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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in SiS International Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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**SIS INTERNATIONAL HOLDINGS LIMITED****新龍國際集團有限公司\****(Incorporated in Bermuda with limited liability)***(Stock Code: 00529)**

**MAJOR TRANSACTION AND DEEMED DISPOSAL IN RELATION TO  
THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF  
SIS HOSPITALITY HOLDINGS LIMITED  
ON THE MAIN BOARD OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED**

**Independent Financial Adviser to the Independent Board Committee and the Shareholders**



**普頓資本有限公司  
PROTON CAPITAL LIMITED**

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A letter from Proton Capital Limited, the independent financial adviser to the Independent Board Committee and the Shareholders, containing its advice in relation to the Proposed Spin-off is set out on pages 23 to 42 of this circular.

\* *For identification purposes only*

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## DEFINITIONS

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*In this circular, the following expressions have the meanings set out below unless the context requires otherwise:*

“Baht”	Thai baht, the lawful currency of Thailand
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“CBRE”	CBRE Limited, a commercial real estate firm and is the independent property valuer
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“CCASS Clearing Participant(s)”	person(s) admitted to participate in CCASS as direct clearing participant(s) or general clearing participant(s)
“CCASS Custodian Participant(s)”	person(s) admitted to participate in CCASS as custodian participant(s)
“Company”	SiS International Holdings Limited, a company incorporated in Bermuda with limited liability on July 8, 1992, whose shares are listed on the Main Board of the Stock Exchange (stock code: 00529)
“Director(s)”	the director(s) of the Company
“Distribution”	(subject to the Global Offering becoming unconditional in all respects) the payment of a special interim dividend by the Company to its Shareholders to be satisfied:  <ol style="list-style-type: none"><li>i. by way of distribution in specie of such number of SiS Hospitality Shares to the Qualifying Shareholders in the proportion of one SiS Hospitality Share for every ten Shares held by them as at the close of business on the Distribution Record Date; and</li><li>ii. by way of cash payment (after deducting expenses) to the Excluded Shareholders for such amount which equals to the net proceeds of the sale by the Company on their behalf of the SiS Hospitality Shares to which such Excluded Shareholders would otherwise be entitled to receive</li></ol>
“Distribution Record Date”	the date for ascertaining Qualifying Shareholders entitled to the Distribution which will be announced by the Company when the timetable for the Distribution and Global Offering is determined

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## DEFINITIONS

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“Excluded Shareholders”	Overseas Shareholder(s) in relation to whom the Directors, having made relevant enquiries, consider its/their exclusion from the entitlement to receive SiS Hospitality Shares under the Distribution to be necessary or expedient having regard to the number of the Overseas Shareholders involved in that jurisdiction and the size of their shareholdings in the Company
“GK”	<i>godo kaisha</i> , a type of Japanese company that is incorporated under the Companies Act of Japan
“Global Offering”	the issue and offer of the SiS Hospitality Shares for subscription by the public in Hong Kong and to professional, institutional and other investors
“Group”	the Company and its subsidiaries including the SiS Hospitality Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“ISH”	<i>ippan shadan houjin</i> , a type of Japanese company that is incorporated under the Act on General Incorporated Associations and General Incorporated Foundations of Japan
“Independent Board Committee”	the independent board committee formed by the Company comprising of independent non-executive Directors to advise the Shareholders on the Proposed Spin-off
“Independent Financial Adviser” or “Proton Capital”	Proton Capital Limited, a corporation licensed to carry out business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and is the independent financial adviser to the Independent Board Committee and the Shareholders in connection with the Proposed Spin-off
“IT”	information technology
“Investment in IT, Securities and Other Business”	investment in listed and unlisted securities, promising businesses and IT companies
“Japan Real Estate Investment Business”	property investment in Japan with a focus on leasing and operations of hospitality properties
“JPY”	Japanese yen, the lawful currency of Japan
“KK”	<i>kabushiki kaisha</i> , a type of Japanese company that is incorporated under the Companies Act of Japan

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## DEFINITIONS

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“LPS”	<i>toushi jigyou yuugen sekinin kamiai</i> , a type of Japanese partnership that is established under the Limited Partnership Act for Investment of Japan
“Latest Practicable Date”	December 7, 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Lim’s Family”	Mr. Lim Kiah Meng and Mr. Lim Kia Hong (including their respective spouses) and Mr. Lim Hwee Hai and Madam Lim Hwee Noi
“Listing”	the listing of SiS Hospitality Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Madam Lim Hwee Noi”	Madam Lim Hwee Noi, an executive Director, sister of Mr. Lim Kiah Meng and Mr. Lim Kia Hong, and spouse of Mr. Lim Hwee Hai
“Mobile and IT Distribution Business”	distribution of mobile and IT products in Asia
“Mr. Lim Hwee Hai”	Mr. Lim Hwee Hai, an executive Director, brother-in-law of Mr. Lim Kiah Meng and Mr. Lim Kia Hong and spouse of Madam Lim Hwee Noi
“Mr. Lim Kiah Meng”	Mr. Lim Kiah Meng, an executive Director, brother of Mr. Lim Kia Hong and Madam Lim Hwee Noi, and brother-in-law of Mr. Lim Hwee Hai
“Mr. Lim Kia Hong”	Mr. Lim Kia Hong, an executive Director, brother of Mr. Lim Kiah Meng and Madam Lim Hwee Noi, and brother-in-law of Mr. Lim Hwee Hai
“Other Real Estate Investment Business”	investment in selected properties in Hong Kong and Singapore, consisting of commercial, residential and industrial properties
“Overseas Shareholder(s)”	Shareholder(s) whose address(es) appearing on the register of members of the Company at the close of business on the Distribution Record Date are in jurisdictions outside Hong Kong
“PN15”	Practice Note 15 of the Listing Rules

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## DEFINITIONS

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“Proposed Spin-off”	the proposed disposal of part of the Company’s interest in SiS Hospitality by way of a separate listing of SiS Hospitality Shares on the Main Board of the Stock Exchange
“Prospectus”	means the prospectus to be issued by SiS Hospitality in relation to the Global Offering
“Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appearing on the register of members of the Company at the close of business on the Distribution Record Date other than the Excluded Shareholders
“Remaining Group”	the Group excluding the SiS Hospitality Group
“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“SiS Hospitality”	SiS Hospitality Holdings Limited, an exempted company incorporated in the Cayman Islands on February 16, 2015 with limited liability under the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“SiS Hospitality Group”	SiS Hospitality and its subsidiaries
“SiS Hospitality Share(s)”	ordinary share(s) in the share capital of SiS Hospitality with a par value of HK\$0.0001 each
“SiS Mobile Group”	SiS Mobile Holdings Limited and its subsidiaries
“SiS Thailand Group”	SiS Distribution (Thailand) Public Company Limited and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Taka”	Bangladeshi taka, the lawful currency of Bangladesh

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## DEFINITIONS

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“TMK” *tokutei mokuteki kaisha*, a type of Japanese company that is incorporated under the Act on the Securitisation of Assets of Japan

“%” per cent

Unless otherwise specified, amounts denominated in Hong Kong dollars have been translated, for the purpose of illustration only, into JPY, and vice versa, in this circular at the following rates:

HK\$1.00:JPY14.10

No representation is made that any amounts in Hong Kong dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

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LETTER FROM THE BOARD

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**SIS INTERNATIONAL HOLDINGS LIMITED**

**新龍國際集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00529)**

*Executive Directors:*

Mr. Lim Kia Hong  
Mr. Lim Kiah Meng  
Mr. Lim Hwee Hai  
Madam Lim Hwee Noi

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

*Independent Non-executive Directors:*

Mr. Lee Hiok Chuan  
Ms. Ong Wui Leng  
Mr. Ma Shiu Sun, Michael

*Principal place of business  
in Hong Kong:*

803 Nine Queen's Road Central  
Hong Kong

December 14, 2018

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION AND DEEMED DISPOSAL IN RELATION TO  
THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF  
SIS HOSPITALITY HOLDINGS LIMITED  
ON THE MAIN BOARD OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED**

**INTRODUCTION**

Reference is made to the announcement of the Company dated October 19, 2018 in respect of the Proposed Spin-off.

The purposes of this circular are to: (i) provide the Shareholders with information on the reasons for, and the benefits of, the Proposed Spin-off (together with such other information relating to the Proposed Spin-off as required by the Listing Rules for a major transaction of the Company); (ii) set out the recommendation of the Independent Board Committee to the Shareholders regarding the Proposed Spin-off; (iii) set out the letter of advice from Proton Capital containing its recommendation to the Independent Board Committee and the Shareholders regarding the Proposed Spin-off; and (iv) set out the property valuation report from CBRE.

\* For identification purposes only



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## LETTER FROM THE BOARD

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### THE PROPOSED SPIN-OFF OF SIS HOSPITALITY

On October 19, 2018, SiS Hospitality submitted a listing application form to the Stock Exchange for an application for the listing of and permission to deal in the SiS Hospitality Shares in issue and any SiS Hospitality Shares which may be issued in relation to the Proposed Spin-off on the Main Board of the Stock Exchange.

The Proposed Spin-off is expected to be effected by way of the Global Offering together with the Distribution. A redacted form of the application proof of SiS Hospitality's listing document, which contains certain information of the Global Offering, is available for reviewing and downloading on the Stock Exchange's website at <http://www.hkexnews.hk/APP/SEHKAPPMainIndex.htm>.

It is expected that immediately after the Proposed Spin-off, SiS Hospitality will have a public float of not less than 25% of its enlarged issued share capital. The new SiS Hospitality Shares to be issued pursuant to the Global Offering will rank *pari passu* in all respects with all other SiS Hospitality Shares then in issue.

The Company confirms, that to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, under the Global Offering, the SiS Hospitality Shares are expected to be offered to third parties independent of the Company.

### Shareholding effects of the Proposed Spin-off

As at the Latest Practicable Date, SiS Hospitality was owned as to 100% directly by the Company and the SiS Hospitality Group was comprised of the following companies:

<b>Company name</b>	<b>Principal business activity</b>
SiS Hospitality Holdings Limited	Investment holding
SiS Inn Pte. Ltd.	Investment holding
SiS Assets Pte. Ltd.	Investment holding
Otaru Ventures Pte. Ltd.	Investment holding
SiS Concepts Hotel Pte. Ltd.	Investment holding
SiS Nippon Pte. Ltd.	Investment holding
New Yorkshire Limited	Investment holding
SiS Property Consultants Ltd.	Consultancy services
Honshu Ventures Pte. Limited	Investment holding
SiSJP Realty Pte. Limited	Investment holding
SiSJP Ventures Pte. Limited	Investment holding
Elegant Vision Global Limited	Investment holding
SiS CF Ventures Pte. Ltd.	Investment holding
SiS SK Ventures Pte. Ltd.	Investment holding
SiS JP21 Ventures Pte. Ltd.	Investment holding
SiS Japan Inn Tokutei Mokuteki Kaisha	Property investment
Tokutei Mokuteki Kaisha SSG8	Property investment
Tokutei Mokuteki Kaisha SSG13	Property investment
SiSJP9 Tokutei Mokuteki Kaisha	Property investment

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## LETTER FROM THE BOARD

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<b>Company name</b>	<b>Principal business activity</b>
SiSJP10 Tokutei Mokuteki Kaisha	Property investment and hotel operations
Rinku Gate Kabushiki Kaisha	Leasing management business
Tokutei Mokuteki Kaisha SSG23 <sup>(1)</sup>	Property investment
Tokutei Mokuteki Kaisha SSG28	Hotel operations
Tokutei Mokuteki Kaisha SSG21	Property investment
Tsukiji Assets Kabushiki Kaisha	Investment holding
JP Assets Kabushiki Kaisha	Investment holding/ leasing management business
Japan Inn Kabushiki Kaisha	Property investment
Japan Investments Ippan Shadan Hojin	Investment holding
Japan Leasing Godo Kaisha	Leasing management business
Japan Properties Ippan Shadan Hojin	Investment holding
Nippon Properties Kabushiki Kaisha	Investment holding
Otaru Assets Kabushiki Kaisha	Investment holding
Otaru Investments Ippan Shadan Hojin	Investment holding
CF Assets Kabushiki Kaisha	Investment holding/ leasing management business
SK Assets Kabushiki Kaisha	Investment holding
JP21 Investment Ippan Shadan Hojin	Investment holding
JP21 Assets Kabushiki Kaisha	Investment holding
CF Investment Ippan Shadan Hojin	Investment holding
SK Investment Ippan Shadan Hojin	Investment holding
Nippon Properties LPS	Investment holding

*Note:*

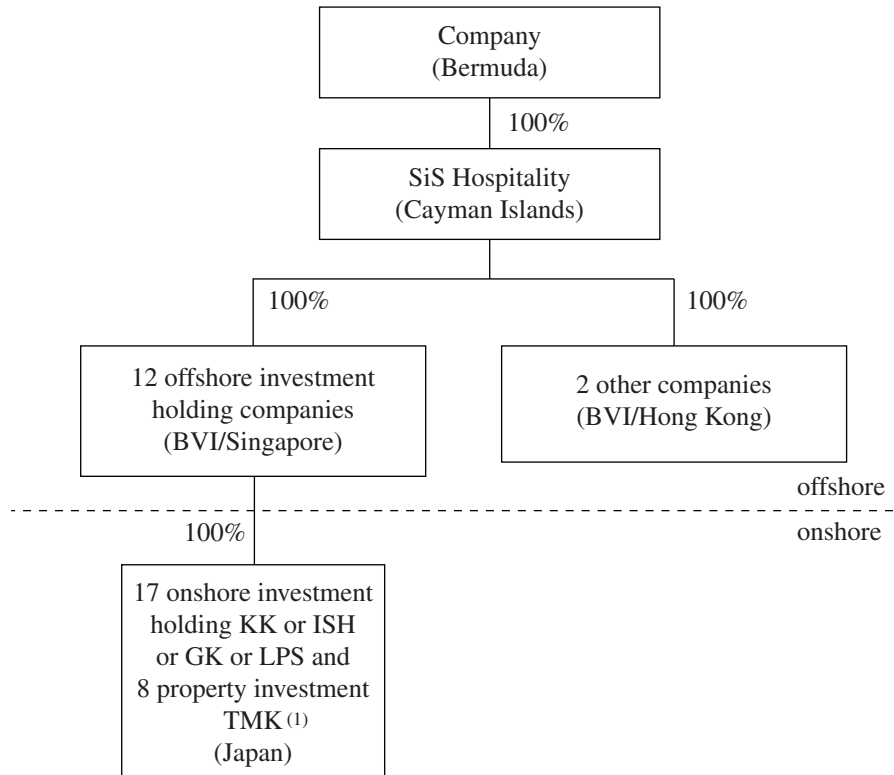
- <sup>(1)</sup> Tokutei Mokuteki Kaisha SSG23 is held as to (i) 70% of the preferred shares by the Company; and (ii) 30% of the preferred shares by an independent third party.

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## LETTER FROM THE BOARD

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The corporate and shareholding structure of the SiS Hospitality Group as at the Latest Practicable Date is extracted and set out below:



*Note:*

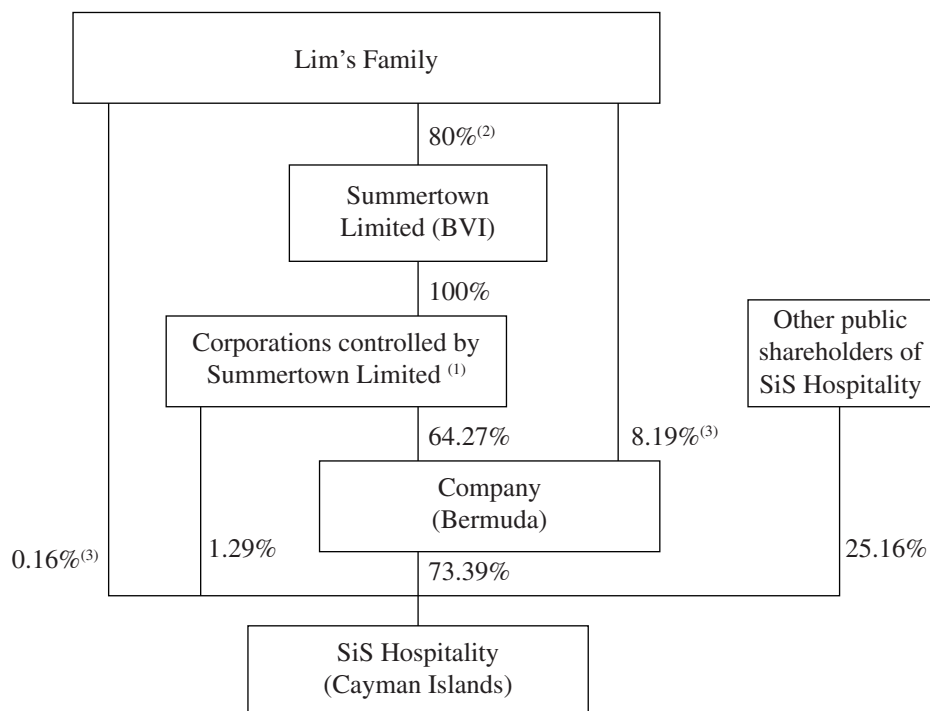
- (1) TMK SSG23 is held as to (i) 70% of the preferred shares by the Company; and (ii) 30% of the preferred shares by an independent third party.

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## LETTER FROM THE BOARD

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Upon the completion of the Proposed Spin-off and the Listing, assuming no new Shares will be issued before the Distribution Record Date, the Company's equity interest in SiS Hospitality will be reduced to 73.39%. The shareholding structure of the SiS Hospitality Group upon completion of the Proposed Spin-off and the Listing is also extracted and set out below:



*Note:*

- (1) The corporations controlled by Summertown Limited are Gold Sceptre Limited, Kelderman Limited, Valley Tiger Limited and Swan River Limited.
- (2) Summertown Limited is owned by Mr. Lim Kiah Meng and his spouse, Ms. Fauzijus Tjandra together, as to 40.5% and Mr. Lim Kia Hong and his spouse, Ms. Tan Kah Leng together, as to 39.5%.
- (3) This includes other interest in the Company and SiS Hospitality directly held by Mr. Lim Kiah Meng and his spouse, Ms. Fauzijus Tjandra, Mr. Lim Kia Hong and his spouse, Ms. Tan Kah Leng, Mr. Lim Hwee Hai and his spouse, Madam Lim Hwee Noi.

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## LETTER FROM THE BOARD

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### Conditions precedent to the Proposed Spin-off

The Proposed Spin-off will be conditional upon, among other things:

- i. the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the SiS Hospitality Shares in issue and any SiS Hospitality Shares which may be issued on the Main Board of the Stock Exchange; and
- ii. the obligations of the underwriters under the underwriting agreements to be entered into between, among others, the Company, SiS Hospitality and the underwriter in respect of the Global Offering becoming and remaining unconditional and not having been terminated in accordance with their respective terms, on or before the dates and times to be specified therein and in any event not later than the date which is 30 days after the date of the listing document to be issued for the Global Offering.

If any of these and other applicable conditions are not fulfilled or waived, if applicable, prior to the dates and times to be specified, the Proposed Spin-off will not proceed and an announcement will be published by the Company as soon as practicable thereafter.

