



Second Chance Properties Ltd
(Company Registration No. 198103193M)

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN
RELATION TO THE ANNUAL REPORT 2022

The Board of Directors (“**Board**”) of Second Chance Properties Ltd (“**Company**”) and together with its subsidiaries, the “**Group**”) refers to the several questions raised by Securities Investors Association Singapore (“**SIAS**”) as per their email dated 16 December 2022 (“**Questions**”). The Company and the Board wishes to provide its responses to the Questions as follows:

Question 1

For the financial year ended 31 August 2022, net profit after tax increased by 44.6% or \$4.38 million to \$14.20 million. As noted in the Founder and CEO statement (page 2 of the annual report), the group also realised profit of \$6.66 million in FY2022 upon cash acquisition and disposal of a various quoted equity instruments held by the group, classified as financial assets at fair value through other comprehensive income (gain taken directly through retained earnings).

As shown on page 16 (Financial review 2022), the group has 59% of its total assets invested in quoted and unquoted securities (Financial assets, fair valued through Other Comprehensive Income - FVOCI). The overview of the group’s securities investments can be found on pages 19 and 20.

(i) Can the company (re)state its investment mandate?

Company’s Response:

To create a long term portfolio that provides a steady stream of income by investing mainly into high-yield dividend companies with strong fundamentals.

(ii) What are the board/management’s views of the equity markets given the high inflation figures, rising interest rates, high energy prices and the pace of re-opening of China, etc? In particular, has the board analysed the risks of increasing the group’s equity investments using leverage at this stage of the market cycle?

Company’s Response:

While there may be near term volatility in the equity market, it may also provide the Group with attractive opportunities to invest in quality blue chip companies with an established track record of paying dividends for the long term. Our portfolio of financial assets is well diversified across sectors including REITS, banks, infrastructure and telecommunication.

However, the Group is also aware of the rising risks and interest rate environment. We continue to actively monitor the market, while ensuring that the Group maintains a low gearing ratio with sufficient standby facilities to withstand the volatility of the market cycle.

(iii) On page 17, it is shown that the group has utilised 91% (\$113 million) of its available limit for its securities investments. What is the limit set by the board/investment committee on the group’s leverage?

Company’s Response:

The Group has set and continue to maintain a total debt to equity ratio of not more than 0.5x.

(iv) What is the cost of borrowings? In view of increasing interest rates, will the group be paying substantially higher interests for its share financing?

Company's Response:

The finance expenses for FY2022 are S\$0.9m with an average interest rate of 0.72%. The Group's borrowings are mainly denominated in HKD and SGD, where the Group is currently paying an average interest rate of 4.5% per annum after the recent interest rate increase. We expect to incur around S\$4 to 5 million in interest expenses for FY 2023. Total interest expense might exceed S\$5 million if interest rates continue to increase, however our dividend income is expected to more than cover the interest expense.

(v) Can the investment committee elaborate further on its capital allocation framework? In particular, what are the reasons for the group to allocate more than 50% of its portfolio to Hong Kong/China? Has the board/investment committee considered other key developed markets, such as the US, UK, Japan, etc?

Company's Response:

China is the second largest economy in the world with room for further growth supported by its rising middle class. As Chinese companies expand overseas, there has also been an increase in contribution from international revenue, which will expose the Group to the growth in other markets. The current portfolio positioning is indicative of the Group's belief in the risk and reward proposition of China's near and medium term growth.

In addition, as the Group mainly invests in companies with good dividend yield, the withholding tax on dividend being NIL for Hong Kong based company stocks while for mainland companies listed in Hong Kong the withholding tax on dividend is at 10% which is relatively lower vs some other markets such as US (30%), resulting in a relatively larger pool of investable universe for the Group.

