



Amcorp Global Limited

Incorporated in the Republic of Singapore
Company Registration No: 201230851R

RESPONSE TO SIAS' QUERIES ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023

The Board of Directors ("**Board**") of Amcorp Global Limited (the "**Company**") refers to the queries raised by SIAS in its email dated 17 July 2023 in relation to the Company's Annual Report for the financial year ended 31 March 2023 ("**AR2023**") and wishes to provide the following information in response to the queries:

Question 1

As noted in the chairman's letter to shareholders, the group is actively seeking suitable investments or projects both in Singapore and overseas, with a focus on Europe and Australasia, to support its future growth. Each potential investment or project will be evaluated with prudence and discipline and after careful consideration of its risk-reward profile.

The chairman further emphasised that, as at 31 March 2023, the group has cash resources of \$30.7 million. The total debt-to-total assets and debt-to-total equity ratios stood at 0.50 times and 1.19 times respectively. Total debt amounted to \$96.0 million.

- (i) **Can the board provide shareholders with an understanding of any competitive advantage the group may have when it comes to investing in Europe and Australasia?**
- (ii) **Can management explain how the sale of the Larmont hotel in Sydney, Australia, in February 2023 aligns with the group's strategy of pursuing investments in Australasia?**
- (iii) **Similarly, how does the acquisition of Amcorp Borneo Sdn Bhd, a company primarily engaged in commercial property development projects in East Malaysia, align with the group's (new) focus?**

The recent divestments have enabled the group to reduce its gearing and lower finance costs, particularly in a high interest rate environment.

- (iv) **Has the board established a limit on the group's gearing if it proceeds with new investments or projects?**
- (v) **What are the investment criteria used by the board and management to evaluate potential investment opportunities?**

Our Response to Question 1

- (i) The Group via the parent company and its management team have had considerable experience and a successful record of accomplishment in certain key international markets such as in London, Madrid, Tokyo and Shanghai besides Singapore. Over the past 15 years, they have formed a network of like-minded investors and partners to seek out off-market opportunities with attractive returns alongside a better risk-reward profile. These developed markets benefit from a having favourable investor terms, a deep liquid market as well as an established legal framework.

- (ii) While Australasia is a potential targeted investment location, investments in hotel buildings is not a preferred asset class for the Group as it does not have the hotel management capabilities. There were several motivating factors for the disposal of Larmont Hotel including:
- (a) this asset being a 103-room strata-titled hotel occupying split levels from level 2 to 6 and level 11 to 12 with shared lobby and lifts with commercial offices would limit any potential to reposition or redevelop;
 - (b) the selling price of A\$46.25 million being above its latest valuation of A\$43.8 million as at 31 March 2022;
 - (c) a rising interest rate situation which would lead to higher finance costs and higher capitalisation rate that would likely affect future valuation;
 - (d) upcoming refinancing risk as at 31 March 2023 when the bank loan would have matured; and
 - (e) upcoming supply of new rooms from new hotels.

The net proceeds generated from this divestment would allow the Group to redeploy its capital to higher return opportunities.

- (iii) The acquisition of Amcorp Borneo Sdn Bhd which had a track record in commercial properties in East Malaysia would provide the Group with an opportunity to undertake development or value add projects that fit the risk-reward profile and is in line with the Group's current mandate as a regional real estate developer and investor.
- (iv) The Board has not established a stipulated gearing limit for the Group. Any new borrowings would normally be tied to the new investments or projects where the cashflows generated would be identified for repayment of such borrowings. The Board will assess each investment individually to determine if the Internal Rate of Return derived from the project is achievable and acceptable and that the Group has the sufficient cashflows to repay such borrowings. The Group has or will be looking at its overall capital and financing structure as part of the plan to invest in these international property projects.
- (v) In considering any potential property opportunities, the investment criteria would include among others (a) the demand and supply; (b) clear legal framework and laws to protect the developer and buyers; (c) regulations that need to be complied; (d) our technical capabilities and (e) overall returns that meet the Group's risk reward profile.

