror regarding the Group" of this letter of advice, the principal business of the Group may be expanded and the senior management team of the Company may change after the Offer. Thus, those Shareholders who prefer high assurance level may consider quitting their investment in the Shares;
- (e) notwithstanding that the Offer Price has been below the historical closing prices of the Shares during the entire Review Period, it is at constant increasing premiums over the NAV per Share over the recent two financial years of the Group;
- (f) trading in the Shares had been extremely thin during the Review Period and there were nearly half of the trading days on which the trading volume was nil. As such, it is uncertain as to whether there would be sufficient liquidity in the Shares in the foreseeable future for the Independent Shareholders to dispose of their Shares in the

open market without causing market price slump of the Shares. We therefore consider that the Offer provides the Independent Shareholders, particularly those with sizeable shareholdings, with a readily available exit opportunity to realise part or all of their investment in the Shares and redeploy the cash received from accepting the Offer into other investment opportunities, if they wish to do so; and

- (g) the implied P/S of the Company (based on the Offer Price) is substantially higher than the P/Ss of the Hong Kong Comparable Companies and is higher than the P/S of one of the two Singapore Comparable Companies; whereas the implied P/B of the Company (based on the Offer Price) is substantially higher than the P/Bs of both the Hong Kong Comparable Companies and the Singapore Comparable Companies,

we consider that the terms of the Offer (including the Offer Price) are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

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

**Those Independent Shareholders who decide to retain part or all of their investment in the Shares should carefully monitor the intentions of the Offeror in relation to the Company in the future and the potential difficulties they may encounter in disposing of their investment in the Shares after the close of the Offer. Further terms and conditions of the Offer are set out in the “Letter from Mighty Divine” of and Appendix I to the Composite Document.**

**As different Independent Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Independent Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.**

Yours faithfully,  
For and on behalf of  
**VBG Capital Limited**



**Doris Sing**  
*Managing Director*

*Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the SFC to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 18 years of experience in corporate finance industry.*