



SINGHAIYI GROUP LTD.
(Company Registration No. 198803164K)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

The Board of Directors (the “**Board**”) of SingHaiyi Group Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) refers to the questions received from the Securities Investors Association (Singapore) (“**SIAS**”) in relation to the Annual Report of the Company for the financial year ended 31 March 2020. We would like to thank SIAS for submitting questions ahead of the Company’s Annual General Meeting to be held on 6 August 2020 at 10.00 a.m. via live webcast. The Company wishes to provide its response below:

1. From Note 24 (page 130 – Operating segments), it can be seen that the group has segment assets of \$1.86 billion in the property development segment, out of total assets of \$2.17 billion as at 31 March 2020.

The on-going development projects are:

- The Lilium; expected completion in 2H 2021
- The Gazania; expected completion in 1H 2022
- Parc Clematis; expected completion in 1H 2023
- 5 Thomas Mellon Circle; expected completion 1H 2024
- Vietnam Town; completed in March 2018

As noted in the annual report (page 6), as of 31 May 2020, the group has sold 671 units of Parc Clematis (out of 1,468-units) and a total of 22 units for The Gazania and The Lilium (out of 250 units in The Gazania and 80 units in The Lilium).

In fact, it would appear that only 1 unit of The Lilium has been sold at the 80-unit development since the official launch more than 14 months ago, in May 2019.

- (i) Would management elaborate further on the strategies to improve the sales of the group’s development projects so as to further de-risk the group?
- (ii) The market response for The Gazania and The Lilium appears to be particularly muted. Would management be reviewing the pricing and terms for the slower-moving projects in view of the market conditions?

Company’s response:

The management has and will continue to actively evaluate and evolve the sales strategy of its property development projects according to the changing environment and market conditions.

The Group has included digital marketing tools such as virtual sales gallery and showflat tours as part of its marketing tactics for its projects and has developed a wide range of virtual tours for its showflats for Parc Clematis, The Gazania and The Lilium. Amidst the COVID-19 pandemic, the Group was able to immediately leverage these tools which were produced as part of its integrated marketing strategy to promote its developments. The Group’s efforts started to show results as its projects continued to register sales, with Parc Clematis listed as one of the top three best-selling projects in May and June 2020 according to Urban Redevelopment Authority.

The take-up rate for The Lilium and The Gazania so far has been credible given that both projects are located in the competitive District 19. While market sentiment is weak, the management believes that there is still pent up demand for quality projects. The management is confident in the projects' sales prospects given their premium freehold status, which is a rarity in the area, as well as their good quality and value.

Given the unconventional and inconvenient location of the current sales gallery for The Lilium and The Gazania, the team has ramped up on its online marketing efforts to provide potential homeowners with a better feel of the space and configuration of their chosen unit. Efforts have paid off as witnessed from a pick-up in sales and visitors at The Gazania and The Lilium, which sold 2 units in June and July since the Group stepped up on its online marketing efforts.

- (iii) What are the plans to sell the balance of approximately 100 units in Vietnam Town given that the project has been completed for nearly 2.5 years? Would management help shareholders understand the ground sentiments in San Jose, CA? Are the unsold units being rented out for income?
- (iv) What are the projected development costs for 5 Thomas Mellon Circle? How will the group be funding it?

Company's response:

The Group has entered into Phase 2 of sales for Vietnam Town, reaching out to both bulk and retail buyers as part of its second phase marketing strategy. As bulk purchases generally require more time to materialise, sales velocity in Phase 2 has been markedly slower than in Phase 1. The Group will continue to strike a balance between both groups and seek to maximise returns. In terms of rental, there have been opportunities to lease out unsold units, though the Group remains selective with clientele to avoid affecting interest from prospective buyers.

Project development costs for 5 Thomas Mellon Circle are confidential, but are within the range of similar projects and will be funded by both equity and borrowings.

2. Cash and cash equivalents decreased to \$29.0 million for the financial year ended 31 March 2020 from \$101.0 million a year ago. As shown in the Financial summary (page 15), the debt equity ratio has increased from 0.02x (FY2018) to 1.6x (FY2019) to 2.3x (FY2020).

Key Financial Ratios						
Debt equity ratio (net of cash) (times)	2.3	1.6	0.02	0.4	0.8	0.8
Return on equity (%)	(1.2)	3.4	4.3	6.3	6.3	4.8
Dividend payout ratio (times)	–	27.9	45.2	27.7	39.1	–

(Source: company annual report)

Net debt amounted to \$1.41 billion (page 128) while the total capital employed was \$611.2 million.

No final dividend was declared to conserve cash for the ongoing development projects and the directors and management have committed to reducing their remuneration to support cash flow.

- (i) Has the board deliberated on the relatively high gearing of the group and set a limit to the group's overall leverage especially in such challenging market conditions?