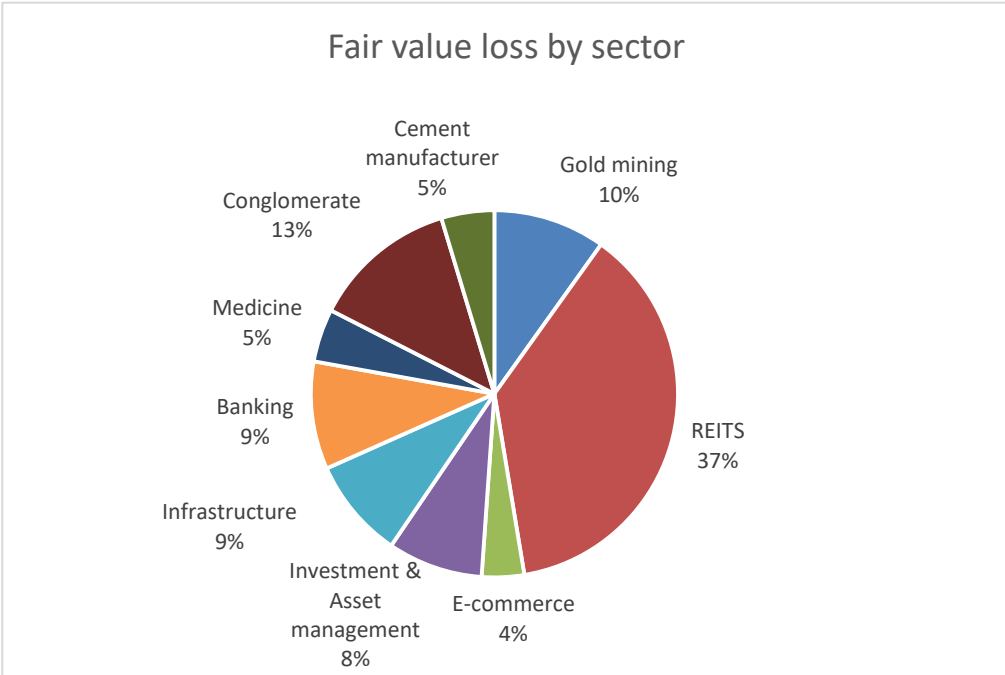
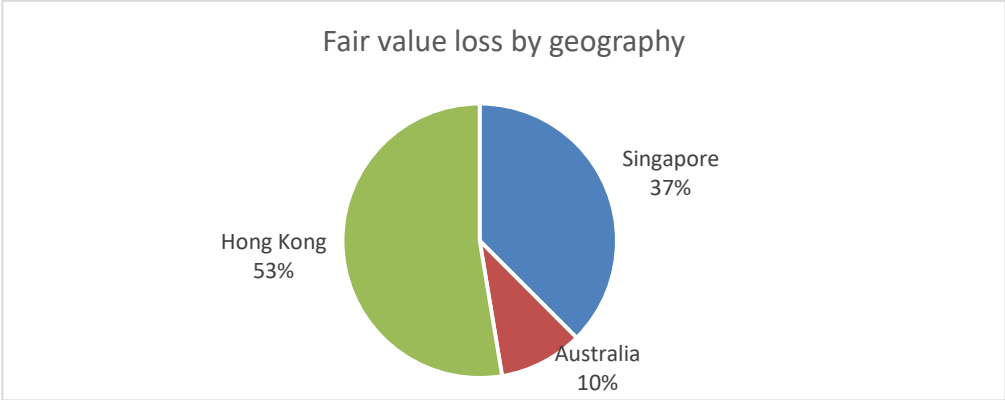
According to Bloomberg, the average dividend yield of S&P 500, HSI and STI as of 19 December 2022 is 1.65%, 3.26% and 3.39% respectively.

In addition, net asset value per share decreased from 37.67 cents to 30.59 cents, following the payment of a first and final dividend of 0.5 cents and a special dividend of 5 cent. The decrease in NAV per share was mainly due to fair value losses on financial assets (at FVOCI) amounting to \$(9.11) million which exceeded the realised gains mentioned by the Founder and CEO in his statement to shareholders.

In FY2021, the fair value gain at FVOCI was \$26.0 million while in FY2020, the fair value loss at FVOCI was \$(13.2) million.

(vi) Can management provide a breakdown of the \$(9.11) million in unrealised fair value losses by geography (HK & China vs Singapore) and by sector?

Company's Response



(vii) The “paper” losses and gains have fluctuated significantly in the past 3 years, from \$(13.2) million to \$26.0 million to \$(9.1) million. How speculative/defensive is the portfolio? What guidance has the investment committee given to the management in view of the market volatility in recent months?

Company’s Response:

Given the market volatility, it is inevitable that the fair value of the Group’s portfolio will fluctuate with the market. The unrealised P&L of the portfolio in the last 3 years represent -21.3%, 11.7%, and -3.8% of the total portfolio for the financial years ended 31 Aug 2020, 31 Aug 2021 and 31 Aug 2022 respectively.

In view of the market volatility, the investment committee has highlighted to the management of the potential market risks and to ensure that the Group adhere closely to its risk framework- in particular, the maintenance of a low gearing ratio with sufficient standby facilities to not only withstand the volatility of the market cycle, but also to ensure that the Group has sufficient resources to take advantage of declining asset prices to accumulate quality stocks for the long term.

