

The Unbelievable Financial Alchemy of Silverlake Axis

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Company Name: Silverlake Axis Ltd

Ticker: SILV SP (Bloomberg) / 5CP (Sing ID)

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Recommendation: Short

Price: S\$0.84 (US\$ 0.60)

Target Price: S\$0.29 (65% downside)

Market Cap: S\$2.26 billion (US\$1.61 billion)

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Introduction

Silverlake Axis Ltd (SAL) is a Malaysia-headquartered and Singapore Stock Exchange-listed company which provides software solutions to the financial industry. On paper, SAL appears to be an investor's dream, providing consistent growth, high returns, strong cash flow, and a steady stream of dividends. However, we think SAL will prove instead to be an investor's worst nightmare, like other fraudulent IT service companies Longtop Financial (China) and Satyam Computer Services (India). When we first reported our findings on Longtop in February 2011, it was a market darling. Three months later the auditor, Deloitte & Touche, resigned and the stock was delisted soon after. We think there are a number of striking similarities between SAL and Longtop.

SAL's founder and Chairman Goh Peng Ooi operates a large group of companies, collectively known as the Silverlake Group, which encompasses a complex web of murky, private companies connected to SAL, the listed entity. SAL engages in extensive related-party transactions with Goh through these private companies, and disclosure of these transactions lacks clarity. Fortunately, the Companies Commission of Malaysia requires all Malaysian companies, including private ones, to file audited financial statements which can be purchased on request (www.ssm-einfo.my). Based on our extensive research, we believe there are numerous red flags and ample evidence suggesting that Chairman Goh has used these related-party transactions to inflate SAL's reported results.

SAL reports supernormal profitability driven by dramatically higher revenue per employee compared to peers, which is the exact same red flag that existed at Longtop Financial. SAL also has loss-making related-parties which employ a large number of Silverlake Group employees. These hidden entities are undisclosed contingent liabilities to SAL. This is reminiscent of Longtop's use of a related party to employ most of its employees. By inflating SAL's financial results, Goh has been able to pocket more than RM 1.0 billion (US\$300 million) through stock sales and dividends, while minority shareholders have contributed more than RM 550 million (US\$165 million) of net capital into SAL.

REPORT OUTLINE

Section 1: Complex and Deceiving Corporate Structure

SAL has a complicated history and group structure, with numerous related party transactions with opaque private entities controlled by Goh. We believe this structure was designed to confuse and deceive minority shareholders. We outline the important events in the development of the Silverlake Group to provide the context in which Goh has perpetrated fraud.

Section 2: Alarming Reliance on Related Party Transactions

SAL's extensive use of related party transactions with Goh's private companies is a red flag. Until 2009, related-party transactions accounted for the vast majority of SAL's revenue and today they still account for nearly one-quarter of revenue and expenses. The rationale and justification for these related-party transactions is flimsy and their existence creates significant potential for fraudulent abuse. We believe that some or all of the related party revenue is fictitious and is used to inflate SAL's reported profits. Frequent share placements likely help Goh fund the fictitious related party revenue through his private companies.

Section 3: Self-Dealing and Related Party Acquisition Red Flags

We outline four related-party asset injections into SAL which establish a clear pattern of deceit and abuse of minority shareholders. Aided by data from the Companies Commission of Malaysia and analysis of related party transactions, we show how Goh systematically inflated profitability of the businesses prior to injecting them into SAL. In this way, he used dubious financial reports to extract unreasonably high prices from minority shareholders for his own personal gain.

Section 4: Large Undisclosed Loss-Making Related Parties are Contingent Liabilities

We discovered the existence of large related party Silverlake private companies which are loss making with negative shareholders equity, and which only continue to operate with an explicit guarantee of financial support from Goh. These entities are known to have ongoing related party transactions with SAL, and they have a combined cost base almost as large as SAL with almost as many employees. We think these entities are being used to flatter the reported profitability of SAL. In reality, they are contingent liabilities to SAL that should be disclosed as such in the annual report.

Section 5: Undisclosed Off-Balance Sheet Debt

We found undisclosed, off-balance sheet debt which was recourse to SAL at the time of the IPO. If Goh was willing to hide contingent liabilities at that time, we worry that hidden off-balance sheet and recourse debt may still exist in some Silverlake Group companies.

Section 6: Chairman's History of Cashing Out at the Expense of Minority Shareholders

SAL's financials have been cleverly manipulated to entice minority shareholders, but an analysis of cash flow clearly shows that Goh is the one who is benefiting. Goh has been able to pocket more than RM 1.0 billion (US\$300 million) through stock sales and dividends, while minority shareholders have contributed more than RM 550 million (US\$165 million) of net capital into SAL. We also note a highly suspicious contract with China's HNA Group in 2010 where the S\$70 million contract was secured for SAL in exchange for part of Goh's personal shareholding in SAL stock, worth more than S\$35 million at the time. Finally, we highlight that although reported revenue and net profit have grown at a rapid pace because of related-party asset injections, EPS has only increased at a 5.4% CAGR due to frequent dilutive related-party deals.

Section 7: Peer Analysis - Inexplicably High Profit Margins and Revenue per Employee

Peer analysis shows that SAL has inexplicably high profit margins above 50%. The main driver of this supernormal profitability is exceptional revenue per employee, not lower costs. SAL's revenue per employee is more than 50% higher than the nearest competitor. This is the exact same red flag which existed at Longtop Financial, which was proven to have fabricated revenue.

Section 8: Declining Product Competitiveness and Bribery Allegations

Our industry research identified other fundamental issues with the business. Customers we spoke to believe the product is poorly designed with no version control which makes any update to the system exceedingly time-intensive and costly. These issues are making new customer wins very difficult, which calls into question the growth story peddled by management. Of even greater concern, numerous customers, competitors, and ex-employees suggested in interviews that SAL may have secured customers through bribery. We are not accusing SAL of bribery, as it is difficult for us to independently verify, but the number of times bribery was mentioned during our field research is an ethical red flag and potential company-specific risk that could impact the long-term value of SAL. One needs look no further than the current anti-graft campaign in China to see how corruption can negatively impact the value of a business. Furthermore, if bribery was a deciding factor for SAL in winning contracts, it could be symptomatic of an inferior product relative to competitors who do not engage in such practices.

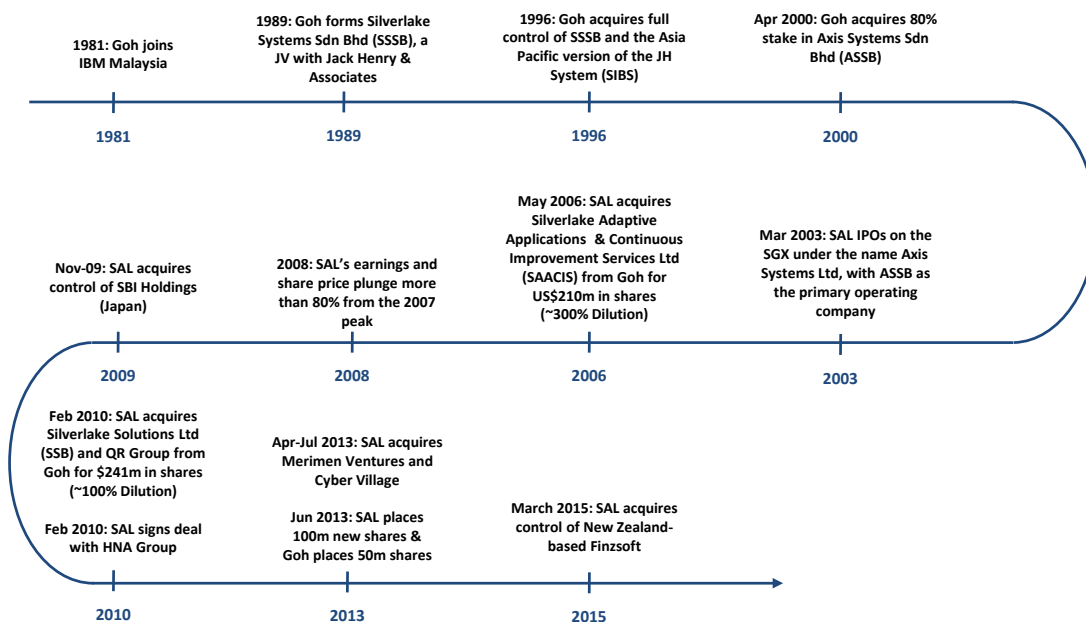
Section 9: Valuation and Price Target

We arrive at a target price of S\$0.29, which represents 65% downside from the current stock price. We arrive at this target by applying the peer average Price to Sales ratio (5.3x), multiplied by SAL's non-related party revenue. We stress that we believe this target price uses very generous and conservative assumptions, and we wouldn't rule out the possibility that the stock is ultimately worth zero. We do not recommend investors purchase the stock at any price because with a deceptive and manipulative controlling shareholder like Goh, we doubt minority shareholders will accrue any value over time. We also doubt that SAL would have much value to an acquirer because of the ongoing related party transactions and key man risk.

Section 1: History of the Silverlake Group

SAL has a complicated and confusing history. We believe Goh has purposely constructed a highly convoluted group structure with numerous related party transactions, in order to confuse and deceive SAL minority shareholders. An understanding of the origins and development of the group is necessary in order to discern how Goh has consistently deceived shareholders using related-party transactions and ownership dilution (**Exhibit 1**). In Section 2 and 4 of this report, we use acronyms to refer to the numerous Silverlake and related companies. We suggest readers use the key in **Appendix 1** to help navigate the numerous entities and acronyms, which can be confusing.

Exhibit 1: Silverlake Timeline



Goh Peng Ooi joined IBM Malaysia in 1981, after graduating from the University of Tokyo in 1980. While working as a Sales Manager for the banking & finance group at IBM in the late 1980s, Goh was assigned to a project focused on helping MUI Bank Bhd¹ implement a new core banking system using IBM AS/400 hardware. IBM was looking for a core banking software solution to co-market with IBM hardware. The software selected for the project was from Jack Henry & Associates (JHA), a US company, which at the time mainly served small US banks with a limited international presence. Goh flew to the US numerous times to meet with JHA during the selection process. IBM colleagues of Goh at the time say he then made a side deal with JHA, without IBM's knowledge, to become the exclusive reseller for JHA in Asia.

Goh quit IBM in 1989 to form Silverlake Systems Sdn Bhd (SSSB), a JV which was 75% owned by Goh and 25% owned by Jack Henry International, a wholly-owned subsidiary of JHA. The name Silverlake comes from IBM's early development codename for the AS/400 computer hardware. SSSB was awarded the exclusive right in Asia Pacific to relicense, install, maintain, modify, copy and implement the Jack Henry

¹ MUI Bank Bhd was acquired and renamed Hong Leong Bank in 1994

Silverlake System (JH System). SSSB made modifications to the JH System so that it complied with banking and regulatory requirements in Malaysia, and subsequently other Asian Pacific countries. As part of the original deal, JHA was to receive 50% of all license fees generated from the Asia Pacific version of the JH System. SSSB was inserted into the MUI Bank project, which became SSSB's first customer. In 1996, Goh acquired the remaining 25% stake in SSSB from JHA, and reached an agreement to clarify sole ownership of the modified Asia Pacific version of the JH System (referred to as Silverlake Integrated Banking System, or SIBS). It is unclear why JHA decided to exit the partnership, or how much Goh paid to acquire full ownership rights.

In April 2000, the Goh-controlled SSSB acquired an 80% stake in Axis Systems Sdn. Bhd. (ASSB) from its founder, Wong Chew Ming. ASSB was established in 1990 and then developed a front-end bank branch software system. ASSB grew rapidly after Goh's acquisition, supposedly by leveraging the network and customer base of the Silverlake Group, which by 2003 had grown to include approximately 1,000 employees with offices and customers in 13 countries.

In March 2003, Axis Systems Ltd (SAL) was listed on the Singapore Stock Exchange (SGX) with Goh acting as Chairman and Wong Chew Ming as Managing Director. SAL is a Bermuda-domiciled company established in 2002 and controlled by SSSB, Goh's de facto holding company. ASSB was transferred into SAL as its primary operating company. In the IPO, SAL issued 42.9 million new shares to the public, equal to 15.7% of the enlarged total, at S\$0.31 per share to raise net proceeds of RM 24.92 million (US\$6.6 million). This left Goh's SSSB holding company with 60.30% ownership and Wong Chew Ming with 13.88% of SAL. At the time of the IPO, the SGX-listed SAL was valued at RM 159 million (US\$ 41.7 million). Despite diluting his ownership in SAL, Goh still maintained 99.9% ownership in SSSB, as well as control over numerous other Silverlake Group companies which transacted with SAL.

In May 2006, SAL acquired Silverlake Adaptive Applications & Continuous Improvement Services Ltd (SAACIS) from Goh for approximately RM 761 million (US\$ 210 million) in the form of 836 million SAL shares². This compared to SAL's market cap of RM 255 million (US\$ 72 million) at the time. SAACIS is a Bermuda incorporated holding company that was established in December 2003. The main business of SAACIS is the licensing of Silverlake Integrated Banking software (SIBS), which is the bank-end core banking software that was modified from the JH System. According to the transaction circular, SIBS intellectual property was originally owned by Silverlake BVI Pte Ltd (SBVI), a British Virgin Islands incorporated company, in countries outside of Malaysia and jointly by SBVI and by SSSB within Malaysia. SAACIS acquired the sole rights to license SIBS software from SBVI and SSSB prior to the acquisition by SAL. The deal was highly dilutive for SAL shareholders, resulting in a nearly 300% increase in share count. The deal also would have taken Goh's shareholding percentage above the SGX limit of 85%³, so Goh simultaneously placed 46.409 million shares into the market on June 21, 2006, allowing him to pocket RM 31 million. Wong Chew Ming resigned shortly before the acquisition and disposed of his shares over the next year. Dr. Kwong Yong Sin was promoted to Managing Director, a position he still holds today.

² Based on the SAL share price on March 28, 2006, the date the acquisition circular was released

³ SGX-listed companies are required to maintain a minimum 15% free float

The SAACIS acquisition was accounted for using pooling-of-interest method, which did not result in any goodwill on SAL's balance sheet, despite SAACIS having almost no net tangible assets. It is also worth noting that there were large parts of the Silverlake Group that were not acquired with SAACIS, which meant that large related party transactions would continue. Management's rationale at the time was that "The other businesses of the Silverlake Group, such as service and implementation, are currently undertaken by a sizable workforce with implementation skills rather than core software development skills. Axis will not need to incur the fixed costs and overhead of acquiring and maintaining the large workforce and support functions for implementation services which may adversely affect the profit margins of the group." Several months after the SAACIS acquisition, SAL changed its name to Silverlake Axis Ltd, the name it retains today.