Company's response:

Property development projects are highly geared by nature. The comparatively higher debt equity ratio and net debt were primarily due to the funding of the Group's residential development projects in Singapore – The Gazania, The Lilium and Parc Clematis, which are 50-50 joint venture projects with entities controlled by Mr. Gordon Tang and Mrs. Celine Tang, the controlling shareholders of the Company. The enbloc acquisitions of these three development projects and related financing were finalised before the onset of the current market conditions. The loan facilities were deliberated upon and approved by the Board, and the limit of the loans is according to each bank's credit review and approval.

The Group's 1,468-unit development Parc Clematis has attracted strong sales and has consistently been ranked among the top selling residential projects. As of mid-July 2020, the Group has sold 791 units of Parc Clematis. The Group's two freehold projects – The Gazania and The Lilium, have sold 23 units. The Group expects the net gearing ratio to be gradually reduced as sales proceeds are progressively collected.

Amidst the ongoing COVID-19 pandemic and challenging macroeconomic environment, the Board decided to reduce Directors' fees and Management remuneration to demonstrate its resolve to stand in unity with the Company and the shareholders during this difficult period. As the Group has suffered a net loss for FY2020, no dividend was proposed.

In the financial year, the group fully divested its portfolio of fixed income funds which was recognised as financial assets at fair value through profit or loss. There was a loss on disposal of \$1.6 million while net proceeds was \$28.4 million.

In addition, the group has financial assets at fair value through other comprehensive income, which pertains to the group's investment in Cromwell Property Group. As disclosed in the operational and financial review, the carrying value decreased by \$32.7 million to \$42.0 million (FY2019: \$74.7 million) in FY2020 due to changes in the market value of quoted stapled securities during the financial year (page 18).

- (ii) Can management disclose the actual number of stapled securities in Cromwell held by the group?
- (iii) How is the group managing its investments into financial assets? How strategic are the investments (such as a minority interest in Cromwell) to the group's long-term plans?

Company's response:

As at 31 March 2020, SingHaiyi holds a 2.3% stake in Cromwell Property Group ("**Cromwell**") or 60,186,161 stapled securities. On the whole, the investment in financial assets has been profitable for the Company, taking into consideration the dividend income and finance costs from the acquisition date up to disposal/end of FY2020. The effective cost of Cromwell units as at FY2020 stands at A\$0.823 (initial cost of investment – dividend income + finance costs).

The investment in stapled securities of Cromwell is part of SingHaiyi's strategy to diversify its income streams and geographical exposure to provide stable and visible earnings, while delivering greater value for shareholders. At the same time, it strengthens SingHaiyi's recurring income base, and offers the Company exposure to Cromwell's diversified portfolio of high-quality income producing properties in Australia, New Zealand and Europe.

- (iv) Is there a robust risk management framework in place?

Company's response:

According to "Principle 9: Risk Management and Internal Controls" as detailed in SingHaiyi's Corporate Governance Report¹, the Group has an Enterprise Risk Management Framework in place for the Group. This consists of a set of internal controls which sets out approval limits for expenditure, investments and divestments and cheque signatory arrangements. Approval sub-limits are also provided at Management and Committee levels to facilitate operational efficiency.

The Board recognises the importance of maintaining a system of internal control processes to safeguard shareholders' interest and the Group's business and assets. The annual audits conducted by the internal auditors assess the effectiveness of the Group's internal control procedures and provides reasonable assurance to the Audit Committee ("**AC**") and Management that the Group's risk management, controls and governance processes are adequate and effective.

¹ Page 55 of Annual Report

Based on the internal controls maintained by the Group, works performed by the internal and external auditors, review done by the Management, various Board Committees and the Board, the Board with the concurrence of the AC, is satisfied that the Group's risk management systems and internal controls are adequate and effective in addressing financial, operational, compliance and IT risks as at 31 March 2020.

- (v) What is the level of oversight by the board on the group's investments into financial assets?

Company's response:

According to "Principle 1: The Company is headed by an effective Board which is collectively responsible and works with Management for the long term success of the Company" in SingHaiyi's Corporate Governance Report², the primary role of the Board of Directors is to lead and control the Company's operations and affairs and to protect and enhance the long-term shareholders' value.

The principal roles and responsibilities of the Board relating to the Group's investments into financial assets include "Supervising the management of the business and affairs of the Group", "Reviewing the financial performance of the Group" and "Approving development budgets, major funding proposals, investments and divestments proposals, including material capital compliance", amongst others.

According to "Provision 1.3 Internal guidelines on matters requiring Board's approval"³, the Company has adopted internal guidelines that require Board approval for investments, divestments and bank borrowings. The Company has adopted a framework of delegated authorisation, as set out in its limit of authority ("**LOA**"). The LOA defines the procedures and levels of authorisation required for specified transactions. It also sets out approval limits for operating and capital expenditures.

In Note 17 (page 122 – Loans and borrowings), it was disclosed that the bank loans are secured by a charge over financial asset at fair value through other comprehensive income. Also, as shown in Note 19 (page 125 – Loan from a related party), the group has loan from a related party with an effective interest rate of 7.25% (2019: 7.44%) per annum.

