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

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO THE ANNUAL REPORT 2020

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**") which posted on 17 December 2020 ("**Questions**"). The Company and the Board wishes to provide its responses to the Questions as follows:

<u>Question 1</u>

The group is involved in four core businesses, namely property investment, apparel retail, gold jewellery retail and investment/trading in financial instruments (mainly equities).

(i) **Apparel**: Revenue from the apparel segment decreased by 65% to $1.76 million in FY2020. Segment loss increased from $(0.14) million to $(0.74) million. This segment loss was exacerbated by the Movement Control Order in Malaysia and the Circuit Breaker in Singapore. Nevertheless, management acknowledged that it is faced with a reduction in selling price of apparels, change in consumer preferences and the increasing trend of online shopping in the retail segment. **What are the operational milestones needed to return the segment to profitability? Has the group adapted its business model to take into account the changes in the apparel retail segment? Has the board evaluated the sustainability of the segment?**

<u>Company's Response:</u>

The Board has concluded that reviving the Apparel business will be very challenging and has hence decided to exit the business. Accordingly, the following steps have been taken:

- We have put up First Lady Mega Mall for sale or rent, which is the Company owned property in Kuala Lumpur and the only apparel outlet in Malaysia. Once we obtain a reasonable offer for the building or we agree to rent to an established tenant, the Apparel business will cease to exist in Malaysia.
- The remaining outlet in Singapore is expected to be marginally profitable post Covid and will be closed in December 2022 when all Tanjong Katong Complex, tenants are expected to move out for redevelopment of the site.

(ii) **Property investment**: The group has committed $157 million (FY2019: $159 million) in the property investment segment. Details of the group's property portfolio can be seen on pages 22-23 of the annual report and in Note 19 (pages 98 to 101 – Investment properties). The group's major assets include 22 units in City Plaza valued at $37.9 million (with 1 unit being sold after the financial year), 5 units in Peninsula Plaza valued at $22.0 million and 11 units in Sim Lim Square valued at $20.8 million. **Would management update shareholders on the progress of its collective sales efforts at City Plaza and Sim Lim Square? Would the board be reviewing its strategy of investing significant amounts of capital in strata units within a mall that does not lead to having a controlling stake?**

Company's Response:

The Group investment properties valued at $157 million were purchased between the years 1999 to 2011, at a total cost of $84.48 million. The interest rates have since been declining and the relatively high rentals we enjoyed for many years has resulted in the property loans being fully paid up and with the substantial increase in the property values, it has indeed been a very successful investment.

Several years back, the Board had already reviewed and decided not to invest anymore in Strata Title retail properties. In fact we have sold 27(units) properties for a total sum of S$79 million. The purchase price for these properties was S$49.7 million thereby resulting in a capital gain of S$29.3 million. **Sim Lim Square** launched their collective sales in April 2019. It did not attract any interest as the S$1.25 billion price tag was deemed too high. Another attempt is unlikely to take place in the near future as majority of shop owners continue to remain unrealistic on their demands.

City Plaza Collective Sales Committee convened an **EOGM** in September 2019 but failed to achieve the required 80% of shop owners agreeing to the proposed price of S$1.05 billion. A new **EOGM** was conducted in November 2020 and a new Collective Sales Committee was appointed. Work is now in progress to appoint a law firm, a valuer and a Marketing Agent. Subsequently a new launch price will be fixed and another **EOGM** will be convened if at least 80% of shop owners sign the sales agreement agreeing to the amount they will receive, only then a new launch can proceed.

Question 2

The group reported a profit of $4.45 million even though the retail businesses were badly affected by the measures put in place by governments to stop the spread of COVID-19.

As shown in Note 5 (page 86 – Other losses) and in Note 11 (page 90 – Financial assets, at FVPL), the group recognised fair value loss through profit or loss amounting to $(4.19) million. This was the fair value loss attributed to the group's holdings of financial assets, at FVPL. The carrying amount was $24.0 million at the beginning of the financial year and $17.6 million at the end of the financial year.

