Deloitte & Touche Financial Advisory Services Pte Ltd

EXECUTIVE REPORT PREPARED FOR

SILVERLAKE AXIS LTD

6 JANUARY 2016

STRICTLY PRIVATE AND CONFIDENTIAL

ABBREVIATIONS

2006 Acquisition	:	Acquisition of Silverlake Adaptive Applications & Continuous Improvement Services Ltd in 2006
2010 Acquisitions	:	Acquisitions of Silverlake Solution Limited and QR Technology Sdn Bhd in 2010
ACA	:	Asian Corporate Advisors Pte Ltd, Independent Financial Adviser for the acquisitions of Silverlake Solution Limited and QR Technology Sdn Bhd
AGM	:	Annual General Meetings
CIMB	:	CIMB Bank Berhad, Singapore Branch, Financial Adviser for the acquisitions of Silverlake Solution Limited and QR Technology Sdn Bhd
DCF	:	Discounted Cash Flow
DTFAS	:	Deloitte & Touche Financial Advisory Services Pte Ltd
EBITDA	:	Earnings before Interest, Tax, Depreciation and Amortisation
EV / EBITDA	:	Enterprise Value to EBITDA Multiple
EY	:	Ernst & Young Malaysia, Auditor of Silverlake Solution Limited and its group of companies
GP	:	Gross Profit
HNA	:	HNA Group Co. Ltd
HNA contracts	:	Two contracts with total value of S$70 million entered into between SAACIS and HNA Group
HNA Group	:	HNA Group Co. Ltd and its group of companies
IAC	:	Internal Audit & Compliance
IFRS	:	International Financial Reporting Standards
Intelligentsia	:	Intelligentsia Holding Ltd
IP	:	Intellectual Property
IPO	:	Initial Public Offering
IPT	:	Interested Person Transactions
IPT registers	:	Quarterly registers of Interested Person Transactions

KPMG	:	KPMG Corporate Finance Pte Ltd, Valuer for the acquisition of Silverlake Adaptive Applications & Continuous Improvement Services Ltd
Microsoft	:	Microsoft Corporation
MLA	:	Master License Agreement
Mr Goh	:	Mr Goh Peng Ooi
MSA	:	Master Services Agreement
Non-IPT Register	:	Register of transactions with non-related parties of SAL
OFSSL	:	Oracle Financial Services Software Limited
PER	:	Price to Earnings Ratio
PPCF	:	PrimePartners Corporate Finance Pte Ltd, Independent Financial Adviser for the acquisition of Silverlake Adaptive Applications & Continuous Improvement Services Ltd
PwC	:	Pricewaterhouse Coopers
QR	:	QR Technology Sdn Bhd
QR Group	:	QR Technology Sdn Bhd and its group of companies
Razor99 Report	:	A report authored by razor99 and titled “The Unbelievable Financial Alchemy of Silverlake Axis” was disseminated online on 20 August 2015
RFI	:	Requests for information
RFP	:	Requests for proposals
RFQ	:	Requests for quotations
R&D	:	Research and Development
Review Period	:	1 July 2012 to 30 June 2015
SAACIS	:	Silverlake Adaptive Applications & Continuous Improvement Services Ltd
SAL or the Company	:	Silverlake Axis Ltd
SAL Group	:	Silverlake Axis Ltd and its group of companies
SAP	:	SAP SE
SGX	:	Singapore Exchange Limited

SIBS	:	Silverlake Integrated Banking System
Silverlake Private Entities or SPEs	:	Private companies controlled by the Silverlake Axis Ltd's controlling shareholder, Mr Goh Peng Ooi
SSB	:	Silverlake Solution Limited
SSB Group	:	Silverlake Solution Limited and its group of companies
SSSA	:	Structured Share Sale Agreement dated 9 July 2010
Structured Services Business	:	Business of providing maintenance, application management and program change request services
Temenos	:	Temenos Group AG
WACC	:	Weighted Average Cost of Capital

1. Introduction

1.1 Appointment

1.1.1 The Audit Committee of Silverlake Axis Ltd ("**SAL**" or "**the Company**") engaged Deloitte & Touche Financial Advisory Services Pte Ltd ("**DTFAS**") to undertake a special review of certain matters as reflected in the scope of work in paragraph 1.4.

1.1.2 This executive report sets out DTFAS findings from the special review.

1.2 Structure of this executive report

1.2.1 This executive report is structured as follows:

- In the remainder of this section 1, we will set out the background of our work, scope of work and important notices and limitations.
- Section 2 is the Executive Summary
- Section 3 covers the Acquisitions of Interested Persons
- Section 4 covers the Analysis of Interested Person Transactions ("**IPT**") Trends and Patterns
- Section 5 covers Interested Person Transactions
- Section 6 covers Transactions with HNA Group
- Section 7 covers Analysis of Silverlake Private Entities

1.3 Background

1.3.1 The Company formerly known as Axis Systems Holdings Limited, is a Bermuda incorporated holding company. The Company is listed on the Singapore Exchange Ltd ("**SGX**") and its initial public offering ("**IPO**") was in March 2003.

1.3.2 On 20 August 2015, a report authored by razor99 and titled "The Unbelievable Financial Alchemy of Silverlake Axis" ("**Razor99 Report**") was made available online making various allegations regarding the performance and operations of SAL Group. The report also commented on certain interested party transactions entered into between the SAL Group and private companies ("**Silverlake Private Entities**" or "**SPEs**") controlled by SAL's controlling shareholder, Mr Goh, and the acquisitions of Silverlake Adaptive Applications & Continuous Improvement Services Ltd ("**SAACIS**"), in 2006, as well as of Silverlake Solution Limited ("**SSB**") and QR Technology Sdn Bhd ("**QR**"), in 2010.

1.3.3 The release of the Razor99 Report led to unusual price movements in the Company's shares on 21 August 2015 and resulted in the SGX raising queries on the Company's trading activities. The Audit Committee of SAL subsequently engaged DTFAS to undertake a special review of certain matters as reflected in the scope of work in paragraph 1.4 below.

1.4 Scope of work

1.4.1 The scope of the work includes the following areas:

- Review interested person transactions for the Review Period from 1 July 2012 to 30 June 2015. The review will include understanding the internal governance and control framework, the nature and rationale of interested person relationships and the testing of a sample of transactions.

- Perform background searches and review financial statements of Silverlake Private Entities that are customers or suppliers to the SAL Group. The review will include the analysis of the going concern status of the Silverlake Private Entities.

- Perform data analysis to highlight any trends, patterns of behaviour or irregularities and / or anomalies on the interested person transactions between the SAL Group and the Silverlake Private Entities. The analysis will also cover comparison of the SAL Group performance and ratios with comparable companies in similar business.

- Review three interested person acquisitions, SAACIS in 2006, SSB and QR in 2010. Review the investment criteria guidelines and acquisition processes, assess the assumptions used in the valuations of the acquisitions and review the post-acquisition financial performance of the acquired companies.

- Review the contracts entered into with HNA Group Co. Ltd ("**HNA**") and its group of companies ("**HNA Group**"). The review will seek to understand the HNA Group relationship, review the contracts with HNA Group as well as review Mr Goh's private share placements to HNA Group.

1.5 Important notice and limitations

1.5.1 This report has been prepared by us in connection with our engagement letter with SAL.

1.5.2 This report was prepared on the instructions of SAL's Audit Committee and is intended solely for the Board of SAL for its use and benefit and is not intended to nor may it be relied upon by any other party. This report cannot in any way serve as a substitute for enquiries and procedures which you will or should be undertaking for the purposes of satisfying yourselves regarding any use of the report by any third party.

1.5.3 By reading this report you acknowledge that you enjoy receipt of the report for information only and accept the following terms:

(1) You accept that by reading a copy of this report, DTFAS, its directors, employees and agents neither owe nor accept any duty or responsibility or liability to you, whether in contract, tort (including without limitation, negligence and breach of statutory duty) or howsoever otherwise arising, and shall not be liable in respect of any loss, damage or expenses of whatsoever nature which is caused by any use you may choose to make of this report, or which is otherwise consequent upon the provision of this report to you;

(2) We are not authorized to give explanations or further information in relation to this report;

(3) This report was prepared on the instructions of SAL's Audit Committee and is intended solely for the Board of SAL for its use and benefit and is not intended to nor may it be relied upon by any other party. Our work was not planned in contemplation of use by third parties;

(4) This report does not incorporate the effects, if any, of events and circumstances which may have occurred or information which may have come to light subsequent to 30 June 2015 as identified in this report. We make no representation as to whether, had we carried out such work or made such enquiries, there would have been a material effect on this report. Further, we have no obligation to notify you if any matters come to our attention which might affect the continuing validity of the comments or conclusions in this report;

(5) The terms of this notice are governed by Singapore law and each party is to submit to the exclusive jurisdiction of the Singapore courts in connection with any matter relating to this agreement; and

(6) By proceeding to read this report you are confirming that you agree to and accept the terms set out above.

1.5.4 The performance of the services does not constitute an audit, review or compilation of client's financial statements or specified elements, accounts or items thereof, in accordance with generally accepted auditing standards or other applicable audit or attestation professional standards, nor an examination or compilation of, or any application of agreed upon procedures to, any prospective financial statements.

2. Executive Summary

2.1. Report Structure

2.1.1. Section 1 of this summary report sets out an introduction to the circumstances of this report, the scope of work undertaken and the basis on which this report is prepared. Sections 3 to 7 set out the findings from undertaking the scope of work. This executive summary records the key findings from sections 3 to 7 in a concise manner but readers should consider this summary in conjunction with the other sections.

2.2. Acquisitions of Interested Persons

2.2.1. The Razor99 Report made various allegations concerning three acquisitions of Interested Persons, SAACIS (2006), SSB (2010) and QR (2010) including the valuation and post-acquisition performance of these transactions.

2.2.2. Our findings on the three acquisitions of Interested Persons are set out in section 3. In all 3 acquisitions, SAL has complied with all of the requirements of the SGX listing rules. The key findings are summarised below;

1 Our view is that the acquisition price for SAACIS of RM746 million was reasonable, assuming continued performance of the business, given that the valuation assumed substantial growth and sustained margins in the SAACIS business over FY2006 to FY2008 which depended on performance.

2 Our view is that the acquisition price for SSB of RM702 million was reasonable, assuming continued performance of SSB business.

3 With respect to QR, the acquisition price of RM118 million would appear to be on the high side of the valuation range as it was based on the proforma profits for FY2009 and these profits included the results of a very substantial project. At the time of acquisition, the independent financial adviser concluded that the acquisition was on normal commercial terms and management expected that these profits would be maintained from the customers and opportunities available.

4 In terms of post-acquisition performance and returns, both SAACIS and SSB have delivered strong overall performance with average annual returns on investment in excess of 10%. However, with hindsight to date QR has not delivered on the expectations implied by the transaction pricing, given an average annual return on investment of 3%. We also note the following in the period to 30 June 2015;

- SAACIS has contributed significant incremental revenue of RM1.1 billion to SAL and SAACIS' profit after tax in the 9 years post acquisition represents an average annual return on the acquisition price of 10.4% and SAACIS has paid dividends to SAL equivalent to an 8.7% annual yield on the acquisition price.
- SSB has contributed significant incremental revenue of RM1.0 billion to SAL and SSB' profit after tax in the 5 years post acquisition represents an average annual return on the acquisition price of 13.4% and SAACIS has paid dividends to SAL equivalent to a 11.0% annual yield on the acquisition price.
- Whilst QR has delivered incremental revenue and profits, QR' profit after tax in the 5 years post acquisition represents an average annual return on the acquisition price of 2.9%.

5 In FY2015, SAACIS, SSB and QR generated revenue equivalent to more than 85% of the consolidated revenue of RM516 million, without taking consolidation adjustments into account. The acquisitions have transformed the scale and breadth of offer of SAL. In addition, the acquisitions in 2010 have substantially reduced the impact of IPTs on the revenue and profitability of SAL. The increased profitability of SAL has generated significant dividends for shareholders.