### The RSA Scheme

SiS Hospitality adopted a restricted share award scheme (the “**RSA Scheme**”) on October 15, 2018 whereby, subject to the terms and conditions under the RSA Scheme, certain number of shares in SiS Hospitality will be awarded to selected employees upon Listing of SiS Hospitality. The RSA Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. It is a discretionary scheme of SiS Hospitality.

### Intended use of proceeds

Based on its projected business needs, SiS Hospitality currently intends to apply the net proceeds from the Global Offering in the following manner:

- i. approximately 60% to be used for acquisition of hospitality properties in Japan to expand SiS Hospitality’s property portfolio. As at the Latest Practicable Date, SiS Hospitality had identified a target hospitality property in Kansai area, Japan and had entered into a framework agreement with the vendor, an independent third party, for the intended acquisition of the property. The acquisition and acquisition price is subject to completion of due diligence and further negotiation of the transaction terms. SiS Hospitality had not identified any potential acquisition targets other than this property as at the Latest Practicable Date, nor is there any fixed plan for the number of properties to be acquired or for investing in any particular locations;
- ii. approximately 30% to be used for the repayment of part of the SiS Hospitality Group bank borrowings and bonds, which were obtained during the ordinary and usual course of business of the SiS Hospitality Group for funding of property acquisitions; and
- iii. approximately 10% to be used for working capital and general corporate purposes.

## LETTER FROM THE BOARD

The estimated gross proceeds from the Global Offering and the indicative offer price range are estimated based on an analysis of SiS Hospitality's financial fundamentals and future growth, with reference made to factors such as the valuation of comparable companies and the industry outlook. For indication purpose only, the estimated net proceeds of the Global Offering will be approximately HK\$554.3 million, after deduction of underwriting fees and other estimated expenses in connection with the Global Offering and assuming no over-allotment option will be exercised.

The application of net proceeds from the Global Offering and the preliminary percentages above are subject to changes. Please refer to the Prospectus for the final allocation of funds. The Company will issue an announcement when the Prospectus is published.

### Restrictions on the disposal of the SiS Hospitality Shares

The Company, as SiS Hospitality's controlling shareholder, will be subject to restrictions on the disposal of the SiS Hospitality Shares whereby, other than pursuant to the Global Offering, the Company, shall not: (i) in the period commencing on the date as specified in the listing document to be issued for the Global Offering and ending on the date which is six months from dealings in the SiS Hospitality Shares commence on the Stock Exchange, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of SiS Hospitality which are shown by such listing document to be beneficially owned by them; and (ii) in the period of six months commencing on the date on which the period referred to in (i) above expires, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of SiS Hospitality referred to in (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Company would cease to be entitled to exercise or control the exercise of 30% of the voting power at general meetings of SiS Hospitality. As a result of such restrictions, the Company shall retain the SiS Hospitality Shares to be held by it for at least the abovementioned periods.

### Business overview of the SiS Hospitality Group

The SiS Hospitality Group is principally engaged in the Japan Real Estate Investment Business which is operated in two business segments, namely (1) leasing of investment properties whereby SiS Hospitality leases the investment properties owned by it for the purposes of earning rental income and capital appreciation, primarily to hotel and hostel tenants; and (2) hotel operations whereby SiS Hospitality operates certain hotel and hostel through engagement of independent hotel management companies, which conduct the daily operations of the hotels under its management oversight. The table below sets forth the breakdown of revenue contribution of the SiS Hospitality Group and their percentage of the total revenue for each of the three years ended December 31, 2015, December 31, 2016 and December 31, 2017 and each of the six months ended June 30, 2017 and June 30, 2018 respectively:

	2015		For the year ended December 31,				For the six months ended June 30,			
	Amount	Percentage of	2016		2017		2017		2018	
	JPY'000	total revenue	Amount	Percentage of	Amount	Percentage of	Amount	Percentage of	Amount	Percentage of
		%	JPY'000	total revenue	JPY'000	total revenue	JPY'000	total revenue	JPY'000	total revenue
				%		%	(unaudited)	%		%
Leasing of investment properties	1,889,143	100.0	2,397,084	94.7	2,561,338	85.9	1,276,250	86.2	1,330,023	86.5
Hotel operations	—	—	134,177	5.3	419,749	14.1	203,752	13.8	206,993	13.5
<b>Total</b>	<b>1,889,143</b>	<b>100.0</b>	<b>2,531,261</b>	<b>100.0</b>	<b>2,981,087</b>	<b>100.0</b>	<b>1,480,002</b>	<b>100.0</b>	<b>1,537,016</b>	<b>100.0</b>

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## LETTER FROM THE BOARD

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The current property portfolio of SiS Hospitality Group is comprised of 18 properties in Japan. According to the property valuation report prepared by CBRE, the valuation of the 18 properties was JPY39,446.0 million as at September 30, 2018. Please refer to the property valuation report in Appendix II to this circular for details of the valuation.

### **Remaining Group and the SiS Hospitality Group after the Proposed Spin-off**

#### *1. Delineation of businesses*

After the Proposed Spin-off, there will be a clear delineation of business between the Remaining Group and the SiS Hospitality Group:

- i. the Remaining Group will focus on the Investment in IT, Securities and Other Business, the Other Real Estate Investment Business and the Mobile and IT Distribution Business (excluding the distribution of mobile phone products in Hong Kong operated by SiS Mobile Group and the IT distribution business operated by SiS Thailand Group) (together, the “**Retained Business**”); and
- ii. the SiS Hospitality Group will focus on the Japan Real Estate Investment Business (the “**Spin-off Business**”)

There is a clear business delineation between the Spin-off Business and the Retained Business as they are either of a different business scope or are servicing a different geographical location. In particular, the real properties owned or operated under the Other Real Estate Investment Business are located in Hong Kong and Singapore whilst none of the properties is used for hospitality purpose. Further, the Remaining Group does not have any investment property or related operations in Japan. In practice, the respective business operations of the SiS Hospitality Group and the Remaining Group are independent from each other. The SiS Hospitality Group does not rely on the Remaining Group to gain access to customers, suppliers and profession service providers. The SiS Hospitality Group has its own business operating systems, which have been in operations and are expected to continue to operate separately and independently from the Remaining Group.

#### *2. Independence of directorship and management*

The Remaining Group and the SiS Hospitality Group have boards of directors and members of senior management that function independently of each other. The following table sets forth the details of the directorships and members of senior management of the Remaining Group and the SiS Hospitality Group immediately upon Listing:

<b>Name of Director</b>	<b>Remaining Group</b>	<b>The SiS Hospitality Group</b>
LIM Kia Hong	Executive Director/chairman/ chief executive officer	Non-executive director
LIM Kiah Meng	Executive Director/ vice-chairman	Executive director/ chairman

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**LETTER FROM THE BOARD**

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<b>Name of Director</b>	<b>Remaining Group</b>	<b>The SiS Hospitality Group</b>
LIM Hwee Hai	Executive Director	Non-executive director
LIM Hwee Noi	Executive Director	Nil
LEE Hiok Chuan	Independent non-executive Director	Nil
ONG Wui Leng	Independent non-executive Director	Nil
MA Shiu Sun, Michael	Independent non-executive Director	Nil
TAM Shuk Wah, Carrie	Nil	Executive director
CHENG Tak Chung	Nil	Independent non-executive director
CHU Wai Hung	Nil	Independent non-executive director
LEUNG Yuen Shan, Maisy	Nil	Independent non-executive director
		<b>The SiS Hospitality Group</b>
<b>Name of Management</b>	<b>Remaining Group</b>	<b>Group</b>
Chiu Lai Chun, Rhoda	Company Secretary/financial controller	Chief operating officer
Leung Pui Yee, Sharina	Nil	Finance manager/company secretary

Despite the common directorship to be held by Mr. Lim Kiah Meng, Mr. Lim Kia Hong and Mr. Lim Hwee Hai, the directors of SiS Hospitality believe that independence between the Remaining Group and the SiS Hospitality Group will be maintained. Mr. Lim Kiah Meng, along with the other executive director of SiS Hospitality, will devote their resources and time to SiS Hospitality Group and will continue to oversee and manage the day-to-day operations of SiS Hospitality Group. As the focuses of the businesses are different, Mr. Lim Kiah Meng will be able to execute his executive roles for both the Remaining Group and the SiS Hospitality Group as an executive director for the following reasons: (i) Mr. Lim has always been in charge of and oversees the business of the SiS Hospitality Group and such division of work has proven track record of success with the acquisition of a portfolio of 18 promising properties within 6 years; (ii) the Company has been listed on the Stock Exchange since 1992 and its



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## LETTER FROM THE BOARD

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businesses are mature and stable. In addition, there are three other executive Directors sitting on the Board who are actively involved in the day-to-day operation of the Remaining Group, the demand for actual time commitment required from Mr. Lim Kiah Meng to meet his obligations as an executive Director of the Remaining Group is relatively less heavy. Mr. Lim Kiah Meng will ensure that he can give sufficient time and attention to the business of both the Remaining Group and SiS Hospitality Group and comply with the code provisions in Appendix 14 to the Listing Rules.

Mr. Lim Kia Hong and Mr. Lim Hwee Hai will take on the role of non-executive directors of SiS Hospitality, and are therefore not expected to be directly involved in the day-to-day management of the business operation of SiS Hospitality. Even though Mr. Lim Kia Hong is the chief executive officer, executive Director and chairman of the Board and Mr. Lim Hwee Hai is an executive Director of the Remaining Group, they are both mindful of their fiduciary duties as directors to act in the best interests of the SiS Hospitality.

Further, in the event that any conflict of interest arises between the Remaining Group and the SiS Hospitality Group, Mr. Lim Kiah Meng, Mr. Lim Kia Hong and Mr. Lim Hwee Hai will abstain from voting at the relevant meetings of the board of directors of SiS Hospitality and the meetings of the Board in respect of such matters of material conflict of interest and the remaining directors of SiS Hospitality will have sufficient expertise and experience to consider any such matter. The overlapping directors will also comply with the respective constitutional documents of the Company and SiS Hospitality, and any applicable laws and regulations (including but not limited to the Listing Rules). SiS Hospitality will adopt a good corporate governance practice in that if any actual or potential conflict of interests arises between the SiS Hospitality Group and the Remaining Group, the other executive director of SiS Hospitality, Ms. Tam Shuk Wah, Carrie who has extensive experience in property investment business, and the three independent non-executive directors of SiS Hospitality will take the lead and provide checks and balances over the decision-making process of the board of directors of SiS Hospitality on connected transactions and other transactions involving actual or potential conflict of interests. However, given the different nature of the business of the Remaining Group and SiS Hospitality Group, it is unlikely that there will be transactions of substantial amount where conflict of interest may arise between the Remaining Group and SiS Hospitality Group.

Despite holding senior management roles at both the Remaining Group and SiS Hospitality Group, Ms. Chiu Lai Chun, Rhoda's responsibility in SiS Hospitality Group, which mainly focuses on seeking investment opportunity in hospitality properties in Japan, will not be impeded by her responsibility in the Remaining Group as a financial controller and company secretary which is competently supported by the well-established finance team and administration team of the Remaining Group.

Save as disclosed above, none of the directors or senior management of SiS Hospitality holds any office in or is employed by the Company upon consummation of the Proposed Spin-off. On the basis of the current proposed board composition of SiS Hospitality, it is believed that the board of directors of SiS Hospitality will operate and manage SiS Hospitality Group's business independently of the Remaining Group.

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## LETTER FROM THE BOARD

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### 3. *Financial Independence*

SiS Hospitality has its own accounting and finance department and an independent financial system and makes financial decisions according to its own business needs. SiS Hospitality also has independent access to third party financing.

To provide for the working capital and ensure the financial independence of SiS Hospitality Group, as at August 31, 2018, SiS Hospitality Group has a total general banking facilities of JPY22,832 million, which comprise of 13 banking facilities with several banks with an aggregate principal amount of JPY22,832 million independent from and without any financial assistance or credit support from the Remaining Group.

As at August 31, 2018, SiS Hospitality Group had certain unsecured inter-group loans provided by the Company in an aggregate amount of JPY12,137 million with an interest rate ranging from 0.08% to 3.98%. Such inter-group loans are expected to be repaid and capitalised upon Listing.

In addition, on July 31, 2014 (as amended on August 10, 2015 and December 25, 2015), the Company and SiS Hospitality Group entered into a service agreement with an independent third party service provider for, among other things, the services in connection with certain energy saving equipment and system (the “**System**”) whereby the Company guarantees the payment obligations of SiS Hospitality Group under the service agreement. As at August 31, 2018, the outstanding service fees for the services contemplated under the service agreement up to its termination on March 31, 2025 which is guaranteed by the Company was approximately JPY591 million. The directors of SiS Hospitality believe that it is impracticable to amend or terminate the service agreement on the basis that (i) the service agreement is an over 10-year agreement concluded after heavy negotiation having taken into account the long term benefits and obligations of the parties; (ii) the termination of the agreement will trigger unjustified extra costs to SiS Hospitality Group (including penalty and cancellation costs which are almost equivalent to outstanding service fee guaranteed by the Company for the remaining term of the agreement); (iii) the termination will cause disruptions to the operations of the Rinku Gate Tower Building, one of the properties owned by SiS Hospitality Group in Japan, as it will involve removal and replacement of the System. As at June 30, 2018, the amount of cash and cash equivalents and unutilised banking facilities of SiS Hospitality Group amounted to approximately JPY5,457 million and JPY1,500 million, respectively. In view of the fact that (i) SiS Hospitality Group has sufficient internal cash resources and external funding to cover the outstanding service fees under the service agreement; and (ii) the outstanding service fees for the remaining term of the service agreement is immaterial (39.4% of the unutilised banking facilities, 10.8% of the cash and cash equivalents of SiS Hospitality Group as at June 30, 2018), the directors of SiS Hospitality consider that SiS Hospitality Group is financially and operationally independent from the Remaining Group despite the fact that the guarantee will survive after upon Listing.

Save as disclosed herein, there is no other outstanding loans, advance, credit facilities or bank guarantees provided by the Remaining Group to the SiS Hospitality Group.

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## LETTER FROM THE BOARD

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### 4. *Administrative independence*

All the essential administrative functions including accounting of the SiS Hospitality Group are independent of the Company. All administration and daily operations of the SiS Hospitality Group will continue to be carried out by its administration team and external professional bodies employed by the SiS Hospitality Group independently of and without any support from the Company after the Proposed Spin-off and Listing.

### **Financial information of SiS Hospitality**

Set out below is the profits before and after tax of the SiS Hospitality Group for the two years ended December 31, 2016 and 2017 based on its audited consolidated financial statements:

	<b>For the year ended December 31, 2016</b>	<b>For the year ended December 31, 2017</b>
	<i>JPY'000</i>	<i>JPY'000</i>
Profit before tax	2,579,596	1,477,746
Profit after tax	2,145,930	1,225,417

As at June 30, 2018, based on the audited financial statements of the SiS Hospitality Group, the net asset value of the SiS Hospitality Group is JPY9,941,999,000.

### **Financial effects of the Proposed Spin-off**

Following completion of the Proposed Spin-off, SiS Hospitality and its subsidiaries will continue to be subsidiaries of the Company. The operating results of the SiS Hospitality Group will therefore be consolidated into the financial statements of the Company.

The following estimates the financial impact of the Proposed Spin-off on the Group on the basis of the current structure of the Proposed Spin-off that SiS Hospitality will offer approximately 24.41% of the enlarged issued share capital of SiS Hospitality pursuant to the Global Offering.

#### *Net asset value*

The audited consolidated net assets after deducting non-controlling interests of the Group was HK\$3,236,162,000 as at December 31, 2017<sup>(Note 1)</sup>. Based on (i) the number of the SiS Hospitality Shares to be offered pursuant to the Global Offering, (ii) current proposed structure of the Global Offering, and (iii) the audited combined net assets of the SiS Hospitality Group as of June 30, 2018, the estimated minimum market capitalisation of SiS Hospitality will be approximately HK\$2,322.8 million. The consolidated net assets of the Group is expected to increase as a result of the issue of the SiS Hospitality Shares at an issue price above their attributable underlying combined net asset value (the “**Increase in Net Assets**”), which is approximately HK\$554.3 million, and the consolidated cash balance of the Group will be increased by the net proceeds from the Global Offering. In accordance with the Hong Kong Financial Reporting Standards, the Increase in Net Assets which constitutes changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control, is accounted for within equity. Therefore, there will be no gain or loss arising from the deemed disposal by the Company of the interest

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## LETTER FROM THE BOARD

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in SiS Hospitality under the Global Offering to be recognised in the consolidated income statement of the Company given that SiS Hospitality will remain as a subsidiary of the Company immediately upon completion of the Proposed Spin-off and the Global Offering.

### *Earnings*

The effect of the Proposed Spin-off on the future earnings of the Group will depend on, among others, the return generated from the proceeds raised from the Global Offering as well as the growth of the business operations of the SiS Hospitality Group.

Based on the audited consolidated financial statements of the Group for each of the two years ended December 31, 2016 and December 31, 2017, the audited consolidated profits before taxation of the Group were HK\$277,652,000 and HK\$447,890,000 respectively. For each of the two years ended December 31, 2016 and December 31, 2017, the audited total comprehensive income, after taxation and non-controlling interests of the Group, attributable to owners of the Company were HK\$236,209,000 and HK\$367,835,000 respectively.<sup>(Note1)</sup>

Following completion of the Proposed Spin-off, assuming no new Shares will be issued before the Listing, the Group's earnings contributed from SiS Hospitality Group are expected to be reduced as the Company's interest in SiS Hospitality will be reduced to approximately 73.39% and SiS Hospitality will continue to be regarded as a subsidiary of the Group. Consequently, the financial results of the SiS Hospitality Group will continue to be consolidated into the accounts of the Group.

*Note 1:* the exchange rate used was the same as that used in the corresponding annual reports and interim reports of the Company.

### **Reasons for and benefits of the Proposed Spin-off**

The Board believes that the Proposed Spin-off and the Listing will be beneficial to both the Company and SiS Hospitality for the following reasons:

- i. the Proposed Spin-off and the Listing will lead to a more direct alignment of the responsibilities and accountability of the management of both the Company and SiS Hospitality with their respective operating and financial performance. It is expected to result in enhanced management focus on their respective businesses and improve the ability of SiS Hospitality to recruit, motivate and retain key management personnel, as well as to enhance its decision-making process and responsiveness to market changes;
- ii. as the business focus and geographical location are different between the Japan Real Estate Investment Business and the Retained Business, the Proposed Spin-off and the Listing will enable investors to better understand and appraise the strategies, risks and returns of the respective businesses of both the Company and SiS Hospitality as separate entities and to make their investment decisions accordingly;
- iii. the Proposed Spin-off and the Listing will allow both the Company and SiS Hospitality to target their respective shareholder bases more effectively, which would in turn improve capital raising on a competitive basis and capital allocation to enhance growth within each company;

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## LETTER FROM THE BOARD

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- iv. the Proposed Spin-off and the Listing will deliver greater shareholder value to the shareholders of both the Company and SiS Hospitality on their respective merits, as (i) SiS Hospitality will enjoy enhanced flexibility to grow its business free of actual or perceived constraints as a wholly-owned subsidiary, (ii) SiS Hospitality will enjoy increased ability to make acquisitions by using its stock as acquisition currency, and (iii) the Company will continue to benefit from any potential upside of the business of SiS Hospitality by maintaining a controlling interest over the SiS Hospitality Group;
- v. the Proposed Spin-off and the Listing will enable SiS Hospitality to directly and independently access both equity and debt capital markets, as well as facilitate it to secure bank credit facilities, which in turn will provide greater aggregate debt capacity to both the Company and SiS Hospitality as there will be greater clarity on the overall businesses as well as the respective financial status of each of the Company and SiS Hospitality; and
- vi. the Listing will enhance the SiS Hospitality Group's profile amongst its customers and business partners, as well as its ability to recruit good talents.