In February 2010, SAL simultaneously acquired Silverlake Solutions Ltd (SSB) and QR Group from Goh. Similar to the SAACIS acquisition, SAL acquired SSB and QR Group by issuing shares to Goh. SSB was acquired for RM701.9 million (US\$ 208 million) via the issuance of 879.4 million new shares. QR Group was acquired for RM117.9 million (US\$ 35.0 million) via the issuance of 146.2 million new shares. In total, the two acquisitions nearly doubled SAL's outstanding share count which again resulted in substantial dilution to SAL shareholders while Goh received US\$ 243 million in shares. SSB provides maintenance services, application management services, and program change requests to customers who have licensed and are using the SIBS software. The rationale for acquiring SSB is to expand the income base and enable the group to provide a comprehensive range of services related to the SIBS software, with SSB business being "relatively stable, repeatable, good profit margins, and potential to grow steadily over time." This seems inconsistent with the stated rationale for not acquiring the SSB business in 2006 due to the "large workforce and high fixed costs". The QR Group develops, licenses, and sells retail management software systems for the retail industry. The rationale for acquiring the QR Group was to expand SAL's product range, industry, and geographic reach. SSB and QR Group were also accounted for using pooling-of-interest accounting, which did not result in any goodwill on SAL's balance sheet.

There have been a number of other smaller acquisitions over the years including SBI Card Processing, Merimen, Cyber Village, and most recently Finzsoft. However we will focus in this report on the larger deals with clearer related party issues.

Section 2: Alarming Reliance on Related Party Transactions

We believe that related party transactions are the core mechanism used by Goh to perpetrate fraud at SAL. Since its IPO in 2003, SAL has relied extensively on related party transactions (**Exhibit 2**). Between FY2003-FY2009, the vast majority of SAL revenue was generated from related party companies in the Silverlake Group controlled by Goh. While the percent of revenue from related parties has declined since 2010 following the acquisition of SSB, related parties still accounts for nearly one quarter of group revenue and expenses. We believe that Goh's stated rationale for not having all Silverlake Group entities consolidated into SAL is flimsy at best. It is not a practice used by peers in the industry. It is also very telling that even after the SAACIS and SSB acquisitions supposedly brought nearly all of the Silverlake

Group business into SAL, significant related party transactions have continued. In fact the absolute magnitude of total related party transactions reached a new high in FY2014.

From FY2003-FY2007, SAL disclosed a more detailed record of SAL's transactions with each Silverlake entity (**Appendix 2**). However from FY2008 onwards, SAL has only disclosed aggregate related party transaction amounts, with no related party entity breakdown. This more limited disclosure has significantly reduced transparency, making it nearly impossible to track the related parties with whom SAL transacts.

Exhibit 2: Silverlake Axis Ltd Related Party Transactions

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Year-end	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun
Malaysian Ringgit ('000)												
Total Revenue	24,437	33,246	27,782	124,493	137,294	146,947	54,815	175,818	305,380	400,017	398,575	500,728
growth		36.0%	-16.4%	348.1%	10.3%	7.0%	-62.7%	220.7%	73.7%	31.0%	-0.4%	25.6%
Revenue from related parties	22,363	30,257	18,361	100,301	104,083	124,538	51,350	64,138	26,964	74,757	106,732	120,486
o/w Sale of software and hardware products	0	0	0	0	552	1,161	9,747	180	190	0	1,115	605
o/w Software licensing	0	0	0	73,899	76,113	90,637	14,675	1,476	0	31,067	86,949	99,011
o/w Software project services	18,050	22,664	11,671	5,775	6,049	15,571	8,467	4,480	206	7,731	7,890	7,000
o/w Maintenance and enhancement services	4,313	7,593	6,690	20,628	21,369	17,170	18,461	58,002	26,567	35,959	10,778	13,870
% of revenue from related parties	92%	91%	66%	81%	76%	85%	94%	36%	9%	19%	27%	24%
Total Operating Expenses	7,901	13,033	12,921	42,464	50,131	48,923	37,092	99,885	167,662	223,759	189,970	241,986
Expenses paid to related parties	60	9,960	325	374	354	477	287	3,908	48,449	69,412	46,719	52,186
o/w Service Fees paid	0	0	0	0	0	0	0	3,646	48,021	69,014	45,833	50,995
o/w Software development and project costs	0	9,900	265	0	0	0	0	0	0	0	0	0
o/w Other	60	60	60	374	354	477	287	261	427	398	885	1,190
% of expenses paid to related parties	1%	76%	3%	1%	1%	1%	1%	4%	29%	31%	25%	22%
Profit Before Tax	16,728	21,004	16,146	83,540	88,494	111,000	92,408	75,202	131,756	179,843	212,975	274,132
related party revenue as % of PBT	134%	144%	114%	120%	118%	112%	56%	85%	20%	42%	50%	44%

Source: Silverlake Axis Ltd Annual Reports

A more detailed breakdown of related party transactions is provided in Appendix 2

We expect that SAL management will argue that these related party transactions have all been properly reported in the annual report and approved by the auditors. While that may technically be true, that does not ensure that related party transactions have not been abused. Silverlake uses at least 12 different auditors⁴ in Malaysia alone, for its various private entities (**Appendix 3**). This most likely means that no audit team has a full picture of the web of related party transactions across the group. Furthermore, we have seen countless examples of Chinese companies, including the recent example of Hanergy Thin Film Power Group, which had disclosed related party transactions approved by auditors but which proved to have helped facilitate fraud⁵.

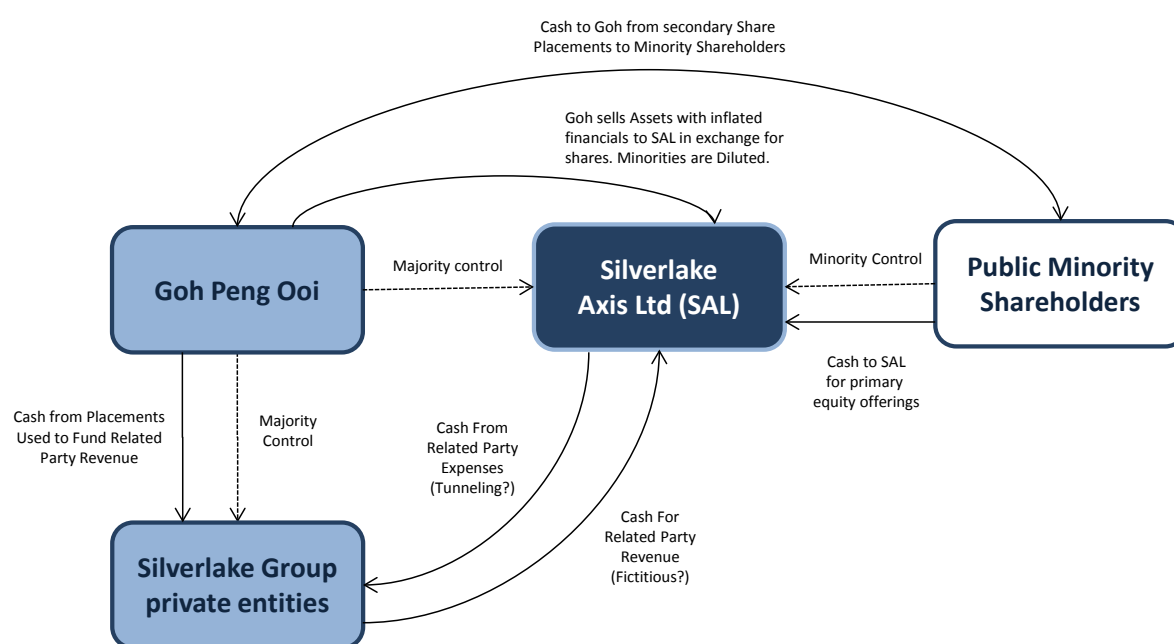
With so much revenue generated from related party transactions, Goh can easily generate fictitious revenue for SAL through his private Silverlake Group entities. Satyam and Longtop used similar playbooks with falsified invoices leading to revenue overstatements and inflated profits. Goh's numerous share placements over the years may have provided the cash with which to fund the fake related-party revenue transactions, thereby generating higher reported profits at SAL and a higher share

⁴ Based on the analysis of more than 40 Goh controlled Silverlake Group companies in Malaysia

⁵ The Hong Kong Securities and Futures Commission is conducting an ongoing investigation into Hanergy

price, which allows Goh to do his next placement at an even higher price. In this way, Goh creates a virtuous cycle of corporate tunneling fraud, a very clever scheme (**Exhibit 3**). Perhaps it is not a coincidence that Goh has publicly referred to the Silverlake system as a “scheme”, using the acronym SCIIM⁶ (“Silverlake Collaborative Intelligence and Innovation Model”) or in other instances SCCIM⁷ (“Silverlake Collaborative Capability and Intelligent Model”).

Exhibit 3: The Silverlake "Scheme"



Section 3: Self-Dealing and Related Party Acquisition Red Flags

As discussed in the background section, SAL has made a number of large related-party acquisitions by purchasing assets from Goh. We believe these transactions are a critical component of the fraud. The related-party sale of businesses to SAL has allowed Goh to dispose large amounts of stock, all while maintaining control of SAL. We believe this cash received from stock sales has not only enriched Goh, but also provided him with the cash to generate fake revenue for SAL via his related party companies.

In this section we identify suspicious red flags in four major transactions starting with the IPO in 2003. The common, recurring theme with these transactions is that the assets experienced miraculous growth in the few years prior to the transaction, typically aided by related party transactions with other Goh controlled private companies. In all but one case, the business sold deteriorated shortly after it was sold to SAL. The evidence overwhelmingly suggests that Goh used related party dealings to inflate results and deceptively sell assets to minority shareholders at unreasonably high prices. As a reminder, we recommend readers use **Appendix 1** as a reference when reading this Section of the report.

⁶ <http://tinyurl.com/qjys3co>

⁷ <http://tinyurl.com/oe69fuf>

Readers who are more interested in a high level summary of our findings may want to skip to Section 4, as Section 3 is quite detailed.

2003: Axis Systems Sdn Bhd (ASSB)

As described earlier in the report, ASSB (Axis Systems Sdn. Bhd.) was founded by Wong Chew Ming in 1990 and Goh acquired a controlling 80% interest in 2000. We don't know the exact price Goh paid for the ASSB stake, but his holding company SSHB took out a loan in the amount of RM 8.2 million (US\$2.16 million), with the 80% stake in ASSB provided as collateral (**Appendix 4**). Therefore we believe Goh likely acquired the stake for around RM 8.2 million.

Exhibit 4: Axis Systems Sdn. Bhd. (ASSB) Financial Statements

Fiscal Year	1997	1998	1999	2000*	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Year-end	Dec	Dec	Dec	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun
Malaysian Ringgit ('000)																		
owned by SAL from July 29, 2002. SAL's IPO was on March 12, 2003.																		
Revenue	6,254	4,136	5,270	3,298	16,385	19,320	24,437	33,246	25,804	20,036	17,814	26,858	21,907	20,930	12,441	13,872	14,191	8,879
growth	-11.2%	-33.9%	27.4%	-37.4%	396.7%	17.9%	26.5%	36.0%	-22.4%	-22.4%	-11.1%	50.8%	-18.4%	-4.5%	-40.6%	11.5%	2.3%	-37.4%
Gross profit			2,948	2,255	10,520	15,861	18,824	25,201	19,414	15,335	9,720	18,544	11,722	14,593	8,157	9,070	10,150	4,718
gross margin			55.9%	68.4%	64.2%	82.1%	77.0%	75.8%	75.2%	76.5%	54.6%	69.0%	53.5%	69.7%	65.6%	65.4%	71.5%	53.1%
Operating profit			2,103	1,474	8,610	13,698	16,737	21,592	15,376	10,132	3,080	14,104	8,661	9,236	2,561	6,699	7,399	3,902
operating margin			39.9%	44.7%	52.5%	70.9%	68.5%	64.9%	59.6%	50.6%	17.3%	52.5%	39.5%	44.1%	20.6%	48.3%	52.1%	43.9%
Profit after tax	1,317	1,398	2,102	1,172	7,551	13,044	15,977	18,787	15,949	9,876	3,568	13,409	7,874	8,043	1,756	4,934	5,482	3,223
net margin	21.1%	33.8%	39.9%	35.5%	46.1%	67.5%	65.4%	56.5%	61.8%	49.3%	20.0%	49.9%	35.9%	38.4%	14.1%	35.6%	38.6%	36.3%
Related Party Revenue	0	0	0	0	9,574	15,526	22,363	30,257	20,325	15,600	15,512	20,490	20,496	19,821	11,834	13,858	14,030	8,757
as % of total revenue	0%	0%	0%	0%	58%	80%	92%	91%	79%	78%	87%	76%	94%	95%	95%	100%	99%	99%

Source: Silverlake Axis Sdn Bhd audited financial statements, Company Number 199419-P, Companies Commission of Malaysia (www.ssm-einfo.my)

*Fiscal year changed to June in FY2000. Includes only six months of results

Goh benefited tremendously from the reported growth of ASSB after he acquired control in 2000 (**Exhibit 4**). ASSB sales increased by 367% between 1999 and 2002 and profit increased an even more remarkable 650%. This growth caused the value of Goh's ownership stake in ASSB to rise from an estimated Rm 8.2 million to nearly RM 96 million in just three years at the time of the IPO in 2003, despite the dilution which occurred when new shares were issued during the IPO.

It is noteworthy that related-party sales (i.e. sales made to other Goh-controlled Silverlake Group companies) climbed from nothing in 1999 to over 90% of sales in 2003. Thus, all of ASSB's sales growth was driven by sales to related-party companies. The 2003 SAL prospectus attributes the growth over this period to "tapping on the Silverlake Group's network." While the sales growth was remarkable, the increase in profit margins was even more astounding. Between 1994-1999, ASSB had pretax profit margins typically between 30-49% and net margins between 21-40%. After Goh acquired control and related-party transactions rose to more than 90% of revenue, ASSB's pretax margin jumped to 71% in 2002 and remained above 60% for the next few years. The margin improvement was largely driven by a rise in gross margin rather than a large decline in selling & distribution expenses. This is counterintuitive because related parties were now supposedly responsible for selling and distributing the software. One might have expected to see ASSB's gross margins go down as the margin was split with the related parties. This is a red flag.