2.3. Analysis of IPT Trends and Patterns

2.3.1. The Razor99 Report made various allegations concerning the level and profitability of Interested Person Transactions. Since SAL's listing in 2003 it has pursued organic and inorganic growth. The inorganic growth has been through the acquisition of 7 subsidiaries and 3 associated companies and joint ventures, of which 3 were interested person acquisitions. The growth and the acquisitions have also impacted the level of IPTs that contributed to SAL. In FY2003 and FY2004, IPTs contributed RM22 million and RM30 million or approximately 91% of revenue respectively and this percentage contribution reduced to 66% in FY2005. The acquisition of SAACIS which was completed in FY2006 led to an increase in revenues of both IPTs and external customers and in FY2007 IPTs contributed RM104 million or 76% of SAL's revenue. SAL's revenue was impacted by the global financial crisis in FY2009 and in FY2010 and in the latter year SAL completed the acquisitions of SSB and QR. Whilst SSB and QR were acquired from interested persons, these entities predominantly serve external customers, and over the period from FY2011 to FY2015 SAL completed acquisitions of other businesses that also focus on third party customers. The overall combination of growth and acquisitions has led to an increase in the scale of SAL's business and changes to the mix of its business. As a result, over the period FY2010 to FY2015, while the value of IPT revenue increased, overall revenue increased by a higher percentage. Consequently, the percentage contribution of IPTs to revenue over this period has fallen to less than 30% as compared to in excess of 66% in FY2009 and the preceding periods.

2.3.2. We conducted analysis for the Review Period to consider trends, patterns and anomalies in the Interested Person Transactions and the key finding are summarised below;

	Total Revenue for Review Period RM'm	Revenue of an IPT nature with SPEs RM'm	Revenue with external Customers RM'm	IPTs Percentage of Revenue %
Licensing	399.1	291.1	108.0	72.9%
Software Project Services	209.0	20.7	188.3	9.9%
Maintenance & Enhancement	667.2	63.2	604.0	9.5%
Software & Hardware	45.2	2.5	42.7	5.5%
Others	94.9	-	94.9	0.0%
	1,415.4	**377.5**	**1,037.9**	**26.7%**

2.3.3. The majority (77%) of IPT revenue transactions with Silverlake Private Entities were with respect to Licensing with the SPEs acquiring licences for either long term disruptive research and development purposes ("**R&D**") or for transactions with financial institutions in which an SPE was primary contracting party as reseller or as system integrator using SAL software. Apart from licensing, the percentage contribution of IPT revenue to other revenue sources was relatively low at below 10% for the Review Period. For each of the four revenue categories listed above we reviewed a sample of transactions to compare weighted average Gross Profit ("**GP**") margins between IPT transactions and transactions with external customers with the following results;

- Licensing – Margins with SPEs were comparable with external customers (less than 2% differential).
- Software projects – margins on services for SPEs were significantly higher than external customers which was attributed to the provision of higher value added services to SPEs for specialist activities that the SPEs did not have the resources on a small proportion of transactions.
- Maintenance & enhancement – IPT revenue arose on enhancement services and average margins with SPEs were 1% higher than with external customers.
- Software & Hardware – as with Software projects there are relatively few IPT transactions and margins with SPEs were generally higher attributed to higher value items.

2.3.4. In terms of the business model for licensing, the software consists of a suite of mature software and an approved SAL IPT mandate pricing structure is in place which governs the pricing of licence revenues. The pricing of licences depends on the number of customers and branches and set licence fee bands are in place according to the scale of the customer. The more customers and the more branches a customer has, the higher the applicable licence fee.

2.3.5. We have observed comparable GP margins for both SPE and third party Licensing revenue for the Review Period. The existence of significant revenues to external non-related customers (RM108 million in the Review Period as compared to RM291 million IPT revenue) demonstrates that the margins and the sales prices are consistent with market practices for SAL.

2.4. Interested Person Transactions

2.4.1. We have reviewed the IPTs of the SAL Group for the period from 1 July 2012 to 30 June 2015 comprising the SAL Group's IPT governance and oversight structure, the underlying policies and controls, compliance against Chapter 9 of the SGX-ST Listing Manual on IPT and the underlying supporting documentation of selected IPT.

2.4.2. The SAL Group's transactions with interested persons are governed by Shareholders' General Mandates which were approved at Annual General Meetings ("**AGM**"). The Shareholders' Mandate stipulated the classes of IPT, scope of the IPT, pricing methods and procedures, reporting and disclosure requirements, review procedures and audit and review rights. It also outlined the Master License Agreement ("**MLA**") and Master Services Agreement ("**MSA**") which set out the details of the products and services being entered into between SAL and Mr Goh/Silverlake Private Entities.

2.4.3. The Internal Audit & Compliance ("**IAC**") Department of SAL conducts quarterly audits on the IPT. The IAC's audit objectives were to assess: (a) compliance with the General Mandate and Chapter 9 of the SGX-ST Listing Manual; and (b) the accuracy and timeliness of the disclosure of IPT. It is understood and accepted that the internal audit scope does not include assessment on whether the IPT were on commercial terms. The quarterly internal audit reports submitted to the AC over the 3-year period from 2013 to 2015 did not highlight any non-compliances and all the audits were rated as "satisfactory".

2.4.4. From our review of selected IPTs, we did not identify any instances of non-compliance with Chapter 9 of the Listing Rules, the New Shareholders' Mandate or the SAL Group's IPT policies. However, we have made several observations and recommendations as set out below to enhance the clarity and transparency in the IPT.

2.4.5. SAL and the SPEs have a number of common third party customers and during the Review Period there were a number of situations where the SPEs signed a contract with the end customer and then procured products and services from SAL giving rise to an IPT. Given the significance of the values of these contracts, there should be better clarity and transparency in the determination process of whether the SAL Group or the SPEs would be the contracting party with the end user customer. The decision and the rationale should be documented and submitted to the AC on a periodic basis.

2.4.6. In the Review Period, SAL procured the majority of its implementation and customization services from the SPEs and we recommend that management establish a sub-contractor pre-qualification process that applies to staff and resources from both the SPEs and third party system implementers alike. In addition, SAL should maintain an updated list of pre-qualified subcontractors and the rationale for the pre-qualification should be approved by SAL's Audit Committee at least once a year. This will: (a) enhance the transparency in the transactions relating to implementation and customisation services between the SAL Group and the SPEs; and (b) provide additional assurance that 'competitive' pre-qualification and sourcing of implementation and customisation services from the SPEs and non-related parties is in place.

2.4.7. The New Shareholders' Mandate provides that the rates to be applied by the SPEs for services provided to the SAL Group must be no more than that of the Mandated Man-day Rates. Given that the services procured from the SPEs made up between 26% to 30% of the SAL Group's total cost of sales over the three year Review Period, we recommend that additional and/or alternative procedures be put in place to provide further assurance that the value of the services procured were commercial in nature.

2.5. Transactions with HNA Group

2.5.1. The Razor99 Report made various allegations concerning the two contracts entered into with HNA Group on 9 February 2010 and the private share placements based on an agreement entered on 9 July 2010 between Mr Goh and HNA Group. Our scope of work includes obtaining an understanding of the relationship between SAL and HNA Group, and reviewing the above-mentioned contracts and accounting implications.

2.5.2. The transactions with HNA Group by SAL and Mr Goh are summarised below:

- On 9 February 2010, SAL, through a subsidiary SAACIS, entered into two contracts with HNA Group, a Chinese conglomerate, for a total value of S$70 million ("HNA contracts"). On 9 July 2010, Mr Goh separately entered into a Structured Share Sale Agreement ("**SSSA**") stating that he will be transferring 242 million of his own shares to HNA Group.
- The SAL shares pursuant to the SSSA were to be progressively transferred into an escrow account in nine tranches over a period of approximately three years. Each transfer will take place as soon as practicable after each of the nine milestone progress payments fall due and paid by the HNA Group in accordance with the HNA contracts. According to management, the schedule for the transfer of shares was agreed directly between Mr Goh

and the HNA Group independent of SAL. As at the date of this report, we understand that 121 million shares out of the 242 million shares under the SSSA have been transferred to HNA Group.

- The HNA Group will enjoy all gains above $0.16 per share when these shares are sold either to third parties or Mr. Goh. We understand that the price of S$0.16 per share was arrived at by reference to the average share price prevailing at the point when Mr Goh had started to negotiate the terms of the SSSA with HNA Group, which we understand occurred for almost a year before the date when the SSSA was eventually signed.

2.5.3. We assessed the SSSA transaction using International Financial Reporting Standards ("**IFRS**") and applied the principles under IFRS 2 "Share-based Payment" to assess the accounting treatment.

2.5.4. Our view is that the accounting for SSSA would be under the scope of IFRS 2 **<u>if</u>** goods or services have been received or will be received in future as a result of the SSSA. Under such a scenario, the fair value of the private share placements by Mr Goh to HNA Group under the SSSA should be accounted for as a "deemed capital contribution" by Mr Goh to SAL and a "share-based payment" recognised by SAL in accordance with IFRS 2.

2.5.5. Based on the above scope of work, we observed from the announcements dated 9 July 2010 and 23 July 2010 that the following goods or services may have been construed to be received or receivable in future by SAL as a result of the SSSA in the form of future contracts, market penetration into PRC market and expansion of SAL's revenue base as a result of the strategic alliance. In addition, there may be perceived benefits in connection with the two HNA contracts and SSSA due to the apparent linkage between the milestones of the two HNA contracts and the timing of shares issuance under the SSSA. (Please refer to section 6.3.1 for further details and extracts of the relevant announcements)

2.5.6. In addition, we also observed the following in assessing if a benefit has been / will be received by SAL:

- Based on the prevailing share price of SAL at S$0.34 per share on the date of the SSSA and the understanding that HNA Group will enjoy all gains above S$0.16 per share when these shares are sold either to Mr Goh or third parties, Mr Goh appeared to provide HNA Group with a potential realisable benefit on the shares that are worth approximately $44 million at the date of the SSSA. This appeared to represent a significant cost to Mr Goh and it would appear that at the date of the SSSA, Mr Goh would have envisioned significant benefits to flow to him either through SAL or Silverlake Private Entities as a result of the strategic alliance with HNA Group. At the date of this report, we understand that 50% of the 242 million shares under the SSSA have been transferred to HNA Group based on the milestones of the two HNA contracts. One of these two contracts has been completed and the other is in progress. Since these two contract were awarded in 2010, we understand that HNA Group has not awarded any further contracts to SAL.

- In addition, it should be noted that already under the current SAL business arrangement, SAL will benefit from future business ventures and collaboration between HNA Group and Silverlake Private Entities if these ventures require licences that are within SAL and through which licensing revenue will flow to the SAL Group. For avoidance of doubt, this business arrangement is irregardless of whether the SSSA is in place.
- As a result of the SAACIS acquisitions, Mr Goh is bound by a mandate that requires him to bring to SAL all contract offers made to him or the Silverlake Private Entities and allow SAL the right of first refusal. Accordingly, all HNA contracts will first be presented to SAL for consideration and this appears to imply that a benefit from the HNA relationship would also flow to SAL (and not only the Silverlake Private Entities).

2.5.7. Management's responses are included in section 6.5 of this report. Notwithstanding the perceived and / or potential benefits to SAL that were communicated in the announcements dated 9 February 2010, 9 July 2010 and 23 July 2010, SAL Management is of the view that the private share placements under the SSSA would directly benefit Mr Goh and the Silverlake Private Entities owned by Mr Goh. Furthermore, we were informed that nothing has come to the Board's attention that the HNA contracts and the SSSA are interlinked, and the HNA contracts do not contain any terms that suggest they are conditional upon Mr. Goh transferring shares to HNA. The Board of SAL also assessed and concluded that to-date there was no clear evidence of benefit derived by SAL from the HNA Group as a result of the SSSA entered between Mr Goh and HNA. In addition, SAL Management deliberated and concluded on the appropriate accounting treatment for the HNA contracts. SAL received an unqualified audit opinion on its statutory financial statements for the applicable financial years from 2010 to its latest audited financial year of 2015. (Please refer to section 6.5 for further details of Management's response.)

2.5.8. The SSSA was not provided for our review as we understand due to confidentiality obligations under the terms of conditions of the SSSA, this precludes us from concluding if the SSSA should be under the scope of IFRS 2. Additionally, the two HNA contracts entered into in February 2010, and which we have reviewed, contain no reference or linkage to the SSSA.

