



MYP LTD.

(Incorporated in the Republic of Singapore)
(Company Registration No. 200509721C)

RESPONSE TO QUESTIONS RAISED BY SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”) ON ANNOUNCEMENT OF ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2022

The Board of Directors (the “**Board**”) of MYP Ltd. (the “**Company**”) together with its subsidiaries (the “**Group**”) refers to the queries raised by Securities Investors Association (Singapore) on 20 July 2022, and set out below its responses to the questions:

Question 1

As noted in the chairman’s message, following the disposal of ABI Plaza at a loss of \$(60.1) million in FY2021, the group’s main asset is the remaining office building at 9 Battery Road. The investment property is a 28-storey, 999-year Grade A leasehold building with a total net lettable area of approximately 154,708 sq. ft.

The occupancy rates were 93.1% in FY2020, 93.1% in FY20201 and 95.8% in FY2022.

- (i) What is the current committed occupancy rate of 9 Battery Road?
- (ii) What were the rental reversion rates in the past 3 years?
- (iii) Will management also show the lease expiry profile to help shareholders better understand the business risks?

In the 2019 annual report, the net lettable area of 9 Battery Road was disclosed as 158,771 sq ft in the annual report. It was reported as 154,718 sq ft in FY2020 and FY2021 and now 154,708 sq ft in the latest annual report.

- (iv) Can management help shareholders better understand the reasons for the decreasing net lettable area of 9 Battery Road?
- (v) What asset enhancement has management carried out since the acquisition? Is there potential to increase the net lettable area with better space usage and/or space reconfiguration?

Company's responses:

- (i) The current occupancy at 9 Battery Road is 97.3% as of 1 July 2022.
- (ii) The rental reversion rates in the past 3 years are as follows:

| | |
|--------|------|
| FY2020 | 1.07 |
| FY2021 | 0.93 |
| FY2022 | 1.01 |

Footnote

Average committed rent over average expired rent

- (iii) Yes, the management will consider including the lease expiry profile in future annual reports to help shareholders better understand the business risks.
- (iv) The difference in the net lettable area is attributed to the reclassification of the unit occupied by the management office which has been excluded from the overall net lettable area in FY2020, offset by space reconfiguration. The small difference of net lettable area from FY2020 and FY2021 to FY2022 is attributed to the subdivision of the units to suit for tenant's needs.
- (v) When the Group acquired the building in 2016, it was still relatively new (TOP in November 2009). Over the years, the Group had carried out structural inspection by structural engineer once every 5 years and the structure is in good condition. Management has no plans in the near future to spend substantial amounts on the structural changes. The Group will continue to carry out regular maintenance, monitor the lifespan of the building infrastructure, and comply with relevant regulations set by the government agencies or authorities.

There is no plan to increase or decrease the net lettable area in that no new subdivision or amalgamation will be carried out in the near future. However, if such needs arise as a result of changes to the tenancy, there might be a potential to reconfigure the space.

Question 2

The sale of 11 Keppel Road (ABI Plaza) resulted in a loss on disposal of \$(60.1) million in FY2021 as it was disposed of at below the property's valuation. In the EGM circular, it was noted that the historical cost of the property was \$165.8 million and the actual cash profit to the group was \$34.2 million. The net tangible assets per share decreased from 21.8 cents to 18.1 cents (on a pro forma basis) following the sale of the property at below its market valuation.

In the EGM circular to shareholders, the use of proceeds was disclosed as such:

5. FINANCIAL INFORMATION

5.1. Use of proceeds

Taking the gross proceeds of S\$200.0 million from the Consideration, the estimated net proceeds after deducting estimated expenses of S\$2.5 million pertaining to the Proposed Disposal (which includes legal and professional fees), would be approximately S\$197.5 million (the "Net Proceeds"). The Company intends to apply the Net Proceeds towards the repayment of bank loan (including prepayment fee) in respect of the Property, the repayment of an interest-free shareholder loan and the general working capital of the Group.

| | S\$ million |
|---|---------------|
| Consideration | 200.0 |
| Transaction related expenses (estimate) | <u>(2.5)</u> |
| Net Proceeds | 197.5 |
| Repayment of bank loan (including prepayment fee) | (143.5) |
| Repayment of shareholder loan ³ | <u>(53.0)</u> |
| General working capital | <u>1.0</u> |

(Source: EGM circular dated 13 January 2021)

As stated in the circular, the sale of ABI Plaza will enable the repayment of shareholder loan of \$53 million, or 27% of the net proceeds. After the repayment of bank loan, the company only received \$1.0 million in general working capital.

In the statements of financial position (page 38), the amount owing to a shareholder remains at \$59.0 million as at 31 March 2022.

