
RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The Board of Directors (the “**Board**”) of PropNex Limited (the “**Company**”) would like to thank Securities Investors Association (Singapore) (“**SIAS**”) for the questions submitted to the Company on 18 April 2022 in relation to its annual report for the financial year ended 31 December 2021 (“**FY2021**”).

The Company’s responses to SIAS’s questions are set out below.

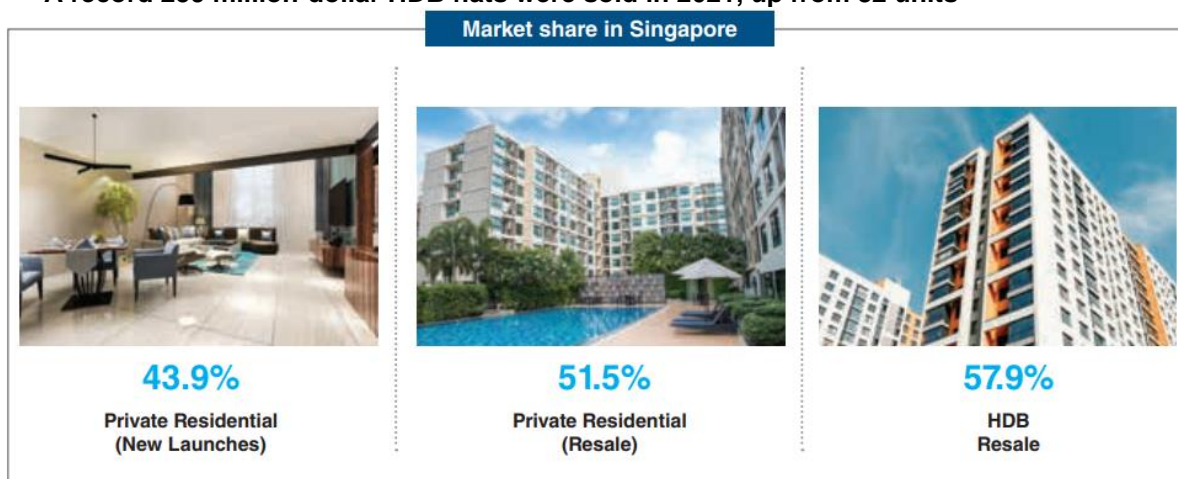
Question 1

FY2021 was a blockbuster year for the group, despite the initial worries about the long-drawn pandemic entering a second year.

Full year revenue increased by 87% to \$957.5 million in FY2021, driven by higher commission income from agency services and from project marketing services. This was a result of higher number of transactions completed in FY2021.

The following data points show the strength of the red-hot market in 2021:

- private home prices rose by 10.6% year-on-year for the whole of 2021, achieving the highest annual price growth since 2010
- 13,027 new private homes were sold, the highest annual sales since 2013
- 19,962 resale private homes were sold, the highest annual resale figure since 2007
- HDB resale prices rose 12.7%, with the HDB resale price index recording an all-time high of 155.7
- Resale applications registered with HDB increased by 25% to hit a 10-year high at 31,017 transactions
- A record 259 million-dollar HDB flats were sold in 2021, up from 82 units



As shown above, the group has a leading market share of the HDB resale market (58%). It has a 44% share in new launches and just over half of the private residential resale market.

- (i) Can management help shareholders better understand the different characteristics of the three segments and the reasons for the differences in market share in each segment?

- (ii) Given how strongly the market grew in FY2021, and with the introduction of additional cooling measures in December 2021, what is management's view of the market and how is it positioning the group?
- (iii) Given that the group relies heavily on transaction volume, has the board identified the risks of a property market correction/slowdown? How is the board managing the risk that transaction volumes will not always be going up?

The agency also achieved a notable feat of being the first real estate agency in Singapore to ever break the 10,000-agents mark. Management has set a target of having 12,000 salespersons by 2023.

- (iv) Is bigger always better? Will it lead to cannibalisation or reduced marginal returns? How does management balance growing the size of the agency and increasing the efficiency and productivity of its sales force?

Company's response

- (i) Characteristics and differences of below three segments

- a. Private residential new launches (or project marketing)

This segment comprises new projects put out for sale by private property developers. Developers are required to sell their projects within a period of 5 years from date when the land was acquired. This period includes the time needed for construction as well as the necessary effort to comply with regulations.

Developers that failed to meet the timeline to sell their new projects will have to incur additional stamp duties on the land. Hence, developers usually appoint one or more real estate agencies ("agencies") to market their projects to potential home buyers and investors.