2.6. Silverlake Private Entities

2.6.1. The Razor99 Report made various allegations concerning the Interested Person Transactions with the Silverlake Private Entities. We reviewed SAL's sales and purchases with the SPEs to understand the entities involved and the materiality of transactions. We have met with Mr Goh and his representatives for discussions concerning the SPEs. Information has been provided on the SPEs by Mr Goh and this information and our discussions are governed by a non-disclosure agreement signed between ourselves and the SPEs. Background research on the 26 SPEs utilising paid databases and publicly available information did not identify any relevant adverse matters. The sections that follow represent either information that is in the public domain or confidential information where we have received the consent of Mr Goh or the SPEs or SAL (as applicable) to disclose.

2.6.2. In the Review Period, there were RM377.5 million of IPT revenue transactions with SPEs and RM143.2 million of supplier/cost transactions with IPTs which represented 26.7% of SAL's total revenue and 27.7% of SAL's total costs of sale respectively for the Review Period. In terms of the SPE's involved there was a significant concentration with a few key SPEs

- 65% of IPT revenue transactions were with 2 SPEs which are investment holding companies. These companies acquired the software to enable other SPEs to develop, improve, enhance and modify software and assets both for long term disruptive technology R&D and future digital economy solution development for commercialisation purposes.

- 20% of IPT revenue transactions were with 5 separate SPEs which were all active operating companies generating revenues and profits on an overall basis for the Review Period.

- One further SPE that accounted for 7.5% of the IPT revenue transactions and 85% of the IPT purchase transactions is an active company primarily engaged in the business of providing implementation, modification and integration of software solutions. This SPE has generated substantial revenues over the Review Period but has incurred losses and has a net deficit position as at FY2014. Mr Goh highlighted that the overall deficit position at FY2014 was mainly due to incurring technical resource costs for enabling and supporting disruptive technologies business model, and that this SPE did generate industry level profits on its transactions with SAL.

- Mr Goh explained that the business model of the SPEs is targeted towards developing solutions for the digital economy and the long-term strategic view of the SPEs is *"to play a 'disruptive role' by establishing itself with disruptive technologies in an ultimate digital economy, which will center around multi-industry and cross-industry business ecosystems of which financial services is an integral part of the whole".*

- We understand that the SPEs are involved in future disruptive technology R&D, commercialisation and sale and servicing of software. In terms of risk, the SPEs have adopted a higher risk profile than SAL as they are involved in R&D where results are less predictable. Long term disruptive technology R&D activities are the focus of the SPEs.

3. Acquisitions of Interested Persons

3.1. Introduction

3.1.1. Our scope of work covers the acquisitions of SAACIS in 2006 and the acquisitions of SSB and QR in 2010. The scope includes a review of the investment criteria guidelines and acquisition processes, an assessment of valuation assumptions and the review of the financial performance of the acquired companies.

3.2. SAL prior to the 2006 and 2010 Acquisitions

3.2.1. Since its listing in 2003, SAL has pursued organic and inorganic growth. In 2006 and 2010 SAL acquired 3 businesses that were majority owned by its founder and controlling shareholder Mr Goh. SAL and its group of companies provide digital economy solutions to organizations across the banking, insurance, payment, retail and logistics industries.

3.2.2. Following the IPO and as early as mid-2004, SAL's board of directors initiated discussions on initiatives to expand its revenue base from its branch banking (front office) solution to include other services. In the subsequent 12 years, SAL Group has acquired 7 subsidiaries and 3 associated companies and joint ventures, of which 3 were interested persons acquisitions. This section considers the interested person acquisitions.

3.3. The 2006 Acquisition

<u>Introduction</u>

3.3.1. SAACIS is principally involved in the business of providing Silverlake Integrated Core Banking System, an integrated back-end software solution to the banking and financial services industry. On 22 May 2006, the Company completed its acquisition of 100% of the issued share capital of SAACIS from Intelligentsia (a company related to Mr Goh) for a consideration of RM746.3 million via the issuance of 836 million new ordinary shares. At that point, SAL had 285.5 million shares in issue.

3.3.2. The valuation of SAACIS and the issuance of shares in consideration was almost 3 times the size of SAL and was an Interested Person Transaction and a Very Substantial Acquisition. As a result of the share issuance, Mr Goh's holding in SAL increased from 57.3% to 89.8% but was then reduced to 85% as Mr Goh participated in a placement exercise to maintain the free float.

3.3.3. The Interested Person vendor, Intelligentsia, provided profit warranties that SAACIS would generate after tax profits of RM64 million and RM77 million for FY2006 and FY2007 respectively and placed part of the consideration of 313 million shares in a share escrow account as security for the profit warranties. The acquisition price was a multiple of 11.7 and 9.7 times the respective profit warranties, and the profit warranty represented 19% of the transaction price.

3.3.4. The rationale for the acquisition of SAACIS was to acquire the SIBS business which had an established track record over a 10 year period and to allow SAL to diversify and enhance its revenue and profit streams by providing financial institutions with an end-to-end integrated banking solution.

<u>2006 Acquisition – Timeline and Processes</u>

3.3.5. The announcement of the sale and purchase agreement was on 14 November 2005. The circular to shareholders was sent on 31 March 2006 and the special general meeting was held on 18 April 2006 in which the shareholders approved the acquisition. Mr Goh abstained from voting on the transaction.

3.3.6. In terms of process, SAL appointed a legal adviser as well as the following professionals:

- KPMG Corporate Finance Pte Ltd ("**KPMG**") as the valuer of the SIBS business;
- DBS Bank Ltd as the financial adviser;
- PrimePartners Corporate Finance Pte Ltd ("**PPCF**") as the independent financial adviser; and
- Pricewaterhouse Coopers ("**PwC**") as the reporting accountant.

3.3.7. Management advised that they conducted a business review of the SAACIS business and its customer base. SAACIS was established for the acquisition and PwC's role as a reporting accountant was to review and express an opinion on the unaudited proforma consolidated financial statements of SAACIS and the enlarged SAL Group and the PwC report was included in the acquisition circular. Given PwC's role, we understand that no further financial due diligence was undertaken. Financial due diligence typically considers inter alia, the quality of historic earnings, to normalise earnings where appropriate, the quality of assets and contingent liabilities.

Commentary on Historical Financial Performance and Valuation Assumptions

3.3.8. SAACIS's pre-acquisition proforma consolidated financial performance from FY2003 to FY2005 was presented in the circular as well as the audited results for FY2005 for SAACIS and for SAL. We have not reviewed the preparation of the proforma as part of our procedures.

3.3.9. The proforma shows that SAACIS was highly profitable in the 3 years preceding its acquisition with net profit margins of above 60%. The majority of SAACIS's total revenue (some 60-70%) in these 3 years was derived from the licensing of SIBS. Over the three year period prior to acquisition, being part of the Silverlake Private Entities group of companies, the majority of its licensing revenue was contracted as part of turnkey software implementation contracts via Silverlake Private Entities. We note that software licensing revenue would depend and fluctuate, depending on the number and size of contracts over time and would depend on the capture of new customers, new projects or expansion by existing customers.

3.3.10. The profitability of SAACIS is a result of its business model and the structure of the acquisition. Both SAACIS and SAL treated the acquisition as a business combination under common control and used the pooling of interest method to account for this transaction. This method was accepted by the auditors. We note that there were no significant amortisation charges to the profit and loss account for the software post acquisition and revenues generated from the sale of software licences had little cost attached and high margins.

3.3.11. In preparing the valuation memorandum dated 11 November 2005, KPMG had access to the proforma financial performance of SAACIS as well as projections for a period of three years which were contained in a business plan. KPMG concluded that the fair market value of the SIBS business was in the range from RM714.6 million to RM808.1 million, after considering;

- the range of RM 741.4 to 874.8 million derived from application of the Discounted Cash Flow ("**DCF**") method; and

- The range of RM 655.0 to 774.1 million derived from the comparison with quoted companies in a similar business industry.

- The DCF valuation was performed based on a forecast period from FY2006 to FY2008 and also included the computation of a terminal value for the SAACIS' business. We note that typically valuers prefer to use a forecast period of at least 5 years when applying the DCF method to consider the expected sustainable cashflows and in this situation the 3 year forecast was relatively short.

- Accordingly, the terminal value of the business represented 76.2% or RM630.4 million of the KPMG valuation. The valuation clearly depended on the maintainability and growth of cash flows generated by SAACIS after FY2008. We note that a terminal value of 76.2% of the valuation is relatively high and reflected in this case the short forecast period and the growth expectations.

- The supporting comparable company valuation method was derived using an earnings based approach and a range of multiples based on comparable global banking software solutions providers. The valuation of RM655.0 million to RM774.1 million depended on the EBITDA of SAACIS for FY2005 of RM59.5 million being maintainable, given that KPMG applied a multiple of 11 to 13 times EBITDA for the valuation.

- The final acquisition price of RM746.3 million was close to KPMG's DCF valuation at a 15% discount rate of RM741.4 million and approximately 12.5 times of SAACIS' FY2005 EBITDA.

3.3.12. KPMG's valuation memorandum set out various facts and analysis, of which the following was notable;

- The SIBS software had a 15 year track record with major banking customers in Asia Pacific.

- There was a strong marketing team and presence supported by Mr Goh and SAL.

- KPMG's industry research suggested strong growth potential in the global banking software market, particularly in the Asia Pacific region.

3.3.13. PPCF the independent financial adviser concluded that the proposed acquisition was on normal commercial terms and was not prejudicial to SAL and minority shareholders**.**

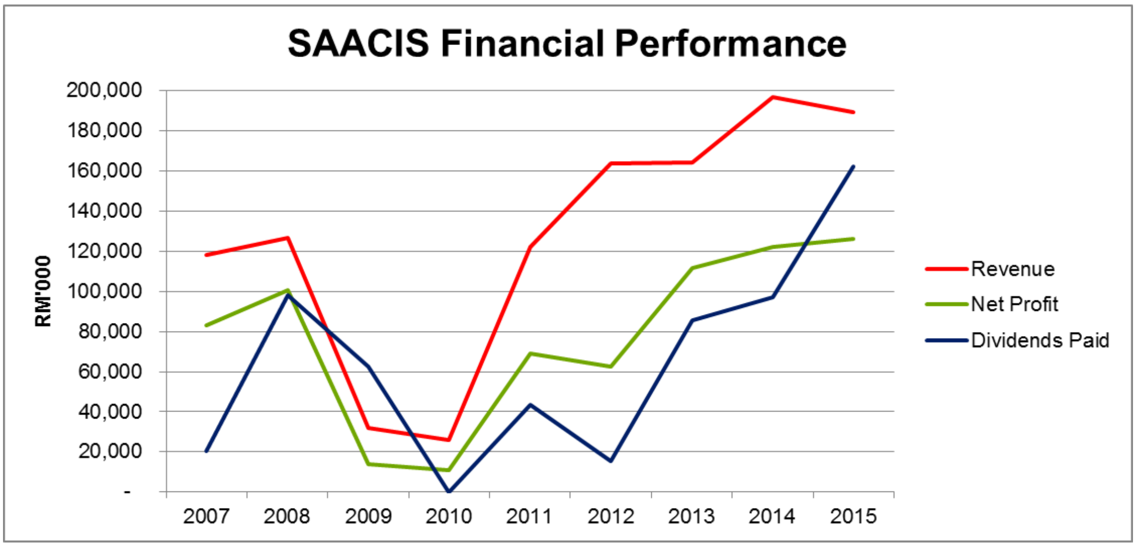
Our conclusions on the SAACIS acquisition

3.3.14. The acquisition of SAACIS from an interested person was a very substantial transaction for SAL. After conducting its business due diligence, SAL appointed experienced financial and legal advisers to provide advice through the process including obtaining a valuation of the business, a review of the historical proforma financial statements and input on structure and pricing and the outcome of this process was reflected in the circular issued to shareholders of SAL. SAL also appointed an independent financial adviser who opined that the transaction was on normal commercial terms and not prejudicial to the interests of SAL and its minority shareholders. The Audit Committee also opined that the transaction was on normal commercial terms and not prejudicial to the interests of SAL and its minority shareholders. In summary, SAL conducted a comprehensive process for the acquisition of SAACIS and complied with the requirements of the Listing Manual.

