

OKH GLOBAL LTD.
(Company Registration Number: 35479)
(Incorporated in Bermuda)

**RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION
SINGAPORE**

The Board of Directors of OKH Global Ltd (the “Company” and together with its subsidiaries and associated companies, the “Group”) wishes to inform that there were no questions received from members, and the Company would like provide its responses to the Questions raised by the Securities Investors Association Singapore (“SIAS”).

SIAS Question 1:

- 1) As shown in the financial highlights (page 9 of the annual report), for the financial year ended 30 June 2020, the group recorded the lowest revenue of \$15.25 million in 5 years although the gross profit of \$13.9 million was the highest in the past 5 years.

However, the net loss for the year was \$(22.4) million, the group’s fourth loss in the past 5 years. In fact, over the last 5 years, the cumulative losses amount to \$(107.4) million.



(Source: company annual report)

At the company level, the company has slipped from a net equity position of \$3.45 million as at 30 June 2018 to a capital deficiency amounting to \$(24.0) million as at 30 June 2020.

The auditors have highlighted the group’s going concern as a key audit matter in the independent auditor’s report (page 41). In addition, the group’s current liabilities exceeded its current assets by \$30.4 million and it has not complied with a financial covenant relating to a bank loan as at 30 June 2020.

The price chart of the company for the past 5 years is shown below:

OKH Global (S3N / OKHG.SI)

Industry

Industrial & Commercial Services

Construction & Engineering

This company reports in this currency: SGD

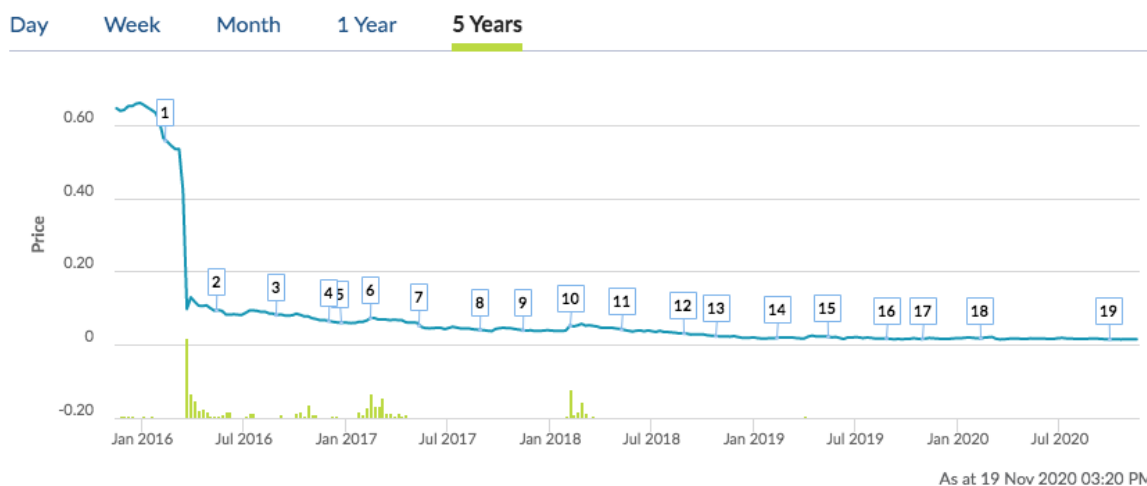
0.015

(No Change in Price)

As at 19 Nov 2020 03:18 PM

Print

Prices & Chart



(Source: <https://www.sqx.com/securities/equities/S3N>)

As noted in the corporate governance report, one of the principal functions of the board is to provide entrepreneurial leadership, set strategic objectives, and ensure that the necessary financial and human resources are in place for the group to meet its objectives.

- (i) Can the board help shareholders understand how it has provided the entrepreneurial leadership and if it has contributed to the success to the group?
- (ii) Has the board reviewed the performance of management? If so, is the board satisfied with the performance of management?
- (iii) Would the board, especially the independent directors, consider it opportune to carry out a comprehensive strategic review of the group's operations to assess the core competencies of the group, its management team and its financial strength and to finetune its strategies so as to create long-term sustainable value for all shareholders?

Company's Response to Question 1:

Before the new Board and Management took over in 2016, the Company was caught in a downturn in the strata industrial real estate cycle due to oversupply. The Company was also heavily leveraged and was cash-strapped, its share price and market cap had fallen drastically

earlier in the year of 2016, its premium developments targeted at SMEs and investors was not selling well and its ongoing construction projects had stalled due to a lack of capital.

The new shareholder had injected extensive capital into the Company to rescue it and in the last 4 years, the Board and Management successfully steered the Company through extensive negotiations and settlements with numerous banks, creditors and legal suits, completed construction of its on-going developments, implemented wide-ranging cost-cutting measures, introduced marketing initiatives to sell and lease its assets and pared down on the overall lending of the group. However, its existing businesses continue to suffer from a soft economy and a consolidation in the SME sector, as well as the impact of the COVID-19 pandemic.

The Board has also performed rigorous review on the Management annually and is satisfied with its performance. The Board and Management had discussed the strategic direction of the Group and is of the view that the Group should continue to dispose of and lease its current asset portfolio and continue to explore businesses which can be injected into the Group to bring about strategic changes.