In the independent auditor's report (page 61), the auditor highlighted the involvement of management's judgements for the classification of the financial assets at FVPL and FVOCI. As at 31 August 2020, financial assets, at FVPL were valued at $17.57 million and financial assets, at FVOCI were valued at $61.87 million representing 6.20% and 21.83% of the total assets respectively.

In Note 2.10(a)(ii) (page 79 – Financial assets: Classification and measurement: Equity instruments), the company has disclosed that it has elected to recognise changes in fair value of equity securities not held for trading in other comprehensive income (i.e., financial assets, at FVOCI) as these are strategic investments and the group considers this to be more relevant.

(i) **Can management elaborate further on how it determined which investments are to be recognised as financial assets at FVPL or financial assets at FVOCI?**

Company's Response:

We have separate companies under the Group in which we classify securities as either FVOCI or FVPL. In order to determine the classification of securities, those securities which are held for trading purposes are recognised as financial assets at FVPL and the remaining where the intention is to hold them for long term are classified as financial assets at FVOCI.

(ii) **What are the investment objectives (such as return and/or risk targets, time horizon, sizing, sector) of the FVPL and FVOCI portfolios?**

Company's Response:

The investment objective for FVPL is to generate trading profits apart from the dividend income.

As for FVOCI, the objective is to hold them for a longer time horizon and earn recurring long term dividend income as well as long term capital gains.

(iii) **What are the average holding periods for securities that are "held for trading" and those that are "not held for trading"?**

Company's Response:

Based on our internal records, our average holding periods for securities that are "held for trading" has been about 5 years and those "not held for trading" approximately 12 years on the average.

(iv) **Would management elaborate on what it regards as "strategic investments"? Would it be accurate to say that the group is a passive/ minority financial investor in all of its securities investment? If so, what would constitute a "strategic investment"?**

Company's Response:

First part of Query: "Would management elaborate on what it regards as "strategic investments"?

We have taken note of the following in defining what is "strategic investment":

- The investor is holding the investment for non-contractual benefits rather than for increases in its value;
- For 'strategic' reasons such as to strengthen a business relationship; or
- To gain access to a particular market
- Therefore changes in the value of such an investment do not reflect the investor's performance vis-à-vis that investment

2nd part of Query: Would it be accurate to say that the group is a passive/minority financial investor in all of its securities investment?

Yes since these investments are accounted for under SFRS(I)-9.

3rd part of Query: If so, what would constitute a "strategic investment"?

Refer first part above.

It is noted that the carrying value of financial assets at FVOCI is significantly larger ($61.87 million vs $17.57 million). In Note 16 (page 92 – Financial assets, at FVOCI), it can be seen that the fair value loss on financial assets, at FVOCI amounted to $(13.23) million.

While the group reported an after tax profit of $4.45 million, other comprehensive loss for the year was $(14.2) million, resulting in a total comprehensive loss of $(9.8) million for FY2020. Total equity attributable to shareholders decreased from $262.1 million to $248.9 million as at 31 August 2020.

(v) **Given that the classification between FVPL and FVOCI would affect the accounting profit reported by the group, can the board clarify if it would affect the remuneration of executives/directors, especially the bonus components of executives/directors in charge of the securities portfolio?**

<u>Company's Response:</u>

The remuneration package of executives/directors comprises of a basic salary plus a bonus component which will depend on the individual as well as overall performance of the Group.

The bonus component of the directors in charge of securities business is based on a fixed formula, which takes into account the realised gains/losses of financial securities at FVPL while the unrealised mark to market gains/losses of financial securities at FVPL as well as FVOCI are excluded.

Based on the latest announcement by the company dated 11 December 2020, the group has increased its quoted securities investments to $147.0 million (by market value; aggregate cost of $162.8 million). This is 65.4% of the group's net tangible asset on an aggregate cost basis.