3.3.15. The fair market valuation was based on the report of an experienced third party valuer and prepared on a basis consistent with valuation practice. We consider that KPMG's discount rates of 13% to 15% were reasonable given the strong forecast growth in the forecast period of 3 years. The transaction was priced at 12.4 times historic FY2005 EBITDA and 8.8 times prospective FY2006 EBITDA and 14.18 FY2005 PAT and we consider that these transaction multiples are reasonable, on the presumption of a strong continuing business.

3.3.16. Our view is that the acquisition price was within the range of fair market values, assuming continued performance of the business, given that the valuation assumed substantial growth in the SAACIS business over FY2006 to FY2008 and sustained margins and depended on performance. The profit warranty provided some protection in the event that short term forecasts were not met.

<u>Commentary on SAACIS post acquisition performance</u>



3.3.17. The acquisition of SAACIS was completed in FY2006 and since then SAACIS has delivered the above aggregate performance in graphical terms.

3.3.18. SAACIS did not meet the projected revenues and profit in the post-acquisition business plans for FY2007 to FY2009. From FY2007 to FY2009, SAACIS actual performance was 16.4% less than the forecast revenue and 13.4% lower at the EBITDA level. Despite these lower revenues, SAACIS exceeded the profit after tax warranty for FY2006 and FY2007.

3.3.19. From FY2007 to FY2009, SAACIS generated significant net profits and paid substantial dividends to SAL. SAL paid out aggregated dividends of RM98.8 million during the same period which were more than treble the aggregated dividends of RM26.8 million paid out by SAL in the preceding FY2003 to FY2005.

3.3.20. However, SAACIS revenue declined significantly in FY2009 and FY2010 to USD9.0 million (RM31.8 million) and USD7.5 million (RM25.9 million) due to the global financial crisis. Thereafter, revenue recovered dramatically in FY2011 to USD39 million (RM122.2 million) and USD52.7 million (RM163.6 million) in FY2012 which was higher than envisaged in the business plan.

3.3.21. In the years FY2013 to FY2015, revenue was in the range of USD52.6 million (RM164.5 million) to USD59.9 million (RM197.0 million). Despite lower margins than envisaged in the business plan, the absolute level of profits for FY2013 to FY2015 exceeded the business plan levels.

3.3.22. Over FY2013 to FY2015, RM275 million of the revenue of SAACIS was from interested persons, including a substantial R&D project for a major customer of the Silverlake Private Entities. This revenue is significant and management consider that SAL will have additional future SIBS licensing revenues arising from future end customer licensing of the solutions being developed.

3.3.23. In overall terms, given the 9 year post acquisition track record, SAACIS has been a strong performer for SAL. SAACIS has delivered profits over the 9 years equivalent to 93.8% of the acquisition price and substantial dividends of 83.5% of after tax profits. The average profit after tax of SAACIS over the 9 years represents an annual return of 10.4% as compared to the acquisition price and the profits resulted in an estimated payback of 9.6 years on the investment (excluding consideration of the time value of money). The average dividend paid by SAACIS represents an annual yield of 8.7% on the acquisition price.

3.4. The 2010 Acquisitions

Introduction

3.4.1. SSB and its group of companies ("**SSB Group**") was established to acquire the business of providing maintenance, application management and program change request services ("**Structured Services Business**") from the Silverlake Private Entities. The acquisition of SSB was for a consideration of RM701.9 million via 879.4 million shares at the issue price of S$0.3307. The implied valuation of SSB was S$290.8 million. The new shares issued represented 82% of the SAL shares in issue prior to the acquisition and 42% of the shares in issue post acquisition. The rationale for the acquisition was to acquire the Structured Services Business that supported customers that were using the SIBS software and would expand SAL's income base.

3.4.2. QR and its group of companies ("**QR Group**") was an established and profitable retail solutions provider and the owner of the intellectual property rights to its flagship proprietary software, called "PROFIT". QR was 77.55% owned by Mr Goh and 22.45% by third party, Mr See Chuang Thuan who was its Managing Director. The acquisition of QR was for a consideration of RM117.9 million via 146.2 million shares was the smallest transaction among the 3 interested person acquisitions. The new shares issued represented 13.7% of the SAL shares in issue prior to the acquisition and 7% of the shares in issue post acquisition. The rationale for the acquisition was to expand the group's product range, industry and geographical reach in the retail sector.

2010 Acquisitions – Timeline and Processes

3.4.3. The potential acquisitions were discussed by SAL's board of directors in late 2008. In May 2009, the board of directors resolved to appoint CIMB Bank Berhad, Singapore Branch ("**CIMB**") as financial adviser on the potential acquisitions. Ernst and Young ("**EY**") was appointed to review and provide an opinion on the proforma consolidated financial statements of SSB and QR for the year ended 30 June 2009. Asian Corporate Advisors Pte Ltd ("**ACA**") was appointed independent financial adviser.

3.4.4. The circular on the proposed acquisitions was dispatched to the shareholders on 13 January 2010 and the special general meeting was held on 28 January 2010. The shareholders approved the acquisitions and Mr Goh abstained from voting. The acquisitions of SSB and QR were subsequently completed on 14 May 2010 and 3 March 2010 respectively.

3.4.5. SAL advised that management conducted a review of the businesses of the acquisition targets and also forecasts that were provided for FY2010 and FY2011 for SSB and QR. SSB was a newly incorporated company formed for the acquisition and EY was also the auditor of QR prior to its acquisition. EY's role was to review and express an opinion on the unaudited proforma consolidated financial statements of SSB and QR and given EY's role, we understand that no further financial due diligence was undertaken.

Commentary on SSB Group's Historical Financial Performance

3.4.6. Management advised that a working group was formed and CIMB's role included to advise on structure, terms and conditions of the transaction. The working group deliberated on whether to appoint valuers but a relative value structure was chosen to implement the transaction and the Board considered and approved. This structure involved a comparison of the proforma profits before tax for FY2009 of SSB and QR in comparison with the average profits before tax of SAL for the three years FY2007-FY2009. It follows that the proforma FY2009 profits of SSB and QR were critical for the transaction and hence the appointment of EY to review the proforma.

3.4.7. SSB Group's pre-acquisition proforma financial performance from FY2007 to FY2009 showed that revenue grew moderately in FY2008 by 4.5% but substantially by 25.4% in FY2009. As a result, profits before tax grew by 6.9% and 26.5% in FY2008 and FY2009 respectively and the FY2009 profits before tax were the basis for the pricing of SSB.

3.4.8. EY issued a report on the unaudited proforma consolidated financial statements of SSB Group dated 5 January 2010 which included proforma adjustments. The impact of the proforma adjustments was that whilst revenue decreased by RM109.5 million, profits increased by RM22.7 million. Management has explained that the adjustments were made as the intention was to acquire only the SSB core business without the non-SSB related businesses of Silverlake Private Entities. Management also advised that the reporting accountants reviewed and reported on the proforma financial statements of the SSB business. The review was carried out in accordance with Singapore Statement of Auditing Practice SAP 24. We have not reviewed the preparation of the proforma.

3.4.9. The adjustments also suggested that the SSB core business with revenues of RM111 million had little or no overheads (i.e. 1.4% of revenue). This is a very low level of overheads which meant that the SSB business had a very high profit before tax margin of 54.5%. Management explained that the overheads were low due to sharing of resources by various businesses within the Silverlake Private Entities group, prior to the restructuring.

3.4.10. Management forecasts for SSB were provided for FY2010 and FY2011 and suggested further growth of revenue and profit before tax from the proforma levels.

Commentary on QR Group's Historical Financial Performance

3.4.11. QR Group's revenue almost quadrupled between FY2007 and FY2009 moving from RM3.6 million to RM13.9 million and after tax profits increased more than tenfold from RM0.4 million to RM5.5 million. The revenue and after tax profits more than doubled between FY2008 and FY2009 moving from RM5.8 million to RM13.9 million and RM2.2 million to RM5.5 million respectively.

3.4.12. The FY2009 results were then subject to proforma adjustments which caused the revenue and after tax profit in that year to further increase by 37% and 44% respectively to RM19 million and RM8 million and the figures were used as the basis for the computation of transaction price.

3.4.13. Based on the circular, the increase in revenue in FY2009 was mainly attributed to a single major customer of QR Group and the customer was responsible for more than RM13 million of the RM19 million revenue. The acquisition of QR was based on proforma profit before tax of RM10 million which was significantly higher than audited profits in the preceding years.

3.4.14. ACA acted as the independent financial adviser and concluded that the proposed acquisitions were on normal commercial terms and were not prejudicial to SAL and its minority shareholders.

Our conclusions on the 2010 Acquisitions

3.4.15. The acquisitions of SSB and QR from an interested person were major transactions for SAL. After conducting its business due diligence, SAL appointed experienced financial and legal advisers to provide advice through the process including input on structure, pricing and a review of the historical proforma financial statements for FY2009.

3.4.16. SAL did not appoint a valuer nor conduct financial due diligence. Financial due diligence typically considers inter alia, the quality of historic earnings, to normalise earnings where appropriate the quality of assets and consider contingent liabilities. The management and board of directors resolved that valuation and financial due diligence were not required due to the basis of purchase consideration the structure of the acquisition and the work undertaken on the proforma financial statements by the auditors.

3.4.17. The purchase consideration was based on the proforma profit before tax of SSB group for FY2009, which was reviewed and reported on by the reporting accountant in accordance with Singapore Statement of Auditing Practice: SAP 24. We understand that the reporting accountant’s review procedures included, inter alia, understanding and analysing the assumptions for the carve-out procedures, considering the supporting documents as well as the basis of allocation of common cost, shared services or facilities; and analysis of proforma financial information.

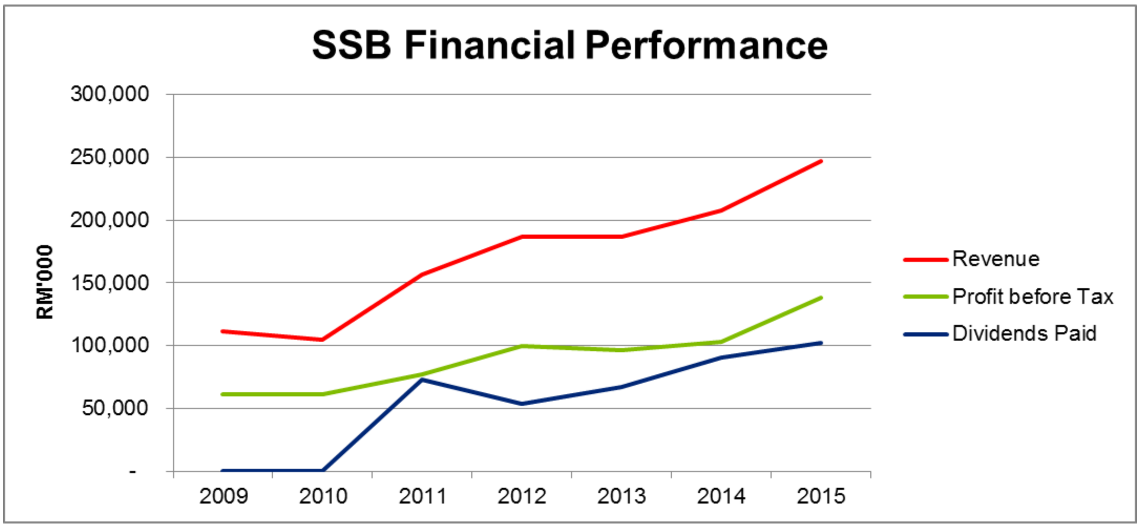
3.4.18. The financial adviser was appointed, inter alia, to advise on the structure, terms and conditions of the acquisition taking into account the prevailing regulatory requirements in Singapore, liaise with SGX-ST, liaise and co-ordinate with the reporting accountants and the transactions complied with the requirements of the Listing Manual.

3.4.19. The acquisition of SSB offered SAL the opportunity to broaden and deepen its capability in the banking software industry and whilst the growth of 26.6% in the proforma FY2009 profit before tax was significant, the forecasts suggested that such growth would continue. The SSB transaction PER multiples of FY2009 proforma historic and FY2010 forecast profit were 13.1 and 11.5 times respectively and these were reasonable multiples for the acquisition.