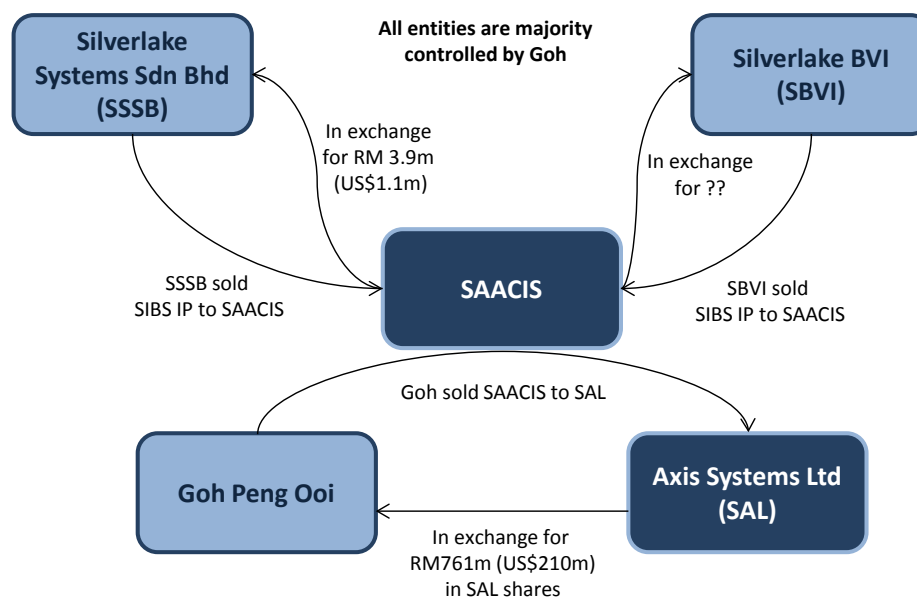
In light of the suspicious growth achieved prior to the IPO, it is interesting to track the performance of ASSB following the IPO. Results improved in FY2003 and FY2004 but then the business started to deteriorate, and in particular the profit margin declined materially. Absolute profits peaked in FY2004

and margins never returned to the inflated levels achieved just before and after the IPO. Moreover, revenues declined from RM 33m in 2004 to less than RM 9m 10 years later. Taken in isolation, this fact may not alarm investors. However, as we will show, the transaction fits a pattern of deals whereby Goh sells assets into the listed group following a miraculous period of growth, after which results deteriorate dramatically. When this pattern is combined with the predominantly related-party transaction driven nature of the business, the opportunity and likelihood for fraud and manipulation appears very high.

2006: Silverlake Adaptive Applications & Continuous Improvement Services Ltd (SAACIS)

As a reminder, there were Silverlake private entities which were restructured into SAACIS (**Exhibit 5**), SSSB and SBVI. We were able to obtain historical financial statements for SSSB, a Malaysian company, but not for SBVI because private company financial statements are not publicly available in the British Virgin Islands.

Exhibit 5: SAACIS Deal Mechanics



There are several red flags surrounding the SAACIS deal in 2006. The acquisition circular provides three years of pro forma historical financial statements for SAACIS (**Exhibit 6**).

Exhibit 6: Silverlake Adaptive Applications & Continuous Improvement Services Ltd. (SAACIS)

Fiscal Year	2003	2004	2005	2006*
Year-end	Jun	Jun	Jun	Jun
Malaysian Ringgit ('000)				
Revenue	55,203	80,710	75,027	
growth		46.2%	-7.0%	
Gross profit	39,556	57,419	61,664	
gross margin	71.7%	71.1%	82.2%	
Operating profit	35,160	53,094	56,575	
operating margin	63.7%	65.8%	75.4%	
Profit after tax	34,172	48,452	52,406	
net margin	61.9%	60.0%	69.8%	
Revenue by Segment				
Licensing of SIBS	37,120	48,316	53,172	
Enhancement Services	2,736	2,464	2,773	
Sale of IBM Products	15,347	29,930	19,082	
Related Party % of SIBS Licensing Revenue	97%	77%	93%	
Licensing of SIBS to Related Parties	36,077	37,135	49,575	66,135
Silverlake (Netherlands) B.V.	29,560	25,679	8,647	6,125
Silverlake System Sdn Bhd.	2,468	11,456	17,438	11,991
Silverlake Sistem Sdn. Bhd.	4,049	0	462	695
Silverlake Research & Marketing Institute Ltd. (SRMI)	0	0	22,800	44,916
Silverlake Corporation	0	0	228	2,408
Growth in SIBS Related Party Revenue		2.9%	33.5%	33.4%
Growth in SIBS Revenue ex-SRMI		2.9%	-27.9%	-20.8%

Source: Axis Systems Holdings Limited Circular to Shareholders, March 31, 2006

*2006 data is based on the latest practicable date prior to the Circular printing (Mar 28, 2006)

In the FY06 financial statements for SSSB, there is a footnote (**Appendix 5**) regarding the SIBS Intellectual Property disposed to SAACIS. SIBS IP is the critical intellectual property for Silverlake's core banking software product, and therefore should theoretically be the most valuable asset of the Silverlake Group. The rights to the SIBS IP, owned by SSSB, were sold to SAAICS for only RM 3.9 million, based on an indicative valuation of the company's rights in the SIBS IP by an independent professional valuer. This compares to the total acquisition value of SAACIS by SAL of RM 761 million (US\$210 million), as discussed earlier. Furthermore, the contribution of the disposed SIBS IP business over the 16.5 months prior to the disposal had sales of RM 24.9 million and a net loss of RM 6.6 million. The net loss included a software impairment charge of RM 8.0 million, but even if we exclude that, the adjusted net income was only RM 1.4 million. The disposed business had a gross margin of only 27.4% and an adjusted operating margin of only 5.6%, compared to the pro forma SAACIS gross margins of 71-82% and operating margins of 63%-75%. We find this enormous discrepancy in profitability and valuation troubling.

There is another red flag in the pro forma SAACIS financials (**Exhibit 6**). The pro forma statements show a pleasant trend of growing earnings from FY03-05. However, more than half of the revenue is generated from related party transactions. The most interesting related party transaction is with Silverlake Research & Marketing Institute Ltd (SRMI), a previously unknown Bermuda incorporated company. SRMI accounted for 0% of SIBS licensing revenue in FY03 and FY04, but it accounted for 43% in FY05 and 61% in FY06. Buried in the footnotes of the circular (**Appendix 6**), it is disclosed that SRMI licensed certain SIBS software modules for use in the public utilities industry for a total of US\$7 million and for the airline industry for US\$11 million. We find the SRMI licenses suspicious. First, we question

how easily adaptable decade old core banking software modules are to public utility and airline applications. Second, we note that the Silverlake Group has another private group company in Malaysia, Silverlake Component Technology Solutions Sdn Bhd, which was already providing software to the airline industry since as early as 2003 (**Appendix 7**). Why did SRMI buy SIBS licenses for the airline industry when the Silverlake Group already had airline software capability? We note that without the revenue provided by SRMI in FY05 and FY06, SAACIS would have reported sharply declining revenue and profits, which would have made the deal far less appealing to minority shareholders (**Exhibit 6**).

A final red flag to highlight is the sharp decline in SIBS licensing revenue that occurred three years after the SAACIS deal was completed (**Exhibit 7**).

Exhibit 7: Silverlake Axis Ltd (SAL) Financial Results

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010*
Year-end	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun
Malaysian Ringgit ('000)								
SAACIS Acquired by SAL on May 22, 2006								
Total SAL Group Revenue	24,437	33,246	27,782	124,493	137,294	146,947	54,815	175,818
of which license fees				73,899	79,618	90,637	15,204	13,694
pro forma license fees**	37,120	48,316	53,172					
revenue growth		36.0%	-16.4%	348.1%	10.3%	7.0%	-62.7%	220.7%
license fee growth		30.2%	10.1%	39.0%	7.7%	13.8%	-83.2%	-9.9%
Operating Profit	16,656	20,617	15,360	83,582	91,023	107,203	20,936	79,626
operating margin	68.2%	62.0%	55.3%	67.1%	66.3%	73.0%	38.2%	45.3%
% change		23.8%	-25.5%	444.1%	8.9%	17.8%	-80.5%	280.3%

Source: Silverlake Axis Ltd annual reports

*2010 SAL completed the acquisition of SSB, which led to substantial non-organic growth

**pro forma data from Axis Systems Holdings Limited Circular to Shareholders, March 31, 2006

This gain fits the pattern of Goh selling companies to SAL with inflated or peak financial results in order to extract the highest price to the detriment of SAL minority shareholders and to the benefit of Goh. SAL group revenue declined 63% and operating profit declined 80% in FY09. Revenue from licensing of SIBS, which was the majority of the SAACIS business, fell an even sharper 83% that year. Management attributed the poor results to the financial crisis and global recession, which no doubt affected many businesses globally. However, we note that SAL's competitors, with very similar business models, reported much more resilient results (**Exhibits 8-9**). Oracle Financial Services (OFS) actually reported +23% revenue growth in fiscal year Mar-2009 and only a -5% decline in fiscal year Mar-2010. OFS' license fee revenue declined only -19% in Mar-2010. Temenos reported a -9% decline in revenue in fiscal year Dec-2009, with software license fee revenue declining only -16%. We note that both OFS and Temenos have higher exposure to US and European banking customers, which were more severely impacted by the financial crisis than Southeast Asian banks. We fail to understand how SAL's license fee business could have suffered so dramatically relative to peers, and the competitors we interviewed also found SAL's poor performance during 2008-09 inexplicable.

Exhibit 8: Oracle Financial Services Software Ltd (OFS)

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010
Year-end	Mar	Mar	Mar	Mar	Mar	Mar	Mar	Mar
Millions of Indian Rupees								
Revenue	6,099	7,881	11,386	14,823	20,609	23,802	29,276	28,740
of which license fees	1,716	1,773	2,121	2,979	3,358	3,329	4,170	3,367
revenue growth		29.2%	44.5%	30.2%	39.0%	15.5%	23.0%	-1.8%
license fee growth		3.3%	19.7%	40.4%	12.7%	-0.9%	25.3%	-19.3%
Operating Profit	1,810	2,095	2,692	2,759	3,771	3,966	7,197	9,792
operating margin	29.7%	26.6%	23.6%	18.6%	18.3%	16.7%	24.6%	34.1%
% change		15.7%	28.5%	2.5%	36.7%	5.2%	81.4%	36.1%

Source: Oracle Financial Services Software Ltd annual reports

Exhibit 9: Temenos Group AG

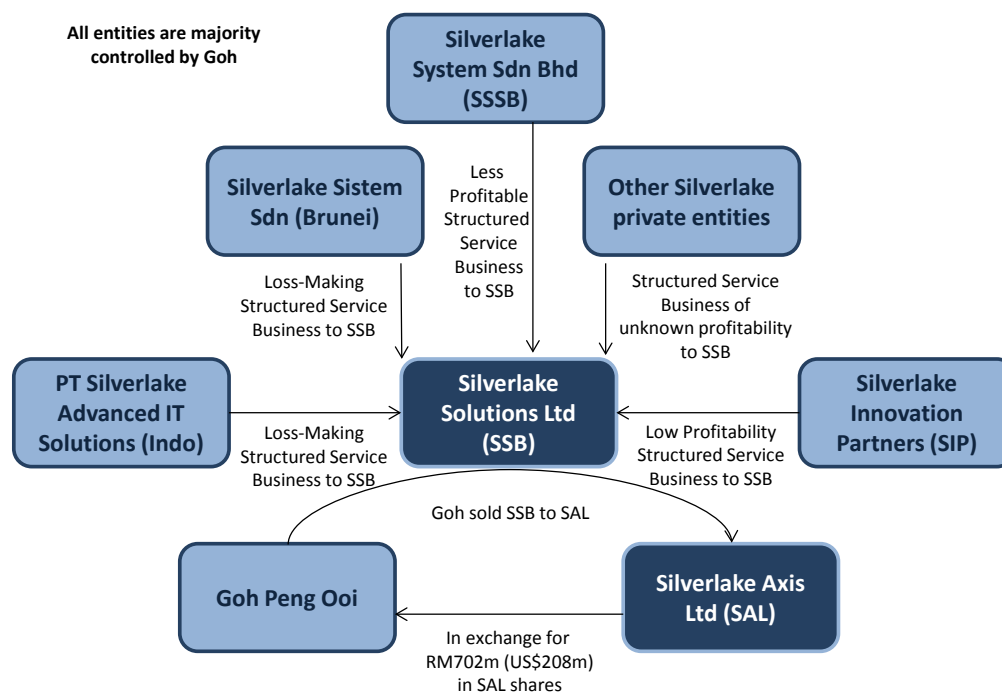
Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010
Year-end	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec
USD '000								
Revenue	146,191	153,575	168,652	216,267	329,860	406,937	370,322	447,951
Software License	59,741	62,829	64,374	97,897	148,777	150,055	125,989	160,108
revenue growth		5.1%	9.8%	28.2%	52.5%	23.4%	-9.0%	21.0%
software license growth		5.2%	2.5%	52.1%	52.0%	0.9%	-16.0%	27.1%
Operating Profit	10,722	12,819	22,747	33,315	62,503	63,952	80,232	73,691
operating margin	7.3%	8.3%	13.5%	15.4%	18.9%	15.7%	21.7%	16.5%
% change		19.6%	77.4%	46.5%	87.6%	2.3%	25.5%	-8.2%

Source: Temenos Group AG annual reports

2010: Silverlake Solutions Ltd (SSB)

Recall that in February 2010, SAL acquired Silverlake Solutions Ltd (SSB) from Goh for RM 702 million (US\$208 million) in stock. Prior to the acquisition, SSB underwent a restructuring exercise. SSB provides maintenance services, application management services, and program change requests to customers who have licensed and are using SIBS software. SSB was a new holding company incorporated in Bermuda on November 26, 2007. The restructuring exercise involved transferring all of the Structured Services Business from Silverlake Group private companies to the SSB (**Exhibit 10**). It also involved the cessation of structured services provided by Silverlake Innovation Partners (SIP Group) and this business was transferred to SSB. SSB established brand new subsidiaries during 2009 in Malaysia, Singapore, Indonesia, Thailand, and the Philippines.