Question 2

The details of the group's projects can be found on page 7 of the annual report. In Malaysia, despite the group's persistent sales efforts, three retail units and the entire office tower of the Third Avenue project in Cyberjaya remain unsold. In Singapore, the unsold inventories primarily consist of strata commercial units developed by our associate companies, namely TRIO, Hexacube, and Flora Vista, as well as those developed by a wholly-owned subsidiary, 183 Longhaus.

Please refer to the following sales history:

						FY20/21	FY21/22
COMMERCIAL							
Name of Property	Location	Land Area (sqm)	Tenure	No. of Units (For Sale)	Group's Effective Interest	No. of Units	
Completed (Singapore)							
183 Longhaus	183 Upper Thomson Road	1,576	Freehold	5 Retail 5 Restaurant	100%	5 Retail 5 Restaurant	
Hexacube	160 Changi Road	1,670	Freehold	18 Retail 4 Restaurant 1 Office	30%	18 Retail 3 Restaurant 1 Office	
				19 Retail		19 Retail	

(Compiled from company annual reports; emphasis added)

- (i) **Can management provide additional details on the ongoing efforts to sell the Third Avenue office building and the units at 183 Longhaus?** Management has stated that they had, and will continue to, engage real estate agencies to market these commercial units for sale or lease. **Can the board confirm that the units are intended for sale and that reasonable efforts have been made by management to sell the completed units?**
- (ii) **Are the listing prices unrealistic? What are the reasons that the group has not been able to sell the remaining units?**
- (iii) **Has the board proactively developed strategies to monetise these assets in order to de-risk the group, deleverage the balance sheet and fund the growth strategy?**
- (iv) **In addition, could management provide shareholders with a better understanding of the current state of the real estate sector in Cyberjaya?**

The “net realisable values of development properties and completed properties” is also a key audit matter (KAM) highlighted by the independent auditor. Key audit matters are those matters that, in their professional judgement, were of most significance in their audit of the financial statements of the current period.

As noted in the KAM, as at 31 March 2023, the group has completed properties with a total net carrying value of \$45,295,000 net of write-down of \$7,815,000 as at 31 March 2023.

- (v) **Can the audit committee (AC) provide a breakdown of the carrying values of the unsold properties by projects, or even by units within each project?**
- (vi) **Considering that the properties have been on the market for at least three years, is there a potential risk that the carrying values of the unsold properties might be overstated?**

Similarly, the unsold Hexacube and TRIO units, held by the associates, have remained unsold in the past three years.

- (vii) **How much influence does management have in getting the associates to sell the units? Has management estimated the holding costs of the unsold inventories given the current high interest rates?**

Our Response to Question 2 (i) to (iv)

The Board confirms that all unsold units of Third Avenue and 183 Longhaus are intended for sale and appropriate efforts have been taken to market these completed properties. The Board’s primary strategy was to ensure a timely completion and sale of its development projects and to dispose of its mature property assets to de-risk the Group, deleverage the balance sheet and to fund the future growth. To that end, the Group has successfully fully sold its two ongoing property development projects, Lattice One and 35 Gilstead and completed the sale of Larmont Hotel. The sales of the development projects were achieved amidst the intense competition and numerous new launches particularly in the Core Central Region while the sale of the hotel was achieved while interest rates were on the sharp rise. The Lattice One project had achieved TOP in January 2023 and successfully handed over to our esteemed buyers.

Reputable real estate agencies have been engaged who have conducted engagement sessions with prospective buyers. The various COVID-19 lockdowns in the last few years have adversely affected demand and rental yields. When that subsided gradually, the sudden and sharp rise in interest rates over the past year to counter inflation then negatively affected buyers’ sentiment and banks also pulled back on the quantum of leverage. These had caused potential buyers/investors to adopt a wait-and-see approach particularly towards the future interest rate outlook. The Board takes into consideration the advice from property agencies as well as market data in adopting an initial listing price but the Group is willing to consider all genuine offers received from interested buyers. In respect of the Malaysia property market particularly in Cyberjaya, there remains an over-supply situation where vacancy rates remain high for office space.