3.4.20. With respect to QR, the acquisition offered SAL the opportunity to acquire intellectual software and a business in the retail industry which would provide industry diversification. The proforma FY2009 profit before tax of RM10.1 million was significantly higher than preceding periods of RM6.6 million and RM2.3 million largely as the result of a very substantial project for a customer. The implied valuation of the QR business at a PER of 14.66 times the proforma FY2009 profit and 19.65 times forecast FY2010 was, in our view on the high side of the valuation range, unless the sustainability and future growth of the business could be sustained at levels higher than proforma. Management have advised that the business prospects were reviewed and the forecast for FY2010 suggested a fall in profit below proforma levels whilst FY2011 forecast suggested further growth.

<u>Commentary on SSB Group's Post Transaction Performance</u>

3.4.21. The post-acquisition track record of SSB Group from FY2011 to FY2015 is summarised in the chart below.



- The acquisition of SSB Group was completed in late FY2010 (14 May 2010). As such, we have measured the benefits derived from the SSB acquisition starting from FY2011 to FY2015, a period of 5 years.

- In each of the 5 years, the revenue and profitability of SSB Group has been significantly higher than the proforma levels and the FY2015 results show revenue and profits have more than doubled as compared to proforma FY2009.

- FY2010 actual results exceeded the FY2009 proforma but were 10% below forecast. However FY2011 result showed significant growth and were 10% above forecast profits.

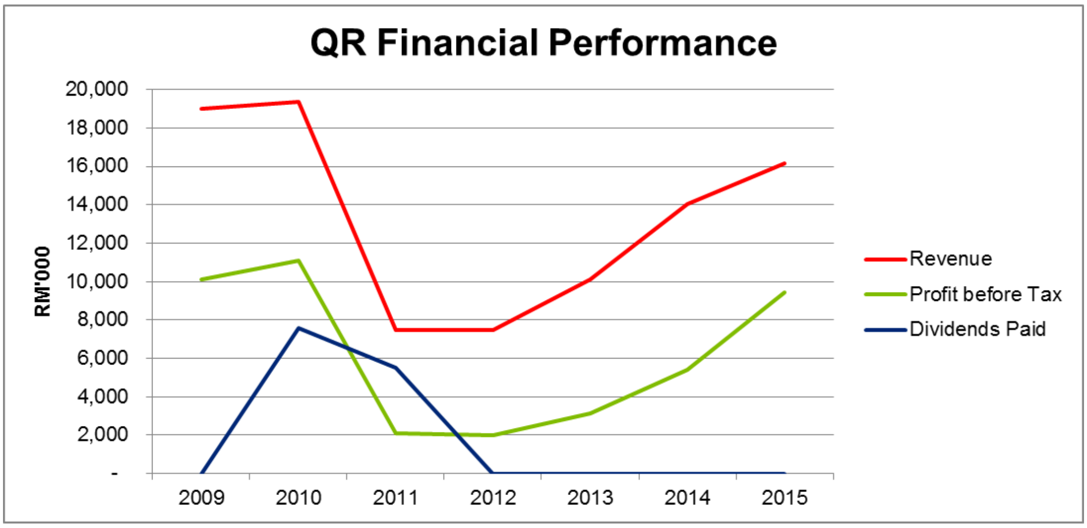
- SSB Group has been the largest contributor to the revenue of SAL over the 5 year period and the largest contributor to profit in FY2011 to FY2013.

- In summary, SSB Group has been a strong performer for SAL, delivering profits over the 5 years equivalent to 67% of the acquisition price (excluding time value) and paid substantial dividends of 82% of profits.

- The average profit after tax level over the 5 years represents an annual return of 13.4% per annum as compared to the acquisition price and this level of profits suggests a payback of 7.5 years on the investment excluding the time value of money. The average dividend paid represents a yield of 11.0% on the acquisition price.

<u>Commentary on QR Group's Post Transaction Performance</u>

3.4.22. The post-acquisition track record of QR from FY2011 to FY2015 is summarised in the chart below.



- QR Group prepared audited financial statements for the 15 month period from 1 April 2009 to 30 June 2010 as it changed its year end from March to June to be consistent with SAL and these audited financial statements disclosed revenue of RM19.4 million and RM11.1 million profit before tax compared to RM13.9 million and RM6.6 million for the preceding 12 month period.

- The acquisition of QR Group was completed in late FY2010 (3 March 2010). As such, we have measured the benefits derived from the QR Group starting from FY2011 to FY2015, a period of 5 years.

- QR Group's after tax profits shrank drastically in FY2011 and FY2012 to RM1.6 million and RM1.4 million respectively as compared to RM8.7 million in FY2010. Thereafter, the after tax profits have recovered to RM4.2 million and RM7.5 million in FY2014 and FY2015.

- Management advised that a key customer deferred its expansion plans in FY2011 and FY2012 but resumed them in FY2014 and 2015 which led to an improvement in the results. Management is of the view that this key customer will continue its expansion plans in FY2016 and FY2017. SAL advised that they took a long term view on the acquisition of QR and QR expected that its existing customers would continue to expand their business.

- QR Group has not been a strong performer for SAL by reference to its acquisition price and the expectations and forecasts at the time of acquisition. QR has delivered profits over the subsequent 5 years equivalent to 14.7% of the acquisition price and dividends of 31.6% of profits.

- The average after tax profit of RM3.5 million over the 5 years represents an annual return of 3.0% per annum as compared to the acquisition price excluding the time value of money. We also note that QR last declared dividends in FY2011 although cash has been accumulating over FY2014 and FY2015.

- The proforma FY2009 profits before tax on which the transaction was based have proved to be the peak year to date and suggested that the acquisition price was too high as this proforma performance has not been sustained nor met in any of the post-acquisition years.

Concluding comments on the Interested Person Acquisitions

3.4.23. The financial performance of SAL Group from the period after its IPO in FY2003 to FY2015 is set out below.

Financial performance of SAL Group

FY ending 30 June In RM'Million	2003 Aud.	2004 Aud.	2005 Aud.	2006 Aud.	2007 Aud.	2008 Aud.	2009 Aud.	2010 Aud.	2011 Aud.	2012 Aud.	2013 Aud.	2014 Aud.	2015 Unaud.
Revenue	24.4	33.2	27.8	124.5	137.3	146.9	54.8	175.8	305.4	400.0	398.6	500.7	516.0
Net profit	16.0	18.2	16.6	79.6	80.0	108.8	19.1	63.5	115.3	162.3	196.0	248.9	282.7
Net margin	*65.5%*	*54.6%*	*59.8%*	*64.0%*	*58.3%*	*74.0%*	*34.8%*	*36.1%*	*37.7%*	*40.6%*	*49.2%*	*49.7%*	*54.8%*
Dividends paid	11.4	6.8	8.6	12.7	19.5	71.5	7.8	25.5	93.4	78.1	148.8	223.6	285.8
Shares outstanding as at 30 Jun	257.8	285.5	285.5	1,121.5	1,121.5	1,121.9	1,093.8	2,091.7	2,096.3	2,100.5	2,118.4	2,244.4	2,244.7
Earnings per share (In sen)	6.21	6.36	5.81	7.10	7.13	9.70	1.75	3.04	5.50	7.72	9.25	11.09	12.59
Market capitalisation as at 30 Jun	326.6	350.0	218.6	884.9	2,340.5	808.0	837.5	1,545.0	2,013.7	1,932.7	4,186.8	6,933.3	6,112.9
Share price as at 30 Jun (RM)	1.27	1.23	0.77	0.79	2.09	0.72	0.77	0.74	0.96	0.92	1.98	3.09	2.72
Segment revenue													
Software licensing	-	-	-	73.9	79.6	90.6	15.2	13.7	51.4	63.3	119.6	147.7	131.8
Software project services	19.3	24.4	19.4	9.1	7.9	16.4	8.9	9.4	98.4	139.1	77.4	71.8	59.8
Maintenance and enhancement services	5.1	8.8	8.4	23.4	23.9	19.0	20.5	126.2	131.0	147.2	173.6	210.3	283.3
Sale of software and hardware products	0.0	0.0	0.0	18.1	25.9	20.9	10.2	8.7	8.0	33.3	6.6	32.4	6.2
Credit and cards processing	-	-	-	-	-	-		17.8	16.6	17.2	16.6	19.5	14.3
Insurance processing	-	-	-	-	-	-		-	-	-	4.7	19.0	20.7
	24.4	33.2	27.8	124.5	137.3	146.9	54.8	175.8	305.4	400.0	398.6	500.7	516.0

Sources: Bloomberg; Company annual reports
Note: Market capitalisation figures are as at 30 June and extracted from Bloomberg
Note: FY2006 and FY2010 results are inclusive of the SAACIS, SSB and QR acquisitions which were completed towards the end of the respective FYs

3.4.24. The impact of the acquisition of SAACIS is illustrated by the comparison of revenues and profits for FY2005 with FY2007 (the first full year post acquisition), as revenues and profits quadrupled. Although performance did dip substantially in FY2009 and FY2010, in the period from FY2007 to FY2015, the acquisition of SAACIS has contributed significant incremental revenue of RM1.1 billion) to the SAL Group and SAACIS has paid substantial dividends to SAL. Similarly from FY2011 to FY2015, the acquisition of SSB Group has contributed significant incremental revenue of RM984.4 million to the SAL Group and SSB has paid substantial dividends to SAL.

3.4.25. In FY2015, SAACIS, SSB and QR generated revenue equivalent to more than 85% of the consolidated revenue of RM516 million, without taking consolidation adjustments into account. The acquisitions have transformed the scale and breadth of offer of SAL. In addition, the acquisitions in 2010 have substantially reduced the impact of IPTs on the revenue and profitability of SAL. The increased profitability of SAL has generated significant dividends for shareholders.

3.4.26. As individual transactions, we concluded that the acquisition pricing was reasonable on the assumption of continuing profits and growth, although we noted the pricing of QR would appear to be on the high side of the valuation range. In terms of post-acquisition performance and returns, both SAACIS and SSB have delivered strong overall performance with returns on investment in excess of 10%. However, with hindsight to date QR has not delivered on the expectations implied by the transaction pricing to date, given an average annual return on investment of 3%.

3.4.27. The following scenarios set out the illustrative potential returns for shareholders with the acquisitions having a sizeable impact on returns;

Potential returns for a shareholder since IPO

- An SAL shareholder that had subscribed for shares of the IPO at the issue price of S$0.31 and held those shares to the present date would have received 25.5 cents per share in dividends equivalent to 82% of the IPO price which represented a 6.3% average annual dividend yield on the IPO price. This yield is at the upper end of yields for SGX listed companies. The annual dividend yield for FY2015 based on the present price of S$0.64 as at 5 January 2016 is 6.5%.

Potential returns for a shareholder post acquisition

- An SAL shareholder that had acquired shares at the price of S$0.395 and S$0.3307 on the completion of the SAACIS and SSB acquisitions and held those shares to present date would have received 20.65 cents and 14.85 cents per share in dividends respectively equivalent to 5.8% and 9.0% average annual dividend yields on the acquisition price.

4. Analysis of IPT Trends and Patterns

4.1 Introduction

4.1.1 Our scope of work includes performing data analysis to highlight any trends, patterns of behaviour or irregularities and / or anomalies on the interested person transactions between the SAL Group and the Silverlake Private Entities. The scope of our analysis also covers comparison of the SAL Group performance and ratios with comparable companies in similar business.