Exhibit 10: SSB Deal Mechanics



There was only limited disclosure on which Silverlake Group private companies were previously handling the structured services business activities, which makes investigating the historical performance of SSB much more difficult. However, the instances of disclosure that we could find, which are outlined below, suggest that the operating margins of the Structured Service businesses were somewhere between mid-teens and loss making. This contrasts sharply with the pro forma data presented by management in the acquisition circular, which suggests that the Structured Service business was a 55-56% gross margin and 52-55% operating margin business (**Exhibit 11**). These sharply contrasting data points are a red flag.

Exhibit 11: Silverlake Solutions Limited Pro Forma Financial Data

Fiscal Year Year-end	2007 Jun	2008 Jun	2009 Jun
Malaysian Ringgit ('000)			
Revenue	85,106	88,971	111,564
growth		4.5%	25.4%
Gross profit	47,174	49,947	62,431
gross margin	55.4%	56.1%	56.0%
Operating profit	44,980	48,093	60,857
operating margin	52.9%	54.1%	54.5%
Profit after tax	39,456	41,525	53,578
net margin	46.4%	46.7%	48.0%

Source: Silverlake Axis Ltd Circular to Shareholders, January 13, 2010

Silverlake Innovation Partners Sdn Bhd (“SIP Group”) was identified as one of the Silverlake Group private companies which previously provided Structured Service business prior to the SSB restructuring. SIP Group ostensibly engaged in substantially the same business as SSB and therefore ought not to have wildly divergent profit margins. As SIP Group is a Malaysian private company, we have access to the historical financial statements (**Exhibit 12**). These historical financial statements are a red flag. Prior to the cessation of Structured Service business November 1, 2009, SIP Group had gross margins that range from 16-37% and operating margins ranging from negative to 16%. This is a radically different business than the pro forma SSB financial statements we are given in the circular.

Exhibit 12: Silverlake Innovation Partners Sdn Bhd

Fiscal Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Year-end	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec
Malaysian Ringgit ('000)														
Revenue	25,658	123,554	60,153	47,227	48,911	76,716	82,903	53,881	39,125	66,321	17,047	13,436	69,768	20,713
growth	0.0%	381.5%	-51.3%	-21.5%	3.6%	56.8%	8.1%	-35.0%	-27.4%	69.5%	-74.3%	-21.2%	419.3%	-70.3%
Gross profit	8,133	38,817	24,500	15,336	18,012	23,748	13,485	11,061	9,400	21,422	7,560	8,015	22,337	10,901
gross margin	31.7%	31.4%	40.7%	32.5%	36.8%	31.0%	16.3%	20.5%	24.0%	32.3%	44.4%	59.7%	32.0%	52.6%
Operating profit	3,728	29,875	15,733	3,915	6,023	8,665	(1,421)	(169)	166	10,621	(869)	2,820	12,332	5,975
operating margin	14.5%	24.2%	26.2%	8.3%	12.3%	11.3%	-1.7%	-0.3%	0.4%	16.0%	-5.1%	21.0%	17.7%	28.8%
Profit after tax	2,161	19,491	10,493	1,566	3,323	4,099	(3,282)	(1,635)	(325)	7,900	(1,371)	2,309	9,435	4,050
net margin	8.4%	15.8%	17.4%	3.3%	6.8%	5.3%	-4.0%	-3.0%	-0.8%	11.9%	-8.0%	17.2%	13.5%	19.6%
Revenue Contribution by Segment														
Project implementation and system integration	34,632	22,464	18,486	11,332	55,517	61,419	20,404	12,589	22,409	14,484	11,032	67,237	17,593	
Sales of hardware	60,992	16,140	20,072	23,160	8,904	13,561	19,722	1,403	10,379	335	0	0	0	
License fee	18,861	15,103	3,339	7,834	4,480	319	2,446	0	0	0	0	0	0	
Project Maintenance		8,162	4,605	2,824	5,475	6,693	6,601	9,587	21,771	25,159	600	390	1,792	2,558
Rental income		0	0	0	0	0	0	0	521	460	0	0	0	0
Others		5,838	1,841	2,506	450	1,123	1,002	1,722	3,363	7,913	1,627	2,014	738	563

Source: Silverlake Innovation Partners Sdn Bhd audited financial statements, Company Number 386828-W, Companies Commission of Malaysia (www.ssm-einfo.my)
Financial statements are for the SIP Group, which includes Silverlake Innovation Partners and all subsidiaries, including GI Solutions Gateway Sdn Bhd

SSSB also transferred a Structured Service business to SSB in November 2009. The footnotes to SSB's 2010 annual report (**Appendix 8**) provide the financial performance of the discontinued Structured Service operations from July 1, 2009 to October 31, 2009. Similar to the SIP financials, we see a much less profitable Structured Service operation than the SSB circular suggests. The transferred Structured Service business had a gross margin of 30.9% and an operating margin of 27.5%, the latter of which is only half of the SSB pro forma financials.

Another red flag is in the appendix of the 2010 acquisition circular, which contains the Pro Forma consolidated financial statements of SSB prepared by Ernst & Young (**Appendix 9**). It identifies two of the Silverlake Group private companies that transferred Structured Services business to SSB, PT Silverlake Advanced IT Solutions in Indonesia and Silverlake Sistem Sdn. Bhd. in Brunei. Both entities had capital deficiencies (i.e. negative shareholder equity) and were only operating with financial support from Goh. Without this support, both subsidiaries would have been insolvent. Once again, these two entities do not provide supportive evidence of a high margin Structured Services business.

All of the instances of disclosure we have found of the predecessor Structured Services businesses suggest a much less profitable business than we are led to believe by the pro forma financials in the Circular. This must imply that one or more of the other predecessor Structured Services businesses had extremely high profitability, in order to offset the other less profitable and loss making subsidiaries we identified. One possible explanation is that Goh used related party transactions to produce a Structured

Service subsidiary with inflated profitability, prior to the acquisition. This would fit the pattern of his past behavior.

2010: QR Technology Sdn Bhd (QR Group)

Goh acquired control of QR Group in October 2001 and then sold it to SAL in March 2010. QR Group's main product is PROFIT, a procurement and inventory management software system for the retail industry. The operating subsidiary of QR Group is QR Retail Automation Sdn Bhd, a Malaysian company, so we were able to access detailed historical financial statements (**Exhibit 13**).

Exhibit 13: QR Retail Automation (Asia) Sdn Bhd Historical Financial Results

Fiscal Year Year-end	2002 Mar	2003 Mar	2004 Mar	2005 Mar	2006 Mar	2007 Mar	2008 Mar	2009 Mar	2010* Jun	2011 Jun	2012 Jun	2013 Jun	2014 Jun
Malaysian Ringgit ('000)													
Acquired by SAL on March 3, 2010													
Revenue	3,011	2,366	2,507	3,605	3,519	3,633	5,782	13,923	19,232	7,474	7,462	10,115	14,044
growth		-21.4%	5.9%	43.8%	-2.4%	3.2%	59.2%	140.8%	38.1%	-61.1%	-0.2%	35.6%	38.8%
Gross profit	1,216	1,951	1,935	2,909	2,464	2,733	4,480	7,606	13,629	5,282	4,545	5,831	7,503
gross margin	40.4%	82.5%	77.2%	80.7%	70.0%	75.2%	77.5%	54.6%	70.9%	70.7%	60.9%	57.6%	53.4%
Operating profit	(4,578)	126	66	49	293	479	2,310	6,614	11,183	2,089	1,867	3,181	5,427
operating margin	-152.0%	5.3%	2.6%	1.4%	8.3%	13.2%	40.0%	47.5%	58.1%	27.9%	25.0%	31.4%	38.6%
Profit after tax	(4,614)	355	(182)	21	256	447	2,261	5,561	8,790	1,639	1,298	2,695	4,197
net margin	-153.2%	15.0%	-7.3%	0.6%	7.3%	12.3%	39.1%	39.9%	45.7%	21.9%	17.4%	26.6%	29.9%

Source: QR Retail Automation (Asia) Sdn Bhd audited financial statements, Company Number 249473-V, Companies Commission of Malaysia (www.ssm-einfo.my)

*Fiscal year changed in FY2010 to June year end. FY2010 results include 15 months

The QR Group financials disclosed in the SAL transaction circular, covering the FY2007-FY2009 period, paint a picture of a rapidly growing and increasingly profitable business. Prior to FY2007, QR Group revenue was stagnant, varying between RM 2.5-3.6 million before skyrocketing to over RM 19m in 2010. Unfortunately for minority shareholders, in the first full year after being acquired, QR Group's results plummeted. In FY2011, sales declined by more than 60% and net income plunged more than 80%. In the four years following the acquisition, net income has never reached even half the level achieved in FY2010. The circular attributes the strong growth in FY2007-FY2009 to a large contract secured from AEON Malaysia in September 2008.

We spoke to a contact at Aeon Malaysia about the PROFIT contract. The contact confirmed that the installation in 2009-10 cost US\$4-5m (RM 14-17.5m). The contact also confirmed that it was clear in the contract that ongoing license and maintenance fees would be at most 40% of the upfront installation cost. Therefore, we have a hard time believing that Goh didn't realize QR Group results would deteriorate dramatically when this installation contract with AEON Malaysia was completed in 2010. Goh sold QR Group to SAL for RM 117.9 million but the business has only generated cumulative net income over the past four years of RM 9.8 million. Once again, this deal fits the pattern of Goh deceptively selling assets with peaking performance to minority shareholders.

Section 4: Undisclosed Loss-Making Related Parties are Contingent Liabilities

The Silverlake Group is comprised of the SGX-listed SAL and numerous private companies also controlled by Goh. SAL shareholders and auditors are primarily focused on the profitability of the stand-alone SAL entity. However it would be wise to focus on the whole Silverlake Group profitability, as Goh surely does. There is a clear risk that the large number of related party transactions between SAL and private group companies could be used by an unscrupulous controlling shareholder to inflate the performance of SAL. Therefore our discovery of Silverlake Sprints Sdn Bhd ("Sprints") and Silverlake Infrastructure & Logistics Sdn Bhd (SI&L), both Silverlake Group private companies, are of particular concern because they appear to be doing just that.

Sprints was incorporated as Intuitive Technology Sdn Bhd in March 2001, but Goh acquired control in April 2010 and changed the name to Silverlake Sprints in May of that year. The historical financials are available at the Companies Commission of Malaysia (**Exhibit 14**).

Exhibit 14: Silverlake Sprints Sdn Bhd Financial Summary

Fiscal Year	2009	2010	2011	2012	2013
Year-end	Dec	Dec	Dec	Dec	Dec
Malaysian Ringgit ('000)					
Revenue	0	3,742	68,998	96,454	86,041
growth			1743.7%	39.8%	-10.8%
Gross profit	0	(1,056)	5,899	24,904	6,744
gross margin		-28.2%	8.5%	25.8%	7.8%
Operating profit	(401)	(4,328)	(23,808)	(5,011)	(31,149)
operating margin		-115.6%	-34.5%	-5.2%	-36.2%
Profit after tax	(401)	(4,334)	(24,099)	(6,412)	(32,600)
net margin		-115.8%	-34.9%	-6.6%	-37.9%
Revenue Contribution by Segment					
Sale of software and hardware products		0.0%	0.3%	0.5%	0.0%
Sale of customised software solutions		66.3%	85.7%	92.6%	90.7%
Maintenance and enhancement services		33.7%	14.0%	7.0%	9.3%
Number of Employees at year-end	0	198	583	521	581

Source: Silverlake Sprints Sdn Bhd audited financial statements, Company Number 199419-P
Companies Commission of Malaysia (www.ssm-einfo.my)

Since it was acquired by Goh, Sprints has been consistently and increasingly unprofitable. Sprints' gross margin has ranged from -28% to +26% and the operating margin has been negative every year. Cumulative losses have totaled more than Rm 67 million. As we discussed in an earlier section of the report, SAL no longer discloses the names of companies that engage in related party acquisitions with SAL but we know that Dr. Kwong has mentioned in meetings with investors that Sprints has ongoing related party transactions with SAL. The footnotes to the financial statements of Sprints explain that the company has received an explicit letter of support from Goh that he will continue to provide financial support to Sprints so that it can meet its liabilities when they fall due (**Appendix 10**). The Sprints'

statements also show that the number of employees has grown from 198 in 2010 to 581 at the end of 2013. Considering that SAL only has approximately 800⁸ employees in total, 581 employees is very significant in the context of the Silverlake Group.

SI&L is a subsidiary of the Bermuda based holding company, Silverlake Outsourcing Ltd, which is controlled by Goh. SI&L has over 100 employees and reports recurrent losses (**Exhibit 15**). Dr. Kwong has also mentioned SI&L as a company that has ongoing related party transactions with SAL. Similar to Sprints, SI&L's auditor notes in the financial statements that the company's ability to continue as a going concern is dependent upon the financial support from Goh (**Appendix 11**).

Exhibit 15: Silverlake Infrastructure & Logistics Sdn Bhd

Fiscal Year	2008	2009	2010	2011	2012	2013
Year-end	Dec	Dec	Dec	Dec	Dec	Dec
Malaysian Ringgit ('000)						
Revenue	1,357	8,538	14,740	18,804	20,959	20,968
growth		529.4%	72.6%	27.6%	11.5%	0.0%
Gross profit	(1,081)	748	5,463	6,753	8,249	6,355
gross margin	-79.7%	8.8%	37.1%	35.9%	39.4%	30.3%
Operating profit	0	0	(37)	786	2,348	(4)
operating margin			-0.2%	4.2%	11.2%	0.0%
Interest expense	(136)	(314)	(432)	(383)	(479)	(460)
Profit before tax	(3,390)	(3,814)	(469)	403	1,869	464
Profit after tax	(3,526)	(4,124)	(995)	(55)	518	(1,740)
net margin	-260.0%	-48.3%	-6.8%	-0.3%	2.5%	-8.3%
Number of Employees at year-end	45	75	86	88	96	104

Source: Silverlake Infrastructure & Logistics Sdn Bhd audited financial statements,
Company Number 370216-A, Companies Commission of Malaysia (www.ssm-einfo.my)

We note that Sprints and SI&L are not small companies in comparison to SAL. In fact, the combined operating expenditure of these two non-consolidated companies is only approximately 25% less than the entire operating expenditure of SAL⁹. We find the existence of Sprints and SI&L troubling, and wonder whether any other similar undisclosed, loss-making related party entities exist. These two Silverlake Group companies appear to be entities designed to take employees off the books at SAL in order to improve SAL's reported profitability. Considering that both companies are reliant on a financial guarantee from Goh, we think Sprints and SI&L are contingent liabilities to SAL, and should be disclosed as such in SAL's annual report. It would make even more sense to have both companies, and other similar companies which may exist, consolidated into SAL's financial statements. The opaque disclosure by SAL management of related party entities such as Sprints and SI&L should be very concerning to shareholders.