In light of the above reasons, the Directors believe that the Proposed Spin-off is in the best interests of the Shareholders.

### ASSURED ENTITLEMENT

Under PN15, the Company is required to give due regard to the interests of its Shareholders by providing them with an assured entitlement to the SiS Hospitality Shares. Accordingly, as part of the Proposed Spin-off, the Board conditionally approved the Distribution on December 7, 2018, under which each Qualifying Shareholder will be entitled to one SiS Hospitality Share for every ten Shares held as at the close of business on the Distribution Record Date or equivalent cash payment (after deducting expenses) (as appropriate). The ratio is determined with reference to, among other things, the intended shareholding in SiS Hospitality to be maintained by the Company, the minimum funds to be raised from the Global Offering as well as the need for SiS Hospitality to maintain a minimum public float of not less than 25%.

Excluded Shareholders (if any) will be entitled to the Distribution but will not receive the SiS Hospitality Shares. Instead, the SiS Hospitality Shares which they would otherwise receive pursuant to the Distribution will be sold by the Company on their behalf as soon as reasonably practicable after commencement of dealings in the SiS Hospitality Shares on the Stock Exchange and they will receive a cash amount equal to the net proceeds of such sale. The proceeds of such sale, net of expenses, will be paid to the Excluded Shareholders in Hong Kong dollars. As at the Latest Practicable Date, the jurisdictions outside Hong Kong in which the addresses of Overseas Shareholders appearing on the register of members of the Company include Canada, the United Kingdom, Indonesia, Malaysia, the Philippines, Singapore, Taiwan and the United States.

The Distribution is conditional upon the Global Offering becoming unconditional in all respects.

Fractional entitlements to the SiS Hospitality Shares under the Distribution will be retained by the Company for sale in the market and the Company will keep the net proceeds of sale, after deduction of related expenses therefrom, for the benefit of the Company.

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## LETTER FROM THE BOARD

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The Qualifying Shareholders who hold the Shares through CCASS Clearing Participants or CCASS Custodian Participants will receive SiS Hospitality Shares through their respective brokers or custodians who are CCASS Clearing Participants or CCASS Custodian Participants.

### **CLOSE OF REGISTER OF MEMBERS AND DESPATCH OF SHARE CERTIFICATES**

The Company will make an announcement in relation to closure of register of members and despatch of share certificate in due course for the purpose of determining the entitlement of the Qualifying Shareholders to the Distribution.

### **LISTING RULES IMPLICATIONS**

The Proposed Spin-off constitutes a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. As one or more of the applicable percentage ratios represented by the Proposed Spin-off is or are expected to be 25% or more but less than 75%, the Proposed Spin-off, if proceeded, will constitute a major transaction of the Company under Chapter 14 of the Listing Rules. The Proposed Spin-off is therefore subject to, among other things, the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules as and when necessary.

Since no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the Proposed Spin-off, written Shareholders' approval has been obtained in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules. Gold Sceptre Limited as the controlling shareholder of the Company, holding 140,360,000 Shares (being approximately 50.50% of the issued share capital of the Company as at the Latest Practicable Date), has given its written approval in respect of the Proposed Spin-off. Accordingly, no special general meeting of the Company will be convened for the purposes of approving the Proposed Spin-off.

**Shareholders and public investors should note that there is no assurance that the approval of the Listing Committee of the Stock Exchange for the Listing will be granted.**

**The Listing and the final structure of the Proposed Spin-off are subject to, among other things, the approval of the Stock Exchange, market conditions and other considerations. Accordingly, Shareholders and potential investors should be aware that there is no assurance that the Proposed Spin-off and the Listing will take place and, if so, when they may take place. Shareholders and potential investors should exercise caution when dealing in or investing in the securities of the Company.**

### **RECOMMENDATIONS**

The Directors (excluding the independent non-executive Directors) are of the view that the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. An Independent Board Committee has been formed to advise the Shareholders in connection with the Proposed Spin-off. Proton Capital has been appointed as an independent financial adviser to advise the Independent Board Committee and the Shareholders on the same. Proton Capital considers that the Proposed Spin-off is in the interest of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable as far as the Company and the Shareholders are concerned. Accordingly, Proton Capital advises the Independent Board Committee to recommend, and Proton Capital itself recommends, that the Shareholders vote in

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## LETTER FROM THE BOARD

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favour of the relevant resolution if there were a special general meeting of the Company held to consider and if thought fit, to approve the Proposed Spin-off. The letter from Proton Capital containing its advice in relation to the Proposed Spin-off, together with the factors and reasons it has considered in arriving at its opinion, is set out on pages 23 to 42 of this circular.

The Independent Board Committee, having taken into account the advice of Proton Capital, considers that the terms of the Proposed Spin-off are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends that the Shareholders vote in favour of the relevant resolution if there were a special general meeting of the Company held to consider and if thought fit, to approve the Proposed Spin-off.

### ADDITIONAL INFORMATION

This circular is being distributed to the Shareholders. This circular does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation. Neither this circular nor anything contained therein shall form the basis of any contract or commitment whatsoever.

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,  
For and on behalf of the Board of  
**SiS International Holdings Limited**  
**Lim Kia Hong**  
*Chairman*



**SIS INTERNATIONAL HOLDINGS LIMITED**

**新龍國際集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00529)**

December 14, 2018

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION AND DEEMED DISPOSAL IN RELATION TO  
THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF  
SIS HOSPITALITY HOLDINGS LIMITED  
ON THE MAIN BOARD OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED**

We refer to the circular issued by the Company to its Shareholders dated December 14, 2018 (“**Circular**”) of which this letter forms part. Capitalised terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

The Proposed Spin-off constitutes a major transaction and a deemed disposal by the Company under Chapter 14 of the Listing Rules and pursuant to PN15, is subject to the approval of the Shareholders.

We have been appointed by the Board to consider the terms of the Proposed Spin-off and to advise the Shareholders as to whether, in our opinion, the terms of the Proposed Spin-off are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. Proton Capital has been appointed as the independent financial adviser to advise us and the Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from Proton Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Proton Capital as set out in its letter of advice, we consider that the terms of the Proposed Spin-off are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Yours faithfully,

Independent Board Committee

**Mr. Lee Hiok Chuan, Ms. Ong Wui Leng, Mr. Ma Shiu Sun, Michael**

*Independent Non-executive Directors*

\* *For identification purposes only*



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## LETTER FROM PROTON CAPITAL

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*The following is the full text of a letter of advice from Proton Capital to the Independent Board Committee and the Shareholders, which has been prepared for the purpose of inclusion in the Circular.*



普頓資本有限公司  
PROTON CAPITAL LIMITED

Unit 1001, 10th Floor, Chuang's Tower,  
30-32 Connaught Road Central, Hong Kong

December 14, 2018

*To: The Independent Board Committee and the Shareholders of  
SiS International Holdings Limited*

Dear Sirs,

### **MAJOR TRANSACTION AND DEEMED DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF SIS HOSPITALITY HOLDINGS LIMITED ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off, the details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated December 14, 2018 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On October 19, 2018, the Company announced the Proposed Spin-off and separate listing of SiS Hospitality on the Main Board of the Stock Exchange. The Proposed Spin-off is expected to be effected by way of the Global Offering involving the issue and offer of the SiS Hospitality Shares for subscription by the public in Hong Kong and to professional, institutional and other investors together with the Distribution. The Proposed Spin-off will constitute a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. As one or more of the applicable percentage ratios represented by the Proposed Spin-off is or are expected to be 25% or more but less than 75%, the Proposed Spin-off, if proceeded, will constitute a major transaction of the Company under Chapter 14 of the Listing Rules. The Proposed Spin-off is therefore subject to, among other things, the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules as and when necessary.

Since no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the Proposed Spin-off, written Shareholders’ approval has been obtained in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules. Gold Sceptre Limited as the controlling shareholder of the Company, holding 140,360,000 Shares (being

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## LETTER FROM PROTON CAPITAL

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approximately 50.50% of the issued share capital of the Company as at the Latest Practicable Date), has given its written approval in respect of the Proposed Spin-off. Accordingly, no special general meeting of the Company will be convened for the purposes of approving the Proposed Spin-off.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Lee Hiok Chuan, Ms. Ong Wui Leng and Mr. Ma Shiu Sun, Michael, has been formed to consider the Proposed Spin-off and to advise the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and its Shareholders as a whole. We, Proton Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this regard.

Proton Capital is not connected with the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and therefore is considered suitable to give independent advice to the Independent Board Committee and the Shareholders. Proton Capital had not acted as independent financial adviser to the Company's other transactions during the last two years.

### **BASIS OF OUR OPINION**

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

We have not made any independent evaluation or appraisal of the assets and liabilities of the SiS Hospitality Group and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report on the market value of the 18 properties owned by the SiS Hospitality Group (the "**Valuation Report**"). The Valuation Report was prepared by CBRE Limited (the "**Valuer**"). Since we are not expert in valuation, we have relied solely upon the Valuation Report for the market value of the 18 properties owned by the SiS Hospitality Group as at September 30, 2018 (the "**Valuation**"). Shareholders should also note that the Valuation involves various basis and assumptions and it may be changed if those basis and assumptions are modified.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete

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## LETTER FROM PROTON CAPITAL

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in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, SiS Hospitality or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Spin-off and the Distribution. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments including any material change in market and economic conditions may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any shares or any other securities of the Company and/or SiS Hospitality. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Proton Capital is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. Business of the Group and the SiS Hospitality Group

##### *(a) Business of the Group*

The Company was listed on the Main Board of the Stock Exchange in 1992. The Group is principally engaged in the Japan Real Estate Investment Business, the Other Real Estate Investment Business, the Mobile and IT Distribution Business as well as the Investment in IT, Securities and Other Business.

##### *(b) Business of the SiS Hospitality Group*

The SiS Hospitality Group is principally engaged in the Japan Real Estate Investment Business, which is operated in two business segments, namely (1) leasing of investment properties whereby SiS Hospitality leases the investment properties owned by it for the purposes of earning rental income and capital appreciation, primarily to hotel and hostel tenants; and (2) hotel operations whereby SiS Hospitality operates certain hotel and hostel through engagement of independent hotel management companies, which conduct the daily operations of the hotels under its management oversight.

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## LETTER FROM PROTON CAPITAL

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As at the Latest Practicable Date, SiS Hospitality was owned as to 100% directly by the Company and the SiS Hospitality Group was comprised of the following companies:

<b>Company name</b>	<b>Principal business activity</b>
SiS Hospitality Holdings Limited	Investment holding
SiS Inn Pte. Ltd.	Investment holding
SiS Assets Pte. Ltd.	Investment holding
Otaru Ventures Pte. Ltd.	Investment holding
SiS Concepts Hotel Pte. Ltd.	Investment holding
SiS Nippon Pte. Ltd.	Investment holding
New Yorkshire Limited	Investment holding
SiS Property Consultants Ltd.	Consultancy services
Honshu Ventures Pte. Limited	Investment holding
SiSJP Realty Pte. Limited	Investment holding
SiSJP Ventures Pte. Limited	Investment holding
Elegant Vision Global Limited	Investment holding
SiS CF Ventures Pte. Ltd.	Investment holding
SiS SK Ventures Pte. Ltd.	Investment holding
SiS JP21 Ventures Pte. Ltd.	Investment holding
SiS Japan Inn Tokutei Mokuteki Kaisha	Property investment
Tokutei Mokuteki Kaisha SSG8	Property investment
Tokutei Mokuteki Kaisha SSG13	Property investment
SiSJP9 Tokutei Mokuteki Kaisha	Property investment
SiSJP10 Tokutei Mokuteki Kaisha	Property investment and hotel operations
Rinku Gate Kobushiki Kaisha	Leasing management business
Tokutei Mokuteki Kaisha SSG23 <sup>(1)</sup>	Property investment
Tokutei Mokuteki Kaisha SSG28	Hotel operations
Tokutei Mokuteki Kaisha SSG21	Property investment
Tsukiji Assets Kabushiki Kaisha	Investment holding
JP Assets Kabushiki Kaisha	Investment holding/leasing management business
Japan Inn Kabushiki Kaisha	Property investment
Japan Investments Ippan Shadan Hojin	Investment holding
Japan Leasing Godo Kaisha	Leasing management business
Japan Properties Ippan Shadan Hojin	Investment holding
Nippon Properties Kabushiki Kaisha	Investment holding
Otaru Assets Kabushiki Kaisha	Investment holding
Otaru Investments Ippan Shadan Hojin	Investment holding
CF Assets Kabushiki Kaisha	Investment holding/leasing management business
SK Assets Kabushiki Kaisha	Investment holding
JP21 Investment Ippan Shadan Hojin	Investment holding
JP21 Assets Kabushiki Kaisha	Investment holding
CF Investment Ippan Shadan Hojin	Investment holding
SK Investment Ippan Shadan Hojin	Investment holding
Nippon Properties LPS	Investment holding

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## LETTER FROM PROTON CAPITAL

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*Note:*

- (1) Tokutei Mokuteki Kaisha SSG23 is held as to (i) 70% of the preferred shares by the Company; and (ii) 30% of the preferred shares by an independent third party.

Set out below is certain selected financial information of the SiS Hospitality Group based on its audited consolidated financial statements for the two years ended December 31, 2016 and December 31, 2017 as extracted from the Board Letter:

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2017</b>
	<i>JPY'000</i>	<i>JPY'000</i>
Profit before tax	2,579,596	1,477,746
Profit after tax	2,145,930	1,225,417

As at June 30, 2018, based on the audited financial statements of the SiS Hospitality Group, the net asset value of the SiS Hospitality Group was JPY9,941,999,000.

Audited revenue of the two operating segments (i.e. leasing of investment properties and hotel operations) of the SiS Hospitality Group for the three years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018 (“**Track Record Period**”) was set out in the section headed “Business overview of the SiS Hospitality Group” in the Board Letter. During the Track Record Period, more than 85% of total revenue of the SiS Hospitality Group was generated from the operating segment of leasing of investment properties.

The current property portfolio of SiS Hospitality Group is comprised of 18 properties in Japan (“**Properties**”). According to the Valuation Report, the valuation of the Properties was JPY39,446.0 million as at September 30, 2018. Please refer to the Valuation Report in Appendix II to the Circular for details of the Valuation.

In assessing the fairness and reasonableness of the Valuation, we have complied with the steps set out under note 1(d) to Rule 13.80 of the Listing Rules and performed the following work:

- (i) Experience of the Valuer, their independence, engagement and scope of work

We have discussed with the Valuer in relation to their experiences and understood that Mr. Daniel Mohr, executive director of Valuation and Advisory Services of the Valuer, is a member of Royal Institution of Chartered Surveyors. He has over 15 years of valuation experience in the PRC, Hong Kong, Japan and Asia. As the Properties are located in Japan, inspection of the Properties was carried out by technical staff including Taku Ozora, Hiroko Minowa, Satoshi Narikawa, Munehito Hashimoto, Miki Ishikawa, Hideto Honma and Yasunobu Uehara. They are licensed Japanese Real Estate Appraiser and have more than 7 years of experience in the valuation of properties in Japan. The Valuer has also confirmed with us its independence. In view of the qualification and experience of Mr. Daniel Mohr and understand that he had been supported by the aforesaid

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technical staff in Japan, who are licensed Japanese Real Estate Appraiser and are familiar with Japan property market, during the course of valuation, we therefore, consider that he is qualified to provide a reliable valuation of the Properties.

We has obtained engagement letter of the Valuer to review its engagement. Based on the aforesaid engagement letter and our discussion with the Valuer in relation to their terms of engagement, in particular, their scope of work, we are not aware of any limitation on the scope of work which might adversely impact on the degree of assurance given by it in its report. We consider that its scope of work is appropriate to the opinion required to be given.

(ii) Valuation standard, approach, assumption and methodologies

As confirmed by the Valuer, the Valuation has been prepared in accordance with the HKIS Valuation Standards (2017 Edition) published by the Hong Kong Institute of Surveyors, the RICS Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors and International Valuation Standards published by the International Valuation Standards Council and it has complied with Chapter 5 of the Listing Rules.

Among the three generally accepted valuation approaches in the Valuation, namely, the cost approach, market approach and discount cash flow (“**DCF**”) approach, we understand from our interview with the Valuer that cost approach involves the addition of the land value and the depreciated building value of the property, where the building value is calculated based on the reconstruction cost of building portion of the subject property. The cost approach is not preferred as the Properties are income-generating properties. The market approach involves the comparison of actual transactions of comparable properties based on the transacted prices. Further analysis by taking into account the difference in characteristics of the subject property and the comparable properties will be done in order to arrive at a fair comparison of value. Market approach is also not preferred because limited recent hotel transactions could be found in the vicinity of the subject properties as at valuation date. Besides, it is difficult to directly compare properties on a value per room basis because of the differing levels of facilities offered as well as the positioning of the comparable properties. Since the Properties either are held as investment primarily for leasing as hotels or owned and operated by the SiS Hospitality Group as hotel/hostel, it is more appropriate to adopt DCF approach in assessing the market value of the Properties as hotel operators are used to enter into long-term lease for hospitality properties and the Properties have identifiable and sustainable income stream.

As advised by the Valuer, DCF approach involves discounting the future net cash flow of the property to its present value by using an appropriate discount rate that reflects the rate of return required by a typical investor for an investment of this type. In preparing the DCF analysis, the Valuer have also made reference to the historical operating data, the projected cash flow and budget of the property provided by the SiS Hospitality Group. To ensure accuracy and completeness of the information relied on, the Valuer informed us that the Valuer has inspected the lease agreements, management agreements and/or management reports of the

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Properties for rental and other information. The Valuer has also compared budget and other information against the historical data of the Properties. The Valuer was also provided with legal due diligence memorandum on the Properties for cross checking and we have obtained and reviewed the aforesaid legal due diligence memorandum during our course of work. As a supporting approach to the valuation, the Valuer has also considered the Income capitalisation approach as a reference check for the valuations arrived at from DCF Approach and noted that there are no material variances. Income capitalisation approach involves capitalisation of the net rental income derived from the existing tenancies with due allowance for the reversionary income potential of the Properties.