As at 31 August 2019 (at the end of the last financial year), the group only had $80.6 million in financial assets ($24.04 million recognised as financial assets, at FVPL and $56.53 million as financial assets, at FVOCI).

(vi) **Can the board confirm that it has reviewed and increased the internal limit which previously stood at 35% of the group's net tangible asset?**

<u>Company's Response:</u>

In March this year, the Board had discussed and decided to change the internal limit of 35% of Group's net tangible asset.

(vii) **What is the new limit?**

<u>Company's Response:</u>

The new limit is to cease all investments in quoted securities once our gearing based on Total Debt Equity Ratio exceeds 0.5

(viii) **Would the large investments into quoted securities alter the risk profile of the group?**

<u>Company's Response:</u>

We believe that it will not alter the risk profile of the Group as long as our gearing remains below 0.5

The group has "paper losses" amounting to $(15.8) million based on the company's announcement dated 11 December 2020. A summary of the performance of the securities trading is shown in the table below:

	2020	2019	2018
Fair value loss on financial assets, at FVPL	-4,192,549	-2,646,153	-2,350,722
Fair value (loss)/gain on financial assets, at FVOCI/AFS	-13,229,575	565,892	-4,963,000
Gain/(loss) on redemption of financial assets, at FVPL	-21,935	11,719	9,100
Gain on disposal of financial assets, at FVPL	23,060	-	-
Gain on disposal of financial assets, at FVOCI/AFS	-	-	6,876

(Source: company annual report)

(ix) **Given that over the past 3 years, the group had to recognise significant fair value losses in its securities portfolio, can management elaborate further on its advantage in trading and investing in securities?**

<u>Company's Response:</u>

We are confident that the unrealised fair value losses in our securities portfolio can be recouped when the stock market recovers from the present correction to pre-covid levels.

In fact the accumulated dividends and coupon distributions we have received is more than the accumulated unrealised losses. We also had benefited from several million dollars of realised capital gains upon disposal (sales, cash offer and privatization) of some securities/bonds.

As our recent purchases are made at depressed stock prices, the dividend income will give higher returns when the stock price recovers and substantial capital gains can be achieved if we dispose them off in the long term horizon.

(x) **Would the company disclose the total returns (after financing costs) achieved from securities trading and investing over the past 3-year/5- year/10-year period?**

<u>Company's Response:</u>

Other than the fair value gains/losses and gain/loss on disposal of these securities as mentioned by you in Q2(ix), below is the dividend and coupon income received from trading and investing securities during the past 3 years.

	FY 2018		FY 2019		FY 2020	
	Securities trading	Securities investing	Securities trading	Securities investing	Securities trading	Securities investing
	$	$	$	$	$	$
Dividend income	925,687	3,016,174	995,127	2,917,630	808,878	2,655,933
Coupon income	556,773	-	346,661	-	119,738	-
	1,482,460	3,016,174	1,341,788	2,917,630	928,616	2,655,933
Less: Finance cost	(162,768)	(479,833)	(84,026)	(680,142)	(17,634)	(257,157)
Returns	**1,319,692**	**2,536,341**	**1,257,762**	**2,237,488**	**910,982**	**2,398,776**
Returns (%)	3.34	5.14	3.59	4.57	2.80	3.56

<u>Question 3</u>

As noted in the Founder and CEO statement, Mr Mohamed Salleh Marican has stepped down as chairman on 31 August 2020 and Dr. Ahmad Magad was appointed as independent non-executive chairman on the same day.

This was said "to further maintain [the group's] high standards of corporate governance" as the separation of the chairman and CEO roles increases the board's independence from management which will lead to better monitoring and oversight including controlling risk.

At the annual general meeting scheduled to be held on 30 December 2020, Dr. Ahmad Bin Mohamed Magad is retiring by rotation pursuant to Regulation 107 of the company's Constitution and would be seeking his re-election.