Our Response to Question 2 (v) to (vii)

The carrying value of unsold completed properties relate primarily to the Third Avenue office tower and the 10 strata retail units at 183 Longhaus. At the end of each financial year, valuations by accredited professional valuers are performed for our unsold properties and the carrying values of these properties are lower than the valuation amounts. This issue has been part of the KAM annually and is a critical matter reviewed by the auditor and discussed with the AC in their audit meetings. The matters considered by the auditors and the AC's comments on this issue are disclosed in page 55 of the annual report. To this end, the auditors and the AC had been satisfied that the unsold properties were carried at lower of cost and net realisable value as at 31 March 2023.

With regard to the unsold units in Hexacube and TRIO, the intention of the joint venture partners at the start of the joint venture had been to develop the properties for sale. This intention has not changed. While the retail economy picks up again after suffering from the effects of COVID19 lockdowns, the action taken for such strata retail assets has been to lease them out to defray the holding cost while finding an opportune time to sell. The joint venture partners do take into consideration the holding costs of such unsold inventories as well as other factors e.g. rental yields, potential of the property, availability of potential buyers and their offer prices.

Question 3

Despite paying down its borrowings, the group has \$89.4 million in bank borrowings as at 31 March 2023, with \$20.8 million due within one year. The breakdown can be found in Note 16 (shown below):

16 Bank borrowings

	Group	
	2023	2022
	\$'000	\$'000
Secured		
Term loans	68,534	125,630
Temporary bridging loan	839	2,000
Money market loan	20,000	20,000
	<u>89,373</u>	<u>147,630</u>
Less: amounts due within one year	(20,839)	(67,860)
Non-current portion	<u>68,534</u>	<u>79,770</u>

(Source: company annual report)

The interest rates on the terms loans, which are on floating rates, increased from 2.38% to 4.82% (page 117).

- (i) **Can management disclose the interest rates charged on the different term loan(s) and the money market loan?**
- (ii) **What are the reasons to use a money market loan?**
- (iii) **In addition, why is the group incurring interest costs of 5.6% to a related company (as mentioned on page 134) when bank financing could potentially be more cost-effective?**
- (iv) **Has the group implemented any hedging activities to mitigate its interest rate risks? Will the board offer guidance to management regarding the establishment of a more robust risk management framework, including a more comprehensive approach to managing interest rate risk?**

Our Response to Question 3

- (i) The interest rates on the bank borrowings as at the reporting date are as follows:

		2023	2022
	Currency	%	%
Term loans	AUD	-	1.87
Term loans	SGD	4.68	2.38
Temporary bridging loan	SGD	2.50	2.50
Money market loan	SGD	5.74	2.04

- (ii) The money market loan of S\$20 million serves as a short-term financing option for 183 Longhaus given the intention of the Group to dispose of this completed property. This loan enables us to maintain flexibility as it does not require monthly principal repayments nor incurring prepayment fees when it comes to retiring the loan when we dispose of the property.
- (iii) One of the Group's subsidiaries in Malaysia obtained a Ringgit Malaysia denominated loan of MYR2,780,000 (approximately S\$836,000) from a related company to meet its immediate working capital requirements also in Ringgit Malaysia. The interest rate of 5.6% is reasonable in light that it is a short term Ringgit denominated loan which would avoid incurring any exchange fees/commission and minimizing any potential foreign exchange risk arising from converting its Singapore dollar funds to Ringgit Malaysia and back. The loan was fully repaid shortly after the end of the financial year.
- (iv) The Group has an existing risk management framework where management as well as the Board continuously monitors the Group's interest rate risk. These are disclosed in page 50 and 51 of the annual report wherein it was disclosed that the interest rate risk has been partially mitigated by the sale/completion of its local development projects and sale of Larmont Hotel, and the repayment of the underlying loans. As highlighted, the Group's bank borrowings have reduced by almost 40% during the financial year.

There are many factors taken into consideration in determining the Group's optimum capital structure such as existing capital and available opportunities, interest rate outlooks, aligning cash flows to service the payments of interest and/or principal, the economic lifespan of the assets or operations being financed, financing options and maturity profiles of the Group's existing borrowings.

Given that the Group's existing bank borrowings relate primarily to fund an existing property development project which is fully sold and a completed property held for immediate sale, hedging such interest exposure such as entering into fixed rate swaps was not considered an appropriate option.

By Order of the Board

Ng Tah Wee
Financial Controller and Company Secretary
24 July 2023