(viii) What is the annualised ROI of the investment portfolio for 1 year, 3 years and 5 years?

Company's Response:

Due to the Group's strategy to reduce debt, it has stopped its securities investment for several years.

The Group restarted investing from end June 2020 and had committed an additional S\$200m to its investment portfolio by 31 Aug 2022. Thus, it can only provide its performance for the 2 years 2 months which is an estimated annualised ROI of 10.6% for the 26 months period.

(ix) Would the board consider providing shareholders with quarterly updates given that it has most of its assets invested in the volatile equity markets?

Company's Response

The Board will be pleased to provide shareholders with quarterly details of the Group's investment portfolio.

Question 2

On 26 October 2022, the company announced that it intends to undertake a proposed bonus issue of free warrants to subscribe for new ordinary shares in the capital of the company. Two bonus warrants will be issued free for each existing ordinary share held by entitled shareholders.

There are a total of 2.266 billion warrants (W230307) that are outstanding from an earlier warrant issuance. The warrants are "non-dilutive" (page 98). The statistics of shareholding and the statistics of the W230307 warrant holders can be found on pages 134 to 136.

On 8 December 2022, the company announced that SGX-ST is reviewing the proposed issuance of warrants.

(i) In proposing the new warrants, did the board analyse the shareholding structures of the company's ordinary shares and of the warrants? Did the board analyse and identify the major sellers of the warrants?

Company's Response:

The Board is aware that the controlling shareholder, Mr Salleh Marican and his family own around 80% of the company in early 2020, during the warrants distribution period. Out of the 2.266 billion warrants (W230307) they were allocated a combined quantity of 1.807 billion warrants. To date, they have sold 78% of the warrants that they held. The Board is unable to identify any other major warrant sellers if any, as none have specifically announced the sale of their warrants.

(ii) Can the board quantify/justify the long-term value creation from the issue of warrants for shareholders, especially minority shareholders?

Company's Response:

The rationale for the Issue of Warrants is clearly stated in the circular that was approved by SGX. Please find the link to view the circular: <https://links.sgx.com/1.0.0/corporate-announcements/V7UU8TMRMPL32MFD/42c87be9f22aaf027597b12a8a4772f9e611cc4e9e25fa36774bdad404a8a098>

(iii) In declaring a special dividend of 5 cents in FY2021, did the board consider how it would benefit the sellers of the warrants?

Company's Response:

All shareholders received the free warrants in proportion to their shareholdings. The system is such that those who risk more of their money stand to either profit more or lose more. The Board understands that warrant holders may benefit monetarily from the sale of their warrants. However, they also risk having their shareholdings diluted if other warrant holders convert their warrants to shares.

(iv) In addition, did the board consider how the 5 cents special dividend would effectively "kill" the W230307 warrants and limit/restrict the exercise of the warrants? If so, is it aligned with the rationale as stated in the company's circular on the issue of the W230307 warrants (dated 10 December 2019)?

Company's Response:

Change is constant in the world of business. The Board has to make decisions whether rightly or otherwise. A decision that is positive from one angle could be viewed as negative from another perspective.

The Company had been distributing low dividends for a few years due to its strategy to greatly reduce debt and position itself to seize opportunities as they arise. When the business had turned for the better and we grew confident of achieving higher profits in the years to come, the Board decided to recompensate shareholders who had kept faith in us during the lean years by way of the 5 cents special dividend.

We strongly believe that ALL our shareholders would be favourable to the 5 cents special dividend even if it might result in deterring the exercise of the warrants.

(v) What has caused the delay in getting the approval from SGX-ST for the proposed bonus issue of warrants? Will the independent directors be reviewing the proposed bonus issue?

Company's Response:

In respect of the Proposed Corporate Actions, the Company has been engaging with the SGX-ST addressing substantial issues raised in its review of the Company's application for listing of and quotation for the Bonus Warrants and the New Shares on the Official List of the SGX-ST (the "**Application**") since the release of the Previous Announcements. The Company has however, in the interest of shareholders, decided to prevent further uncertainty and delay in respect of the Proposed Corporate Actions and therefore not to proceed with the Proposed Corporate Actions for the time being, and has accordingly withdrawn the Application.

(vi) In addition, would the company also consider the extra fees incurred by small shareholders who hold their shares and warrants in their CPF accounts as shares and warrants are subject to quarterly fees and handling charges for transactions?

Company's Response:

The Board is previously not aware of any extra fees imposed by the CPF on small shareholders and will consider it moving forward. Small shareholders are often at a disadvantage due to unfavourable regulations beyond our control.