- (i) **Can the board/management help shareholders better understand if there is a change in the intended use of proceeds? Or has there been a delay in repaying the shareholder loan?**
- (ii) **Can the independent directors help shareholders better understand the board approval process (including the level of involvement of the executive chairman) given that 27% of the net proceeds was earmarked to repay the shareholder loan?**

In FY2019, the sale of 135 Cecil Street ("MYP Plaza") resulted in a gain of \$2.0 million while 9 Battery Road was acquired in 2016 for \$560 million and is now carried at \$554 million.

As noted in the Chairman's message, the Board has not recommended any dividend for the financial year to "enable the group to maintain a healthy balance sheet with sufficient resources for future investment needs..."

- (iii) **Has the board evaluated whether the group's investment properties have achieved returns commensurate with its risks? What is the return on investment (ROI)?**

- (iv) **How have the group's investment criteria evolved given the \$(60.1) million loss on disposal of 11 Keppel Road and the revaluation loss of 9 Battery Road of \$(6) million? Can the board elaborate further on the group's investment strategy, including the timing/pace of acquisitions? How does management value add in a real estate sector that is highly competitive?**

Separately, as disclosed in Note 22 (page 75; Financial instruments: Interest rate risk), the group's exposure to interest rate risks arises from bank borrowings of \$322.3 million. In the previous financial year, the group used interest rate derivatives to manage interest rate risk, to the extent that the perceived cost is considered to outweigh the benefit from the flexibility of variable borrowings.

The interest rate swap contracts (for a notional amount of \$182 million) had matured and were fully settled in December 2021.

- (v) **Can management elaborate further on the interest rate swap contracts that it had entered into in the past? How costly were the interest rate swaps?**
- (vi) **Given the market volatility, especially the widely anticipated increases in interest rates, how is the group managing its interest rate risks? Are there plans to hedge its interest rate risks to fixed rates?**
- (vii) **What guidance has the board given to management with regard to managing interest rate risks?**

Company's responses:

- (i) As disclosed in Note 22 (d), the Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This is achieved through monitoring the cash flow requirements closely.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The Group also relies on the controlling shareholder to provide financial and other support as necessary, for at least the next twelve months from the date of this report to enable the Group to continue its operations and to meet its financial obligations as and when they fall due.

As at the balance sheet date, the Company's total current liabilities, comprising non-trade amounts due to subsidiaries and amount owing to a shareholder, exceeded its current assets by \$83.2 million. The Company's management operates a centralised cash and treasury function and monitors the cashflow position of the Company and its entities within the Group and deploys its available cash amongst these entities. Furthermore, the controlling shareholder has undertaken to provide continuous financial and other support as necessary to the Company for at least the next twelve months from the date of this report to continue its operations and meet its financial obligations as and when they fall due. There is no implication to the Group which reported net current assets of \$35.3 million as at the balance sheet date.

- (ii) In the event of a demand for payment from the shareholder, the board of directors of the Group will consider and assess the Group's financial position before approving the payment. The board which includes the Executive Chairman will ensure that after repaying the shareholder loan, the Group is able to continue its operations as a going concern and is to meet its financial obligations as and when they fall due.
- (iii) The Group leases out its investment properties to generate rent and service income. Rental rates secured at different times took into consideration market risks, demand and supply as well as current market rates at the point in time. Hence, the Board is of the view that its investment properties have achieved returns commensurate with its risks.
- (iv) The Board is taking a long-term perspective to the growth. With an eye towards long-term sustainable growth, the Group will continue to adopt financial prudence with a conservative approach towards capital management, including effective cost control, ensuring a healthy balance sheet for future investment needs. At the same time, the Group will keep a keen eye out for and be ready to seize yield accretive and good value assets which may come on the market to further enhance its portfolio.
- (v) In the previous financial years, the Group used interest rate derivatives to manage interest rate risk, to the extent that the perceived cost does not outweigh the benefits from the flexibility of variable interest borrowings, and the Group actively monitors the need and timing in entering into such derivatives. The cost of interest rate swaps in the past 3 financial years made up approximately 5% to 23% of its total finance costs.
- (vi) Refer response mentioned in (v) above.
- (vii) The Board monitors the market risks including fluctuation of bank interest rates, and reviews the Group's financial statements periodically. In view of the anticipated interest rate increases, cost of hedging is expected to increase as well. The Board will consider interest rate swaps, should the cost outweigh the benefit from variable interest borrowings.

Question 3

At the annual general meeting scheduled to be held on 29 July 2022, the company is proposing to re-elect Mrs Elizabeth Ho Nee Wong Ching Wai.

The profile of the directors can be found on pages 7 and 8 of the annual report. Additional information on the directors seeking re-election can be found on pages 86 to 92.

Mrs Elizabeth Ho Nee Wong Ching Wai was first appointed on 30 July 2012 and would have served for 10 years heading into the AGM. The continued appointment of Mrs Elizabeth Ho Nee Wong Ching Wai as an independent director was approved by shareholders via a two-tier vote at the AGM on 30 July 2021.