4.2 Review of financial statements of the SAL Group

4.2.1 We reviewed the financial statements of the SAL Group for the Review Period and extracted information in regards to the SAL Group's segmental revenue across the business lines of the SAL Group and their profitability. The table below summarises the revenue and profitability split across the SAL Group's primary business lines:

FY	2015	2015	2014	2014	2013	2013
Year End	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun
Currency	RM'm	%	RM'm	%	RM'm	%
Source	Aud.	Aud.	Aud.	Aud.	Aud.	Aud.
Software licensing	131.8	25.5%	147.7	29.5%	119.6	30.0%
Software project services	59.8	11.6%	71.8	14.3%	77.4	19.4%
Maintenance and enhancement services	283.3	54.9%	210.3	42.0%	173.6	43.5%
Sale of software and hardware products	6.2	1.2%	32.4	6.5%	6.6	1.7%
Others	35.0	6.8%	38.6	7.7%	21.3	5.4%
	516.0	**100.0%**	**500.7**	**100.0%**	**398.6**	**100.0%**
Gross profit / margin	337.1	65.3%	306.7	61.3%	253.9	63.7%
Software licensing	118.9	90.3%	133.9	90.6%	107.9	90.2%
Software project services	13.9	23.2%	17.3	24.1%	21.6	27.8%
Maintenance and enhancement services	176.9	62.4%	122.3	58.1%	103.1	59.4%
Sale of software and hardware products	2.4	37.8%	6.8	20.9%	2.3	34.9%
Others	(5.2)	nm	(6.0)	nm	(21.9)	nm
Segment Profit	**306.8**	**59.5%**	**274.1**	**54.7%**	**213.0**	**53.4%**

4.2.2 The four main components, generating more than 90% of SAL Group revenue comprise licensing, software project services, maintenance and enhancement services and sale of software and hardware products. In terms of the margins, we note that the SAL Group discloses segment margins on a segment basis rather than a GP level. The segment basis includes attributable expenses but excludes certain central corporate costs not capable of allocation to the different activities. In undertaking our work we have had access to details of gross margins for the various segments. However, gross margins are considered commercially sensitive and accordingly, whilst we make comments about gross margins, we have not disclosed the gross margins in this report. The table below summarises the percentage revenue and profit margin of the main revenue components for the Review Period:

Revenue Component	Percentage of SAL Group Revenue	Profit margin per Financial Statements
Licencing	25.5% - 30.0%	90.2% - 90.7%
Maintenance and enhancement services	42.0% - 54.9%	58.1% - 62.4%
Software project services	11.6% - 19.4%	23.2% - 27.8%
Sale of software and hardware	1.2% - 6.5%	20.9% - 37.8%

4.2.3 Overall SAL Group revenues increased from RM398.6 million in FY2013 to RM516 million in FY2015. Revenues comprise revenues made to both SPEs and outside third parties.

4.2.4 In aggregate for the Review Period, revenue derived from SPEs was RM377.5 million which represents an average of 26.7% of total revenue for the Review Period. In aggregate for the Review Period, revenue derived from third parties was RM1,037.8 million which represents an average of 73.3% for the Review Period.

4.3 Licensing

4.3.1 SAL generated RM399 million from Licensing revenues during the Review Period and in aggregate 73% or RM291 million was from Interested Person transactions with SPEs.

4.3.2 Based on a review of a sample of transactions, we noted that weighted average GP margins on transactions with SPEs were slightly higher (less than 2% higher) than weighted average GP margins with outside third parties.

4.3.3 In terms of the business model for licensing, the software consists of a suite of mature software and an approved SAL IPT mandate pricing structure is in place which governs the pricing of licence revenues. The pricing of licences depends on the number of customers and branches and set licence fee bands are in place according to the scale of the customer. The more customers and the more branches a customer has, the higher the applicable licence fee.

4.3.4 We have observed comparable GP margins for both SPE and third party Licencing revenue and the existence of significant revenues to external non-related customers (RM108 million in the Review Period) demonstrates that the margins and the sales prices are consistent with market practices for SAL.

4.3.5 In regards to profit margins for comparable businesses in the industry, our analysis suggested that Microsoft Corporation ("**Microsoft**") provided information on profit margins for licensing fees. Microsoft sells software to both consumer and commercial customers and to multiple industries and is clearly a much larger business than SAL and thus any analysis must be viewed with those caveats concerning comparability. The segment margin for Licensing during the Review Period as disclosed in the financial statements of SAL was between 90.2% and 90.7% which is similar to Microsoft's GP margins in relation to License fees of between 90.5% and 92.4%.

4.4 Maintenance and Enhancement Services

4.4.1 SAL generated RM667 million from maintenance and enhancement services during the Review Period and in aggregate 9% or RM63 million was from Interested Person transactions with SPEs.

4.4.2 We noted that all maintenance services transactions in our sample were undertaken with outside third parties and therefore a comparison of GP margins for maintenance services between SPEs and outside parties was not relevant.

4.4.3 In regard to enhancement services, based on a review of a sample of transactions, we noted that weighted average GP margins of transactions with SPEs were 1% higher than the weighted average GP margins with outside third parties and were therefore comparable. Since outside third parties set the bar for pricing and margins, the GP margins with SPEs are in line with outside third parties.

4.4.4 In regards to profit margins observed with comparable businesses in the industry we were unable to obtain information in regards to GP margin for maintenance and enhancement related services with any of the comparable businesses identified as information at this level of granularity and/or comparability (in terms of the business segments) was not available.

4.5 Software Project Services

4.5.1 SAL generated revenue of RM209 million from software project services during the Review Period and in aggregate 10% or RM20 million was from Interested Person transactions with SPEs.

4.5.2 Based on a review of a sample of transactions for software project services, we noted that the weighted average GP margins with SPEs were significantly greater than weighted average GP margins with outside third parties. We understand from discussions with management that software project services vary in terms of type and nature and the mix of services as well as the experience of staff involved will affect margins. Typically revenue from SPEs arises for contracts involving higher skill set specialised services for SIBS software architecture and software integration services charged on time and materials basis which generate higher margins. Contracts with outside parties are turnkey, bundled services projects which involve a blend of higher and lower skill set with the rates and margins for the latter being lower.

4.5.3 Since outside third parties set the bar for pricing and margins, the GP margins with SPEs are higher than with outside third parties, however revenue derived from SPEs accounts for only approximately 10% of software projects revenue and just 1.5% of SAL's total revenue for the Review Period.

4.5.4 We were unable to obtain information in regard to GP margin for software project services with any of the comparable businesses identified as information to this level of granularity and/or comparability (in terms of the business segments) was not available.

4.6 Sale of Software and Hardware Products

4.6.1 SAL generated revenue of RM45 million from the sale of software and hardware products during the Review Period and in aggregate 5.5% or RM2.5 million was from Interested Person transactions with SPEs.

4.6.2 In regard to software and hardware product revenues, based on a review of a sample of transactions, we noted that weighted average GP margins with SPEs were higher (about 6.5% margin points) than weighted average GP margins with outside third parties. Management explained that the SPEs occasionally purchase high end servers from SAL.

4.6.3 We did not identify margin information for comparable businesses in the industry.

4.7 Comparable analysis

4.7.1 Based on our discussions with the management and public research we identified Temenos Group AG ("**Temenos**"), Oracle Financial Services Software Limited ("**OFSSL**"), Microsoft and SAP SE ("**SAP**") as comparable to SAL Group. Temenos and OFSSL were selected as their business models include the provision of core banking software solutions to customers. Microsoft and SAP were selected as broader providers of software related products and services.

4.7.2 There is no identical comparable company in terms of the major revenue segments (i.e. software licensing, maintenance and enhancement and software project services) with SAL. The comparable companies vary in terms of scale, focus, industries, products, services and solutions, which made the comparisons challenging.

4.7.3 Based on their audited results for the last 12 month period, Temenos (75%), Microsoft (65%) and SAP (70%) have similar or higher overall GP margins as compared to SAL (65%). As OFSSL does not report its overall gross margin, we are unable to make a comparison with SAL.

4.7.4 Microsoft reported its GP margins for licensing in the consumer and commercial segments. For comparison purposes, we relied on the licensing margins for the commercial segment for which Microsoft derived revenue from corporate customers for their products such as operating system, server support and Microsoft Office. In FY2015, Microsoft generated a 92.2% GP margin from commercial licensing revenue and this high margin is comparable to that of licensing revenue margin generated by SAL.

4.7.5 In FY2014, SAP generated average GP margins of 80.5% on the sale or license of software segment and the support segment which included software updates, upgrades and enhancements. It should be noted that the margins of 80.5% is for a combination of two revenue segments as SAP did not separate these activities.

4.7.6 Based on their audited results for the last 12 month period, Temenos (25%), OFSSL (41%), Microsoft (19%) and SAP (25%) have lower operating profit margins as compared to SAL (53%).

4.7.7 Microsoft and SAP recorded significant R&D expenses at 12.9% (FY2015: USD12 billion) and 13.3% (FY2014: EUR2.3 billion) of total revenue in their overheads which impacted the operating profit margins of both companies. In comparison, management explained that the SAL Group acquires proven technology companies and performs minimum future disruptive technology R&D activities which have less effect on its operating profit margins. We further note that Microsoft incurred an impairment, integration and restructuring charge of 10.7% (FY2015: USD10 billion) of total revenue and this had further impact on its operating profit margin. Excluding these charges, Microsoft and SAP's adjusted operating margins were 43% and 38% respectively. Microsoft and SAP also had depreciation and amortisation charges approximately 3% higher than SAL.

4.7.8 OFSSL's operating margin of 41% was significantly higher than Temenos of 25% but lower than SAL. Temenos and OFSSL bundled their services and products in various combinations when reporting their operating profit margins which made comparison with SAL challenging.

5. Interested Person Transactions

5.1. Introduction

5.1.1. We have reviewed the IPT of the SAL Group for the period from 1 July 2012 to 30 June 2015 comprising the SAL Group's IPT governance and oversight structure, the underlying policies and controls, compliance against Chapter 9 of the SGX-ST Listing Manual on IPT and the underlying supporting documentation of selected IPT.

5.2. SAL's IPT Framework

5.2.1. The SAL Group's transactions with interested persons are governed by Shareholders' General Mandates on IPT which were approved at AGM. The Shareholders' Mandate stipulated the classes of IP, scope of the IPT, pricing methods and procedures, reporting and disclosure requirements, review procedures and audit and review rights. It also outlined the MLA and MSA which set out the details of the products and services being entered into between SAL and Mr Goh/Silverlake Private Entities.

5.2.2. The IAC Department of SAL conducts quarterly audits on the IPT. The IAC's audit objectives were to assess: (a) compliance with the General Mandate and Chapter 9 of the SGX-ST Listing Manual; and (b) the accuracy and timeliness of the disclosure of IPT. It is understood and accepted that the internal audit scope does not include assessment on whether the IPT were on commercial terms.

5.2.3. The quarterly internal audit reports submitted to the AC over the 3-year period from 2013 to 2015 did not highlight any non-compliances and all the audits were rated as "satisfactory". The minutes of the AC meetings from 2013 to 2015 showed that the AC had reviewed the IPT for each of the quarters and accepted the internal audit conclusion that the IPT were carried out in accordance with the General Mandate.

5.3. Composition of IPT

5.3.1. A summary of the IPT between the SAL Group and Silverlake Private Entities over the 3-year period is as follows:

	IPT – Revenue (RM'000)				IPT – Cost of Sales (COS) (RM'000)
	Licensing	Maintenance and Enhancement	Customized Software Solutions	Reselling	Maintenance & Enhancement Services and Software Project Services
2013	86,949	10,778	7,890	1,115	45,833
2014	99,011	13,870	7,000	605	50,995
2015	105,198	38,452	5,761	849	46,415
Total	**291,158**	**63,100**	**20,651**	**2,569**	**143,243**
% to IPT Revenue	**80%**	**17%**	**5%**	**0.7%**	
% to Total SAL Group Revenue/COS	Fairly constant at between **20% to 30%**				**26%-32%**

Note: "IPT Revenue" and "IPT Cost" refer to the provision/receipt of products/services to/from Silverlake Private Entities.

5.4. Key Observations and Recommendations

5.4.1. From our review of selected IPTs, we did not identify any instances of non-compliance with Chapter 9 of the Listing Rules, the New Shareholders' Mandate or the SAL Group's IPT policies. However, we have made several observations and recommendations as set out below to enhance the clarity and transparency in the IPT:

Contracting Entity with Third Party End-user Customers

5.4.2. The SAL Group has over 20 end-user customers with which the Group has direct contracting relationship. Out of these end-user customers, we noted at least eight (8) of the customers also contracted with Silverlake Private Entities for the provision of licensing, hardware & software products, software project services such as implementation and customisation, and enhancement and maintenance services.