When there are many agencies marketing these new launches, clients brought in by the agencies need to ballot when unit chosen has many potential buyers. Successful buyer and agency are subject to the luck of the draw.

- b. Private residential resale

The sellers in this segment are individuals who have bought private property as a residence or as an investment. Reasons to sell include the need for larger accommodation, for a more convenient location, and to realise the capital gain on the investment.

Real estate salespersons ("RES") are trained and licensed to buy and sell properties. In this industry, they have greater outreach to potential buyers. In addition, there are areas and regulations, where both sellers and buyers may not be fully aware, that need to be considered. Hence, these individual owners appoint RES to navigate the transaction and to market their properties.

The resale transaction can be closed when both seller and buyer agree on the price as well as the terms and conditions.

- c. HDB resale

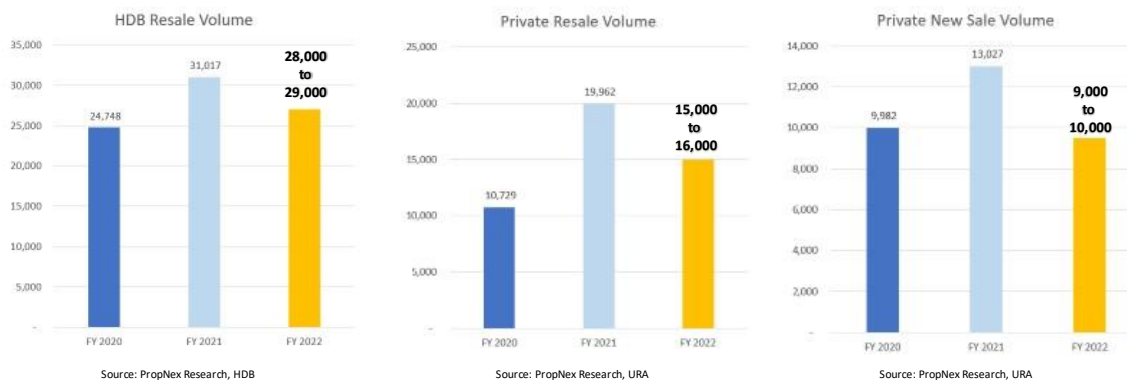
Similar to the private residential resale segment, however the sellers in this segment are individuals who have bought HDB apartments.

(ii) View of market and positioning

The year 2021 ended with a robust increase in the property price index. On 16 December 2021, the government introduced new cooling measures to stabilize the real estate prices. Management is of view that the government's move will ease the momentum in terms of price and volume.



FORECAST: EASING OF SALES MOMENTUM IN 2022



Projected HDB Resale volume for 2022 will drop by 5-10% to [28,000 to 29,000 units](#)

Projected Private Resale volume for 2022 will drop by 20-25% to [15,000 – 16,000 units](#)

Projected Private new sale volume for 2022 will drop by 20-30% to [9,000 – 10,000 units](#)

For the whole of 2021, overall private home prices had risen by a strong 10.6%, based on URA flash estimate. The management expects the pace of growth may ease to 3% to 5% in 2022, as the new cooling measures weigh on investment demand and ensure prices move in a more sustainable manner. Barring the Core Central Region which is more investor-reliant, prices in other housing segments such as the Rest of Central Region, Outside Central Region, HDB Executive Condominiums (“ECs”) and resale markets should remain fairly resilient owing to genuine demand from upgraders and local buyers, limited stock of unsold mass market homes, and in the case of ECs, their more affordable pricing and limited supply. Singaporeans continued to form the bulk of private housing demand in 2021, accounting for 83.6% of non-landed private new sales and 77.6% of non-landed private resale transactions during the year.

New home sales volume for 2021 was 13,027 units, representing more than 30% increase from 9,982 units in 2020. Whereas for the private resale market, 19,962 homes were resold in 2021, more than 86% increase up from 10,729 resale properties transacted in 2020. The management projects that those transactions may taper to 9,000 to 10,000 for private new home sales and 15,000 to 16,000 for resale properties in 2022.