⁸ <http://tinyurl.com/nntc8xz>

⁹ Based on calendar year 2013 data

Section 5: Undisclosed Off-Balance Sheet Debt

Another potential concern with related-party transactions is that they can be used by a company like SAL to hide debt off-balance sheet. We discovered debt taken by SSSB prior to the IPO of SAL.

Appendixes 12-14 show three loans taken by SSSB between 1997-1999 from EON Bank Berhad. SSSB borrowed RM 30 million in January 1998, RM 30 million in October 1998, and RM 10 million in December 1999. The loans are secured by all current and future assets of SSSB. We are unsure why SSSB took these loans, which seem quite large compared to the size of the business at the time. The timing of the loans is also interesting because it coincides with the Asian Financial Crisis and a dramatic depreciation of the Malaysian Ringgit and other Asian currencies. We wonder if Goh made some poor investments which forced him to borrow against SSSB during the crisis.

We are surprised that there was no disclosure of these loans in the 2003 SAL prospectus. At the time of the IPO, SAL was a subsidiary of SSSB, which would imply that the loans were also secured by SAL assets. It is also interesting that two of these loans totaling RM 40 million were not repaid until September 2006, just three months after Goh made a sizeable on-market disposal of SAL shares in June 2006, totaling RM 31 million (**Exhibit 17** in next section). Did Goh not have the resources to repay the loans for 7-8 years despite operating a supposedly large and profitable group?

By 2014, SSSB had repaid the majority of its outstanding loans. Some investors may take comfort in this and regard the existence of these loans nearly a decade ago as irrelevant. However, we believe this example highlights how related party transactions with private Silverlake Group companies can result in hidden off-balance sheet liabilities. It also shows that Goh has willingly used off-balance sheet loans in the past, and not disclosed them to SAL shareholders. Although we have not located evidence of large present day off-balance loans, we suggest that they may exist at other Silverlake Group subsidiaries where financial statements are not publicly accessible. Goh's use of undisclosed off-balance sheet debt in the past is a red flag that SAL shareholders and auditors should be acutely aware of.

Section 6: Chairman's History of Cashing Out at the Expense of Minority Shareholders

The casual observer of SAL may conclude that Chairman Goh is well aligned with minority shareholders. After all, he has a large controlling ownership in the group and receives dividends alongside other shareholders. However, we think appearances are deceiving. We estimate that Goh has taken over RM 1.0 billion (US\$300 million) out of SAL through share sales and dividends from the IPO through June 2014. Over the same period of time, minority shareholders have contributed more than RM 750 million of capital through equity issuance while receiving less than RM 200 million in dividends (**Exhibit 16**).

Exhibit 16: Silverlake Axis Ltd: Chairman Goh and Minority Shareholder Cash Flow Analysis

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Year-end	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	FY03-14
Malaysian Ringgit ('000), unless otherwise stated													
YE Shares Outstanding (millions)	243	286	286	286	1,122	1,122	1,122	1,066	2,092	2,102	2,098	2,244	
% owned by Goh	60.3%	57.3%	57.3%	85.0%	70.5%	70.5%	74.9%	83.3%	74.7%	75.8%	67.6%	66.4%	
% owned by Minorities	39.7%	42.7%	42.7%	15.0%	29.5%	29.5%	25.1%	16.7%	25.3%	24.2%	32.4%	33.6%	
Total dividends paid by SAL	3,410	6,767	8,573	12,750	19,477	71,481	7,828	25,514	93,368	78,059	148,814	223,617	699,658
Goh Peng Ooi Cash Flow													
Funds raised from shares sold	0	22,133	0	30,955	225,429	0	0	0	104,098	0	102,054	11,355	496,024
Dividends received	2,132	3,887	4,916	7,310	14,162	50,383	5,861	19,105	75,012	58,613	111,928	151,250	504,559
Total cash received	2,132	26,020	4,916	38,265	239,592	50,383	5,861	19,105	179,110	58,613	213,982	162,605	1,000,583
Minority Shareholders Cash Flow													
Funds spent on primary share sales	(28,766)	0	0	0	(96)	(487)	0	0	0	0	(180,258)	0	(209,606)
Funds received in company buyback	0	0	0	0	0	0	12,734	0	0	3,108	0	0	15,842
Funds spent on treasury share sales	0	0	0	0	0	0	0	0	0	0	(61,020)	0	(61,020)
Funds spent on Goh share placement	0	(22,133)	0	(30,955)	(225,429)	0	0	0	(104,098)	0	(102,054)	(11,355)	(496,024)
Total Cash Outlay on Shares	(28,766)	(22,133)	0	(30,955)	(225,525)	(487)	12,734	0	(104,098)	3,108	(343,332)	(11,355)	(750,808)
Dividends received	1,277	2,880	3,658	5,440	5,315	21,098	1,966	6,410	18,356	19,446	36,886	72,367	195,099
Net Cash Outlay	(27,489)	(19,253)	3,658	(25,515)	(220,210)	20,611	14,701	6,410	(85,742)	22,554	(306,446)	61,012	(555,709)
MYR/USD	3.80	3.80	3.73	3.56	3.80	3.32	3.51	3.38	3.08	3.09	3.08	3.24	
Goh Cash Received (US\$'000)	561	6,847	1,318	10,759	63,050	15,192	1,668	5,644	58,066	18,995	69,418	50,115	301,635
Minorities Cash Contributed (US\$'000)	(7,234)	(5,066)	981	(7,174)	(57,950)	6,215	4,184	1,894	(27,797)	7,309	(99,415)	18,804	(165,250)

Source: Silverlake Axis Ltd Annual Reports and other SGX filings

Note: Analysis assumes that shares transferred from Goh to HNA Group are disposed in the market

Goh has been a consistent seller of SAL shares over time and has pocketed nearly RM 500m from these transactions (**Exhibit 17**). In addition to his numerous on-market disposals, Goh has made several very unusual disposals. In September 2010, Goh transferred 48.25 million shares to executives of Silverlake private entities for past contributions. This represented an award of RM 17.4 million in market value to the unnamed executives. This is reminiscent of the bizarre unexplained gifting of shares to employees by Longtop Financial's chairman. We wonder why these executives were not paid directly by the private entities.

We also note a particularly suspicious series of transactions with HNA Group (HNA), a Chinese conglomerate. In 2010, SAL announced a strategic relationship with HNA, whereby SAL secured two new contracts totaling S\$70 million from HNA¹⁰. As part of the deal, Goh agreed to transfer a total of 242 million of his SAL shareholding to HNA. HNA was then free to sell the shares into the market. According

¹⁰ <http://tinyurl.com/ntg9afb>; <http://tinyurl.com/ndb3tx2>

to the deal, after the shares were sold Goh would receive a maximum of S\$0.16 per share and HNA would receive the difference between the disposal price and S\$0.16. SAL's stock was trading between S\$0.31-0.35 at the time, so the deal in effect looks like Goh was "buying" contracts from HNA in exchange for shares. In three transactions between 2010 and 2014, Goh transferred 121 million shares to HNA¹¹. We assume these shares were subsequently disposed by HNA, because HNA is not disclosed as a major shareholder of SAL. There is nothing illegal about this transaction, but it raises suspicion because Goh provided his personal shares to HNA in order to secure the contracts. Therefore the HNA contracts may have resulted in a deceptively profitable contract flowing through SAL's income statement because the contracts' hidden cost of transferring shares to HNA did not flow through SAL's income statement.

Exhibit 17: Goh Peng Ooi transactions in Silverlake Axis Ltd (SAL) shares

Date	Shares Received	Shares Disposed	Goh Shareholding after transaction**	Transaction Price (S\$/share)	Goh Amount Received (S\$)	Goh Amount Received (RM)***	Comment
12-Mar-03			178,583,666	0.31			IPO
H2 CY2003		(6,400,000)	172,183,666	0.68*	4,352,000	9,530,880	Placement of shares
H2 CY2003		(7,900,000)	164,283,666	0.68*	5,372,000	11,764,680	Placement of shares
06-Jan-04		(566,000)	163,717,666	0.66	373,560	837,260	Placement of shares
22-May-06	836,005,626		999,723,292	0.38*			SAL acquisition of SAACIS from Goh
20-Jun-06		(46,409,000)	953,314,292	0.29	13,458,610	30,954,803	Placement of shares to meet the public float of 15%
24-Nov-06		(137,000,000)	816,314,292	0.56	76,035,000	178,309,679	Placement of shares
13-Feb-07		(800,000)	815,514,292	0.83*	664,000	1,507,280	Placement of shares
05-Jun-07		(25,000,000)	790,514,292	0.82*	20,500,000	45,612,500	Placement to private fund manager
15-Sep-08	7,763,000		798,277,292	0.21			
03-Mar-10	728,992,466		1,527,269,758	0.33*			SAL acquisition of SSB from Goh
14-May-10	263,816,588		1,791,086,346	0.33*			SAL acquisition of QR Group from Goh
03-Sep-10		(48,250,000)	1,742,836,346	0.36*			Shares granted to executives and/or associates of Silverlake private entities for past contributions
27-Oct-10		(50,000,000)	1,692,836,346	0.32	16,000,000	38,132,800	Placement of shares
08-Dec-10		(72,600,000)	1,620,236,346	0.16	11,616,000	27,805,219	Transfer of shares to HNA Group
23-Dec-10		(50,000,000)	1,570,236,346	0.32	16,000,000	38,160,000	Placement of shares
22-May-12	19,400,000		1,589,636,346	0.36*			Transfer of shares from HNA Group
08-Feb-13		(20,742,858)	1,568,893,488	0.16	3,318,857	8,303,781	Transfer of shares to HNA Group
05-Apr-13		(1,000,000)	1,567,893,488	0.65*			Shares transferred as a performance reward to a senior project executive
12-Jun-13		(50,000,000)	1,517,893,488	0.75	37,500,000	93,750,000	Placement of shares
11-Jul-14		(27,657,141)	1,490,236,347	0.16	4,425,143	11,354,916	Transfer of shares to HNA Group
Total	1,855,977,680	(544,324,999)			209,615,170	496,023,797	

*Estimate based on share price at the time of the transaction

**Includes Goh Peng Ooi's ownership through his holding company, Intellentsia Holding Ltd

***Estimate based on the FX rate at the time of the transaction

Source: SGX filings, http://silverlake.listedcompany.com/stock_insider.html

We also find the large amount of equity placed in June 2013 concerning. The company raised RM 180 million from issuing new shares and RM 61 million from reissuing treasury shares. This coincided with Goh placing an additional RM 151 million of his personal shareholding. The company justified the equity raising with the need to fund the acquisitions of Merimen Ventures and Cyber Village for a total of RM 95 million. However, we wonder why the company needed to raise RM 241 million of fresh equity when SAL already had a net cash position of RM 181 million on the balance sheet and minimal capital expenditure requirements. In our experience, unnecessary equity issuances are a red flag.

¹¹ It's unclear why the total transfer of shares was only half of the originally agreed 242 million shares

Finally, it is worth noting that while SAL's reported net income has increased at a very healthy compound rate of +28.3% over twelve years, EPS has increased at a much more pedestrian +5.4% (**Exhibit 18**). The dilution from Goh's frequent asset injections and equity issuances has led to significant dilution for minority shareholders. As we have seen time and again, Goh wins, minority shareholders lose is a common theme with SAL.

Exhibit 18: Silverlake Axis Ltd: Dilution Analysis

Fiscal Year Year-end	2003 Jun	2004 Jun	2005 Jun	2006 Jun	2007 Jun	2008 Jun	2009 Jun	2010 Jun	2011 Jun	2012 Jun	2013 Jun	2014 Jun	CAGR FY03-14
Net Income (RM'000)	15,998	18,161	16,604	79,625	80,001	108,780	19,088	63,520	115,268	162,258	195,991	248,898	28.3%
% change		13.5%	-8.6%	379.5%	0.5%	36.0%	-82.5%	232.8%	81.5%	40.8%	20.8%	27.0%	
Weighted Average Shares Outstanding (millions)	258	286	286	1,122	1,122	1,122	1,094	2,092	2,096	2,101	2,118	2,245	21.7%
% change		10.8%	0.0%	292.8%	0.0%	0.0%	-2.5%	91.2%	0.2%	0.2%	0.8%	6.0%	
EPS	6.21	6.36	5.82	7.10	7.13	9.70	3.82	3.04	5.50	7.72	9.25	11.09	5.4%
% change		2.5%	-8.6%	22.1%	0.4%	36.0%	-60.6%	-20.4%	80.9%	40.4%	19.8%	19.9%	

Source: Silverlake Axis Ltd (SAL) annual reports

Shares Outstanding and EPS calculations have not been adjusted for the July 2015 bonus stock issuance

Section 7: Peer Analysis – SAL’s Inexplicably High Profit Margins and Revenue per Employee

We conducted peer analysis using Temenos Group AG and Oracle Financial Services Software Ltd (OFS), an Indian subsidiary of Oracle Corp, because they are the closest pure-play core banking listed peers. SAL reports by far the highest profitability of these peers (**Exhibit 19**). Tata Consultancy Services Ltd (TCS) and Infosys Ltd are also direct competitors in core banking software in Asia Pacific but both companies have much more diversified operations. However for reference, both TCS and Infosys have operating margins in the mid-20 percent range, which is also substantially lower than SAL. We note that despite being one-third the size of Temenos and one-quarter the size of OFS, SAL has much higher operating margins. This is a red flag, as some economies of scale should be expected.