SIAS Question 2:

- 2) Would the board/management provide shareholders with better clarity of the following operational and financial matters? Specifically:
- (i) Construction segment: The group has scaled down its construction business activities (page 2) and disposed of No. 5 Pioneer Sector Lane as well. As seen from Note 30 (page 110 - Segment information), the construction segment contributed \$25,000 in external revenue and \$(739,000) in losses. Can management elaborate further on the group's plans to "scale down" the construction segment? Would the group be ceasing all construction activities permanently going forward?
 - (ii) Property development: Similarly, the group does not appear to have any land bank for development. Given the current financial position, the group may not be in a position to carry out any major development projects as well. Can management provide shareholders with greater clarity on the group's future plans for the property development segment?
 - (iii) Investment properties: The group's completed properties are shown on page 10 of the annual report. On page 11, the group has listed Loyang Enterprise and Ace@Buroh as projects for sale/lease while 12 Tai Seng Link and The Herencia are listed as projects for lease. Given that these are the assets contributing the bulk of the group's revenue, would management disclose the average occupancy rates as at 31 December 2019 (prior to the pandemic) and as at 30 June 2020? What is the current occupancy rate of the group's investment properties? Has the group experienced any major difficulties in collecting rent from its tenants?
 - (iv) Valuation: For FY2019 and FY2020, the group recognised \$(18.9) and \$(25.1) million in diminution of the value of the group's investment properties respectively. Would management disclose the individual carrying value of the group's investment properties and show the breakdown in the \$(44) million in the diminution of the value of its investment properties? Is it opportune to further finetune the group's investment framework?
 - (v) Leverage: At the group level, the group has equity of \$67.3 million and cash and cash equivalents of \$7.2 million as at 30 June 2020. The group has bank loans

amounting to \$24.4 million and loans due to a shareholder amounting to \$43.5 million due July 2021. As at 30 June 2020, the group had not complied with a financial covenant relating to a bank loan amounting to \$18.1 million. Total bank borrowings amount to \$79.5 million at the end of the financial year. In the joint message by the non-executive chairman and executive director & CEO, it was stated that the group is looking at opportunities to monetise assets to reduce gearing. The group's capital management policy is to manage its capital to ensure that entities in the group will be able to continue as a going concern while maximising return to stakeholders. What guidance has the board given to management on its capital management framework, in particular the Page 5 of 6 group's cash flow and gearing? Has the board evaluated the optimal capital structure to support the group's growth and set a maximum leverage for the group? How closely does the board monitor the group's capital structure and gearing?

- (vi) Going concern: Has the board evaluated its options to strengthen its financial position? How does the board intend to carry out a fund-raising without causing undue dilution to minority shareholders?

Company's Response to Question 2:

In light of reduced construction activities undertaken by the Group after completing its major development projects, the downturn in the construction sector and the ease of hiring new staff should construction opportunities arise in future, the Group has made a prudent decision to only maintain a small construction team for repair, maintenance and defect liabilities work on its properties.

Due to competitive reasons, the Group would not disclose occupancy rates and carrying amount of its individual investment properties. Overall, the occupancy rate of its properties has increased to more than 80%. Please refer to the Company's announcement on 8 October 2020 for the breakdown of revaluation loss on the Group's investment properties.

In the current economic climate due to the Covid-19 pandemic, most landlords have faced some difficulties in the collection of rental from its tenants on a timely basis. The Group has continued to keep in close contact and has actively engaged with all its tenants to work out various plans for them to continue their tenancy and make repayment without being forced to close down their businesses. Invariably, some small businesses may go bankrupt; the Group is well aware of these tenants and have taken steps to replace them and made provisions to write-off some of these receivables.

The Board reviews the cash flow and gearing of the Group at every Board meeting. It believes that the Group can further reduce the overall gearing to achieve a more optimal capital structure. The Group regularly reviews its capital management and cash flows, and will consider to best option for fund-raising at the time when it requires new funding.

SIAS Question 3:

- 3) From FY2017 to FY2020, the group has utilised bank overdrafts, fixed rates bank loans and floating rates bank loans.

The range of the bank loans (floating rates) over the years are as follows:

- FY2017: 2.5%

- FY2018: 2.9%
- FY2019: 3.6%
- FY2020: 3.6%

The interest rates for the long-term bank loans are reset for periods ranging from 1 month to 6 months based on changes to swap offer rate or the bank's cost of funds.

As disclosed in Note 6 (page 83 – Related companies and other related parties transactions), as at 30 June 2020, the company has three loans (secured and unsecured) due to a shareholder, Haiyi Holdings Pte. Ltd., amounting to \$43.5 million which bears interest at 4.8% per annum.

For FY2019 and FY2020, the group paid interests of approximately \$5 million to the controlling shareholder.

- (i) Would the board, especially the independent directors, help shareholders understand how the terms of the loans were negotiated?
- (ii) Given that the group's floating rate bank loans bear interest at 3.6%, how did the board, especially the independent directors, approve and justify the secured shareholder loans which bear interest of 4.8% per annum?
- (iii) What were the efforts by management to secure cheaper financing for the group?

Company's Response to Question 3:

During renewals or when loans are due, Board and Management would seek out various financial institutions to check on their interest in refinancing the loan. The Management would then negotiate with interested financial institutions in order to obtain the most favorable terms for the Group.

All Interested Persons Transactions (IPTs) would be reported to the Audit Committee, which will assess the specific transactions to deem if it would be in the best interest of the Group and minority shareholders. All IPTs are approved by the Audit Committee and if necessary, shareholders' approval will be obtained in accordance with Chapter 9 of the Listing Manual.

BY ORDER OF THE BOARD

LOCK WAI HAN
Executive Director and Chief Executive Officer
29 November 2020