During the course of our review, we noted that the Valuation was conducted based on the assumptions that the owner sells the property on the open market without the benefit or burden of a deferred term contract, leaseback, joint venture, or any similar arrangement, which would serve to affect the values of the property interests. No allowance has been made in the Valuation for any charges, mortgages or amounts owing neither on the property nor for any expenses or taxation which may be incurred in effecting sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values. The Valuer advised that such assumptions are generally adopted in property valuations. We have, in such regard, conducted independent research and noted that assumptions similar to the above have been commonly adopted in the valuation of properties of other listed companies in Hong Kong. The Valuation is also subject to specific assumptions on terminal capitalisation rate and discount rate, which are the discount rates for discounting the future net cash flow of the property to its present value, on each of the Properties. The aforesaid rates were determined based on the yields of comparable properties, which were selected by the Valuer from public source as far as possible based on the selection criteria such as location and similar nature of use with the Properties. We have reviewed information of the comparable properties from the Valuer and agreed that the comparable properties are proximity in location where possible and have similar nature of use with the Properties. The Valuer has further confirmed with us that the comparable properties are fair and representative samples. Among the 18 Properties, 3 Properties have additional specific assumptions on the year 1 average daily room rate and stabilised occupancy rate, which were determined based on the historical data of the Properties and the market. The Valuer has advised, and we concur, that these two additional specific assumptions are necessary in view that the 3 Properties are either operated by the SiS Hospitality Group as hotel/hostel or the Property is subject to variable rent and therefore, the revenue to be generated will be affected by these two factors. Based on our review and analysis of the Valuation Report, the documents reviewed by us including the legal due diligence memorandum of the Properties and information on the comparable properties, having considered the competence of the Valuer, the reasonableness of valuation approaches, basis and assumptions being adopted, we are of the view that the Valuation is fair and reasonable. However, Shareholders should note that since the Valuation involves various bases and assumptions, it may or may not accurately reflect the true market value of the Properties.

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Further information relating to the SiS Hospitality Group was set out in the section headed “Business overview of the SiS Hospitality Group” in the Board Letter.

### 2. Background of and reasons for the Proposed Spin-off

#### *(a) Background of the Proposed Spin-off*

We have enquired with and understand from the Company that there will be a clear business delineation between the Remaining Group and the SiS Hospitality Group as follows:

- (i) the Remaining Group will focus on the Investment in IT, Securities and Other Business, the Other Real Estate Investment Business and the Mobile and IT Distribution Business (excluding the distribution of mobile phone products in Hong Kong operated by SiS Mobile Group and the IT distribution business operated by SiS Thailand Group) (together, the “**Retained Business**”); and
- (ii) the SiS Hospitality Group will focus on the Japan Real Estate Investment Business (the “**Spin-off Business**”)

We understand from the Company that the Spin-off Business and the Retained Business are either of a different business scope or are servicing a different geographical location. In particular, the real properties owned or operated under the Other Real Estate Investment Business are located in Hong Kong and Singapore whilst none of the properties is used for hospitality purpose. Further, the Remaining Group does not have any investment property or related operations in Japan. In practice, the respective business operations of the SiS Hospitality Group and the Remaining Group are independent from each other. The SiS Hospitality Group does not rely on the Remaining Group to gain access to customers, suppliers and profession service providers. The SiS Hospitality Group has its own business operating systems, which have been in operations and are expected to continue to operate separately and independently from the Remaining Group.

In light of the above, we concur with the view of the Board that the Proposed Spin-off and the Listing will provide a clear delineation of business between the Remaining Group and the SiS Hospitality Group and would enable investors to better understand the Company and SiS Hospitality as separate entities rather than as a conglomerate.

#### *(b) Reasons for and benefits of the Proposed Spin-off*

We have enquired with and understand from the Company that the Proposed Spin-off and the Listing will be beneficial to both the Company and SiS Hospitality for the following reasons:

- (i) the Proposed Spin-off and the Listing will lead to a more direct alignment of the responsibilities and accountability of the management of both the Company and SiS Hospitality with their respective operating and financial performance. It is expected to result in enhanced management focus on their respective businesses



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and improve the ability of SiS Hospitality to recruit, motivate and retain key management personnel, as well as to enhance its decision-making process and responsiveness to market changes;

- (ii) as the business focus and geographical location are different between the Japan Real Estate Investment Business and the Retained Business, the Proposed Spin-off and the Listing will enable investors to better understand and appraise the strategies, risks and returns of the respective businesses of both the Company and SiS Hospitality as separate entities and to make their investment decisions accordingly;
- (iii) the Proposed Spin-off and the Listing will allow both the Company and SiS Hospitality to target their respective shareholder bases more effectively, which would in turn improve capital raising on a competitive basis and capital allocation to enhance growth within each company;
- (iv) the Proposed Spin-off and the Listing will deliver greater shareholder value to the shareholders of both the Company and SiS Hospitality on their respective merits, as (i) SiS Hospitality will enjoy enhanced flexibility to grow its business free of actual or perceived constraints as a wholly-owned subsidiary, (ii) SiS Hospitality will enjoy increased ability to make acquisitions by using its stock as acquisition currency, and (iii) the Company will continue to benefit from any potential upside of the business of SiS Hospitality by maintaining a controlling interest over the SiS Hospitality Group;
- (v) the Proposed Spin-off and the Listing will enable SiS Hospitality to directly and independently access both equity and debt capital markets, as well as facilitate it to secure bank credit facilities, which in turn will provide greater aggregate debt capacity to both the Company and SiS Hospitality as there will be greater clarity on the overall businesses as well as the respective financial status of each of the Company and SiS Hospitality; and
- (vi) the Listing will enhance the SiS Hospitality Group's profile amongst its customers and business partners, as well as its ability to recruit good talents.

We have reviewed the track record of the Company and noted that in the past few years, the Company has successfully spin-off and listed separately its subsidiaries on the Main Board of the Stock Exchange (i.e. SiS Mobile) and two stock exchanges in Bangladesh (i.e. Information Technology Consultants Ltd.) (“**Successful Spin-Off Cases**”). The Group had benefited from these Successful Spin-Off Cases as the spin-off of SiS Mobile and Information Technology Consultants Ltd. allowed these subsidiaries to gain access to equity and debt capital markets independently and therefore, reduced their reliance on the Group financially. This potential benefit to the Group will be more obvious in the Proposed Spin-off because in the past few years, the SiS Hospitality Group has relied on the Group and bank borrowing as the source of finance for its acquisition of properties and operation. Based on the aforesaid

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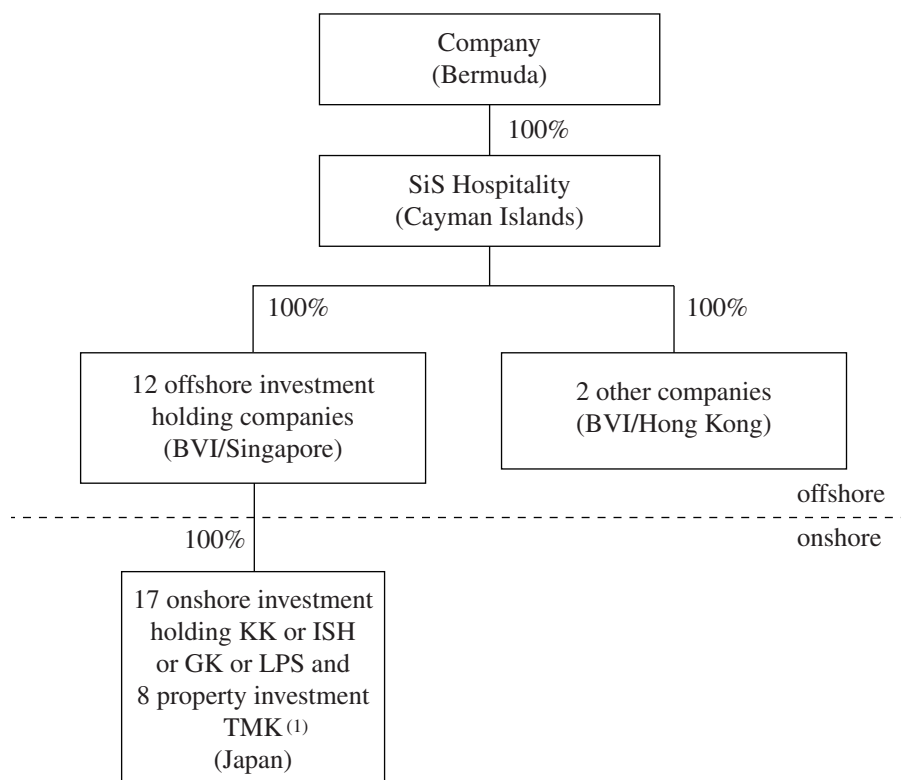
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reasons and expected benefits of the Proposed Spin-off and in view of the Successful Spin-Off Cases, we concur with the view of the Board that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

### 3. The Proposed Spin-off

The Company intends to effect the Proposed Spin-off by way of Global Offering together with the Distribution whereby the SiS Hospitality Shares will be separately listed on the Main Board of the Stock Exchange. It is expected that immediately after the Proposed Spin-off, SiS Hospitality will have a public float of not less than 25% of its enlarged issued share capital. The new SiS Hospitality Shares to be issued pursuant to the Global Offering will rank *pari passu* in all respects with all other SiS Hospitality Shares then in issue.

The following chart sets out the corporate and shareholding structure of the SiS Hospitality Group as at the Latest Practicable Date:



*Note:*

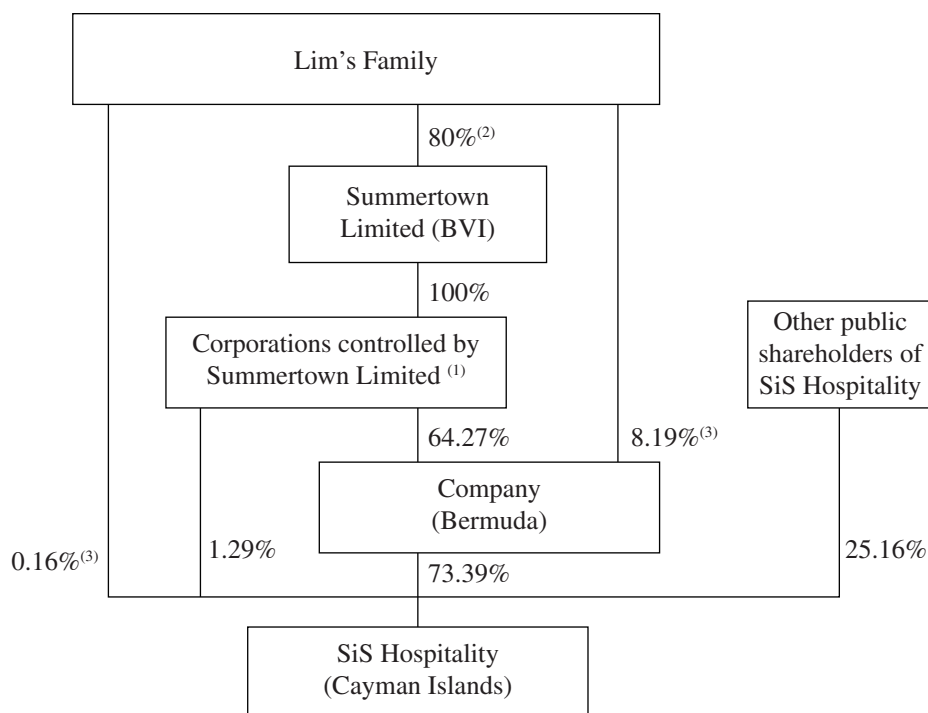
- (1) TMK SSG23 is held as to (i) 70% of the preferred shares by the Company; and (ii) 30% of the preferred shares by an independent third party.

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Upon the completion of the Proposed Spin-off and the Listing, assuming no new Shares will be issued before the Distribution Record Date and before the Over-allotment Option (as defined below) is exercised, the Company's equity interest in SiS Hospitality will be reduced to approximately 73.39%. The shareholding structure of the SiS Hospitality Group upon completion of the Proposed Spin-off and the Listing is set out below:



*Note:*

- (1) The corporations controlled by Summertown Limited are Gold Sceptre Limited, Kelderman Limited, Valley Tiger Limited and Swan River Limited.
- (2) Summertown Limited is owned by Mr. Lim Kiah Meng and his spouse, Ms. Fauzjus Tjandra together, as to 40.5% and Mr. Lim Kia Hong and his spouse, Ms. Tan Kah Leng together, as to 39.5%.
- (3) This includes other interest in the Company and SiS Hospitality directly held by Mr. Lim Kiah Meng and his spouse, Ms. Fauzjus Tjandra, Mr. Lim Kia Hong and his spouse, Ms. Tan Kah Leng, Mr. Lim Hwee Hai and his spouse, Madam Lim Hwee Noi.

According to the Board Letter, SiS Hospitality currently intends to apply the net proceeds from the Global Offering (“**IPO Net Proceeds**”) in the following manner:

- (i) approximately 60% to be used for acquisition of hospitality properties in Japan to expand SiS Hospitality's property portfolio. As at the Latest Practicable Date, SiS Hospitality had identified a target hospitality property in Kansai area, Japan and had entered into a framework agreement with the vendor, an independent third party, for the intended acquisition of the property. The acquisition and acquisition price is subject to completion of due diligence and further negotiation of the transaction terms. SiS

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Hospitality had not identified any potential acquisition targets other than this property as at the Latest Practicable Date, nor is there any fixed plan for the number of properties to be acquired or for investing in any particular locations;

- (ii) approximately 30% to be used for the repayment of part of the SiS Hospitality Group bank borrowings and bonds, which were obtained during the ordinary and usual course of business of SiS Hospitality Group for funding of property acquisitions; and
- (iii) approximately 10% to be used for working capital and general corporate purposes.

We have enquired and the Company has informed us that the SiS Hospitality Group commenced its operation in 2011, the current property portfolio of SiS Hospitality Group comprises 18 Properties in Japan. In the past few years, the SiS Hospitality Group has relied on the Group and bank borrowing as the source of finance for its acquisition of properties and operation. The growth momentum of the SiS Hospitality Group will depend on its capability to further build up its property portfolio for leasing and/or operation of hospitality properties. We have enquired with the Company the capital requirement under the business plan of the Spin-off Business and consider that it is fair and reasonable for the SiS Hospitality Group to allocate majority (i.e. approximately 60%) of the IPO Net Proceeds for the future acquisition by the SiS Hospitality Group and agree that application of approximately 30% of the IPO Net Proceeds for repayment of bank loans can lower the finance cost of the SiS Hospitality Group. After the Listing, the SiS Hospitality Group will be a company listed on the Stock Exchange, and it will incur various general corporate expenses as a listed company. Therefore, we consider that it is fair and reasonable for the SiS Hospitality Group to retain approximately 10% of the IPO Net Proceeds for working capital and general corporate purposes.

#### 4. Effects of the Proposed Spin-off on the Group

As stated in the Board Letter, the estimated minimum market capitalisation of the SiS Hospitality Group, following completion of the Proposed Spin-off and the Listing, will be approximately HK\$2,322.8 million. According to the Board Letter and for indication purpose only, the estimated net proceeds of the Global Offering will be approximately HK\$554.3 million, after deduction of underwriting fees and other estimated expenses in connection with the Global Offering and assuming no Over-allotment Option (as defined below) will be exercised. The analysis of the financial effects of the Proposed Spin-off and the Listing as illustrated below is based on the current structure of the Proposed Spin-Off and the Listing that SiS Hospitality will offer approximately 24.41% of the enlarged issued share capital of SiS Hospitality pursuant to the Global Offering (i.e. assuming the option expected to be granted by SiS Hospitality pursuant to which SiS Hospitality may be required to allot and issue additional SiS Hospitality Shares under the Global Offering (the “**Over-allotment Option**”) is not exercised).

##### (a) *Effect on net asset value*

The audited consolidated net assets after deducting non-controlling interests of the Group was HK\$3,236,162,000 as at December 31, 2017<sup>(Note 1)</sup>. Based on (i) the number of the SiS Hospitality Shares to be offered pursuant to the Global Offering, (ii) current proposed structure of the Global Offering, and (iii) the audited combined net assets of the SiS

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Hospitality Group as of June 30, 2018, the estimated minimum market capitalisation of SiS Hospitality will be approximately HK\$2,322.8 million. The Board expects that the consolidated net assets of the Group will be increased as a result of the issue of the SiS Hospitality Shares at an issue price above their attributable underlying combined net asset value (the “**Increase in Net Assets**”), which is approximately HK\$554.3 million, and the consolidated cash balance of the Group will be increased by the net proceeds from the Global Offering. In accordance with the Hong Kong Financial Reporting Standards, the Increase in Net Assets which constitutes changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control, is accounted for within equity. Therefore, there will be no gain or loss arising from the deemed disposal by the Company of the interest in SiS Hospitality under the Global Offering to be recognised in the consolidated income statement of the Company given that SiS Hospitality will remain as a subsidiary of the Company immediately upon completion of the Proposed Spin-off and the Global Offering.

### *(b) Earnings*

As advised by the Directors, the effect of the Proposed Spin-off on the future earnings of the Group will depend on, among others, the return generated from the proceeds raised from the Global Offering as well as the growth of the business operations of the SiS Hospitality Group.

Based on the audited consolidated financial statements of the Group for each of the two years ended December 31, 2016 and December 31, 2017, the audited consolidated profits before taxation of the Group were HK\$277,652,000 and HK\$447,890,000 respectively. For each of the two years ended December 31, 2016 and December 31, 2017, the audited total comprehensive income, after taxation and non-controlling interests of the Group, attributable to owners of the Company were HK\$236,209,000 and HK\$367,835,000 respectively<sup>(Note 1)</sup>.

Following completion of the Proposed Spin-off, assuming no new Shares will be issued before the Listing, the Group’s earnings contributed from the SiS Hospitality Group are expected to be reduced as the Company’s interest in SiS Hospitality will be reduced to approximately 73.39%. SiS Hospitality and its subsidiaries will continue to be regarded as a subsidiary of the Group. Consequently, the financial results of the SiS Hospitality Group will continue to be consolidated into the accounts of the Group and the non-controlling interests of the Group are expected to increase.

*Note 1:* the exchange rate used in this subsection was the same as that used in the corresponding annual reports and interim reports of the Company.

### *(c) Effect on liquidity*

According to the interim report of the Company for the six months ended June 30, 2018, the bank balances and cash of the Group (excluding pledged deposits) amounted to approximately HK\$604.47 million as at June 30, 2018. Cash proceeds will be raised by the SiS Hospitality Group from the Global Offering. As the SiS Hospitality Group will remain as subsidiaries of the Group, it is expected that the Proposed Spin-off will have a positive impact on the liquidity of the Group.

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*(d) Remaining businesses of the Group*

As disclosed in the Board Letter, after the Proposed Spin-off, the Remaining Group will focus on the Retained Business. We note that for the year ended December 31, 2017, the Group and the SiS Hospitality Group recorded a net profit after tax and non-controlling interest of approximately HK\$367.8 million and approximately HK\$85.4 million respectively. On this basis, the net profits of the Remaining Group for the year ended December 31, 2017 was approximately HK\$282.4 million, representing approximately 76.8% of the net profit after tax and non-controlling interest of the Group.

As at June 30, 2018, the Group's unaudited consolidated net assets after deducting non-controlling interests of the Group was HK\$3,378.8 million whereas and the SiS Hospitality Group had audited consolidated net assets after deducting non-controlling interests of approximately HK\$636.9 million. On this basis, the unaudited consolidated net assets of the Remaining Group as at June 30, 2018 was approximately 2,741.9 million, representing approximately 81.2% of the unaudited consolidated net assets after deducting non-controlling interests of the Group.