- (vi) Can the board clarify if the group has made investments into Cromwell with leverage? If so, would the group be exposed to undue market risks?

Company's response:

The Group's investments into Cromwell were made with leverage of the transactional currency, which presents a natural hedge position to mitigate forex market risk. The Group's borrowings related to its Cromwell investments constitute less than 2% of its total borrowings.

- (vii) Would the board help shareholders understand the group's capital management framework as the group leverage has increased to 2.3x and it has high-cost loans from related party at 7.25% while diversifying to minority stakes in other real estate investment manager?

Company's response:

The unsecured loan from a related party is in relation to the Group's development projects in the US. The carrying amount for the loan in FY2020 at S\$22.3 million is comparatively small in quantum. According to Page 125 of the Annual Report, the loan from a related party is unsecured with an effective interest rate of 7.25% per annum, as compared to 7.44% per annum in FY2019. This is within the norm for development project unsecured loans in the US and is in line with local market rate.

² Page 45 of Annual Report

³ Page 46 of Annual Report

3. In the announcement dated 11 December 2017, the company announced that it has, in conjunction with Haiyi Holdings Pte Ltd – a wholly-owned entity of its controlling shareholders, Mr Gordon Tang and Mrs Celine Tang, subscribed for approximately 175.1 million units of stapled securities or 9.9% of the existing stake in Australia-listed Cromwell Property Group for A\$169.6 million.

In particular, the company will subscribe for 61 million units of stapled securities for A\$59.1 million, representing a 3.45% interest in Cromwell.

In 2019, Cromwell sought clarity from the Takeovers Panel in Australia on the shareholding structure and associations between the different entities. The Takeovers Panel had in February 2020 decided not to conduct proceedings.

It was stated that:

As an example, the Tang Parties submitted that in November 2019 Ms Jialei Tang purchased ~8.9 million Cromwell securities while SingHaiyi sold ~10.1 million Cromwell securities during the same month. ... On 23 December 2019, a substantial holder notice was lodged by Haiyi, SingHaiyi, Mr Gordon Tang, Mrs Celine Tang, Ms Jialei Tang, Senz Holdings, Madam Yang Chanzhen, Mr Tang Jialin and others which disclosed an aggregate voting power of 13.67% by the Tang family, including Ms Jialei Tang and Senz Holdings, without acknowledging any association existing with Ms Jialei Tang and Senz Holdings.

- (i) Would the board, especially the independent directors, help shareholders understand how it deals with any potential conflicts of interests and/or interested party transactions given that the controlling shareholders have investments into Cromwell via other investment vehicles?
- (ii) What are the safeguards put in place to ensure that management acts in the best interests of the company at all times?
- (iii) Specifically, what are the established procedures by the independent directors to monitor and review the group's investment in Cromwell to ensure that acts of commission and omission are in the best interests of the company?
- (iv) How do the independent directors identify and review any acts of omission?

Company's response:

The Board and the Management evaluates all investments made by the Company in light of the overall objective to deliver value to all shareholders. With reference to the investment in Cromwell, the Board (with the abstention of Mr. Gordon Tang, former Non-Executive Director and Mrs. Celine Tang, Group Managing Director) decided and approved the said investment, noting that the Company will benefit from a recurring income stream through the receipt of regular quarterly dividends from Cromwell as well as any appreciation in capital value. These investment decisions are made solely with the interest of all shareholders and long-term value of the Company in mind.

As detailed in Page 58 of the Annual Report, the Company has established procedures to monitor and review Interested Person Transactions ("IPTs"), including ensuring compliance with the provisions of the Listing Manual related to IPTs. The AC and the Board review the IPTs on a quarterly basis.

Any IPTs requiring disclosure are found in the Company's quarterly/full year results announcements and Annual Report.

As for conflict of duty or interest that may directly or indirectly arise from the holding of any office or the possession of any property by any Director, he or she is required to declare to the other Directors, the fact and the nature, character and extent of the conflict. Such declaration will be made available to the other Directors.

To ensure that the Management acts in the best interest of the Company at all times, the Company has adopted internal guidelines on matters requiring the Board's approval, including material transactions, namely, major acquisitions and disposals, joint ventures, strategic alliances, investment proposals, establishment of banking facilities and corporate restructuring⁴. Members of the Management are aware that they may raise with the AC and/or the Board directly, any issue relating to IPTs and conflict or potential conflict of interest or duty.

In addition, the Board is furnished with complete and timely information and access to the Management. This enables the Board to fulfil its responsibilities and to be fully cognisant of the decisions and actions of the Management. All the Directors have unrestricted access to the Group's records and information⁵.

BY ORDER OF THE BOARD

Celine Tang
Group Managing Director

4 August 2020

⁴ Page 46 of Annual Report

⁵ Page 47 of Annual Report