5.4.3. We understand from the management that the determination of whether the SAL Group or the Silverlake Private Entities would be the contracting party with the end user customer is based on the customer's requirement scope and preference for turnkey contracting entity. There is no issue of breaching any "non-competition" agreement as the SAL Group would still be involved, if not as the contracting party with the end user customer, then as a sub-contractor to the Silverlake Private Entities. This is consistent with the SAL Group's business model of not being a full service system integrator or IT outsourcing service provider. In any event, due regard has to be given to the customers who may prefer the principal owner of the software product (where only the SAL Group is "qualified" to bid), or with an approved reseller who could package the software product as part of a full service system integrator and IT outsourcing service provider, in which case the Silverlake Private Entities would fit the requirement. Hence, the decision making process on whether the SAL Group or the Silverlake Private Entities would be the contracting party with the end user customer is strategic in nature with no formal documentation.

5.4.4. We have been provided with requests for information ("**RFI**") and requests for proposals ("**RFP**") issued by the end-user customers to SAL to bid for projects. These subsequently resulted in contractual relationships between SAL and the end-user customers concerned. However, as we (as well as the SAL Group) did not have access to the RFI and RFP issued to the Silverlake Private Entities (in their capacity as SAL Authorized Reseller and Certified Implementer), we were unable to determine if the requirements set out in these bid documents were such that the Silverlake Private Entities (and not the SAL Group) were "preferred" or "pre-qualified" to bid for the project.

5.4.5. The Silverlake Private Entities accounted for the majority of licensing revenues (between 67.0% and 79.8% of SAL's licensing business) and generated approximately RM291 million in revenue for the SAL Group over the three-year period. Out of this amount, more than 80% or RM242 million were used by Silverlake Private Entities for disruptive technology R&D and future digital economy business solution development for commercialisation purposes. The remainder was on-sold to end-user customers.

5.4.6. Given the significance of the values of these contracts (about RM49 million) which the Silverlake Private Entities on-sold to end-user customers and acted as the contracting party, there should be better clarity and transparency in the determination process of whether the SAL Group or the Silverlake Private Entities would be the contracting party with the end user customer. The decision and the rationale should be documented and submitted to the AC on a periodic basis. This should be in addition to and separate from the current process to obtain the AC's consent for Structured Services Business relating to the SIBS software.

Procurement of Services from Silverlake Private Entities

5.4.7. There were guidelines in the selection of vendor/sub-contractor or business partner for the SAL Group. We understand from the management that the selection of sub-contractor is primarily driven by the end user customer's project requirements which could be very specific on: (1) the SIBS resource skillset and experience required; and (2) the availability of the required project resources who could be dedicated and committed to the project on a fixed price, agreed scope, tight schedule and turnkey basis. These committed resources' experience, skill set and availability are part of the submission to the end-user customers' RFI and RFP. We further understand that the selection of the project team (including sub-contractors) for the implementation, customization and maintenance of the software products is performed jointly by the SAL Group and the end customer. In this context, competitive sourcing of sub-contractors to assess reasonableness of pricing, service quality and credentials could not be carried out as there are only a few qualified SIBS project implementers in the market who are "pre-qualified" by both the SAL Group and the end user customers for the delivery of turnkey projects.

5.4.8. Given that about 90% of the implementation and customization services were procured from the Silverlake Private Entities, we recommend that management establish a sub-contractor pre-qualification process that applies to staff and resources from both the Silverlake Private Entities and third party system implementers alike. In addition, SAL should maintain an updated list of pre-qualified subcontractors and the rationale for the pre-qualification should be approved by SAL's Audit Committee at least once a year. This will: (a) enhance the transparency in the transactions relating to implementation and customisation services between the SAL Group and the Silverlake Private Entities; and (b) provide additional assurance that 'competitive' pre-qualification and sourcing of implementation and customisation services from the Silverlake Private Entities and non-related parties is in place.

Quotations from Silverlake Private Entities

5.4.9. Based on SAL Group's operating procedures, a Request for Quotation ("**RFQ**") form is to be used when requesting for fee quotations from the Silverlake Private Entities. The RFQ has to be approved, accepted and signed by both parties before submitting the proposal/fee quote to the end-user customer. However, from our review of selected IP contracts, we have noted instances where the RFQ from/to the Silverlake Private Entities were obtained and agreed after the contract was awarded by the end customer or after commencement or completion of work. We understand from the Project Leads concerned that quotations provided at the RFP/RFI stage were based on estimated effort for the end-to-end delivery of the project and was subject to discussions and negotiations with the end user customers. The estimated effort would change from the RFP/RFI stage to the finalization of project scope/modules/timeline and contract award. In this regard, the signed RFQ between the SAL Group and the Silverlake Private Entities show the final agreed scope and pricing.

5.4.10. We recommend that the SAL Group formalise the process of obtaining a preliminary written quotation prior to the formalised RFQ from the Silverlake Private Entities as supporting documentation during the process of responding to the end-user customers' RFI or RFP. This will provide a clear documentation trail from initial quotation to final RFQ sign-off for the final agreed fixed price turnkey services to be provided by the Silverlake Private Entities. For cases where the scope of work could not be defined or insufficiently defined to enable the estimation of the effort required to complete the work so as to arrive at "fixed price" service fee (such as the programme change request and enhancement services), the services should be quoted on an initial budgeted time and material basis at the agreed man-day rates. The RFQ could be updated and signed off when the final scope is agreed with the end-user customers.

Man-day Rates Used in Project Costing

5.4.11. Under the New Shareholders' Mandate, the rates to be applied by the Silverlake Private Entities for services provided to the SAL Group must be no more than that of the Mandated Man-day Rates. From our review of the selected projects, we have noted the following:

(a) The man day rates for the services to be provided by the Silverlake Private Entities in the SAL Group' project costing differ from the subsequent signed RFQ (with the Silverlake Private Entities).

(b) There was insufficient clarity on the manner in which the total efforts required in end-to-end projects were allocated between the SAL Group and the Silverlake Private Entities to determine the value of the IPT. In this regard, we did not have access to the full costing spreadsheet to assess the manner in which the final quotation to the end-user customer was derived.

(c) In one of the projects, the costing for the end-customer contract was calculated using "salary benchmark rates" (i.e. average monthly salary cost by the staff's rank) multiplied by the utilisation % estimated for each required level of resources. In this case, we noted that the costs attributed to the Silverlake Private Entities calculated using this method was approximately the same amount in the signed RFQ between the SAL Group and the Silverlake Private Entities. However, in the RFQ, the Mandated Man-day Rates (and not the "salary benchmark rates") were used and the effort (in man days) in the RFQ was lower than that in the costing spreadsheet.

5.4.12. Management explained that the method in (c) above was used only for budgeting and cost analysis purposes in turnkey project implementations and that the lower mandays in the signed RFQ were due to the exclusion of mandays attributed to junior staff and "Post-Live" support services.

5.4.13. Management explained that the effort quoted by the Silverlake Private Entities (as well as third parties) are based on the agreed scope of work and assigned resources to execute the work on a fixed price turnkey basis within the project schedule as required by the end-user customers

5.4.14. The Mandated Man-day Rates were applied in the RFQ and signed-off after the project scope and contract have been finalized and agreed with the end-user customer. The signed RFQ and Service Agreement or Purchase Order form the contract between the SAL Group and the Silverlake Private Entities to provide turnkey service delivery at an agreed fixed price. In this regard, the Mandated Man-day Rates were considered to be commercial in nature but it was not apparent from the above that they were applied or considered during the project budgeting and costing stage to determine the value of the IPT.

5.4.15. Given that the services procured from the Silverlake Private Entities made up between 26% to 30% of the SAL Group's total cost of sales over the three year period, we recommend that additional and/or alternative procedures be put in place to provide further assurance that the value of the services procured were commercial in nature.

6. Transactions with HNA Group

6.1 Introduction

6.1.1 Our scope of work includes obtaining an understanding of the relationship between SAL and HNA Group, reviewing the two contracts entered into with HNA Group on 9 February 2010 and the private share placements based on an agreement entered on 9 July 2010 between Mr Goh and HNA Group, and reviewing the accounting implications.

6.2 Transactions with HNA Group by SAL and Mr Goh

6.2.1 On 9 February 2010, SAL through a subsidiary SAACIS entered into two contracts with HNA Group, a Chinese conglomerate, for a total value of S$70 million. On 9 July 2010, Mr Goh separately entered into a SSSA stating that he will be transferring 242 million of his own shares to HNA Group.

6.2.2 The announcements on the 9 February 2010, 9 July 2010 and 23 July 2010 provide an overview of the two HNA contracts, the rationale of SSSA and the relationship between SAL and HNA Group. The SSSA was not provided for our review as we understand due to confidentiality obligations under the terms of conditions of the SSSA. It is further noted that the announcement dated 9 July 2010 indicated that HNA Group will enjoy all gains above S$0.16 per share when these shares are sold either to third parties or to Mr Goh, which gave the appearance of providing HNA Group an immediate benefit as the prevailing share price at the date of the SSSA was approximately S$0.34 per share. We also understood that the price of S$0.16 per share was arrived at by reference to the average share price prevailing at the point when Mr Goh had started to negotiate the terms of the SSSA with HNA Group, which we understand occurred for almost a year before the date when the SSSA was eventually signed.

6.2.3 The announcement on 23 July 2010 disclosed that the SAL shares pursuant to the SSSA will be progressively transferred into an escrow account in nine tranches over a period of approximately three years. Each transfer will take place as soon as practicable after each of the nine milestone progress payments fall due and paid by the HNA Group in accordance with the HNA contracts. We understand the use of these milestones as the timings for the progressive transfer of the shares was proposed and mutually agreed by Mr. Goh and HNA Group independent of SAL.

6.2.4 As at the date of this report, we understand that 121 million shares[1] out of the 242 million shares under the SSSA have been transferred to HNA Group.

6.3 Assessing the potential benefits from the SSSA

6.3.1 Based on the above scope of work, we observed that the following goods or services may have been construed to be received or receivable in future by SAL as a result of the SSSA:

- Certain benefits from the two HNA contracts entered on 9 February 2010 obtained in connection with the SSSA due to the apparent linkage between the contracts milestones and the timing of shares issuance as elaborated below.

    - 9 February 2010 - Two HNA contracts with a total of nine milestones were awarded to SAL for S$70M. Mr. Goh referred to these 2 contracts as the first major breakthrough for SAL's business development in PRC.

    - 9 July 2010 – SSSA entered between Mr Goh and HNA Group
        - Mr Goh will transfer SAL shares to HNA Group in phases as and when each milestone is completed and progress payments fall due and paid by HNA Group.

    - 23 July 2010 – Clarification announcement by SAL's Board indicated "*The S$70 million HNA contracts and the SSSA together form the foundation for the strategic alliance between HNA Group and SAL, which was developed over several years of discussion and proof of concept* [2]."

    - 23 July 2010 – Clarification announcement by SAL's Board also indicated "*The rationale for the SSSA is to provide HNA Group with a meaningful shareholding in SAL and therefore provide the incentive and mutual benefit for the HNA Group to work together with SAL to fast track the S$70 million HNA contracts.* [3]"

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[1] The shares transfers were disclosed via change in shareholding announcements on December 8, 2010, February 8, 2013 and July 11, 2014.