The biography of Dr. Ahmad Magad can be found on page 5 of the annual report. Additional information on directors seeking re-election can be found on pages 52-55. Dr. Ahmad Magad was first appointed as a director of the company on 20 December 1996. Dr. Ahmad Magad has served on the board for more than 24 years.

The board has rigorously reviewed the independence of Dr. Ahmad Magad and continues to consider the director as independent (page 32).

In the corporate governance report, the company has stated that it is committed to regularly improving its corporate governance practices and to define, follow and practice the highest level of corporate governance in the company and its subsidiary.

(i) **Has the board considered the early adoption of the two-tier vote on the continued appointment of Dr. Ahmad Magad as an independent director?**

<u>Company's Response:</u>

We will be implementing the 2 Tier vote from AGM of 2021 and not this year as per SGX Listing Rule 210(5)(d)(iii) which will take effect from 1 January 2022.

(ii) **Similarly, would the board also consider the early adoption of the two-tier vote for the continued appointment of Mr Tan Lye Heng Paul as an independent director?** Mr Tan Lye Heng Paul was first appointed as a director on 29 November 2002 and has served for more than 18 years on the board.

<u>Company's Response:</u>

We will be implementing the 2 Tier vote from AGM of 2021 and not this year as per SGX Listing Rule 210(5)(d)(iii) which will take effect from 1 January 2022.

Other than Dr. Ahmad Magad and Mr Tan Lye Heng Paul, the other independent director is Ms. Geetha Padmanabhan who is also the chairman of the audit committee. As noted in the director's profile, Ms. Geetha Padmanabhan has been with the group since April 2003 where she worked as the Finance Manager from April 2003 to 30 June 2006 and then from April 2007 to Jan 2012 before joining the board on 1 March 2012.

(iii) **Would the board, especially the nominating committee (NC), help shareholders understand the pace of the progressive renewal of the board?**

<u>Company's Response:</u>

The Group has been challenged by the severe economic conditions and the consequent stress on the retail market for a few years now. As such, the group has been in the mode of consolidating its position and maintaining a strong balance sheet with low gearing in order to optimise opportunities.

In this environment, both the management and the board as a whole are cognizant of the value of experience and insights gained by the IDs over the years, in the long term. Their inputs to the Company in these strained times is valuable. The independence of all the IDs has been well established and they challenge management with pertinent questions, so the dynamics in the Board meetings are healthy, even and balanced.

Hence, the NC and the Board are of the strong view that the IDs are independent, continue to add value to the Group and as mentioned in (iv) below, have also been voted back by minority shareholders.

Having noted the above, the NC is continually vigilant on the requirements of the Company and will accordingly refresh the board at the appropriate time.

(iv) **Can the NC elaborate further on how its search and nomination process for directors (especially independent directors) can further improve the board's diversity and independence?**

<u>Company's Response:</u>

The board is mindful of ensuring the independence of its Independent Directors. As a matter of fact, refreshing the Board has been a regular topic of discussion at our Board meetings. Management has considered and interviewed a few potential candidates for IDs, both for replacement and/or addition. At this juncture, owing to the reasons stated earlier, the management and the Board as a whole has concluded the current composition of our Board members to be balanced and independent although all the three of them have served the Board for many years.

Mr Paul Tan and Dr Ahmad Magad had both stepped down as IDs for about 3 years in the past and were replaced by fresh IDs. There had been 3 IDs who had served namely, Mr David Tan, Mr Peter Choo and Mr Bobby J.

At the AGM of 2017 where Dr Ahmad Magad and Mr. Paul Tan were last re-elected, members of management who are significant shareholders did not vote on the appointment of the IDs in order to align themselves with the objective of the revised Code of Governance, even before it became compulsory. Additionally, Ms Geetha Padmanabhan has not served more than 9 years as ID and therefore, remains independent under the revised Code of Corporate Governance.

By Order of the Board

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

29 December 2020