Question 3

On 30 November 2021, Mr Tan Boon Gin, chief executive of Singapore Exchange Regulation (SGX RegCo), gave guidance that companies are expected to use the two-tier rule sparingly to promote renewal and succession planning. On 13 September 2022, SGX RegCo further announced that it will consult on hard-coding the 9-year limit for independent directors.

All the three independent non-executive directors namely, Mr Tan Lye Heng Paul, Dr Ahmad Bin Mohamed Magad and Ms Geetha Padmanabhan have served as independent non-executive directors of the company for an aggregate term of more than nine years since 29 November 2002, 20 December 1996 and 1 March 2012 respectively. In fact, Mr Tan Lye Heng Paul and Dr Ahmad Bin Mohamed Magad had retired as directors of the company in 2012 and 2013 respectively.

The total tenures of Dr Ahmad Magad, JP (now serving as the independent chairman) and Tan Lye Heng Paul exceeds 23 years (page 5) and 16 years (page 6) respectively. Ms Geetha Padmanabhan, the former group finance manager, has served for more than 10.5 years.

In the corporate governance report, the company stated its commitment to “define, follow and practice the highest level of corporate governance” within Second Chance Properties Limited and its subsidiaries (page 29).

(i) Notwithstanding that the board continues to consider the long-tenured directors independent, has the board/nominating committee (NC) deliberated on the guidance by SGX RegCo on the selective use of the twotier rule to promote board renewal?

Company's Response:

The NC and Board are well aware of the guidance provided by the SGX RegCo and have deliberated on the selective use of the two-tier rule to promote Board renewal. All the Independent Directors (IDs) have on several occasions offered themselves for retirement each time this topic is discussed during the NC meetings. However, after each meeting, the Board, especially the Executive Directors (EDs), believe that each of the Directors remain independent in their thought processes and have been willing to unreservedly debate contentious issues in the interest of the wider shareholders and the company as a whole. As such, it is in the interest of the Group to retain the IDs for the wealth of experience and knowledge they have brought to the Board and the company, and will continue to bring to the Board, their long tenure notwithstanding. They have demonstrated strong independent character and judgement over the years in discharging their duties and responsibilities with the utmost commitment, especially in upholding the interest of the minority shareholders. There has been no material conflict between the tenure of their appointment as Independent Non-Executive Directors of the Company and their ability to discharge their duties as Independent Directors.

(ii) Should Dr Ahmad Bin Mohamed Magad, JP, the NC chairman and the chairman of the board, lead by example by setting the tone with regard to capping the tenure of independent directors?

Company's Response:

Dr Ahmad Magad as the current Non-Executive Chairman of the Board and NC Chairman fully recognises the fact that he is the longest serving ID in the Board and has indeed offered himself several times to retire. With the increased and more intense discussion led by SGX RegCo about hard-coding the 9-year limit for IDs, he will complete his current term and not offer himself further for re-election into the Board.

This will also increase the urgency of intensifying the Board's efforts to identify suitably qualified candidates for the Board's renewal of its Independent Non-Executive Directors.

(iii) Please elaborate further on the search and nomination process for directors, especially independent directors. Are there any challenges faced by the board in identifying and onboarding of new board members?

Company's Response:

The NC has put in place a formal process for the selection of new Directors as mentioned on pages 38-39 of the FY2022 Annual Report. The NC and Board are currently active in looking for suitably qualified candidates to be considered to gradually replace the current IDs well within the timeframe of hard-coding the 9-year limit.

During the financial year 2022 ("FY 2022"), Mr Deepak Lakhi Ramchandani was appointed to the Board as a Non-Executive Director (NED) on 22 December 2021 to provide additional expertise to guide and advise the Management in the Group's investment activities, although final investment decisions rests solely with the Management Executives.

(iv) What are the near-term plans to reconstitute the board given that SGX has already started a consultation to hard-code the 9-year limit for independent directors?

Company's Response:

The topic of reconstitution of the Board is a regular agenda item at each scheduled NC and Board meetings in the last several years. The NC and Board however, feels that this matter requires careful deliberation and should not be rushed. The Board and NC will strive to identify suitably qualified candidates whose qualities and competencies are compatible with the long-term direction of the Group. The Board recognises the increased urgency at this juncture but is also mindful that it is not an overnight process. The Board and NC are intensifying efforts and investing more time to scout for suitably qualified candidates while maintaining stability and efficiency of processes in the current Board.

By Order of the Board

Mohamed Salleh s/o Kadir Mohideen Saibu Maricar
Executive Director and Chief Executive Officer

23 December 2022