On the basis as set out above, we consider that the Remaining Group will continue to have a substantial business and assets after completion of the Proposed Spin-off.

*(e) Dilution of interest in the SiS Hospitality Group*

Based on the current expected structure of the Global Offering, the Group's interest in the SiS Hospitality Group will be diluted from 100.0% to 73.39% (assuming the Over-allotment Option is not exercised and no new Shares will be issued before the Distribution Record Date). The Proposed Spin-off constitutes a major disposal for the Company under the Listing Rules.

In our opinion, such dilution is acceptable to the Shareholders taking into consideration the benefits to be derived from the Proposed Spin-off as discussed in the sections headed "Reasons for and benefits of the Proposed Spin-off" and "Effects of the Proposed Spin-off on the Group" above.

In addition, Qualifying Shareholders will be granted SiS Hospitality Shares pursuant to the Distribution while the Excluded Shareholders will receive cash payment pursuant to the Distribution. Details of the Distribution and the Assured Entitlement are set out in paragraph below headed "Assured Entitlement".

Based on the factors and the possible financial effects as discussed above, we consider that the Proposed Spin-off will have positive impacts on the Company whereas the Shareholders will be benefited from the Distribution.

It should be noted that the aforementioned are for illustrative purpose only and do not purport to represent how the financial position of the Company will be upon completion of the Proposed Spin-off and the Global Offering.

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### 5. Assured Entitlement

Under PN15, the Company is required to give due regard to the interests of its Shareholders by providing them with an assured entitlement to the SiS Hospitality Shares. Accordingly, as part of the Proposed Spin-off, the Board conditionally approved the Distribution on December 7, 2018, under which each Qualifying Shareholder will be entitled to one SiS Hospitality Share for every ten Shares held as at the close of business on the Distribution Record Date or equivalent cash payment (after deducting expenses) (as appropriate). According to the announcement of the Company dated December 7, 2018, the Company had a total of 277,966,666 shares in issue as at December 7, 2018. Assuming no new shares will be issued prior to the Distribution Record Date, the Distribution will be satisfied wholly by way of a distribution in specie to the Qualifying Shareholders of an aggregate of about 27,796,666 SiS Hospitality Shares, representing approximately 2.01% of the total issued share capital of SiS Hospitality as enlarged by the Global Offering.

Excluded Shareholders (if any) will be entitled to the Distribution but will not receive the SiS Hospitality Shares. Instead, the SiS Hospitality Shares which they would otherwise receive pursuant to the Distribution will be sold by the Company on their behalf as soon as reasonably practicable after commencement of dealings in the SiS Hospitality Shares on the Stock Exchange and they will receive a cash amount equal to the net proceeds of such sale. The proceeds of such sale, net of expenses, will be paid to the Excluded Shareholders in Hong Kong dollars.

The Distribution is conditional upon the Global Offering becoming unconditional in all respects.

Shareholders are advised to refer to the section headed “Assured Entitlement” in the Board Letter for further details of the Distribution. A redacted form of the application proof of SiS Hospitality’s listing document, which contains certain information of the Global Offering, is available for reviewing and downloading on the Stock Exchange’s website at <http://www.hkexnews.hk/APP/SEHKAPPMainIndex.htm>.

Regarding the ratio of the distribution in specie of one SiS Hospitality Share for every ten Shares pursuant to the Distribution (the “**Distribution Ratio**”), we have enquired with and understand from the Company that while the Company intends to maintain not more than 75% shareholding interest in SiS Hospitality upon completion of the Proposed Spin-Off and the Listing, the Distribution Ratio is determined with reference to the minimum funds to be raised from the Global Offering as well as the need for SiS Hospitality to maintain a minimum public float of not less than 25%.

Based on our discussion with the Company and after taking into account that the Distribution Ratio will allow (i) the Company to maintain 73.39% shareholding interest in SiS Hospitality upon completion of the Proposed Spin-off and the Listing; (ii) the minimum funds to be raised from the Global Offering; and (iii) SiS Hospitality will have a public float of at least 25% (after taking into account of the new SiS Hospitality Shares to be issued under the Global Offering but before the Over-allotment Option is exercised) thus meeting the minimum public float requirement of the Listing Rules, we consider that the Distribution Ratio is fair and reasonable.

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### 6. Corporate governance

It is proposed that a number of corporate governance related measures are put in place to reinforce the delineation between the businesses of the Remaining Group and the SiS Hospitality Group:

*(a) Independence of the SiS Hospitality Group from the Group*

The Board Letter disclosed that the respective business operations of the SiS Hospitality Group and the Remaining Group are independent from each other. The SiS Hospitality Group does not rely on the Remaining Group to gain access to customers, suppliers and profession service providers. The SiS Hospitality Group has its own business operating systems, which have been in operations and are expected to continue to operate separately and independently from the Remaining Group.

*(b) Independence of directorship and management*

According to the information available to us, SiS Hospitality's board of directors composes of two executive directors, two non-executive directors and three independent non-executive directors. It is noted that Lim Kiah Meng, an executive Director, is also an executive director of SiS Hospitality whereas Mr. Lim Kia Hong and Mr. Lim Hwee Hai, executive Directors, are non-executive directors of SiS Hospitality.

We understand from the Company that despite the common directorship to be held by Mr. Lim Kiah Meng, Mr. Lim Kia Hong and Mr. Lim Hwee Hai, the directors of SiS Hospitality believe that independence between the Remaining Group and the SiS Hospitality Group will be maintained.

Mr. Lim Kiah Meng, along with the other executive director of SiS Hospitality, will devote their resources and time to SiS Hospitality Group and will continue to oversee and manage the day-to-day operations of SiS Hospitality Group. As the focuses of the businesses are different, Mr. Lim Kiah Meng will be able to execute his executive roles for both the Remaining Group and the SiS Hospitality Group as an executive director for the following reasons:

- (i) Mr. Lim has always been in charge of and oversees the business of the SiS Hospitality Group and such division of work has proven track record of success with the acquisition of a portfolio of 18 promising properties within 6 years; and
- (ii) the Company has been listed on the Stock Exchange since 1992 and its businesses are mature and stable.

In addition, there are three other executive Directors sitting on the Board who are actively involved in the day-to-day operation of the Remaining Group, the demand for actual time commitment required from Mr. Lim Kiah Meng to meet his obligations as an executive Director of the Remaining Group is relatively less heavy. Mr. Lim Kiah Meng will ensure that he can give sufficient time and attention to the business of both the Remaining Group and SiS Hospitality Group and comply with the code provisions in Appendix 14 to the Listing Rules.



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Mr. Lim Kia Hong and Mr. Lim Hwee Hai, being non-executive directors of SiS Hospitality, are therefore not expected to be directly involved in the day-to-day management of the business operation of SiS Hospitality. Even though Mr. Lim Kia Hong is the chief executive officer, executive Director and chairman of the Board and Mr. Lim Hwee Hai is an executive Director of the Remaining Group, they are both mindful of their fiduciary duties as directors to act in the best interests of the SiS Hospitality.

Further, in the event that any conflict of interest arises between the Remaining Group and the SiS Hospitality Group, Mr. Lim Kiah Meng, Mr. Lim Kia Hong and Mr. Lim Hwee Hai will abstain from voting at the relevant meetings of the board of directors of SiS Hospitality and the meetings of the Board in respect of such matters of material conflict of interest and the remaining directors of SiS Hospitality will have sufficient expertise and experience to consider any such matter. The overlapping directors will also comply with the respective constitutional documents of the Company and SiS Hospitality, and any applicable laws and regulations (including but not limited to the Listing Rules). SiS Hospitality will adopt a good corporate governance practice in that if any actual or potential conflict of interests arises between the SiS Hospitality Group and the Remaining Group, the other executive director of SiS Hospitality, Ms. Tam Shuk Wah, Carrie who has extensive experience in property investment business, and the three independent non-executive directors of SiS Hospitality will take the lead and provide checks and balances over the decision-making process of the board of directors of SiS Hospitality on connected transactions and other transactions involving actual or potential conflict of interests.

However, given the different nature of the business of the Remaining Group and SiS Hospitality Group, it is unlikely that there will be transactions of substantial amount where conflict of interest may arise between the Remaining Group and SiS Hospitality Group.

The chief operating officer of SiS Hospitality Group, Ms. Chiu Lai Chun, Rhoda, also acts as company secretary and financial controller of the Company. We understand that despite holding senior management roles at both the SiS Hospitality Group and the Remaining Group, Ms. Chiu Lai Chun, Rhoda's responsibility in SiS Hospitality Group, which mainly focuses on seeking investment opportunity in hospitality properties in Japan, will not be impeded by her responsibility in the Remaining Group as a financial controller and company secretary which is competently supported by the well-established finance team and administration team of the Remaining Group.

Save as disclosed above, none of the directors or senior management of SiS Hospitality holds any office in or is employed by the Company upon consummation of the Proposed Spin-off. On the basis of the current proposed board composition of SiS Hospitality, it is believed that the board of directors of SiS Hospitality will operate and manage SiS Hospitality Group's business independently of the Remaining Group.

*(c) Financial independence*

As disclosed in the Board Letter, SiS Hospitality has its own accounting and finance department and an independent financial system and makes financial decisions according to its own business needs. SiS Hospitality also has independent access to third party financing.

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## LETTER FROM PROTON CAPITAL

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To provide for the working capital and ensure the financial independence of SiS Hospitality Group, as at August 31, 2018, SiS Hospitality Group had a total general banking facilities of JPY22,832 million, which comprise of 13 banking facilities with several banks with an aggregate principal amount of JPY22,832 million independent from and without any financial assistance or credit support from the Remaining Group

As at August 31, 2018, SiS Hospitality Group had certain unsecured inter-group loans provided by the Company in an aggregate amount of JPY12,137 million with an interest rate ranging from 0.08% to 3.98%. Such inter-group loans are expected to be repaid and capitalised upon Listing.

In addition, on July 31, 2014 (as amended on August 10, 2015 and December 25, 2015), the Company and SiS Hospitality Group entered into a service agreement with an independent third party service provider for, among other things, the services in connection with certain energy saving equipment and system (the “**System**”) whereby the Company guarantees the payment obligations of SiS Hospitality Group under the service agreement. As at August 31, 2018, the outstanding service fees for the services contemplated under the service agreement up to its termination on March 31, 2025 which is guaranteed by the Company was approximately JPY591 million. The directors of SiS Hospitality believe that it is impracticable to amend or terminate the service agreement on the basis that (i) the service agreement is an over 10-year agreement concluded after heavy negotiation having taken into account the long term benefits and obligations of the parties; (ii) the termination of the agreement will trigger unjustified extra costs to SiS Hospitality Group (including penalty and cancellation costs which are almost equivalent to outstanding service fee guaranteed by the Company for the remaining term of the agreement); (iii) the termination will cause disruptions to the operations of the Rinku Gate Tower Building, one of the properties owned by SiS Hospitality Group in Japan, as it will involve removal and replacement of the System.

As at June 30, 2018, the amount of cash and cash equivalents and unutilised banking facilities of the SiS Hospitality Group amounted to approximately JPY5,457 million and JPY1,500 million, respectively.

In view of the fact that (i) SiS Hospitality Group has sufficient internal cash resources and external funding to cover the outstanding service fees under the service agreement; and (ii) the outstanding service fees for the remaining term of the service agreement is immaterial (39.4% of the unutilised banking facilities, 10.8% of the cash and cash equivalents of SiS Hospitality Group as at June 30, 2018), the directors of SiS Hospitality consider that SiS Hospitality Group is financially and operationally independent from the Remaining Group despite the fact that the guarantee will survive after upon Listing.

Save as disclosed herein, there is no other outstanding loans, advance, credit facilities or bank guarantees provided by the Remaining Group to the SiS Hospitality Group.

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## LETTER FROM PROTON CAPITAL

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*(d) Administrative independence*

All the essential administrative functions including accounting of the SiS Hospitality Group are independent of the Company. All administration and daily operations of the SiS Hospitality Group will continue to be carried out by its administration team and external professional bodies employed by the SiS Hospitality Group independently of and without any support from the Company after the Proposed Spin-off and the Listing.

*(e) Continuing connected transactions*

As advised by the Company, upon Listing, there will not be any non-exempt continuing connected transactions (as defined in the Listing Rules) upon Listing which are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Although there is some overlap in the directorship between SiS Hospitality and the Company, we noted that such overlap in directorship also appears in the Successful Spin-off Cases of SiS Mobile in which certain corporate governance measures have been adopted in SiS Mobile. We have obtained and reviewed the code of corporate governance of SiS Hospitality and SiS Mobile and considered that the code of corporate governance of SiS Hospitality is comparable to that of SiS Mobile. The code of corporate governance of SiS Hospitality provides that if a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board of directors which the board of directors has determined to be material, the matter should be dealt with by a physical board meeting rather than a written resolution. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at that board meeting. Any director having conflict of interest should abstain from voting at that board meeting. The Company has confirmed with us that the directors of SiS Mobile have closely adhered to the corporate governance measures and SiS Mobile's directors had abstained from voting at the board meetings of SiS Mobile if they had conflict of interest. As the aforesaid corporate governance measures have worked effectively so far, comparable corporate governance measures would be adopted between the SiS Hospitality Group and the Remaining Group.

In view of the Successful Spin-off Cases and after reviewing the corporate governance related measures, in particular the independence of directorship and management are sufficient, we consider that the corporate governance related measures are in the interest of the Company and its shareholders.

### **7. Conditions precedent to the Proposed Spin-off**

The Proposed Spin-off will be conditional upon, among other things:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the SiS Hospitality Shares in issue and any SiS Hospitality Shares which may be issued on the Main Board of the Stock Exchange; and

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## LETTER FROM PROTON CAPITAL

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- (ii) the obligations of the underwriters under the underwriting agreement to be entered into between, among others, the Company, SiS Hospitality and the underwriters in respect of the Global Offering becoming and remaining unconditional and not having been terminated in accordance with their respective terms, on or before the dates and times to be specified therein and in any event not later than the date which is 30 days after the date of the listing document to be issued for the Global Offering.

Shareholders and public investors should note that there is no assurance that the Proposed Spin-off and the Listing will take place and, if so, when they may take place. Shareholders and potential investors should exercise caution when dealing in or investing in the securities of the Company and/or SiS Hospitality.

### OPINION

Having taken into account the principal factors and reasons as set out above and in particular, since the SiS Hospitality Group will remain as subsidiaries of the Group after the Proposed Spin-off and the Listing whereas the Qualifying Shareholders will be granted SiS Hospitality Shares under the Distribution, both the Company and the Qualifying Shareholders will continue to share any growth in the business of the SiS Hospitality Group in future after the Listing, we are of the view that the terms of the Proposed Spin-off are fair and reasonable so far as the Company and the Shareholders are concerned, and that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. As detailed in the Board Letter, Gold Sceptre Limited holding approximately 50.50% of the issued share capital of the Company as at the Latest Practicable Date, have granted its written approval to the Company for the Proposed Spin-off and no special general meeting of the Company will be convened for the purposes of and approving the Proposed Spin-off. If such special general meeting of the Company were to be held, we would advise the Independent Board Committee to recommend, and we also recommend the Shareholders, to vote in favour of the relevant ordinary resolution proposed in relation to the Proposed Spin-off.

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

**Josephine Lau**  
*Director – Corporate Finance*

*Note:* Ms. Josephine Lau has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2012 and 2007, respectively. Ms. Lau has more than 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong.

## 1. FINANCIAL SUMMARY

The published audited consolidated financial statements of the Group (i) for the year ended December 31, 2015 are disclosed on pages 31 to 112 of the 2015 annual report of the Company released on April 21, 2016; (ii) for the year ended December 31, 2016 are disclosed on pages 37 to 119 of the 2016 annual report of the Company released on April 19, 2017; and (iii) for the year ended December 31, 2017 are disclosed on pages 38 to 132 of the 2017 annual report of the Company released on April 30, 2018. The published unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2018 is disclosed on pages 5 to 34 of the 2018 interim report of the Company released on September 25, 2018. All these financial statements have been published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.sisinternational.com.hk](http://www.sisinternational.com.hk).

## 2. WORKING CAPITAL

After taking into account the present internal financial resources, net proceeds from the listing of SiS Hospitality, as well as the available facilities, the Directors, after due and careful enquiry, are of the opinion that the working capital available to the Group is sufficient for the Group's requirements for at least 12 months from the date of this circular.

## 3. INDEBTEDNESS

At the close of business on October 31, 2018, being the latest practicable date prior to the printing of this Circular and for the purpose of this indebtedness statement, the Group had total borrowings and bonds amounting to approximately HK\$3,382,198,000 and obligation under finance lease amounting to approximately HK\$29,872,000, details of which are as follows:

The Group had outstanding unsecured bank borrowings of approximately HK\$569,323,000, secured bank borrowings of approximately HK\$2,541,999,000 which were unguaranteed but secured by properties, bank deposits, an interest reserve account, rental proceeds, trust beneficiary interests, preferred shares and specified shares of subsidiaries of the Group, secured bonds of approximately HK\$270,876,000 which were secured by trust beneficiary interests of the properties of the subsidiaries of the Group and a finance lease over a machine of the Group of approximately HK\$29,872,000. Except for obligation under finance lease of approximately HK\$29,872,000 which are guaranteed by the Company, all other borrowings and bonds were not covered by any guarantees as at October 31, 2018.

As disclosed in the 2018 interim report of the Company, during the year ended December 31, 2017, an originating notice of application (the "**Originating Notice**") filed with the Competition Tribunal of the Hong Kong Special Administrative Region (the "**Competition Tribunal**") was served on SiS International Limited, a wholly-owned subsidiary of the Group ("**SiS International**"), by the legal adviser of the applicant, the Competition Commission (the "**Applicant**"). According to the Originating Notice, the Applicant alleged that, among other things, SiS International, along with other respondents under the Originating Notice (the "**Respondents**"), has contravened section 6(1) of the Competition Ordinance (Cap. 619, the laws of Hong Kong) (the "**First Conduct Rule**") and the Applicant seeks orders from the Competition Tribunal, amongst other reliefs, for pecuniary penalty to be imposed on the Respondents and declaration that each Respondent has contravened the First Conduct Rule.

Court proceedings have been concluded in the second quarter of 2018. The court decision has not been handed down, so the ultimate outcome and liability of the claim cannot be ascertained as at October 31, 2018. The Group has made provision for litigation and related expenses to the condensed consolidated financial statements and the directors of the Company are of the opinion that further financial effects, if any, are not likely to be significant to the Group.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not, at the close of business on October 31, 2018, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since October 31, 2018.

#### 4. FINANCIAL AND TRADING PROSPECTS

The Group is principally engaged in (i) Japan Real Estate Investment Business, (ii) Other Real Estate Investment Business, (iii) Mobile and IT Distribution Business, and (iv) Investment in IT, Securities and Other Business.