Exhibit 19: Peer Analysis

USD ('000)

Fiscal Year Year-end	Silverlake Axis Ltd (SAL)		Temenos Group AG		Oracle Financial Services	
	2013 Jun	2014 Jun	2013 Dec	2014 Dec	2014 Mar	2015 Mar
Revenue	129,303	154,317	467,802	468,702	618,724	638,525
growth	-0.2%	19.3%	3.9%	0.2%	-3.1%	3.2%
Total Operating Expenses	(61,629)	(74,577)	(374,303)	(350,507)	(399,153)	(396,076)
% employee benefits	39%	37%	71%	72%	76%	76%
% service fee paid to related parties	24%	21%				
% travel related expense			8%	8%	6%	6%
% depreciation & amortization	1%	1%	13%	14%	3%	3%
% capitalized development	-1%	-1%	-11%	-12%		
% rent and operating leases	1%	1%	4%	5%	2%	2%
% other expenses	36%	40%	26%	26%	13%	13%
Operating profit	67,674	79,740	93,499	118,195	219,572	242,450
operating margin	52.3%	51.7%	20.0%	25.2%	35.5%	38.0%
Financial and other income/(expense)	715	2,296	(11,084)	(11,862)	111,397	56,921
Profit before tax	69,092	84,483	82,415	106,333	330,967	299,370
pretax margin	53.4%	54.7%	17.6%	22.7%	53.5%	46.9%
Profit after tax	63,585	76,717	68,215	91,631	224,799	194,964
net margin	49.2%	49.7%	14.6%	19.5%	36.3%	30.5%
Average # of employees	800	800	3,600	3,750	9,579	8,996
Revenue per employee (US\$)	161,628	192,896	129,945	124,987	64,593	70,976
OPEX per employee (US\$)	77,036	93,221	103,973	93,469	41,670	44,026
Benefits per employee (US\$)	30,044	34,863	73,417	67,249	31,775	33,588
Exchange Rate*	3.08	3.24	1.00	1.00	60.47	61.16

Source: Company Annual Reports; SAL average employees is based on the employee count from the investor relations FAQ

* SAL and Oracle Financial Services financial results have been converted to USD from Malaysian Ringgit and Indian Rupees

Cheap labor alone cannot explain SAL's higher profitability, since OFS has a very similar cost per employee for its largely India-based work force. Higher revenue per employee seems to be the major driver of SAL's higher profitability. SAL generates revenue per employee more than 50% higher than Temenos and more than 250% higher than OFS. This is a striking finding, particularly since Temenos and OFS have many employees working in developed markets where man-hour billing rates are much higher.

"Based on my personal experience in [ASEAN] markets, \$200,000 revenue per employee seems very unreasonable. I find it very, very unlikely [...] Maybe a strategy consultant like Accenture or McKinsey could do that, but for IT projects, I think \$50,000-\$60,000 is a more realistic figure."

- ASEAN manager of a Silverlake competitor

When we spoke with ex-SAL employees, they described a cushy corporate culture, which does not sound supportive of a hyper productive workforce.

"If you want an easy way, to relax, Silverlake is the place to go. You get your salary and there is no pressure ... One good thing about Goh is there is lots of entertainment, going to conferences, and so on [...] These people never leave because they are well rewarded. They are well paid. [Silverlake] changes their car every year, they have [their own] driver. All those people that are doing sales don't have a quota. Many people are very complacent, they don't want to leave. They just take home a salary. I know people at Silverlake that have not closed a deal for five to ten years and they are still there, just taking it easy, no pressure." - ex-Silverlake employee

We note that the unusually high productivity of SAL employees relative to industry peers is supportive of the company reporting fictitious revenue from related parties. The exact same pattern of inexplicably high revenue per employee was observed at Longtop Financial. Dr. Kwong has argued that SAL's margins are higher because they don't spend as much on R&D, but analysis clearly shows that the supernormal profit margins are a result of higher revenue per employee, not lower costs.

Finally we note that employee benefits account for more than 70% of total expenses at both Temenos and OFS but less than 40% at SAL. This is partly explained by the more than 20% of SAL's expenses which are fees paid to related parties. Additionally, nearly 40% of SAL's expenses are unexplained in the financial statements or footnotes, which is very unusual by industry standards or Singapore reporting standards.

Section 8: Declining Product Competitiveness and Bribery Allegations

Beyond the financial chicanery, we think there are also fundamental issues with the core Silverlake business which are cause for concern.

In interviews¹², Chairman Goh seems to view himself as an enlightened mathematical philosopher. He even claims to have invented the most advanced form of game theory in the world, which he calls the

¹² <http://tinyurl.com/on7x8mt>; <http://tinyurl.com/nmacadn>;

Goh MI (Mathematical Intelligence) Game Theory¹³. Recent SAL annual reports have an E₈ diagram on the cover, and the group has adopted the slogan “Symmetry at Work.”

We find this ironic because conversations with customers and ex-Silverlake employees suggest that the flagship Silverlake Integrated Banking Software (SIBS) product is anything but a work of mathematical symmetry. Quite to the contrary, most customers we spoke to described SIBS as an inferior and inflexible product compared with competing software from Oracle, Temenos, TCS, and Infosys. One of the primary issues dates back to the original modification of the JH System into SIBS. When Silverlake completed the system for MUI Bank, they took the MUI version of SIBS and adapted it for the next client. This practice has continued for each new customer and as a result, SIBS has no software version control. This makes any updates to the system exceedingly timely and costly.

“Silverlake’s core banking product is nothing much to shout about. Architecturally it is not so elegant, not so sexy. They have a very traditional legacy architecture, it’s not SOE enabled, it is built using RPG and there is no object orientation, there is some ability to parameterize, but predominantly every time you want to make changes, you literally need to do it through brute force. You need to get a programmer in to add functionality. I’ve worked with a lot of other banking professionals and a lot of them share my view.” – Senior IT Manager at Silverlake customer

“[Silverlake] has the base from Jack Henry and then they customize from there. You don’t get an upgrade. You basically get a patch for defects. You don’t get a new release version with new functionality. It’s very static. Finacle from Infosys gives you new version updates and all banks using it get that benefit. They have a couple thousand employees updating Finacle, making constant improvements.” –ex-customer of Silverlake core banking software

“Honestly when I look at the sales pipeline I don’t see any new projects where Silverlake is a competitor. Silverlake is behind at the moment. Digital banking is a space where Silverlake cannot compete at the moment with their offering because they don’t have a digital framework for their core banking solution. If [the bank wants] to go digital, they realize that, oh before we can go digital, we need to fix the back-end first. They end up looking at vendors like Oracle, Infosys, or Temenos that can provide a digital solution front to back.” – Manager of Silverlake competitor

While we are not suggesting Silverlake is in near-term danger of losing all of its existing customers because of these product deficiencies, winning new customers may become increasingly difficult, which is supported by a lack of recent news on new contract wins. In fact, Silverlake appears to be in danger of losing a tender of a core banking solution for RHB Bank to Tata Consultancy Services (TCS). Silverlake has rarely lost major deals on its home turf in Malaysia, so the fact that TCS is being considered by RHB is a worrisome development for Silverlake.

Of even more potential concern, numerous customers, ex-employees, and competitors suggested in interviews that many of Silverlake's key banking contracts in Malaysia and Indonesia may have been secured, at least in part, due to bribery.

¹³ <http://tinyurl.com/nb3ze75>

"There are many stories in the market that Silverlake is a master in terms of influencing and sweetening deals for the key decision makers at the client. It is very well known." – Silverlake customer

"How does Silverlake get away with these sort of prices in Malaysia, compared to anywhere outside of Malaysia? In 2013, they sold [a project] to a Malaysian bank for RM 400 million. Everyone was very shocked about it. People are wondering how this happened. Competitors [thought] it is unbelievable. But of course behind the scenes, if prices are high the kickbacks are also high. So that's how it works here [at Silverlake]. I'm being very open and frank about it, but that's how it works ... At Silverlake, we do it through [related party] partners. Because [Silverlake Axis], it's listed and whatnot, so they make sure that their name is clear. The partners pay the kickback. At Silverlake, once we get the link to the right [person in the target customer], we have a way to do it." - ex-Silverlake employee

"The previous CIO was known to be very close to Silverlake. When we looked through some of the deals we did with Silverlake, we couldn't understand why we paid so much. When the [previous CIO] left, he joined Silverlake." – Silverlake customer

"For Malaysian banks, it's a waste of time to try to compete with Silverlake. It's Silverlake's home market, and they don't exactly play a fair game [...] There are all sorts of rumors of bribery swirling around this company." –Manager at Silverlake competitor

This report will stop short of accusing SAL of bribery, as this is something difficult for us to independently verify. However, it is noteworthy the number of instances SAL bribery was mentioned in our conversations with industry participants. The numerous allegations in the market around Silverlake's bribery represent an ethical red flag that key stakeholders in SAL, including customers, directors, employees, auditors, and shareholders, should consider with great caution. If the allegations are true, it presents a company-specific risk which could significantly impair the long-term value of SAL. One needs look no further than the current anti-graft campaign in China to see how corruption can negatively impact the value of a business. Furthermore, if bribery was a deciding factor for SAL in winning contracts, it could be symptomatic of an inferior product relative to competitors who do not engage in such practices.

Section 9: Valuation and Target Price

Valuing SAL is a difficult task because we are given so little information about related party entities, which undoubtedly are an important variable. Without knowing the true profitability of the whole Silverlake Group and all of the liabilities which may be hidden off balance sheet, we can only make an educated estimate. However we think our valuation framework is conservative, and risks are skewed to the downside.

We arrive at a target price of S\$0.29, which represents 65% downside from the current stock price (**Exhibit 20**). We arrive at this by applying the peer average Price to Sales ratio, multiplied by SAL's non-related party revenue. We also assume a value of S\$67 million for SAL's 20.25% stake in Global Infotech Co, Ltd which is listed on China's Shenzhen exchange¹⁴.

Exhibit 20: SAL Valuation Analysis

Peers	Price to Sales	Notes
Temenos Group AG	5.2	trailing twelve month P/S
Oracle Financial Services	9.4	trailing twelve month P/S
Infosys Ltd	4.7	trailing twelve month P/S
Tata Consultancy Services Ltd	5.4	trailing twelve month P/S
Fidelity National Information Services, Inc	3.1	trailing twelve month P/S
Fiserv, Inc	4.0	trailing twelve month P/S
Peer Group Average	5.3	
Silverlake Axis Ltd	12.7	trailing twelve month P/S
Reported Sales (million Ringgit)	522	SAL trailing twelve month sales
% of sales which are related-party	24%	based on FY2014 annual report
SAL Non-related party sales estimate	396	
multiplied by peer group P/S multiple	5.3	
Target Market Capitalization (Ringgit m)	2,098	peer group P/S * non related party sales
Malaysian Ringgit / Singapore Dollar	2.94	exchange rate
Target Market Capitalization (S\$ m)	714	target market cap converted to S\$
+ Est. Value of Global Infotech Stake (S\$ m)	67	estimated value of stake in S\$
Total Estimated Value of SAL (S\$ m)	781	Total target value of SILV in S\$
SAL Shares Outstanding (million shares)	2,694	latest available share outstanding
Target SAL share price (S\$ per share)	0.29	target market cap / shares outstanding
Current SAL Share price (S\$)	0.84	
% downside to target price	-65%	

Source: Company reports, Bloomberg

¹⁴ We value SAL's stake in Global Infotech at 22x trailing earnings, in-line with the average P/E multiple for Indian IT service companies and in-line with Global Infotech's IPO price. This is a steep discount to the current market price, which equates to 109x trailing twelve month P/E. We believe the current price is inflated by the small-cap technology bubble in the Chinese market. SAL is not allowed to dispose of its stake for 36 months from the IPO date in May 2015, after which a maximum of 25% of the holding can be disposed in any six month period. Therefore, we believe it is unlikely that SAL will be able to dispose the stake anywhere near today's inflated price.

We stress that we believe our target price uses very generous and conservative assumptions, in light of the numerous red flags uncovered. We wouldn't rule out the possibility that the stock is ultimately worthless, if the total contingent liabilities are even more significant than the cases we identified. We don't recommend owning SAL at any price, even one lower than our arrived at target price. We have shown how Goh has systematically deceived and defrauded minority shareholders numerous times. With Goh in control of SAL, we doubt that minority shareholders will generate any net returns over time, apart from lucky timing or short-term trading in the stock. Likewise we also doubt that SAL would have much value to an acquirer because of the ongoing related party transactions and key man risk. Investors would be wise to avoid owning the stock at any price.

Appendix 1: Definitions of Terms Used in Report

Abbreviation	Full Name	Description
ASEAN	Association of Southeast Asian Nations	Association of 10 Southeast Asian nations including Malaysia, Indonesia, Singapore, Thailand, Philippines, and Vietnam
ASSB	Axis Systems Sdn Bhd	Founded by Wong Chew Ming and acquired by Goh in Apr-00; Original seed asset for SAL in the IPO
CIO	Chief Information Officer	Senior level executive responsible for information technology
Goh	Goh Peng Ooi	Founder of the Silverlake Group and SAL
HNA	HNA Group	Chinese conglomerate; SAL customer; received SAL shares in exchange for service contracts
JH System	Jack Henry Silverlake System	Core banking software developed by JHA; SSSB received the rights to the Asia Pacific version
JHA	Jack Henry & Associates	JV partner of Goh's SSSB and original developer of the JH System
MUI	MUI Bank	The original bank customer of Silverlake SSSB; later became Hong Leong Bank
OFS	Oracle Financial Services Software Ltd	India-listed competitor in core banking software; controlled by US-listed Oracle Corp
QR Group	QR Technology Sdn Bhd	Provider of PROFIT, a software suite for the retail industry; acquired by SAL in March 2010
SAACIS	Silverlake Adaptive Applications & Continuous Improvement Services Ltd	Holding company for SIBS IP; acquired by SAL in May 2006
SAL	Silverlake Axis Ltd	SGX-listed holding company; primary subject of this report; originally named Axis Systems Ltd
SBVI	Silverlake BVI Pte Ltd	British Virgin Islands incorporated Silverlake private entity which sold SIBS IP to SAACIS
SI&L	Silverlake Infrastructure & Logistics Sdn Bhd	Silverlake private entity; has a large number of employees and related party transactions with SAL
SIBS	Silverlake Integrated Banking System	Silverlake's core banking software IP; modified version of the JH System for the Asia Pacific region
SIP Group	Silverlake Innovation Partners Sdn Bhd	Silverlake private entity; ceded Structured Service business to SSB in November 2009
Sprints	Silverlake Sprints Sdn Bhd	Silverlake private entity; has a large number of employees and related party transactions with SAL
SRMI	Silverlake Research & Marketing Institute Ltd	Bermuda incorporated Silverlake private entity; paid large license fees to SAACIS for the use of SIBS IP in airline and public utility applications
SSB	Silverlake Solutions Ltd	Holding company for Structured Service business; acquired by SAL in February 2010
SSSB	Silverlake Systems Sdn Bhd	Silverlake private entity; Goh's original holding company and JV partner of JHA
TCS	Tata Consultancy Services Ltd	India-listed competitor in core banking software
Temenos	Temenos Group AG	Switzerland-listed competitor in core banking software
n/a	AEON Malaysia	Customer of QR Group's PROFIT software
n/a	Cyber Village	Malaysia based software company; acquired by SAL in July 2013
n/a	Dr. Kwong Yong Sin	Managing Director of SAL
n/a	Finzsoft	New Zealand based software company; acquired by SAL in March 2015
n/a	Global Infotech Co, Ltd	Chinese associate of SAL; IPOed in May 2015; SAL owns 20.25%
n/a	IBM Malaysia	Goh Peng Ooi's employer prior to founding the Silverlake Group
n/a	Infosys Ltd	India-listed competitor in core banking software
n/a	Intelligentsia Holding Ltd	Goh controlled holding company which hold's his ownership stake in SAL
n/a	Merimen	Malaysia based provider of insurance software; acquired by SAL in April 2013
n/a	PT Silverlake Advanced IT Solutions	Silverlake private entity in Indonesia; transferred Structured Service business to SSB
n/a	SBI Card Processing	Japan based credit card processing company; SAL gained majority control in November 2009
n/a	Silverlake Component Technology Solutions Sdn Bhd	Silverlake private entity; provides software for the airline industry
n/a	Silverlake Group	A large group of companies controlled by Goh, including private Silverlake entities and SAL
n/a	Silverlake Sistem Sdn Bhd	Silverlake private entity in Brunei; transferred Structured Service business to SSB
n/a	Wong Chew Ming	Founder of ASSB; Managing Director of SAL until 2006