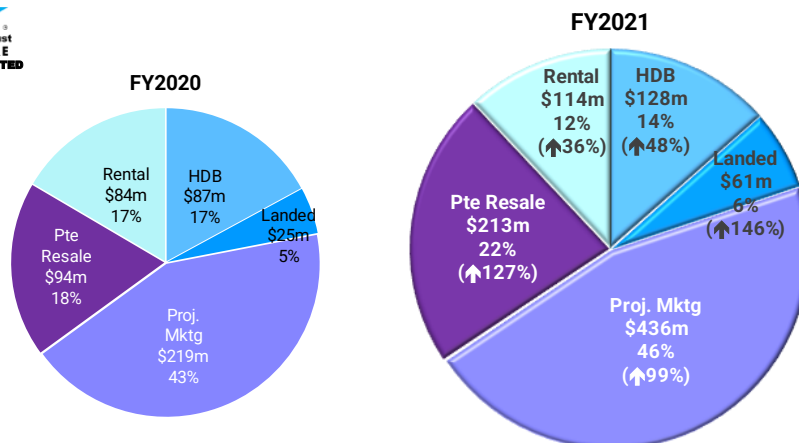
Based on HDB sales data for 2021, more than 31,000 flats were resold, which was above management's forecast of 30,000 units. Management expects between 28,000 to 29,000 HDB resale transactions for 2022 in anticipation of healthy underlying demand for resale flats as well as the bumper stock of flats that are reaching the 5-year Minimum Occupation Period in the same year.

(iii) Risks of market correction/slowdown

The Group segregates its revenue into five segments. Namely, (a) rental, (b) HDB resale, (c) project marketing, (d) private residential resale and (e) landed resale. Each of these segments had grown between 36% to 146% in revenue as compared to respective segment in 2020.



SEGMENT CONTRIBUTION

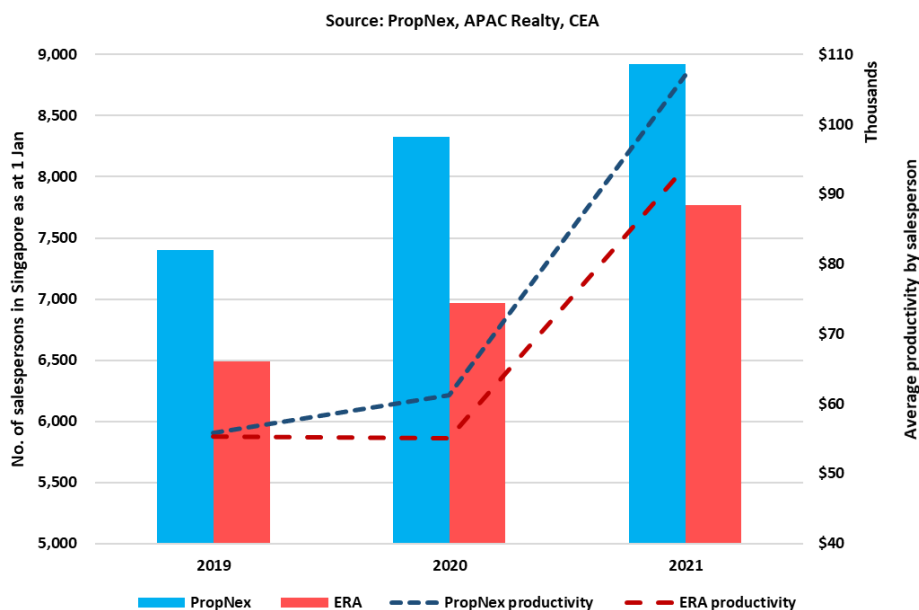


The above table shows that project marketing segment contributed less than 50% to the Group's revenue. This segment is susceptible to greater economic factors such as global financial crisis and government cooling measures. The remaining four segments tended to be more stable. With multiple streams of revenue, the Group is not totally reliant on any single segment. Hence, any adverse effect on one segment will be mitigated by the other segments.

(iv) Larger sales force

Larger sales force allows greater market outreach. The management sees that as an advantage. Coupled with superior training as well as strong IT tools provided by the Company, PropNex's salespersons continue to be more productive and effective in rendering good service.

Below chart compares the number of salespersons as well as the average salesperson productivity of two real estate agencies listed on SGX.



PropNex's salespersons earn commission when their transactions are completed. The margins remain stable as that commission is a fixed percentage of the revenue earned. Therefore, the growth of the sales force does not affect the gross margin of the Group.

Question 2

The group appears to be making good progress in expanding its overseas markets, entering Cambodia and making it the group's fourth overseas market.

The country has a population of 16.7 million, with the capital, Phnom Penh, having more than 3 million people as the country's commercial, economic and political hub.

- (i) Would the board/management help shareholders understand the main drivers of growth in the real estate market of Cambodia?
- (ii) How much of the real estate market is driven by domestic demand versus foreign investment?
- (iii) How favourable/conducive are the real estate laws in Cambodia to support the long-term growth of the market?