##### **Japan Real Estate Investment Business**

The Group owns a property portfolio of 18 properties in Japan. For the six months ended June 30, 2018, leasing of investment properties recorded rental income of JPY1,330 million (approximately HK\$95,761,000) which accounted for 86.5% of total revenue from Japan real estate investment business. 13.5% revenue amounting to JPY207 million (approximately HK\$14,904,000) was from hotel operations including hotel room, food and beverage services and others. <sup>(Note 1)</sup>

Japan's tourism market is characterized by its large and stable growing domestic travel market and a vibrant and rapidly expanding inbound travel market. The key drivers for future market growth include: (i) hosting of international events such as Olympic 2020, (ii) anticipated development of casino and integrated resorts, (iii) depreciation of Japanese Yen, (iv) ease of visa requirement and availability of international flights, and (v) growth in tourist spending. The blooming tourism scene in Japan has a positive impact on hotel performance.

The real estate investment business can grow continuously by (1) enhancement the properties for further value accretion; (2) identify acquisition opportunities to grow the portfolio; (3) further explore new opportunities for hotel operations business and management and; (4) optimize the tenant mix.

##### **Other Real Estate Investment Business**

The sizeable portfolio of income generating properties with long-term potential for the capital appreciation has contributed positively to the net results of the Group over years. Rental income from the investment property in Hong Kong and Singapore amounted to HK\$19,757,000 for the six months ended June 30, 2018. The commercial property market in Hong Kong and Singapore remains stable and it will generate cash rental income to the Group continuously.

**Mobile and IT Distribution Business**

Contribution from mobile and IT distribution business is mainly from SiS Distribution (Thailand) Public Company Limited (“**SiS Thai**”) since the Group acquired additional share stakes in SiS Thai by end of 2017.

Revenue and profit from Distribution Business growing continuously specially in Thailand because of growing demands in consumer products, including IT products, mobile products and other new products which are used in small enterprise and households. For interim 2018, SiS Thai contributed HK\$2,643,376,000 revenue to the Group and reported a segment profit of HK\$55,652,000.

The seemingly escalating trade tensions between USA and China is casting uncertainty and challenges. The Directors are moving ahead cautiously. The Group will continue to identify and seek new growth products to add to our stability of products we are currently distributing; and expend new segments of the Group’s distribution business.

**Investments in IT, Securities and other Business**

During the first half 2018, the Group invested a total HK\$55,847,000 in securities. The fair value gain from securities investments together with dividend income contributed a profit of HK\$61,274,000 to the Group as compared to a net loss of HK\$4,710,000 in the same period last year. We will continue to evaluate and make selective investment in promising securities and companies with upside potentials.

*Note 1:* the exchange rate used in this paragraph is: HK\$0.072:JPY1

*The following is the text of a letter with the summary of values and valuation certificates received from CBRE Limited, an independent valuer, prepared for the purpose of incorporation in this document, in connection with their valuation as of 30 September 2018 of all the property interests held by the SiS Hospitality Group.*

**CBRE**

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地產代理（公司）牌照號碼  
Estate Agent's Licence No. C-004065

December 14, 2018

**SiS International Holdings Limited**

803 Nine Queen's Road Central

Hong Kong

Dear Sirs,

In accordance with instructions from SiS International Holdings Limited (the “**Company**”) to value all the property interests held by SiS Hospitality Holdings Limited (the “**SiS Hospitality**”) and its subsidiaries (collectively referred to as “**SiS Hospitality Group**”) in Japan, we confirm that we have carried out inspections, made relevant enquiries, and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market values of property interests as of September 30, 2018 (the “**Valuation Date**”).

**Valuation Basis, Assumptions and Methodology**

Our valuation is prepared in accordance with the HKIS Valuation Standards (2017 Edition) published by the Hong Kong Institute of Surveyors (“**the HKIS**”), the RICS Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors (“**RICS**”) and International Valuation Standards (“**IVS**”) published by the International Valuation Standards Council.

Our valuation is made on the basis of Market Value which is defined as “the estimated amount for which an asset or liability should exchange on the Valuation Date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

We have also complied with all the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).



Our valuation has been made on the assumption that the owner sells the property on the open market without the benefit or burden of a deferred term contract, leaseback, joint venture, or any similar arrangement, which would serve to affect the values of the property interests.

No allowance has been made in our valuation for any charges, mortgages or amounts owing neither on the property nor for any expenses or taxation which may be incurred in effecting sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the properties in Group I which are held by the SiS Hospitality Group for investment, primarily leased to hotel and hostel tenants, and Group II which are owned and operated by the SiS Hospitality Group as hotels or hostels, through engagement of independent hotel management companies, we have adopted Discounted Cash Flow (“DCF”) Approach. As the properties have income-generating ability, and there are generally limited recent transactions with similar characteristics within the proximity of the properties, income approach is considered more appropriate than the market approach for hotel properties. DCF Approach is an accepted method within the income approach to valuation, with consideration to projected cash flow based on the lease or management agreement, current market level and future market conditions. DCF Approach involves discounting the future net cash flow of the property to its present value by using an appropriate discount rate that reflects the rate of return required by a typical investor for an investment of this type. We have prepared a 5-year or 10-year cash flow forecast for properties, with reference to the current and anticipated market conditions. In preparing the DCF analysis, we have also made reference to the historical operating data, the projected cash flow and budget of the property provided by the SiS Hospitality Group. In addition, we have taken into account the lease agreements and/or management agreements of the properties. As a supporting approach to the valuation, we have also considered the Income Capitalisation Approach as a reference check for the valuations arrived at from DCF Approach. Income Capitalisation Approach involves capitalisation of the net rental income derived from the existing tenancies with due allowance for the reversionary income potential of the property.

### **Source of Information**

We have relied on information provided by the SiS Hospitality Group, in particular, but not limited to planning approvals, statutory notices, easements, site areas, floor areas, tenancy schedules, particulars of occupancy, historical and forecast operating performance and other relevant information. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificates are only approximations based on construction documents such as inspection certificates, architectural plan, construction confirmation application, survey plan, completion drawing, and/or engineering reports, etc. provided by the SiS Hospitality Group. We have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries. We have no reason to doubt the truth and accuracy of the information provided to us by the SiS Hospitality Group, which is material to the valuation. We were also advised by the SiS Hospitality Group that no material facts have been omitted from the information provided to us.

CBRE have conducted title searches for the properties. However, we have not scrutinised all the original documents to verify ownership or to ascertain the existence of any lease amendments which may not appear on the copies handed to us. It is assumed that, unless otherwise stated, the properties have no known encumbrances or liens that would adversely affect the market value of the property. In the course of our valuation, we have relied on information provided by the SiS Hospitality Group.

### **Property Inspection**

We have inspected the exterior of the properties and, where possible, the interior of the properties. In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor any tests were made on the building services, nor any investigation to determine the presence of any deleterious or hazardous material in the properties. Therefore, we are not able to report whether the properties are free of rot, infestation, deleterious materials or any other structural defects.

We have not carried out site measurements to verify the correctness of the areas of the properties. We have assumed that the areas shown on the documents and site plans provided to us are correct. During our inspection, we have not carried out investigations on the site to determine the suitability of the ground conditions and the services for any future development. Our valuation is on the basis that these aspects are satisfactory.

Inspection of the properties was carried out in the period between July 2018 and October 2018 by technical staff including Taku Ozora, Hiroko Minowa, Satoshi Narikawa, Munehito Hashimoto, Miki Ishikawa, Hideto Honma and Yasunobu Uehara. They are licensed Japanese Real Estate Appraiser, and have more than 7 years of experience in the valuation of properties in Japan.

### **Currency**

Unless otherwise stated, all monetary amounts are stated in Japanese YEN (“**JPY**”), the official currency of Japan.

We enclose herewith our summary of values and valuation certificates.

Yours faithfully,  
For and on behalf of  
**CBRE Limited**  
**Daniel Mohr**  
*MRICS*  
*Executive Director*  
*Valuation & Advisory Services*

*Note:* Mr. Daniel Mohr is a member of Royal Institution of Chartered Surveyors. He has over 15 years of valuation experience in the PRC, Hong Kong, Japan and Asia.

## SUMMARY OF VALUES

No.	Property	Market value in existing state as at September 30, 2018	Interests attributable to the SiS Hospitality Group	Market value attributable to the SiS Hospitality Group as at September 30, 2018
<b>Group I – Properties held by the SiS Hospitality Group for investment in Japan</b>				
1.	Rinku Gate Tower Building, 1, Rinku Ourai Kita, Izumisano City, Osaka, Japan	5,060,000,000	100%	5,060,000,000
2.	A property located at 1-20, 2 chome, Kume, Naha City, Okinawa, Japan	2,940,000,000	100%	2,940,000,000
3.	A property located at 1-5, Ryogokuhoncho, Tokushima City, Tokushima, Japan	937,000,000	100%	937,000,000
4.	A property located at 2-4-28, Korinbo, Kanazawa City, Ishikawa, Japan	3,100,000,000	100%	3,100,000,000
5.	A property located at 1168-2, 7-bancho, Kamiokawamaedori, Chuo-ku, Niigata City, Niigata, Japan	1,490,000,000	100%	1,490,000,000
6.	A property located at 1-1, Akashicho, Hiratsuka City, Kanagawa, Japan	3,130,000,000	100%	3,130,000,000
7.	A property located at 3-9-1, Inaho, Otaru City, Hokkaido, Japan	3,340,000,000	100%	3,340,000,000
8.	A property located at 35-3, Goryokaku-cho, Hakodate City, Hokkaido, Japan	707,000,000	100%	707,000,000

No.	Property	Market value in existing state as at September 30, 2018	Interests attributable to the SiS Hospitality Group	Market value attributable to the SiS Hospitality Group as at September 30, 2018
9.	A property located at 11-10, 2-chome, Tsukiji, Chuo-ku, Tokyo, Japan	2,080,000,000	100%	2,080,000,000
10.	A property located at 49-1, Nichome, Sanjo-dori Ohashi-higashi, Higashiyama-ku, Kyoto City, Kyoto, Japan	1,660,000,000	100%	1,660,000,000
11.	SK Kashiwa Building 14-1, Suehirocho, Kashiwa City, Chiba, Japan	6,740,000,000	70%	4,718,000,000
12.	A property located at 2-36, 8-chome, Odorinishi, Chuo-ku, Sapporo City, Hokkaido, Japan	1,060,000,000	100%	1,060,000,000
13.	A property located at 21-1, Higashisannocho, Higashikujo, Minami-ku, Kyoto City, Kyoto, Japan	1,120,000,000	100%	1,120,000,000
14.	A property located at 531, Asakuracho, Tominokoji-dori Sanjo-Sagaru, Nakagyo-ku, Kyoto City, Kyoto, Japan	1,850,000,000	100%	1,850,000,000
15.	The former Etchuya Hotel 8-25, 1-chome, Ironai, Otaru City, Hokkaido, Japan	222,000,000	100%	222,000,000
16.	A property located at 289-111, Nishi 5-chome, Mimami 8-jo, Chuoku Sapporo City, Hokkaido, Japan	1,240,000,000	100%	1,240,000,000
	<i>Group I Sub-total:</i>	<u>36,676,000,000</u>		<u>34,654,000,000</u>

No.	Property	Market value in existing state as at September 30, 2018	Interests attributable to the SiS Hospitality Group	Market value attributable to the SiS Hospitality Group as at September 30, 2018
<b>Group II – Properties held by the SiS Hospitality Group for operation in Japan</b>				
17.	A property located at 1-20, 1-cho, Ryujinbashi-cho, Sakai-ku, Sakai City, Osaka, Japan	1,550,000,000	100%	1,550,000,000
18.	A property located at 5-12-2, Shinjuku-ku, Tokyo, Japan	1,220,000,000	100%	1,220,000,000
	<i>Group II Sub-total:</i>	<u>2,770,000,000</u>		<u>2,770,000,000</u>
	<b>Grand total:</b>	<u><u>39,446,000,000</u></u>		<u><u>37,424,000,000</u></u>

## Group I – Properties held by the SiS Hospitality Group for investment in Japan

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
1. Rinku Gate Tower Building, 1, Rinku Ourai Kita, Izumisano City, Osaka, Japan	<p>The property is a 56-storey mixed-use commercial building with 2 basement floors. It consists of hotel, retail, office, warehouse and carpark. The property was completed in 1996, with a total gross floor area of 112,247.96 sq.m., occupying a site with a total site area of 16,872.43 sq.m.</p> <p>The hotel portion is located on the 1st – 4th, 28th – 50th and 52th – 54th floors which operates as full-service hotel with 358 rooms. The total rentable area of the hotel portion is 30,944.85 sq.m.</p> <p>The office portion is located on the 12th – 26th floors of the property and for multi-tenant occupancy. The total rentable area of the office portion is 17,227.45 sq.m. As advised by the SiS Hospitality Group, nine of the office floors will be converted into hotel use.</p> <p>The retail portion is located on 7th, 8th and 25th floors of the property. The total rentable area of the retail portion is 4,288.57 sq.m.</p> <p>The total rentable area of other portions (including warehouse, showroom and others) is 8,468.57 sq.m.</p> <p>The property also consists of a total of 563 carparking spaces on the basement floors of the building and in a separate building named “Eki-kita Public Parking”.</p> <p>The property is held freehold.</p>	<p>As at the valuation date, the hotel portion was subject to a lease at a total monthly rent of JPY34,500,000, with the expiry date on March 31, 2022.</p> <p>The office portion of the property with a rentable area of 6,114.74 sq.m. was subject to various leases at a total monthly rent of JPY14,959,392, with the latest expiry date on April 30, 2028. The remaining portion was vacant.</p> <p>The retail portion of the property with a rentable area of 4,288.57 sq.m. was subject to various leases at a total monthly rent of JPY5,249,868, with the latest expiry date on June 30, 2023.</p> <p>Other portions (including warehouse, showroom and others) of the property with a total rentable area of 8,186.91 sq.m. were subject to various leases at a total monthly rent of JPY3,196,800, with the latest expiry date on April 30, 2028. The remaining portion was vacant.</p> <p>The total monthly other income including carparking, signage, PBX and antenna, etc was JPY2,674,222.</p>	<p>JPY5,060,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY5,060,000,000)</b></p>

*Notes:*

1. The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by Tokutei Mokuteki Kaisha SSG8.
2. The registered address of the property is 1, Rinku Orai Kita, Izumisano City.
3. The registered floor area of the property is 99,259.73 sq.m. and the registered site area is 16,845.83 sq.m. The exclusively owned floor area is 79,457.70 sq.m.
4. The property is situated within an area zoned “Commercial District” according to the zoning designated by city planning law.
5. Pursuant to the Purchase and Sale Agreement, until July 17, 2020, the owner cannot transfer the title of portions of the property, including some sectional surface rights and public spaces, without approval from the Osaka Prefecture, and cannot establish superficies, leaseholds or other rights for the purpose of use and earning, and cannot engage in a merger. We have considered that such restriction is unlikely to have material impact to the market value of the property.
6. A pledge was created on the trust beneficial interest in the property to secure the loan from United Overseas Bank Limited, Tokyo Branch to TMK SSG8.
7. The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	5.10%
Discount Rate	4.80%

We have gathered and analysed the rates of return of relevant market segments which indicate yields of approximately 4.00% to 5.10%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
2. A property located at 1-20, 2-chome, Kume, Naha City, Okinawa, Japan	<p>The property is a 14-storey building completed in 2003, with a total gross floor area of 6,449.32 sq.m., occupying a site with a total site area of 935.77 sq.m.</p> <p>The property currently operates as a budget hotel with 284 guest rooms and 72 carparking spaces, and ancillary areas including breakfast space and meeting rooms. The total rentable area of the property is 6,213.54 sq.m.</p> <p>The property is held freehold.</p>	<p>As at the valuation date, the property was subject to a lease at a total monthly rent of JPY11,616,000, with the expiry date on October 31, 2033.</p> <p>The total monthly other income including antenna income was JPY109,000.</p>	<p>JPY2,940,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY2,940,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by SiS Japan Inn Tokutei Mokuteki Kaisha.
- The registered address of the property is 1-1 and 1-7, 2-chome, Kume, Naha City.
- The registered floor area of the property is 5,340.05 sq.m. and the registered site area is 932.35 sq.m.
- The property is situated within an area zoned "Commercial District" according to the zoning designated by city planning law.
- A revolving pledge was created on the trust beneficial interest in the property to secure certain loans from The Tokyo Star Bank, Limited to SiS Japan Inn TMK.
- The lease is subject to a 3% rent escalation every three years.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	5.00%
Discount Rate	4.70%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.80% to 6.10%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.



## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
3. A property located at 1-5, Ryogokuhoncho, Tokushima City, Tokushima, Japan	<p>The property is an 11-storey building completed in 2008, with a total gross floor area of 2,876.55 sq.m., occupying a site with a total site area of 601.63 sq.m.</p> <p>The property currently operates as a budget hotel with 139 guest rooms, 30 carparking spaces and ancillary areas including breakfast space. The total rentable area of the property is 2,949.70 sq.m.</p> <p>The property is held freehold.</p>	As at the valuation date, the property was subject to a lease at a total monthly rent of JPY4,447,000, with the expiry date on October 21, 2038.	<p>JPY937,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY937,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by SiS Japan Inn Tokutei Mokuteki Kaisha.
- The registered address of the property is 5, 1-chome, Ryogokuhoncho, Tokushima City and 7, 1-chome, Yaoyacho, Tokushima City.
- The registered floor area of the property is 2,439.84 sq.m. and the registered site area is 589.51 sq.m.
- The property is situated within an area zoned "Commercial District" according to the zoning designated by city planning law.
- A revolving pledge was created on the trust beneficial interest in the property to secure certain loans from The Tokyo Star Bank, Limited to SiS Japan Inn TMK.
- The lease is subject to a 2% rent escalation every three years.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	5.30%
Discount Rate	5.10%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 5.30% to 5.80%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
4. A property located at 2-4-28, Korinbo, Kanazawa City, Ishikawa, Japan	<p>The property is an 11-storey building with 1 basement floor. It was completed in 2007, with a total gross floor area of 10,183.74 sq.m., occupying a site with a total site area of 1,569.07 sq.m.</p> <p>The property currently operates as a budget hotel with 422 guest rooms and 120 carparking spaces, and ancillary areas including breakfast space and meeting room. The total rentable area of the property is 8,203.21 sq.m.</p> <p>The property is held freehold.</p>	As at the valuation date, the property was subject to a lease at a total monthly rent of JPY13,884,000, with the expiry date on October 9, 2037.	<p>JPY3,100,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY3,100,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by SiS Japan Inn Tokutei Mokuteki Kaisha.
- The registered address of the property is 72, 73, 74, 75, 77-2, 78, 95 and 96, 2-chome, Korinbo, Kanazawa City.
- The registered floor area of the property is 8,383.54 sq.m. and the registered site area is 1,531.72 sq.m.
- The property is situated within an area zoned "Commercial District" according to the zoning designated by city planning law.
- A revolving pledge was created on the trust beneficial interest in the property to secure certain loans from The Tokyo Star Bank, Limited to SiS Japan Inn TMK.
- The lease is subject to a 2% rent escalation every three years.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	4.90%
Discount Rate	4.90%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.60% to 5.80%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
5. A property located at 1168-2, 7-bancho, Kamiokawamaedori, Chuo-ku, Niigata City, Niigata, Japan	<p>The property is a 14-storey building completed in 2008, with a total gross floor area of 4,392.18 sq.m., occupying a site with a total site area of 837.50 sq.m.</p> <p>The property currently operates as a budget hotel with 194 guest rooms, 61 carparking spaces and ancillary areas including breakfast space. The property also consists of a retail store located on the 1st floor.</p> <p>The total rentable area of hotel portion and retail portion of the property is 3,941.71 sq.m. and 20.39 sq.m. respectively.</p> <p>The property is held freehold.</p>	<p>As at the valuation date, the hotel portion of the property was subject to a lease at a total monthly rent of JPY7,429,000, with the expiry date on August 24, 2038.</p> <p>The retail portion of the property with a total rentable area of 20.39 sq.m. was subject to a lease at a total monthly rental of JPY154,000, with the expiry date on August 24, 2020.</p>	<p>JPY1,490,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY1,490,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by SiS Japan Inn Tokutei Mokuteki Kaisha.
- The registered address of the property is 1168-2, Kamiokawamaedori Nanaban-cho, Chuo-ku, Niigata City.
- The registered floor area of the property is 3,551.58 sq.m. and the registered site area is 837.50 sq.m.
- The property is situated within an area zoned "Commercial District" according to the zoning designated by city planning law.
- A revolving pledge was created on the trust beneficial interest in the property to secure certain loans from The Tokyo Star Bank, Limited to SiS Japan Inn TMK.
- The hotel lease is subject to a 2% rent escalation every three years.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	5.90%
Discount Rate	5.50%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.90% to 6.00%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
6. A property located at 1-1, Akashicho, Hiratsuka City, Kanagawa, Japan	<p>The property is 14-storey building completed in 2009, with a total gross floor area of 7,484.22 sq.m., occupying a site with a total site area of 1,071.30 sq.m.</p> <p>The property currently operates as a budget hotel with 347 guest rooms, 61 carparking spaces and ancillary areas including breakfast space and meeting rooms. The total rentable area of the property is 7,310.48 sq.m.</p> <p>The building and a portion of land is held freehold. The remaining portion of land is leasehold.</p>	As at the valuation date, the property was subject to a lease at a total monthly rent of JPY13,106,000, with the expiry date on March 11, 2039.	<p>JPY3,130,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY3,130,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by SiS Japan Inn Tokutei Mokuteki Kaisha.
- The registered address of the property is 1-35, 1-32, 1-36, 1-1 and 1-2, Akashi-cho, Hiratsuka City.
- The registered floor area of the property is 6,500.77 sq.m. and the registered site area is 1,070.48 sq.m.
- The property is situated within an area zoned "Commercial District" according to the zoning designated by city planning law.
- Of the total registered site area of the property (1,070.48 sq.m.), 759.24 sq.m. is owned and 311.24 sq.m. is a leased land from a third party, subject to a lease at a total monthly rent of JPY852,500, with the expiry date on November 29, 2066.
- A revolving pledge was created on the trust beneficial interest in the property to secure certain loans from The Tokyo Star Bank, Limited to SiS Japan Inn TMK.
- The lease is subject to a 2% rent escalation every three years.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	4.40%
Discount Rate	4.40%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.50% to 4.70%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields, and with consideration to the long term stable income and contract rent increase after year 11.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
7. A property located at 3-9-1, Inaho, Otaru City, Hokkaido, Japan	<p>The property is the hotel block of a condominium building completed in 2009, with a total gross floor area of 26,658.25 sq.m., occupying a site with a total site area of 3,560.32 sq.m. The exclusive gross floor area of the property, including apportioned common area, is 8,321.78 sq.m.</p> <p>The property is a 10-storey building with 1 basement floor, which operates as a hotel with 246 guest rooms, 80 carparking spaces and ancillary areas including breakfast space, hot spring, massage room and laundry. The total rentable area of the hotel portion is 7,711.16 sq.m.</p> <p>The retail portion of the property is located on B1F with a total rentable area of 795.39 sq.m.</p> <p>The property is held freehold.</p>	<p>As at the valuation date, the hotel portion of the property was subject to a lease at a total monthly rent of JPY14,512,000, with the expiry date on June 30, 2039.</p> <p>The retail portion of the property with a total rentable area of 795.39 sq.m. was subject to a lease at a total monthly rent of JPY2,237,580, with the expiry date on March 31, 2029.</p> <p>The total monthly other income including carparking is JPY960,000.</p>	<p>JPY3,340,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY3,340,000,000)</b></p>

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by Tokutei Mokuteki Kaisha SSG13.
- The registered address of the property is 123, Inaho 3 cho-me, Otaru City.
- The exclusive registered floor area of the property is 8,298.77 sq.m. (excluding apportioned common area) and the registered site area is 3,560.32 sq.m.
- The property is situated within an area zoned "Commercial District" according to the zoning designated by city planning law.
- A revolving pledge was created on the trust beneficial interest in the property and a pledge was created on the property's hot spring right, to secure certain loans from The Tokyo Star Bank, Limited to TMK SSG13.
- The property is subject to the Shin-Otaru Ekimae 3rd Building Facility Management Rules. Otaru Ekimae Building K.K (the Manager) has the right of first offer to purchase the subject condominium ownership, under the Facility Management Rules.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	5.70%
Discount Rate	5.40%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.50% to 5.70%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
8. A property located at 35-3, Goryokaku-cho, Hakodate City, Hokkaido, Japan	<p>The property is a 10-storey building completed in 2006, with a total gross floor area of 2,756.65 sq.m., occupying a site with a total site area of 949.03 sq.m.</p> <p>The property currently operates as a budget hotel with 110 guest rooms and 16 carparking spaces, and ancillary areas including a breakfast space and coin laundry. The total rentable area of the property is 2,547.72 sq.m.</p> <p>The property is held freehold.</p>	<p>As at the valuation date, the property was subject to a lease at a total monthly rent of JPY4,000,000, with the expiry date on June 30, 2020.</p> <p>The total monthly other income including antenna income was JPY43,000.</p>	<p>JPY707,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY707,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by SiS Japan Inn Tokutei Mokuteki Kaisha.
- The registered address of the property is 49-25, Goryokaku-cho, Hakodate City.
- The registered floor area of the property is 2,547.72 sq.m. and the registered site area is 947.21 sq.m.
- The property is situated within an area zoned "Commercial" and "Category 2 Residential District" according to the zoning designated by city planning law.
- A revolving pledge was created on the trust beneficial interest in the property to secure certain loans from The Tokyo Star Bank, Limited to SiS Japan Inn TMK.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	5.50%
Discount Rate	5.10%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.50% to 5.70%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
9. A property located at 11-10, 2-chome, Tsukiji, Chuo-ku, Tokyo, Japan	<p>The property is an 8-storey building completed in 1987, with a total gross floor area of 2,093.37 sq.m., occupying a site with a total site area of 319.57 sq.m. The property was renovated in 2014.</p> <p>The property currently operates as a budget hotel with 160 cabins and ancillary areas including lounges, restaurant, public bath and a community space. The total rentable area of the property is 2,011.98 sq.m.</p> <p>The property is held freehold.</p>	As at the valuation date, the property was subject to a lease at a total monthly rent of JPY10,430,842, with the expiry date on March 23, 2023.	<p>JPY2,080,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY2,080,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by SiSJP9 Tokutei Mokuteki Kaisha.
- The registered address of the property is 1102-43, 1102-4, Tsukiji 2 cho-me, Chuo-ku.
- The registered floor area of the property is 2,011.98 sq.m. and the registered site area is 320.93 sq.m. (exclusive of the co-owned area). In addition, a lot on the northeast side of the property with a site area of 296.72 sq.m. is co-owned by 17 owners, providing private road access to the property.
- The property is situated within an area zoned "Commercial District" according to the zoning designated by city planning law.
- A revolving pledge was created on the trust beneficial interest in the property to secure certain loans from The Tokyo Star Bank, Limited to SiSJP9 TMK.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	4.40%
Discount Rate	4.10%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 3.80% to 4.40%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
10. A property located at 49-1, Nichome, Sanjo-dori Ohashi-higashi, Higashiyama-ku, Kyoto City, Kyoto, Japan	<p>The property consists of two hotel blocks (East Wing and West Wing) with a total gross floor area of 1,880.80 sq.m., occupying a site with a total site area of 474.76 sq.m.</p> <p>The East Wing and the West Wing of the property were completed in 1981 and 1986 respectively. The property was fully renovated in August 2015.</p> <p>The East Wing is a 6-storey building and the West Wing is a 6-storey building with 1 basement floor. The property currently operates as a budget hotel with 58 guest rooms and ancillary areas including breakfast space. The total rentable area of the property is 1,840.59 sq.m.</p> <p>The property is held freehold.</p>	As at the valuation date, the property was subject to a lease at a total base monthly rent of JPY4,166,667, and a variable rent at 80% of the adjusted Gross Operating Profit (GOP), with the expiry date on October 12, 2020.	<p>JPY1,660,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY1,660,000,000)</b></p>

*Notes:*

- The registered owner of the property (land and building) is SiSJP10 Tokutei Mokuteki Kaisha.
- The registered address of the property is 48, 48-6, 48-8, 48-9, 48-10, 2-chome, Ohashi-Higashi, Sanjo-Dori, Higashiyama-Ku, Kyoto City and 49-1, 2-chome, Ohashi-Higashi, Sanjo-Dori, Higashiyama-Ku, Kyoto City.
- The registered floor area of the property is 1,840.59 sq.m. and the registered site area is 417.22 sq.m.
- The property is situated within an area zoned "Neighbourhood Commercial District" according to the zoning designated by city planning law.
- A revolving pledge was created on the trust beneficial interest in the property to secure certain loans from The Tokyo Star Bank, Limited to SiSJP10 TMK.
- The key assumptions of the valuation are considered as below:

Year 1 Average Daily Room Rate (ADR)	JPY11,000
Stabilised Occupancy Rate	87.0%
Terminal Capitalisation Rate	4.50%
Discount Rate	4.20%

We have made reference to the historical ADR of the property and the market. The above ADR assumed by us is in line with the historical performance of the property.

We have made reference to the historical occupancy of the property and market. The above occupancy assumed by us is in line with the historical performance of the property.

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.40% to 5.80%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.



## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
11. SK Kashiwa Building 14-1, Suehirocho, Kashiwa City, Chiba, Japan	<p>The property is a 15-storey building with 2 basement floors. The property consists of hotel, office and carpark. The property was completed in 2000, with a total gross floor area of 20,408.90 sq.m., occupying a site with a total site area of 2,642.66 sq.m.</p> <p>The hotel portion is located on the 1st – 4th and 12th – 15th floors which operates as full-service hotel with 87 rooms. The total rentable area of the hotel portion is 10,370.33 sq.m.</p> <p>The office portion is located on the 5th – 11th floors of the property and for multi-tenant occupancy. The total rentable area of the office portion is 4,490.45 sq.m.</p> <p>Ancillary areas include seven banquet rooms, a chapel and a Japanese wedding hall.</p> <p>The property also consists of 132 carparking spaces on the basement floors.</p> <p>The property is held freehold.</p>	<p>As at the valuation date, the hotel portion of the property was subject to a lease at a total monthly rent of JPY24,555,368, with the expiry date on September 30, 2020.</p> <p>The office portion of the property with a rentable area of 4,490.45 sq.m. was subject to various leases at a total monthly rent of JPY17,631,970, with the latest expiry date on May 14, 2020. The largest tenant, Meiji Yasuda Life Insurance Co., occupied approximately 41% of the rentable area.</p> <p>The total monthly other income including carparking income, signage income, antenna income, vending machine income and electric pole income was approximately JPY3,224,399.</p>	<p>JPY6,740,000,000</p> <p>(70% interest attributable to the SiS Hospitality Group: <b>JPY4,718,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by Tokutei Mokuteki Kaisha SSG23.
- The registered address of the property is 978 Suehirocho, Kashiwa City.
- The registered floor area of the property is 18,540.29 sq.m. and the registered site area is 2,642.66 sq.m.
- The property is situated within an area zoned “Commercial District” according to the zoning designated by city planning law.
- A pledge was created on the trust beneficial interest in the property to secure the loan from The Nomura Trust and Banking Co., Ltd to TMK SSG23.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	4.90%
Discount Rate	4.60%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.40% to 4.90%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
12. A property located at 2-36, 8-chome, Odorinishi, Chuo-ku, Sapporo City, Hokkaido, Japan	<p>The property is an 8-storey building with 1 basement floor. It was completed in 1974, with a total gross floor area of 2,436.86 sq.m., occupying a site with a total site area of 331.67 sq.m. The property was fully renovated in 2018.</p> <p>The property currently operates as a budget hotel with 60 guest rooms, and ancillary areas including restaurant and café. The total rentable area of the property is 2,436.85 sq.m.</p> <p>The property is held freehold.</p>	As at the valuation date, the property was subject to a lease at a total monthly base rent of JPY5,427,500, and an incentive fee at 20% of the portion of annual room revenue over JPY190,000,000, with the expiry date on January 14, 2023.	<p>JPY1,060,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY1,060,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is SiSJP10 Tokutei Mokuteki Kaisha.
- The registered address of the property is 2-36, 8-chome, Odori Nishi, Chuo-ku, Sapporo City.
- The registered floor area of the property is 2,324.74 sq.m. and the registered site area is 327.93 sq.m.
- The property is situated within an area zoned "Commercial District" according to the zoning designated by city planning law.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	5.70%
Discount Rate	5.40%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.50% to 5.80%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
13. A property located at 21-1, Higashisannocho, Higashikujo, Minami-ku, Kyoto City, Kyoto, Japan	<p>The property is a 4-storey building completed in 2013, with a total gross floor area of 985.25 sq.m., occupying a site with a total site area of 498.93 sq.m.</p> <p>The property currently operates as a hostel with 124 beds, and ancillary areas including a library space, a kitchen area, lounges, restrooms, shared bathrooms and laundry. The total rentable area of the property is 984.72 sq.m.</p> <p>The property is held freehold.</p>	As at the valuation date, the property was subject to a lease at a total monthly rent of JPY4,500,000, with the expiry date on December 21, 2031.	<p>JPY1,120,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY1,120,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by SiSJP10 Tokutei Mokuteki Kaisha.
- The registered address of the property is 21-1, Higashikujo-higashisannocho, Minami-ku, Kyoto City.
- The registered floor area of the property is 984.72 sq.m. and the registered site area is 508.74 sq.m.
- The property is situated within an area zoned "Semi-industrial District" according to the zoning designated by city planning law.
- A revolving pledge was created on the trust beneficial interest in the property to secure certain loans from The Tokyo Star Bank, Limited to SiSJP10 TMK.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	4.60%
Discount Rate	4.30%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.40% to 5.80%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
14. A property located at 531, Asakuracho, Tominokoji-dori, Sanjo-Sagaru, Nakagyo-ku, Kyoto City, Kyoto, Japan	<p>The property is a 5-storey building with 1 basement floor. It was completed in 1980, with a total gross floor area of 1,957.75 sq.m., occupying a site with a total site area of 531.80 sq.m. The property was renovated in 2015.</p> <p>The property currently operates as a hostel with 179 beds and ancillary areas including a kitchen area, lounges, restrooms, shared bathrooms and laundry. The total rentable area of the property is 1,984.78 sq.m.</p> <p>The property is held freehold.</p>	As at the valuation date, the property was subject to a lease at a total monthly rent of JPY9,000,000, with the expiry date on December 21, 2031.	<p>JPY1,850,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY1,850,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by SiSJP10 Tokutei Mokuteki Kaisha.
- The registered address of the property is 531, 533, Asakuracho, Tominokoji-dori Sanjo-Sagaru, Nakagyo-ku, Kyoto City.
- The registered floor area of the property is 1,984.78 sq.m. and the registered site area is 531.76 sq.m.
- The property is situated within an area zoned "Commercial District" according to the zoning designated by city planning law.
- A revolving pledge was created on the trust beneficial interest in the property to secure certain loans from The Tokyo Star Bank, Limited to SiSJP10 TMK.
- As advised by the SiS Hospitality Group, the property is scheduled to be reconstructed from December 2018, since it was found that the seismic structure of the property was different from what had been assumed in the Real Property Sale and Purchase Agreement that it would require the seismic reinforcement work to continue the hostel operation. The seller has paid SiSJP10 TMK a total of JPY336 million as compensation for the damages pursuant to the Compensation Agreement on November 30, 2017. We have taken into consideration the risk of increased seismic reinforcement cost in our valuation.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	5.40%
Discount Rate	5.10%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.40% to 5.80%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields, and with consideration to the risk of increased seismic reinforcement cost.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
15. The former Etchuya Hotel 8-25, 1-chome, Ironai, Otaru City, Hokkaido, Japan	<p>The property is 4-storey building with 1 basement floor. It was completed in 1931, with a total gross floor area of 1,814.83 sq.m., occupying a site with a total site area of 1,257.48 sq.m.</p> <p>The property is planned to be renovated into a limited-service hotel with 35 guest rooms. As advised by the SiS Hospitality Group, the renovation of the property, along with the required repair and seismic reinforcement work will be completed in 2019. The total rentable area of the property is 1,814.83 sq.m.</p> <p>The property is held freehold.</p>	As at the valuation date, the property was vacant.	<p>JPY222,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY222,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is SiSJP10 Tokutei Mokuteki Kaisha.
- The registered address of the property is 108-1 1-chome Ironai, Otaru City.
- The registered floor area of the property is 1,814.83 sq.m. and the registered site area is 1,257.39 sq.m.
- The property is situated within an area zoned "Commercial District" according to the zoning designated by city planning law.
- As advised by the SiS Hospitality Group, the total estimated renovation, repair and reinforcement cost of the property will be approximately JPY559,767,800. We have taken into account the aforesaid amounts in our valuation.
- The market value of the property as if renovation is completed as at the valuation date is estimated to be JPY782,000,000.
- The property is a designated historical landmark of Otaru City. If the owner intends to conduct any extension, renovation, relocation, demolition, repair, remodelling or other activities which affect the preservation of the appearance of the property, the owner is required to submit prior notice to the Otaru City which will then confirm if such activities are in compliance with the historical landmark preservation standards. As advised by the SiS Hospitality Group, the proposed renovation and repair work is expected to comply with those standards.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	5.80%
Discount Rate	5.50%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.50% to 5.70%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields, and with consideration to the proposed renovation.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
16. A property located at 289-111, Nishi 5-chome, Mimami 8-jo, Chuo-ku, Sapporo City, Hokkaido, Japan	<p>The property is a 10-storey building completed in 1988, with a total gross floor area of 1,903.66 sq.m., occupying a site with a total site area of 457.26 sq.m.</p> <p>The property currently operates as a limited-service hotel with 47 guest rooms, 5 carparking spaces and ancillary areas including bar and lounge. The total rentable area of the property is 1,772.26 sq.m.</p> <p>The property is held freehold.</p>	As at the valuation date, the property was subject to a lease at a total monthly base rent of JPY5,800,000, and a variable rent at 30% of the portion of annual gross sales over JPY100,000,000, with the expiry date on March 30, 2028.	<p>JPY1,240,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group</p> <p><b>JPY1,240,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by SiSJP9 Tokutei Mokuteki Kaisha.
- The registered address of the property is 289-111, Minami Hachijou Nishi 5 chome, Chuo-ku, Sapporo City.
- The property is situated within an area zoned "Commercial District" according to the zoning designated by city planning law.
- The registered floor area of the property is 1,772.26 sq.m. and the registered site area is 457.26 sq.m.
- A revolving pledge was created on the trust beneficial interest in the property to secure certain loans from The Tokyo Star Bank, Limited to SiSJP9 TMK.
- According to the provided Engineering Report, there is a possibility that the chimney of the building contains asbestos and a possibility that a small concentration of Polychlorinated Biphenyl (PCB) is contained in a transformer and a power capacitor in the building. Since the asbestos is not sprayed asbestos, it is unlikely to have material impact to the market value of the property. Provided that SiS Hospitality treats the PCB properly during maintenance and at disposal of those machineries, and given that the risk of hotel guests touching those machineries is low, the presence of PCB is unlikely to have material impact to the market value of the property.
- The key assumptions of the valuation are considered as below:

Terminal Capitalisation Rate	4.80%
Discount Rate	4.50%

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.50% to 5.80%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.