Appendix 2: Silverlake Axis Ltd Related Party Transaction Detail

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Year-end	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun	Jun
Malaysian Ringgit ('000)												
Total Reported Revenue	24,437	33,246	27,782	124,493	137,294	146,947	54,815	175,818	305,380	400,017	398,575	500,728
Sale of software and hardware products ⁽¹⁾	38	1	0	18,138	25,920	20,852	10,235	8,705	8,017	33,348	6,635	32,359
Software licensing ⁽²⁾	0	0	0	73,899	79,618	90,637	15,204	13,694	51,386	63,267	119,602	147,685
Software project services ⁽³⁾	19,256	24,411	19,417	9,085	7,892	16,442	8,907	9,357	98,444	139,051	77,436	71,779
Maintenance and enhancement services ⁽⁴⁾	5,143	8,833	8,364	23,372	23,863	19,016	20,468	126,241	130,964	147,185	173,565	210,331
Credit and cards processing	0	0	0	0	0	0	0	17,822	16,569	17,166	16,644	19,535
Insurance processing	0	0	0	0	0	0	0	0	0	0	4,692	19,039
Total Related Party Revenue	22,363	30,257	18,361	100,301	104,083	124,538	51,350	64,138	26,964	74,757	106,732	120,486
% of revenue which is related party	92%	91%	66%	81%	76%	85%	94%	36%	9%	19%	27%	24%
Total Reported Operating Expenses	7,901	13,033	12,921	42,464	50,131	48,923	37,092	99,885	167,662	223,759	189,970	241,986
Total Related Party Expenses ⁽⁵⁾	60	9,960	325	374	354	477	287	3,908	48,449	69,412	46,719	52,186
% of expenses which are related party	1%	76%	3%	1%	1%	1%	1%	4%	29%	31%	25%	22%
⁽¹⁾ Related Party Sale of Hardware Products	0	0	0	0	552	1,161	9,747	180	190	0	1,115	605
Silverlake System Sdn Bhd	0	0	0	0	546	0	0	0	0	0	0	0
Silverlake Sistem Sdn Bhd	0	0	0	0	6	0	0	0	0	0	0	0
⁽²⁾ Related Party Software Licensing	0	0	0	73,899	76,113	90,637	14,675	1,476	0	31,067	86,949	99,011
Silverlake System Sdn Bhd	0	0	0	17,599	32,992							
Silverlake (Netherlands) BV	0	0	0	7,126	0							
Silverlake Corporation	0	0	0	3,361	22,748							
Silverlake Sistem Sdn Bhd	0	0	0	897	550							
Silverlake Research and Marketing Institute Ltd	0	0	0	44,916	0							
Silverlake (Thailand) Limited	0	0	0	0	4,166							
Silverlake System Pte Ltd	0	0	0	0	3,666							
Silverlake (BVI) Pte Ltd	0	0	0	0	11,991							
⁽³⁾ Software Project Services Revenue	18,050	22,664	11,671	5,775	6,049	15,571	8,467	4,480	206	7,731	7,890	7,000
Silverlake System Sdn Bhd	1,397	14,069	7,672	1,073	3,014							
Silverlake (Thailand) Limited	5,283	2,279	187	319	0							
Silverlake System Inc.	513	0	0	0	0							
PT Silverlake Informatikatama	9,696	1,307	1,946	3,198	(113)							
Silverlake Sistem Sdn Bhd	1,160	53	349	0	0							
Silverlake Beijing Co Ltd	0	1,338	0	0	0							
Silverlake (BVI) Pte Ltd	0	3,618	1,517	1,185	3,073							
Silverlake System Pte Ltd	0	0	0	0	76							
⁽⁴⁾ Related Party Maintenance/Enhancement	4,313	7,593	6,690	20,628	21,369	17,170	18,461	58,002	26,567	35,959	10,778	13,870
Silverlake (Thailand) Limited	139	1,522	715	1,439	859							
Silverlake System Sdn Bhd	641	1,638	719	7,906	7,311							
Silverlake System Inc.	336	711	484	859	976							
PT Silverlake Informatikatama	3,187	1,876	1,177	1,471	1,134							
Kalix Sdn. Bhd.	10	0	0	0	0							
Silverlake (BVI) Pte Ltd	0	835	2,504	6,685	10,124							
Silverlake Damana Sdn Bhd	0	376	1,017	919	121							
Silverlake Sistem Sdn Bhd	0	520	38	253	38							
Silverlake Component Technology Sdn Bhd	0	116	0	0	0							
Silverlake Beijing Co Ltd	0	0	35	747	416							
Connectif Commerce Sdn Bhd	0	0	0	76	0							
Silverlake System Pte Ltd	0	0	0	272	229							
Silverlake Infrastructure & Logistic Sdn Bhd	0	0	0	0	162							
⁽⁵⁾ Expenses Paid to Related Parties	60	9,960	325	374	354	477	287	3,908	48,449	69,412	46,719	52,186
Service Fees paid	0	0	0	0	0	0	0	3,646	48,021	69,014	45,833	50,995
Software development and project costs	0	9,900	265	0	0	0	0	0	0	0	0	0
Rentals paid	0	0	0	254	294	311	129	108	271	206	227	312
Accounting and administration expenses	60	60	60	120	60	166	158	154	156	192	487	827
Interest on receivables charged	0	0	0	0	0	0	0	0	0	0	171	51

Source: Silverlake Axis Ltd Annual Reports

Appendix 3: Auditors of Silverlake Malaysian Entities

Auditor	Silverlake Group Companies Audited
Bahudin & Associated	Silverlake Property Sdn Bhd
Baker Tilly Monteiro Heng	Cyber Village Sdn Bhd
Crowe Horwath	Merimen Ventures Sdn Bhd Merimen Online Sdn Bhd
Deloitte & Touche	Silverlake Component Technology Solutions Sdn Bhd
Ernst & Young	Computer Sense Sdn Bhd GI Solutions Gateway Sdn Bhd QR Retail Automation (Asia) Sdn Bhd Silverlake Axis Sdn Bhd Silverlake Axis Msc Sdn Bhd Silverlake Holdings Sdn Bhd Silverlake Infrastructure & Logistics Sdn Bhd Silverlake Innovation Partners Sdn Bhd Silverlake Science & Mathematical Solution Sdn Bhd Silverlake Structured Services Sdn Bhd Silverlake Symmetry & Technology Research Sdn Bhd
Khoo Wong & Chan	Silverlake Quaestor Sdn Bhd
KPMG	Isis Computer Systems (M) Sdn Bhd
LH Lee & Co	Brightsphere Sdn Bhd
Roger Yue, Tan & Associates	Silverlake Digital Economy Sdn Bhd Silverlake Relational Data Sdn Bhd Silverlake Sprints Sdn Bhd
S.M. Loh, Bala & Co	Merimen (Malaysia) Sdn Bhd Merimen Holdings Sdn Bhd
Soon & Company	Kalix Sdn Bhd Silverlake Damana Sdn Bhd Silverlake Electronic Devices Sdn Bhd Silverlake Facilities Management Sdn Bhd Silverlake Mastersam Sdn Bhd Silverlake Research & Innovation Sdn Bhd Silverlake System Development Sdn Bhd
T.C. Liew & Co	Silverlake Business Intelligence Sdn Bhd Silverlake Consultancy Services Sdn Bhd Silverlake CRM Sdn Bhd Silverlake Digitale Sdn Bhd Silverlake Global Payments Sdn Bhd Silverlake Mynet Sdn Bhd Silverlake One Paradigm Sdn Bhd Silverlake Processing Services Sdn Bhd Silverlake Solution Center Sdn Bhd Silverlake System Marketing Sdn Bhd Silverlake System Sdn Bhd

Source: Companies Commission of Malaysia

Note: This may not be a comprehensive list of Silverlake Group companies in Malaysia and it excludes group companies in other domiciles.



COMPANY CHARGES (DETAILS)

COMPANY NAME : SILVERLAKE SYSTEM SDN. BHD.
COMPANY NUMBER : 182899-W

11. CHARGE NUMBER : 011
NAME OF CHARGE : BANK ISLAM MALAYSIA BERHAD
ADDRESS CHARGE : 14TH FLOOR DARUL TAKAFUL
JLN SULTAN ISMAIL
50250 K.L.
CHARGE STATUS : FULLY SATISFIED
TYPE OF INSTRUMENT :
PROPERTIES AFFECTED : 400 000 AXIS SYSTEMS SDN BHD ORDINARY
SHARES OF RM1.00 EACH. (MEMORANDUM
OF DEPOSIT) F.41 DATED 20092002
- F.422 ISSUED 30112002.
DATE CHARGE CREATED : 02-08-2000
CHARGE TYPE : FIXED
CHARGE AMOUNT : RM 8,188,918.00
DATE CERTIFICATE (FORM 40) : 23-08-2000
DATE RELEASE/SATISFACTION (IF ANY) : 20-09-2002

Appendix 5: SSSB Footnote to the FY2006 Financial Statements

Company No.

182899	W
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SILVERLAKE SYSTEM SDN. BHD.

(Exempt Private Company)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 2006 (CONTINUED)

23 SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

On 22 May 2006, the Company completed the disposal of its Silverlake Integrated Banking System ("SIBS") business to company connected to a major shareholder and director. Consequently, with effect from that date, the Company has discontinued its operations on back-end banking software licensing business.

The disposal of the SIBS business entailed the Company to enter into the Renunciation Agreement dated 14 November 2006 (the "Agreement"). Pursuant to the Agreement, the Company renounced all its rights in the SIBS Intellectual Property that it owned ("SIBS IP"), i.e. rights to commercial exploitation of back-end banking software business products, allocations and processes developed by the Company, for a sum of RM3,882,800 which was determined and mutually agreed by all parties based on an indicative valuation of the Company's rights in the SIBS IP by an independent professional valuer.

The effects of the discontinued operations on the results of the Company for the financial year to the renunciation completion date are as follows:

	Period from 1.7.2005 to <u>22.5.2006</u> RM
Revenue	24,864,366
Cost of sales	(18,040,494)
Gross profit	6,823,872
Impairment of software development cost	(8,019,026)
Operating cost	(5,428,123)
Loss profit from operations	(6,623,277)
Finance cost	(1,528)
Loss profit before taxation	(6,624,805)
Taxation	0
Net loss profit for the financial year	<u>(6,624,805)</u>

The material effects on the financial position of the Company arising from the discontinued operations at the completion date are:

- increase in cash and bank balances by RM3,882,800 being the consideration for the renunciation; and
- decrease in software development expenditure by RM8,019,026 due to the write off of the unamortised carrying amount/impairment to the carrying amount of software development expenditure (Note 11).

4.2 Silverlake Research and Marketing Institute Ltd ("SRMI")

Goh Peng Ooi owns 100% of SRMI. SRMI currently develops and licenses software for use by non-banking customers. On 8 June 2005, SBVI has entered into a perpetual licensing agreement with SRMI whereby SBVI has licensed certain modules of SIBS to SRMI in return for a consideration of US\$6 million, pursuant to which SRMI can develop, license or install such modules for use by any utilities company and any person who manages the provision of public utilities ("**Utilities Application**"). SBVI has also granted an option ("**SRMI Option 1**") to SRMI in respect of the licensing of certain optional modules. SRMI will pay SBVI US\$4 million in respect of such optional modules upon the exercise of the SRMI Option 1 by SRMI. As at 15 March 2006, SRMI had partially exercised SRMI Option 1 in respect of some of the aforesaid optional modules of SIBS for a consideration of US\$1 million. On 31 October 2005, SBVI has entered into a perpetual license agreement with SRMI whereby SBVI has granted an option ("**SRMI Option 2**") to SRMI in respect of the licensing of certain modules of SIBS, pursuant to which SRMI can develop, license or install such modules for use by any airline company and any person who manages the business of an airline company ("**Airline Application**"). SRMI will pay SBVI US\$21.5 million in respect of all such modules upon the exercise of the SRMI Option 2 by SRMI. As at 15 March 2006, SRMI had partially exercised SRMI Option 2 in respect of some of the aforesaid modules of SIBS relevant to SRMI Option 2 for a consideration of US\$11 million. The SRMI Option 1 and SRMI Option 2 shall expire upon the Completion.

Both the Utilities Application and the Airline Application are outside the current scope of business activities of the Axis Group and the SAACIS Group as neither the Axis Group nor the SAACIS Group owns and licenses applications targeted at non-banking customers. Accordingly, the management of Axis believes that the current scope of business activities of SRMI is not in conflict with the business of the Axis Group and the SAACIS Group going forward.

However, in the future, the Enlarged Axis Group may decide to develop and license applications targeted at utilities and airline customers. In such an instance, potential conflicts of interests may arise. Please refer to Section 3.7 of the Letter to Shareholders for details on the non-competition undertaking provided by Goh Peng Ooi.