In addition, can management give shareholders some insights to the latest development in its other overseas market? Specifically:



- (iv) Malaysia & Indonesia: The group's network in Indonesia grew in strength and while there was an increase in the number of offices (to 5) in Malaysia, salespersons decreased to 750. What are the local conditions in the markets that are affecting the group's operations?
- (v) Vietnam: Can management provide shareholders with greater clarity on the termination of the Master Franchise Agreement for Vietnam? Following the termination, what are the group's plans? Vietnam is more developed than Cambodia and is materially larger in size.

Company's response

(i) Growth drivers of Cambodia real estate market

Cambodia has population about 16 million with average age about 26 years. Average GDP growth rate since 2000 is about 7% while inflation rate is between 2% to 3%. Its government has been actively promoting urbanisation as way of improving the living conditions for its citizens. Some of the factors affecting the market are:

- (a) The current urbanization rate is about 22% with room for growth
- (b) Young population tends to move into built-up towns and cities for employment and education
- (c) Annual rental yields range from 6% to 8% is attractive for investment and development of real estate industry
- (d) Improving Covid19 situation attracts the return of expatriates to work and invest in the country, which is expected to have positive impact on the real estate market.

(ii) Domestic demand versus foreign investment

The Covid19 situation had severely affected the real estate market when the government had imposed restrictions in 2020. That curtailed foreign ownership as well as rental yields and the domestic demand became dominant. As the situation improves, expatriates are returning to the country. Notwithstanding, domestic demand still exceeds 80%.

(iii) Long-term growth of Cambodia market

The rate of urbanization is still low as compared to Vietnam at 37%. Support from the government created an environment that is conducive for growth. With the gradual improvement in the Covid19 situation, the management expects more foreign investment, which may drive the real estate industry, into the country.

(iv) Effects of market conditions in Malaysia and Indonesia on Group

The Group's presence in both Malaysia and Indonesia is by way of franchise agreements. The market conditions in both countries affect the respective franchisee directly. With the improvement in those economies, these franchisees are experiencing higher volume of activities in their real estate industry.

While the Group's revenue is generated mainly from Singapore and it derives royalty income from the franchisees. Currently, those royalty income is not significant to the Group's performance. The market conditions in those countries do not affect the Group's operations.

(v) Vietnam franchise agreement

Please refer to Company's response to shareholder's question uploaded via SGXNet on 19 April 2022.

Question 3

As noted in the corporate governance report, the company outsourced the internal audit function to an external service provider, PricewaterhouseCoopers (page 37). The internal auditors have full and unfettered access to all the company's documents, records, properties and personnel including access to the audit committee (AC).

The AC is satisfied that the internal audit function of the group is independent, effective and the internal auditors are adequately qualified and resourced, and has the appropriate standing in the company to discharge its duties effectively.

- (i) Can the AC confirm that all the significant subsidiaries were included in the internal audit?
- (ii) Does the IA cover the foreign operations, in Malaysia, Indonesia, Vietnam etc?
- (iii) What was the scope of the IA in 2021?
- (iv) What were the key findings by the IA?

Company's response

- (i) The internal auditors plan their work, which includes the scope and the sequence, independently. They consult management on the timeline and availability of resources to support their fieldwork. That plan is carried out after AC has reviewed and approved. The audit covers all significant subsidiaries as well as key functions, in the scope and the sequence determined by the internal auditors. The findings of the audit work are presented to the AC and the Board in the respective year. The AC confirms that internal audit had included all significant subsidiaries.
- (ii) The operations outside of Singapore are operated by franchisees and are not subsidiaries of the Group. Hence, the internal audit does not cover them.
- (iii) The IA in 2021 covered:
 - (a) Follow-up reviews on two significant subsidiaries
 - (b) Personal data protection and data governance
 - (c) IT infrastructure management
 - (d) Business continuity management.
- (iv) Key findings by IA:
 - (a) When consumers provide contact details for delivery when purchasing board games, Company needs to ensure that they have consented in writing to the collection and use of these information. To comply with PDPA, Company has agreed to (1) ensure consent has been obtained from and notify respective individuals on use or disclosure of their personal data, and (2) update the Personal Data Inventory Map.
 - (b) The Company has also agreed to (1) enhance the management and the physical security of server room and IT equipment, and (2) properly document when user acceptance tests are carried out as well as the tests when back-ups are restored.
 - (c) Management has engaged PwC in refreshing business continuity risks to ensure new and emerging threats are identified. This exercise will be carried out in the second half of this year. In addition, management will ensure that Technology Disaster Recovery Plan includes technical recovery procedures for certain critical systems.

By Order of the Board

Ismail Gafoore
Executive Chairman and CEO
21 April 2022