## Group II – Properties held by the SiS Hospitality Group for operation in Japan

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
17. A property located at, 1-20, 1-cho, Ryujinbashi-cho, Sakai-ku, Sakai City, Osaka, Japan	<p>The property is a 9-storey building completed in 2010, with a total gross floor area of 2,973.52 sq.m., occupying a site with a total site area of 495.88 sq.m.</p> <p>The property currently operates as a hotel with 89 guest rooms and ancillary areas including restaurant and banquet rooms.</p> <p>The property is held freehold.</p>	As at the valuation date, the property was operated as hotel.	<p>JPY1,550,000,000</p> <p>(100% interest attributable to the SiS Hospitality Group: <b>JPY1,550,000,000</b>)</p>

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by SiSJP10 Tokutei Mokuteki Kaisha.
- The registered address of the property is 15, 1-cho, Ryujinbashi-cho, Sakai-ku, Sakai City.
- The registered floor area of the property is 2,972.45 sq.m. and the registered site area is 496.72 sq.m.
- The property is situated within an area zoned “Commercial District” according to the zoning designated by city planning law.
- A revolving pledge was created on the trust beneficial interest in the property to secure certain loans from The Tokyo Star Bank, Limited to SiSJP10 TMK.
- The property is subject to a hotel management agreement from July 6, 2016 to December 31, 2016, with one year automatic renewal thereafter, unless either party gives the other party three months’ prior written notice of intent not to renew the agreement.
- The key assumptions of the valuation are considered as below:

Year 1 Average Daily Room Rate (ADR)	JPY7,400
Stabilised Occupancy Rate	80.0%
Terminal Capitalisation Rate	4.90%
Discount Rate	4.60%

We have made reference to the historical ADR of the property and Osaka market. The above ADR assumed by us is in line with the historical performance of the property.

We have made reference to the historical occupancy of the property and Osaka market. The above occupancy assumed by us is in line with the historical performance of the property.

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 4.30% to 4.70%. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Market Value as at September 30, 2018</u>
18. A property located at 5-12-2, Shinjuku-ku, Tokyo, Japan	The property is a 5-storey building completed in 1985, with a total gross floor area of 906.51 sq.m., occupying a site with a total site area of 222.96 sq.m. The property was renovated in 2015.  The property currently operates as a hostel with 134 beds and ancillary areas including lounges, coin laundry, bathrooms and kitchen.  The property is held freehold.	As at the valuation date, the property was operated as hostel.	JPY1,220,000,000  (100% interest attributable to the SiS Hospitality Group: <b>JPY1,220,000,000</b> )

*Notes:*

- The registered owner of the property (land and building) is a third party licensed bank and the trust beneficial interest is held by Tokutei Mokuteki Kaisha SSG28.
- The registered address of the property is 1006, Shinjuku 5-chome, Shinjuku-ku.
- The registered floor area of the property is 903.83 sq.m. and the registered site area is 217.52 sq.m.
- The property is situated within an area zoned "Commercial District" according to the zoning designated by city planning law.
- A pledge was created on the trust beneficial interest in the property to secure the loan from The Tokyo Star Bank, Limited to TMK SSG28.
- The property is subject to a hotel operations and building management outsourcing agreement for a term of seven years from December 22, 2016, with one year automatic renewal thereafter, unless the outsourcer or operator gives all other parties six months' prior written notice of termination of the agreement.
- The key assumptions of the valuation are considered as below:

Year 1 Average Daily Bed Rate (ADBR)	JPY3,650
Stabilised Occupancy Rate	87.5%
Terminal Capitalisation Rate	4.80%
Discount Rate	4.50%

We have made reference to the historical ADBR of the property. The above ADBR assumed by us is in line with the historical performance of the property.

We have made reference to the historical occupancy of the property and Tokyo hostel market. The above occupancy assumed by us is in line with the historical performance of the property.

We have gathered and analysed the rates of return of relevant market segment which indicate yields of approximately 3.80% to 4.40% for budget hotels. The adopted terminal capitalisation rate and discount rate are reasonable having regard to the analysed yields and with consideration to the volatility of cash flow of hostel.



## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Director or chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

### i. Long positions in ordinary Shares of HK\$0.10 each of the Company

Name of Director	Personal interests	Family interests	Joint interests (Note 1)	Corporate interests (Note 2)	Total number of issued ordinary Shares held	Percentage of the issued share capital of the Company
Lim Kia Hong	6,933,108	400,000	-	178,640,000	185,973,108	66.90%
Lim Kiah Meng	5,403,200	250,000	534,000	178,640,000	184,827,200	66.49%
Lim Hwee Hai (Note 3)	4,493,200	4,751,158	-	-	9,244,358	3.33%
Lim Hwee Noi (Note 3)	4,751,158	4,493,200	-	-	9,244,358	3.33%
Lee Hiok Chuan	250,000	-	-	-	250,000	0.09%
Ong Wui Leng	250,000	-	-	-	250,000	0.09%

Notes:

- (1) 534,000 Shares are jointly held by Mr. Lim Kiah Meng and his spouse.
- (2) Gold Sceptre Limited holds 140,360,000 Shares and Kelderman Limited, Valley Tiger Limited and Swan River Limited each holds 12,760,000 Shares in the issued share capital of the Company. Mr. Lim Kiah Meng and his spouse and Mr. Lim Kia Hong and his spouse together own 40.50% and 39.50%, respectively of the issued share capital of Summertown Limited which owns the entire issued share capital of each of the above-mentioned companies.
- (3) 4,493,200 Shares and 4,751,158 Shares are beneficially owned by Mr. Lim Hwee Hai and Madam Lim Hwee Noi respectively. Mr. Lim and Madam Lim are spouse, so they have deemed interest in their spouse's shares under the SFO.

**ii. Share options of the Company**

The Directors and their associates had interest in share options under the Company's share option scheme, detail of which are set out as follows:

Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Number of share options outstanding at the Latest Practicable Date
<b>Lim Kia Hong</b>				
26.06.2015	27.06.2015–31.12.2015	01.01.2016–26.06.2025	4.47	50,000
26.06.2015	27.06.2015–31.12.2016	01.01.2017–26.06.2025	4.47	50,000
26.06.2015	27.06.2015–31.12.2017	01.01.2018–26.06.2025	4.47	50,000
<b>Lim Kiah Meng</b>				
26.06.2015	27.06.2015–31.12.2015	01.01.2016–26.06.2025	4.47	50,000
26.06.2015	27.06.2015–31.12.2016	01.01.2017–26.06.2025	4.47	50,000
26.06.2015	27.06.2015–31.12.2017	01.01.2018–26.06.2025	4.47	50,000
<b>Lim Hwee Hai</b>				
26.06.2015	27.06.2015–31.12.2015	01.01.2016–26.06.2025	4.47	50,000
26.06.2015	27.06.2015–31.12.2016	01.01.2017–26.06.2025	4.47	50,000
26.06.2015	27.06.2015–31.12.2017	01.01.2018–26.06.2025	4.47	50,000
<b>Lim Hwee Noi</b>				
26.06.2015	27.06.2015–31.12.2015	01.01.2016–26.06.2025	4.47	50,000
26.06.2015	27.06.2015–31.12.2016	01.01.2017–26.06.2025	4.47	50,000
26.06.2015	27.06.2015–31.12.2017	01.01.2018–26.06.2025	4.47	50,000
<b>Lee Hiok Chuan</b>				
26.06.2015	27.06.2015–31.12.2015	01.01.2016–26.06.2025	4.47	40,000
26.06.2015	27.06.2015–31.12.2016	01.01.2017–26.06.2025	4.47	40,000
26.06.2015	27.06.2015–31.12.2017	01.01.2018–26.06.2025	4.47	40,000
<b>Ong Wui Leng</b>				
26.06.2015	27.06.2015–31.12.2015	01.01.2016–26.06.2025	4.47	40,000
26.06.2015	27.06.2015–31.12.2016	01.01.2017–26.06.2025	4.47	40,000
26.06.2015	27.06.2015–31.12.2017	01.01.2018–26.06.2025	4.47	40,000
<b>Ma Shiu Sun, Michael</b>				
26.06.2015	27.06.2015–31.12.2015	01.01.2016–26.06.2025	4.47	50,000
26.06.2015	27.06.2015–31.12.2016	01.01.2017–26.06.2025	4.47	50,000
26.06.2015	27.06.2015–31.12.2017	01.01.2018–26.06.2025	4.47	50,000
<b>Total Directors and their associates</b>				990,000

**iii. Long positions in the shares and underlying shares of an associated corporation of the Company**

Information Technology Consultants Ltd. (“ITCL”) – incorporated in Bangladesh and listed on The Dhaka Stock Exchange and The Chittagong Stock Exchange

Name of Director	Corporate interests (Note)	Approximate % of issued share capital of ITCL
Lim Kiah Meng	47,911,029	46.05%

*Note:*

A related corporation which is jointly owned by Mr. Lim Kiah Meng and his spouse hold 8,790,600 ordinary shares of 10 Taka each in ITCL, while the Company indirectly holds 39,120,429 ordinary shares. As disclosed in (i) above, Mr. Lim Kiah Meng and his family has total interest of 66.49% in the Company, therefore Mr. Lim has deemed corporate interest of 39,120,429 in ITCL under the SFO.

**iv. Long positions in the shares and underlying shares of subsidiaries of the Company**

(a) SiS Mobile Holdings Limited (“SiS Mobile”) – listed on the Main Board of the Stock Exchange (Stock Code: 1362)

Name of Director	Personal interests	Family interests	Joint interests (Note 1)	Corporate interests (Note 2, 3)	Total number of issued ordinary shares held	Percentage of the issued share capital of SiS Mobile
Lim Kia Hong	1,846,754	128,000	–	203,607,467	205,582,221	73.42%
Lim Kiah Meng	1,729,024	80,000	170,880	203,607,467	205,587,371	73.42%
Lim Hwee Hai (Note 4)	1,065,984	1,145,330	–	–	2,211,314	0.79%
Lim Hwee Noi (Note 4)	1,145,330	1,065,984	–	–	2,211,314	0.79%
Lee Hiok Chuan	64,000	–	–	–	64,000	0.02%
Ong Wui Leng	64,000	–	–	–	64,000	0.02%

*Notes:*

- (1) Shares are jointly held by Mr. Lim Kiah Meng and his spouse.
  - (2) 146,442,667 shares are registered in the name of SiS International Holdings Ltd. It is owned as to approximately 50.50% by Gold Sceptre Limited.
  - (3) Gold Sceptre Limited holds 44,915,200 shares and Kelderman Limited, Valley Tiger Limited and Swan River Limited each holds 4,083,200 shares of SiS Mobile. Mr. Lim Kiah Meng and his spouse and Mr. Lim Kia Hong and his spouse together own 40.50% and 39.50%, respectively of the issued share capital of Summertown Limited which owns the entire issued share capital of each of the above-mentioned companies.
  - (4) 1,065,984 shares and 1,145,330 shares are beneficially owned by Mr. Lim Hwee Hai and Madam Lim Hwee Noi respectively. Mr. Lim and Madam Lim are spouse, so they have deemed interest in their spouse's shares under the SFO.
- (b) SiS Distribution (Thailand) Public Company Limited (“**SiS Thai**”) – listed on the Stock Exchange of Thailand

<b>Name of Director</b>	<b>Personal interests</b>	<b>Corporate interests</b> <i>(Note)</i>	<b>Total number of issued ordinary shares held in SiS Thai</b>	<b>Approximate % of issued share capital of SiS Thai</b>
Lim Kia Hong	241,875	224,510,470	224,752,345	63.60%
Lim Hwee Hai	244,687	–	244,687	0.07%

*Note:*

The Company indirectly holds 224,510,470 ordinary shares of Baht 1 each of SiS Thai. As disclosed in (i) above, Mr. Lim Kia Hong and his family has total interest of 66.90% in the Company, therefore Mr. Lim has deemed corporate interest in SiS Thai under the SFO.

v. **Share options of SiS Mobile, a subsidiary of the Company**

The Directors and their associates had interest in share options under SiS Mobile's share option scheme, detail of which are set out as follows:

<b>Date of grant</b>	<b>Vesting period</b>	<b>Exercisable period</b>	<b>Exercise price HK\$</b>	<b>Number of share options outstanding at the Latest Practicable Date</b>
<b>Lim Kia Hong</b>				
25.06.2015	26.06.2015–31.12.2015	01.01.2016–30.06.2023	2.36	400,000
25.06.2015	26.06.2015–31.12.2016	01.01.2017–30.06.2023	2.36	400,000
25.06.2015	26.06.2015–31.12.2017	01.01.2018–30.06.2023	2.36	400,000
<b>Lim Kiah Meng</b>				
25.06.2015	26.06.2015–31.12.2015	01.01.2016–30.06.2023	2.36	400,000
25.06.2015	26.06.2015–31.12.2016	01.01.2017–30.06.2023	2.36	400,000
25.06.2015	26.06.2015–31.12.2017	01.01.2018–30.06.2023	2.36	400,000
<b>Lim Hwee Hai</b>				
25.06.2015	26.06.2015–31.12.2015	01.01.2016–30.06.2023	2.36	400,000
25.06.2015	26.06.2015–31.12.2016	01.01.2017–30.06.2023	2.36	400,000
25.06.2015	26.06.2015–31.12.2017	01.01.2018–30.06.2023	2.36	400,000
<b>Lim Hwee Noi</b>				
25.06.2015	26.06.2015–31.12.2015	01.01.2016–30.06.2023	2.36	200,000
25.06.2015	26.06.2015–31.12.2016	01.01.2017–30.06.2023	2.36	200,000
25.06.2015	26.06.2015–31.12.2017	01.01.2018–30.06.2023	2.36	200,000
<b>Total Directors and their associates</b>				<b>4,200,000</b>

Save as disclosed above, none of the Directors nor their associates, as at the Latest Practicable Date, had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules adopted by the Company.

### 3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation other than statutory compensation.

### 4. INFORMATION ABOUT THE COMPANY'S MANAGEMENT

As at the Latest Practicable Date, Mr. Lim Kiah Meng, Mr. Lim Kia Hong, Mr. Lim Hwee Hai and Madam Lim Hwee Noi are directors of Gold Sceptre Limited and Summertown Limited, which have an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### 5. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business which competes or was likely to compete, whether directly or indirectly, with the business of the Group.

### 6. DIRECTORS' INTEREST IN ASSETS AND/OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any members of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since December 31, 2017, being the date to which the latest published audited consolidated financial statements of the Company were made up.

As at the Latest Practicable Date, there is no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group as a whole.

### 7. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the members of the Group within two years preceding the Latest Practicable Date and are or may be material:

- (1) The irrevocable letter of undertaking to sell the shares of SiS Thai in the voluntary tender offer made by Thai Alliance Co., Ltd. ("**Thai Alliance**") in respect of acquiring all the securities of SiS Thai (the "**VTO**"), entered into between Thai Alliance, a non-wholly owned subsidiary of the Company, and Mr. Somchai Sittichaisrichart dated October 10, 2017.
- (2) The irrevocable letter of undertaking to sell the shares of SiS Thai in the VTO entered into between Thai Alliance and Mr. Sombuti Pungsrinont dated October 10, 2017.
- (3) The irrevocable letter of undertaking not to sell the shares of SiS Thai in the VTO entered into between Thai Alliance and SiS Technologies (Thailand) Pte. Ltd, a wholly-owned subsidiary of the Company, dated October 10, 2017.

- (4) The irrevocable letter of undertaking not to sell the shares of SiS Thai in the VTO entered into between Thai Alliance and Mr. Lim Kia Hong dated October 10, 2017.
- (5) The irrevocable letter of undertaking not to sell the shares of SiS Thai in the VTO entered into between Thai Alliance and Mr. Lim Hwee Hai dated October 10, 2017.

## 8. EXPERTS AND CONSENTS

The following is the qualification of the experts who have been named in this circular or has given opinions or advice which are contained in this circular:

Name	Qualification
CBRE Limited	independent property valuer
Proton Capital Limited	a corporation licensed to carry out business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Shareholders in connection with the Proposed Spin-off

As at the Latest Practicable Date, each of Proton Capital and CBRE did not have any beneficial shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did they have any direct or indirect interests in any assets which have since December 31, 2017 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Each of Proton Capital and CBRE has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its opinion prepared for the purpose of incorporation in this circular, and the references to its name and opinion in the form and context in which they respectively appear.

## 9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since December 31, 2017, being the date to which the latest published audited consolidated accounts of the Group have been made up.

## 10. LITIGATION

On March 23, 2017, an originating notice of application filed with the Competition Tribunal of the Hong Kong Special Administrative Region was served on SiS International Limited, a wholly-owned subsidiary of the Group, by the legal adviser of the applicant, the Competition Commission. Please refer to the 2018 interim report of the Company released on September 25, 2018 and the section headed “3. Indebtedness” in Appendix I to this circular for further details.

Save as disclosed above, as at the Latest Practicable Date, no litigation or claims of material importance was known to the Directors to be pending or threatened against any member of the Group.

#### **11. GENERAL**

- i. The secretary of the Company is Ms. Chiu Lai Chun, Rhoda, associate member of Hong Kong Institute of Certified Public Accountants.
- ii. The registered office of the Company is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.
- iii. The Company's branch share registrar in Hong Kong is Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- iv. In the event of inconsistency, the English text shall prevail over the Chinese text.

#### **12 DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 803 Nine Queen's Road Central, Hong Kong up to and including December 28, 2018:

- i. this circular;
- ii. the memorandum and articles of association and bye-laws of the Company;
- iii. the annual reports of the Company for the three years ended December 31, 2015, December 31, 2016 and December 31, 2017; and the interim report of the Company for the six months ended June 30, 2018;
- iv. the letter of recommendation from the Independent Board Committee, the text of which is set out on page 22 of this circular;
- v. the letter of advice from Proton Capital to the Independent Board Committee and the Shareholders, the text of which is set out on pages 23 to 42 of this circular;
- vi. the property valuation report from CBRE, the text of which is set out on pages II-1 to II-25 of this circular;
- vii. the written consents as referred to under the section headed "Experts and Consents" in this appendix; and
- viii. the material contracts referred to under the section headed "Material Contracts" in this appendix.