Source: Axis Systems Holdings Limited Circular to Shareholders, March 31, 2006, Page 108-109

Appendix 7: Silverlake Component Technology Solutions & ILOG Press Release

KUALA LUMPUR, Malaysia, March 25, 2003 /PRNewswire-FirstCall/ --

Silverlake Component Technology Solutions Sdn Bhd (Silverlake ComTech) and ILOG(R) (Nasdaq: ILOG; Euronext: SICOVAM: 006673), the world's leading provider of enterprise-class software components, today announced the deployment of the Intelligent Crew Management System (iCMS) for Malaysia Airlines, which is expected to help this leading international airline more efficiently plan and optimize their manpower utilization and obtain cost savings and productivity improvements.

iCMS, the latest addition to Silverlake ComTech's suite of crew management products, leverages ILOG's award-winning optimization products in two modules. The Crew Pairing Optimization (CPO) module utilizes ILOG CPLEX(R) and ILOG Solver(TM) optimization components to ensure compliance among airline regulations, trade union agreements and company policies. Using this module, Malaysia Airlines can improve decision making, thereby minimizing the costs associated with crew accommodations and transportation, regardless of the city or "hub" in which they are located. CPO also allows Malaysia Airlines to efficiently plan and optimize manpower utilization and activities associated with long-term planning and daily operations.

The Crew Duty Assignment (CDA) module uses ILOG CPLEX and ILOG Solver optimization components as the main building blocks of the system, providing automatic assignment of duties to all flight crews. The system considers work rules, regulatory requirements as well as crew requests to produce an optimal monthly crew roster.

"We are genuinely pleased to have selected iCMS for effective in-flight crew planning, rostering and tracking to optimize crew productivity," said Captain Ooi Teong Siew, Chief Pilot of Standard & Method Flight Operations, Malaysia Airlines. "The implementation of iCMS was almost immediately followed by increased productivity, higher quality of service and improved quality of life for ground personnel. With this system in place, we feel poised to take on the challenges of the operating rules, regulations or airline processes. It is necessary for one to maintain its competitive edge and be able to anticipate any changes which can directly impact bottom line."

"We recognize the critical factors for success in a dynamic and competitive environment," said Chee Chin Leong, CEO, Silverlake ComTech. "One such factor is ensuring that the ground and flight crews are effectively managed and optimized to reduce costs and increase efficiency. Our iCMS solution, using ILOG technology, ensures airline business rules such as aviation regulations, union contractual rules, company policy, humane rules are covered end-to-end from a business perspective."

About Silverlake Component Technology Solutions

Malaysia-based Silverlake Component Technology Solutions Sdn Bhd was formed in December 1999 as part of the Silverlake Group of Companies to focus on the airline business. Today, the primary focus of Silverlake ComTech is the development, marketing and the implementation of systems for the airline industry, financial institutions and telecommunications. With its experience in the development, marketing and integration of component-based technologies, Silverlake ComTech has developed software based on the latest available technology.

Silverlake ComTech has a total of more than 100 man-years in research, design and development of airline products. It draws its strength from a rich pool of resources with technical expertise, project management experience and consulting knowledge base.

About ILOG

For more than 10 years, ILOG's innovative enterprise-class software components and services have helped companies maximize their business agility and improve operating efficiency. Over 1000 global corporations and more than 300 leading software vendors rely on ILOG's business rules, optimization and visualization technologies to achieve dramatic returns on investment, create market-defining products and services, and sharpen their competitive edge. For more details, please visit <http://www.ilog.com/>.

NOTE: ILOG and CPLEX are registered trademarks, and ILOG Solver is a trademark of ILOG. All other trademarks are the property of their respective owners.

SOURCE: ILOG Press Release

182899-W

Silverlake System Sdn. Bhd.
(Incorporated in Malaysia)

28. Financial risk management objectives and policies (contd.)

(e) Fair values

The carrying amounts of trade and other receivables, cash and cash equivalents, trade and other payables, borrowings and hire purchase payables approximate their fair values due to their short-term maturity.

It is not practical to estimate the fair values of the non-trade amounts due to/from related parties, as there are no fixed repayment terms between the parties involved and without having to incur excessive costs.

29. Significant event during the year

On 1 November 2009, the Company completed the transfer of its business of providing program change request, application management and maintenance services to customers who have licensed and are using the Silverlake Integrated Banking System ("SIBS") software (collectively known as "Structured Services Business") to a company connected to a major shareholder and a director. Consequently, with effect from that date, the Company has discontinued its operations on the Structured Services Business.

The transfer of Structured Services Business entailed the Company to enter into the Restructuring Agreement dated 1 November 2009 ("the Agreement"). Pursuant to the Agreement, the Company permanently ceased carrying on the Business at nil consideration.

The effects of the discontinued operations on the results of the Company for the financial year to the completion date of the transfer are as follows:

	1 July 2009 to 31 October 2009 RM
Revenue	6,405,467
Cost of sales	<u>(4,429,291)</u>
Gross profit	1,976,176
Other operating income	2,957
Administrative expenses	(69,803)
Other operating expenses	<u>(150,725)</u>
Profit from operations	1,758,605
Finance costs	<u>(26,171)</u>
Profit before taxation	1,732,434
Taxation	-
Profit for the year	<u>1,732,434</u>

Continued

APPENDIX II

SILVERLAKE SOLUTIONS LIMITED
UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT AND BALANCE
SHEET (COLLECTIVELY REFERRED TO AS "UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL INFORMATION") FOR THE FINANCIAL YEAR ENDED 30
JUNE 2009

- (iii) Unaudited management accounts of SSB Malaysia and SSB Singapore, for the financial year ended 30 June 2009. No material adjustment is required to restate these management accounts in accordance with Singapore Financial Reporting Standards.

(Collectively, referred to as "Aggregation of Financial Information")

The auditors' reports on the financial statements of Silverlake Private Entities, which were used in the compilation of the Unaudited Pro Forma Consolidated Financial Information for the year presented were not subject to any qualification. However, the auditors' reports on the financial statements of PT Silverlake Advanced IT Solutions and Silverlake Sistem Sdn. Bhd. for the financial years ended 31 December 2008 and 30 June 2009 respectively include the following emphasis of matters:

- (i) PT Silverlake Advanced IT Solutions

"The accompanying financial statements have been prepared assuming that the company will continue as a going concern. As discussed in Note 15 to the financial statements, the company suffered capital deficiencies amounting to Rp1,025,778,032 as of 31 December 2008. The accompanying financial statements do not include any adjustments that might arising from these matters. As the company was established at year 2004 where revenue achieved were not optimum. As a result, the company suffering loss, which affected the accumulated losses and therefore the company suffered capital deficiency as of 31 December 2008. In response to this condition, the company initiated a cost cutting program, tried to increase marketing activity to optimise its revenue and the company obtained financial support from related party for operational activity of the company.

- (ii) Silverlake Sistem Sdn. Bhd.

"The company is insolvent and these financial statements have been prepared in accordance with the historical cost convention and on a going concern basis, notwithstanding the deficit in the shareholders' fund, because a director (who is also a shareholder) and related parties of the company have agreed to provide financial support to the company for at least the next twelve months from the date these financial statements are signed."

The matter described in the "emphasis of matters" mentioned above do not have any impact to the Unaudited Pro Forma Consolidated Financial Information as the Proposed Restructuring involves transferring of only Structured Services Business of the above companies to SSB Group.

Company No.
542182-M

SILVERLAKE SPRINTS SDN. BHD.
(Incorporated in Malaysia)

OTHER STATUTORY INFORMATION

- (a) Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there were no known bad debts and that no allowance for doubtful debts was necessary; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

As of 31 December 2013, the Company has a capital deficiency of RM47,882,010 which arose as a result of losses incurred in the current financial year and previous financial years, and net current liabilities of RM49,575,756 and long term liability of RM1,986,929. However, as mentioned in Note 2 to the financial statements, the financial statements of the Company have been prepared on the basis of accounting principles applicable to a going-concern. This going concern basis presumes that the Company will continue to receive financial support from its major shareholder and, consequently, the realisation of assets and the settlement of liabilities will occur in the ordinary course of business. In this connection, the Company has received a letter of financial support from the major shareholder that he will continue to provide financial support to the Company so as to enable the Company to meet its liabilities as and when they fall due and to carry on its business without significant curtailment of operations. Accordingly, the Directors are satisfied that the Company will be able to meet its financial obligations as they fall due for the foreseeable future and carry on as a going concern.

Source: Silverlake Sprints Sdn Bhd 2013 annual report and financial statements

**Silverlake Infrastructure & Logistics Sdn. Bhd.
(Incorporated in Malaysia)**

Other statutory information

- (a) Before the income statement and balance sheet of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that no provision for doubtful debts was necessary; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) it necessary to write off any bad debts or to make any provision for doubtful debts in respect of the financial statements of the Company; and
 - (ii) the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.
- (g) As at 31 December 2013, the Company's net current liabilities and shareholder's deficit were RM11,565,067 and RM9,935,809 respectively. The ability of the Company to meet its financial obligations and continue as a going concern is dependent upon the financial support from its holding company and its shareholder.



SURUHANJAYA SYARIKAT MALAYSIA
COMPANIES COMMISSION OF MALAYSIA

4 / 16

COMPANY CHARGES (DETAILS)

COMPANY NAME : SILVERLAKE SYSTEM SDN. BHD.
COMPANY NUMBER : 182899-W

4. CHARGE NUMBER : 004
NAME OF CHARGE : EON BANK BERHAD
ADDRESS CHARGE : TKT 11 WISMA CYCLECARRI
288 JLN RAJ A LAUT
50350 K.L.
CHARGE STATUS : FULLY SATISFIED
TYPE OF INSTRUMENT :
PROPERTIES AFFECTED : BY WAY OF A FIRST FIXED CHARGE
ALL AND SINGULAR THE FIXED ASSETS
OF THE COMPANY MOVABLE AND IMMOVABLE
WHATSOEVER AND WHERESOEVER SITUATE
BOTH PRESENT AND FUTURE; ALL THE
GOODWILL; ALL STOCKS SHARES
BONDS AND OTHER CORPORATE SECURITIES; ALL BOOK
AND OTHER DEBTS
REVENUES AND CLAIMS; AND BY WAY OF
A FIRST FLOATING CHARGE THE WHOLE
OF THE UNDERTAKING OF THE COMPANY
AND ALL OTHER PROPERTIES ASSETS
AND RIGHTS OF THE COMPANY WHATSOEVER
AND WHERESOEVER SITUATE
BOTH PRESENT AND FUTURE. (A DEBENTURE).
DATE CHARGE CREATED : 31-12-1997
CHARGE TYPE : FIXED AND FLOATING
CHARGE AMOUNT : RM 30,000,000.00
DATE CERTIFICATE (FORM 40) : 08-01-1998
DATE RELEASE/SATISFACTION (IF ANY) : 20-09-2006

COMPANY CHARGES (DETAILS)

COMPANY NAME : SILVERLAKE SYSTEM SDN. BHD.
 COMPANY NUMBER : 182899-W

5. CHARGE NUMBER : 005

NAME OF CHARGE : EON BANK BERHAD

ADDRESS CHARGE : 11TH FLOOR
 WISMA CYCLECARRI
 288 JLN RAJA LAUT;50350 K.L.

CHARGE STATUS : FULLY RELEASED

TYPE OF INSTRUMENT :
 PROPERTIES AFFECTED : A) BY WAY OF AN ABSOLUTE ASSIGNMENT
 ALL THE COMPANY'S PRESENT AND FUTURE
 RIGHTS TITLE AND INTERESTS IN AND TO
 AND ALL BENEFITS ACCRUED AND TO
 ACCRUE TO THE COMPANY; B) BY WAY
 OF FIRST FIXED CHARGE AND/OR ABSOLUTE
 ASSIGNMENT
 ALL THE COMPANY'S PRESENT AND FUTURE RIGHTS
 TITLE AND INTERESTS IN AND TO
 AND ALL BENEFITS ACCRUED AND TO
 ACCRUE TO THE COMPANY. (DEED OF
 ASSIGNMENT) ALL PROPERTIES AND UNDERTAKING
 WAS RELEASED FROM THE CHARGE ON
 12042002.F.42 DATED 12042002.

DATE CHARGE CREATED : 02-10-1998

CHARGE TYPE : FIXED

CHARGE AMOUNT : RM 30,000,000.00

DATE CERTIFICATE (FORM 40) : 15-10-1998

DATE RELEASE/SATISFACTION (IF ANY) : 12-04-2002



SURUHANJAYA SYARIKAT MALAYSIA
COMPANIES COMMISSION OF MALAYSIA

8 / 16

COMPANY CHARGES (DETAILS)

COMPANY NAME : SILVERLAKE SYSTEM SDN. BHD.
COMPANY NUMBER : 182899-W

8. CHARGE NUMBER : 008
NAME OF CHARGE : EON BANK BERHAD
ADDRESS CHARGE : 13TH FLOOR WISMA CYCLECARRI
288 JLN RAJA LAUT
50350 K.L.
CHARGE STATUS : FULLY SATISFIED
TYPE OF INSTRUMENT :
PROPERTIES AFFECTED : A) 2ND FIXED CHARGE ALL AND SINGULAR
THE FIXEDASSETS
ALL STOCKS SHARES BONDS AND OTHER
CORPORATESECURITIES;2ND FLOATING
CHARGE ALL THE GOODWILL AND CONNECTION
OF ALL BUSINESS AND ALL BOOK AND
OTHER DEBTS REVENUES AND CLAIMS;B)
RESORT APARTMENT UNIR C3/4 SILVERPARK
VILLA CHELD UNDER HS(M) 1258 PT
1495 IN MUKIM OF TRAS
PAHANG;C) RESORT APARTMENT PARCEL
37A BAIDURI APARTMENT
KIJAL BEACH RESORT HELD UNDER HS(D)
1772 PT 2851MUKIM OF KIJAL DISTRICT
OF KEMAMAN;ANDD) UNIT OF OFFICE
LOT AS UNIT C01-19 BLOCK C
PHILEO AVENUE SHOP/OFFICE HELD
UNDER HS(D) 75549 PT 13AND GRANT
15992 LOT 88 IN SEK.44 BANDAR
DATE CHARGE CREATED : 25-11-1999
CHARGE TYPE : FIXED AND FLOATING
CHARGE AMOUNT : RM 10,000,000.00
DATE CERTIFICATE (FORM 40) : 10-12-1999
DATE RELEASE/SATISFACTION (IF ANY) : 20-09-2006