In fact, two of the three independent directors, Mr Kishore Prabhakar Sardesai and Mrs Elizabeth Ho Nee Wong Ching Wai, have served on the board for more than nine years.

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 planning¹.

- (i) **What deliberations did the board/nominating committee (NC) have regarding the proposed re-election of Mrs Elizabeth Ho Nee Wong Ching Wai given SGX RegCo's guidance?**

Mrs Elizabeth Ho Nee Wong Ching Wai is the chairperson of the nominating committee.

- (ii) **How effective was the NC in discharging its responsibilities of reviewing and recommending the re-election of directors given that the NC chairperson is also the subject of the NC's review? Was Mrs Elizabeth Ho Nee Wong Ching Wai involved in the review? What was the basis of the NC's recommendation for the re-election of Mrs Elizabeth Ho Nee Wong Ching Wai?**
- (iii) **Will the continued appointments of the long-tenured independent directors impede/delay the progressive renewal of the board? Are there any challenges faced by the board in identifying and onboarding of new board members?**
- (iv) **Should Mrs Elizabeth Ho Nee Wong Ching Wai, the chairperson of the nominating committee, lead by example by setting the tone with regard to capping the tenure of independent directors?**
- (v) **What are the near-term plans by the board/NC with regard to refreshing the board composition to achieve board renewal and diversity in an orderly manner that also preserves institutional knowledge?**

Company's responses:

- (i) The NC and Board conducted its annual review of the Directors' independence and confirmed their independence in accordance with the guidelines as set out in the Code, Rule 210(5)(d) of the Listing Manual of the SGX-ST and also considered any other salient factors.

To assist the NC and Board's assessment of Directors' independence, all the three existing independent directors, Mr Kishore Prabhakar Sardesai, Mrs Elizabeth Ho Nee Wong Ching Wai and Professor Tan Chin Tiong have completed a director's independence confirmation annually based on the relevant guidelines as set out in the Code and Rule 210(5)(d) of the Listing Manual of the SGX-ST.

Based on their assessment, the NC and Board had considered all the three independent directors as independent as they have no relationship with the Company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of their independent business judgement with a view to the best interests of the Company.

The NC and the Board, after discussions and deliberations, and taking into considerations their independence as well as their qualifications, extensive industrial knowledge, expertise and work experiences which are able to continue contributing positively to the Group's business, recommended the approval of the shareholders be sought through a Two-Tier Voting process at the AGM for FY2021 for the continuation of office of Mr Kishore Prabhakar Sardesai and Mrs Elizabeth Ho Nee Wong Ching Wai, who have each served as an Independent Directors of the Company for an aggregate term of more than nine (9) years as at 1 January 2022.

In view of the above, the approval of the shareholders had been obtained through a Two-Tier Voting process at the last Annual General Meeting (“AGM”) of the Company held on 30 July 2021 for both Independent Directors, Mr Kishore Prabhakar Sardesai and Mrs Elizabeth Ho Nee Wong Ching Wai to continue in office as Independent Directors of the Company for a three-year term, until the earlier of their retirement or resignation, or the conclusion of the third AGM of the Company following the passing of the above Resolutions at the last AGM.

In respect of the proposed re-election of Mrs Elizabeth Ho Nee Wong Ching Wai, she is subjected to the one-third rotation rule and due for re-election pursuant to Regulation 115 of the Constitution of the Company at the forthcoming AGM of the Company to be convened on 29 July 2022.

- (ii) Refer response (i) above.
- (iii) In terms of board renewal and diversity, the Board is of the opinion that it would be most effective to draw on the appropriate core competencies and diversity of experience from the longer serving directors while concurrently taking progressive steps to review and consider opportunities to refresh the Board as and when deemed necessary.
- (iv) Mrs Elizabeth Ho Nee Wong Ching Wai, as the Chairperson of the Nominating Committee is conscious of the need for the Company to balance between board renewal and maintain institutional knowledge and continuity. Notwithstanding that she has served as an independent director of the Company beyond nine years since the date of her first appointment on 30 July 2012, the NC and Board are of the view that Mrs Elizabeth Ho Nee Wong Ching Wai continues to possess independent thinking and the ability to exercise objective judgement on the Company’s matters independently. She does not have any relationships with the Group which may affect her judgement and ability to discharge her duties and responsibilities as independent director. The NC and Board believe that with her professional qualifications, extensive industrial knowledge, expertise and work experience, Mrs Elizabeth Ho Nee Wong Ching Wai will continue to add value to the Board.
- (v) The NC and Board will review and assess the board renewal and diversity on an ongoing basis in order to remain competent and effective. The NC and Board will consider appointment and re-appointment of directors as and when necessary in accordance with the Company’s corporate governance.

By Order of the Board

MYP LTD.

Jonathan Tahir
Executive Chairman and Chief Executive Officer
27 July 2022