[2] Direct reproduction from the announcement dated 23rd July 2010 from SAL

[3] Direct reproduction from the announcement dated 23rd July 2010 from SAL

- Future contracts, market penetration into PRC market and expansion of SAL's revenue base as a result of the strategic alliance as noted below from the announcement by SAL's Board on 23 July 2010:

    - *"SAL believes that having a strong and dynamic PRC partner such as HNA Group would make a big difference in speeding up its penetration into the PRC market.* [4] *"*

    - *"In addition, it is envisaged that with the SSSA, HNA Group will work with SAL to (i) develop leadership in Cloud Computing through SAL's unique mathematically modeled methodology; (ii) achieve rapid market penetration in the large and fast growing PRC market; and (iii) expand SAL's revenue base, not only geographically, but also into other economic sectors apart from the financial services sector, for example the retail and logistics sectors. Based on the above, it is believed that the strategic alliance will bring significant economic benefits to SAL and this in turn will benefit HNA Group through its shareholding interest in SAL under the SSSA.*[4] *"*

6.3.2 We also observed the following in assessing if a benefit has been/will be received by SAL:

- Based on the share price of SAL on the date of the SSSA, Mr Goh appeared to provide HNA Group with a potential realisable benefit on the shares that are worth approximately S$44 million[5] at the date of the SSSA. This appeared to represent a significant cost to Mr Goh and it would appear that at the date of the SSSA, Mr Goh would have envisioned significant benefits to flow to him (either through SAL (based on our observation from the announcement) or Silverlake Private Entities (based on management's representation) or both) as a result of the strategic alliance with HNA Group. At the date of this report, we understand that 50% of the 242 million shares under the SSSA have been transferred to HNA Group based on the milestones of the two HNA contracts. One of these two contracts has been completed and the other is in progress. Since these two contracts were awarded in 2010, we understand that HNA Group has not awarded any further contracts to SAL.

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[4] Direct reproduction from the announcement dated 23rd July 2010 from SAL

[5] The estimated value of approximately S$44 million was calculated by taking S$0.34 (which is the price of SAL Shares on 9th July 2010) and deducting S$0.16 (which is the per share amount that HNA Group would need to pay back to Mr Goh upon the sale of the shares) and multiplying this difference of S$0.18 with 242 million shares (which was the total amount of shares that the SSSA envisioned would be transferred to HNA Group as the milestones of the two contracts are completed).

- In addition, it should be noted that already under the current SAL business arrangement, SAL will benefit from future business ventures and collaboration between HNA Group and Silverlake Private Entities if these ventures require licences that are within SAL and through which licensing revenue will flow to the SAL Group. For avoidance of doubt, this business arrangement is irregardless of whether the SSSA is in place.

- We understand that as a result of the SAACIS acquisitions, Mr Goh is bound by a mandate[6] that requires him to bring to SAL all contract offers made to him or the Silverlake Private Entities and allow SAL the right of first refusal. Accordingly, all HNA contracts will first be presented to SAL for consideration and this appears to imply that a benefit from the HNA relationship would also flow to SAL (and not only the Silverlake Private Entities). This is notwithstanding that the above-mentioned mandate is not connected to the SSSA.

6.4 Concluding comments on the accounting for the transactions with HNA Group

6.4.1 We assessed the SSSA transaction using IFRS, which is the accounting framework adopted by SAL Group, and specifically to the SSSA, we applied the principles under IFRS 2 “Share-based Payment” to assess the accounting treatment.

6.4.2 Our view is that the accounting for SSSA would be under the scope of IFRS 2 **if** goods or services have been received or will be received in future as a result of the SSSA as elaborated above. The fact that the shares were issued by Mr Goh and not SAL would not result in the transaction being out of scope of IFRS 2.

6.4.3 **If** the view was taken that the accounting for SSSA would be under the scope of IFRS 2, the fair value of the private share placements by Mr Goh to HNA Group under the SSSA should be accounted for as a “deemed capital contribution” by Mr Goh to SAL and a “share-based payment” recognized by SAL in accordance with IFRS 2.

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[6] The mandate arose as part of SAACIS acquisition in 2006 and was mentioned in SAACIS final circular section 3.5 page under the header “Undertakings by Goh Peng Ooi”. The objective of this mandate was for good corporate governance and to protect the interests of the shareholders of SAL whereby SAL will have the first right of refusal on future contracts before they can be offered to Mr. Goh and his Silverlake Private Entities. For avoidance of doubt, this mandate is not connected to the SSSA.

6.4.4 The timing of recognising the share-based payment expense in the income statement will depend on management's assessment on what portion of the SSSA is attributable to the two HNA contracts and what portion relates to the future revenue growth as a result of the strategic alliance. The former would be accounted as an asset if future economic benefits can be identified and charged to the income statement during the period of the two contracts; and the latter would be accounted for immediately as an expense to the income statement.

6.4.5 The measurement will depend on the fair value of the share placements, which management should consider involving a fair value specialist to ascertain the fair value for the purposes of the accounting.

6.4.6 **If** the private share placements under the SSSA are determined to benefit Mr Goh, the Silverlake Private Entities and SAL, the fair value of the private share placements under the SSSA should be allocated to these respective parties. Only the portion attributable to SAL would be accounted for in SAL's financial statements in accordance with IFRS 2.

6.4.7 As noted above in 6.2.2, the SSSA was not provided for our review as we understand due to confidentiality obligations under the terms of conditions of the SSSA, this precludes us from concluding if the SSSA should be under the scope of IFRS 2. Additionally, the two HNA contracts entered into in February 2010, and which we have reviewed, contain no reference or linkage to the SSSA.

6.5 Management's response[7]

6.5.1 SAL Management deliberated and concluded on the appropriate accounting treatment for the HNA contracts. SAL received an unqualified audit opinion on its statutory financial statements for the applicable financial years from 2010 to its latest audited financial year of 2015.

6.5.2 The Board considered, inter alia, the following grounds and concluded that to-date there was no clear evidence of benefit derived by SAL from the HNA Group as a result of Mr. Goh entering into the SSSA with HNA:

- The contracts with the HNA Group (for the delivery of Software and Services for HNA Group's Credit Card and Logistics business domains) were approved by the Board of SAL,

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[7] This section was provided by SAL management and inserted herein verbatim.

comprising both independent and non-independent members, and were based on terms which the Board deemed commercially viable and beneficial to the SAL Group. The terms of the contracts, including but not limited to, the contract value were regarded as similar to (and not more favourable than) those entered into with non-related third parties.

- SAL did not enjoy any preferential treatment. The execution of both contracts were in accordance to the scope of work and deliverable milestones of the projects. The billings and collections of the contracts were strictly based on delivery of respective project deliverables, signed off and accepted by the HNA Group's end customer entities. In fact, in FY2012, the larger of the two HNA contracts for logistics was deferred for a number of years.

- Nothing has come to the Board's attention that the HNA contracts and the SSSA are interlinked. The HNA contracts do not contain any terms that suggest they are conditional upon Mr. Goh transferring shares to HNA.

- The HNA contracts, which represent SAL's first major breakthrough in PRC, are the contracts that are intended to serve as a basis for SAL to prove the effectiveness of its products and to form the foundation for speeding up its penetration into the PRC market. The SSSA does not assure SAL of future contracts from HNA. To-date, HNA has not awarded any other or new contract to SAL.

- The private share placements under the SSSA would directly benefit Mr Goh and the Silverlake Private Entities owned by Mr Goh.

7. Analysis of Silverlake Private Entities

7.1. Introduction

7.1.1 Our scope of work includes performing background searches and review of the financial statements of SPEs that are customers or suppliers to the SAL Group. The review includes the analysis of the going concern status of the SPEs.

7.2. Review of SPEs

7.2.1 In accordance with our agreed scope of work, we reviewed the IPT Registers and the breakdown of IPT sales and purchases and identified 26 SPEs that were customers or suppliers to the SAL Group during the Review Period. Background research on the 26 SPEs utilising paid databases and publicly available information did not identify any relevant adverse matters.

7.2.2 We reviewed the register of transactions with non-related parties ("**Non-IPT Register**") and corroborated that a sample of entities on Non-IPT Register were indeed not interested persons of the SAL.

7.2.3 We reviewed SAL's sales and purchases with the SPEs to understand the entities involved and the materiality of transactions. We have met with Mr Goh and his representatives for discussions concerning the SPEs. Information has been provided on the SPEs by Mr Goh and this information and our discussions are governed by a non-disclosure agreement signed between ourselves and the SPEs. The sections that follow represent either information that is in the public domain or confidential information where we have received the consent of Mr Goh or the SPEs or SAL (as applicable) to disclose.

7.2.4 In the Review Period, there were RM377.5 million of IPT revenue transactions with SPEs and RM143.2 million of supplier/cost transactions with IPTs. In terms of the SPE's involved there was a significant concentration with a few key SPEs as follows;

- 65% of IPT revenue transactions were with 2 SPEs and these transactions were primarily of a future disruptive technology R&D nature as explained further below.

- 7.5% of IPT revenue transactions and 85% of all IPT purchase transactions were with 1 SPE.

- A further 20% of IPT revenue transactions were with 5 different SPEs and which generally related to transactions with financial institutions in which an SPE was primary contracting party.

7.3. Business Model of SPEs

7.3.1 Mr Goh explained that the aim of the SPEs is *"digital economy, or in technical terms, Categorical Disruptors."* The long-term strategic view of the SPEs is *"to play a 'disruptive role' by establishing itself with disruptive technologies in an ultimate digital economy, which will center around multi-industry and cross-industry business ecosystems of which financial services is an integral part of the whole".*

7.3.2 The SPEs are involved in long term disruptive technology R&D, commercialisation, reselling and system integration of SAL software. The development of software is based on *"building blocks"* which, within the SPEs are organised around *"Problem Solving Groups".* Generally these building blocks are developed to be sold to customers and this in turn raises funds for further development. However on occasion, to expedite the R&D on the future disruptive digital economy solutions, Mr Goh injects capital or loans.

7.3.3 In terms of risk, the SPEs have adopted a higher risk profile than SAL as they are involved in future disruptive technology R&D where results are less predictable. Long term disruptive technology R&D activities primarily reside with the SPEs.

7.3.4 In regards to the contracting agreement between SAL and the SPEs, Mr Goh explained that the SPEs will decide on contracts with SAL on a case by case and project by project basis based on whether they are commercially sensible.

7.4. Financial Performance

7.4.1 We obtained financial information (audited and/or unaudited management accounts) for the SPEs and analysed the financial performance of the entities. The financial performance of the entities varied across the SPEs.

7.4.2 The 2 SPEs that accounted for 65% of the IPT revenue transactions are investment holding companies which recorded the purchase of the software from SAL. These companies acquired the software to enable other SPEs to develop, improve, enhance and modify software and assets both for long term disruptive technology R&D and future digital economy business solution development for commercialisation purposes and the acquisition was primarily funded by intercompany funding.

7.4.3 The SPE that accounted for 7.5% of the IPT revenue transactions and 85% of the IPT purchase transactions is an active company primarily engaged in the business of providing implementation, modification and integration of software solutions.

7.4.3.1 This SPE has generated substantial revenues over the Review Period but has incurred losses and has a net deficit position as at FY2014. Mr Goh highlighted that the overall deficit position as at FY2014 was mainly due to incurring technical resource costs for enabling and supporting disruptive technologies business model, and that this SPE did generate industry level profits on its transactions with SAL.

7.4.3.2 We further noted that the financial statements of the SPE contained an emphasis of matter for all financial years reviewed in relation to going concern. Mr Goh stated that this SPE *"is funded primarily by its business of solution implementation and system integration services.. However, due to its efforts to build upon human capital resources, [the SPE] raises funding from time to time by capital injections or shareholder loans".*

7.4.3.3 SAL advised that all its purchase activities with this SPE are on a turnkey project basis and that there is no long term contract or commitment. Mr Goh made similar representations. This SPE is SALs main service provider for its business. The losses and net liability positions raises the question of sustainability of this SPE and potential risk to SAL as this SPE provides significant services to SAL. Mr Goh has explained that the overall losses and deficit position was mainly due to incurring technical resource costs for enabling and supporting disruptive technologies business model. This activity is being primarily funded by providing the solution implementation and system integration services which are revenue and profit generating. With respect to sustainability, Mr Goh has provided an undertaking to provide financial support to the SPE.

7.4.4 Of the remaining 5 SPEs that contributed IPT revenue of 20% during the Review Period we make the following summary comments;

- Two SPEs generated substantial revenues, were profitable and had positive net asset positions.

- One SPE generated revenues and made a small aggregate profit for the Review Period. This SPE is developing software for another industry and has a positive net asset position after receiving further funding during the Review Period.

- One SPE was profit making in FY 31 December 2012 but made losses in FY 31 December 2013 and 2014 which were attributable to unrealised exchange losses but this SPE maintained a positive net asset position for all financial years reviewed.

- The final SPE made a loss in FY 31 December 2014 which was the only year that was relevant for our review. Despite the loss, the SPE had a substantial and positive net asset position as at 31 December 2014.