



TA CORPORATION LTD

(Incorporated in the Republic of Singapore)

Co. Registration No. 201105512R

ANNOUNCEMENT

RESPONSE TO QUERIES RAISED BY SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022 ("FY2022")

The Board of Directors (the "Board") of TA Corporation Ltd. (the "Company" and together with its subsidiaries, the "Group") refers to queries raised by Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's Annual Report for FY2022. The Company sets out below its response to SIAS's queries relating to the Annual Report FY2022.

1. SIAS's Query

Would the board/management provide shareholders greater clarity on the following operational and financial matters? Specifically:

- (i) Construction:** The construction segment continues to be loss-making. Segment losses were \$(21.7) million and \$(7.1) million in 2021 and 2022 respectively. In the sections on the construction segment from the chairman's statement and the operations review, only revenue, order book and projects were highlighted. Can management help shareholders understand the focus placed on profits in the construction segment? What are management's priorities in 2023 that are aimed at driving profitability in the construction segment? What guidance has the board given to management to rein in costs, improve margins and maintain and improve its safety record?
- (ii) The Gateway:** What percentage of the iconic twin tower mixed-use development in the Central Business District of Phnom Penh has been sold? What are the profiles (including nationalities) of the buyers? What options are available to management for the unsold residential block?
- (iii) Tuas South Dormitory:** Revenue at the 10,000+ bed dormitory has increased to \$26.4 million in 2022, up from \$22.2 million. Is the dormitory fully occupied and can management update shareholders on the average monthly rent per bed?
- (iv) Real estate development:** What is management's view on the property market in Singapore? Is the group still on the lookout for residential development projects in Singapore and what is the strategy to acquire landbank?

Company's Response:

- (i) The Group is currently delivering its construction order book that was secured during the Pre-COVID period. During the COVID and Post-COVID environment, construction costs have risen significantly and therefore had an impact on projects' margins. We are well aware of this phenomenon and will cautiously tender for potential projects.

For 2023, the management's priorities will be to focus on sourcing for profitable projects and to rein in on construction costs, in order to drive profitability for the Group's construction segment.

The Board undertakes regular meetings on the overall performance of the Group and meet at least every quarter to review and discuss the operation and performance of each business segment. The Board also contribute their experience and track record by giving guidance to the management. Meanwhile, the management will update the board on significant operational matters with regards to the worksite performance including worksite safety as part of the regular update to the Board and Audit Committee.

- (ii) Currently, the percentage sold for the iconic twin tower mixed-use development stands at 43.92% (based on total available units of Office Tower and Residential Tower 1 and excluding Residential Tower 2).

The overall buyer profile consists of a mixture of local Cambodians as well as foreigners.

The Group's marketing efforts is ongoing and will continue to monitor the economic environment and assessing market demand closely before taking a decision on the remaining residential block, which is substantially completed and can be repurposed accordingly.

- (iii) Currently, the Group's Tuas South Dormitory is almost fully occupied.

Due to commercial sensitivity, the Group is unable to disclose the actual figure on the average monthly rental per bed.

- (iv) The management is of view that the quadruple-threat of inflationary pressures, property cooling measures, increasing interest rates and a weakening economic outlook has resulted in prospective buyers turning more cautious. Therefore, we potentially see cooling demand ahead for the property market here in Singapore.

Despite the weaker sentiment, the Group is constantly on the lookout for potential residential development projects and will pounce on the right opportunity as it comes along. Overall, we are still confident on the local real estate scene and will attune to the market conditions and markets forces in terms of our strategy to acquire landbank.

2. SIAS's Query

The "Going concern" of the group is a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, the group's current assets amounted to \$341.8 million (2021: \$465.2 million) and its current liabilities amounted to \$271.0 million (2021: \$433.7 million). However, the Group's current assets include development properties of \$199.6 million (2021: \$296.9 million) that may not be realisable within one year as the normal operating cycle for development properties exceeds one year.

The above indicates existence of events or conditions that may cast significant doubt on the group's ability to continue as a going concern.

- (i) Are there any major capital expenditure requirements expected in the next 18-24 months?
- (ii) What is the breakdown of development properties by value and by project? Note 11 to the FY2022 financial statements of the Group shows that the group have \$155.7 million in completed properties held for sale, and a further \$34.8 million in unsold units.
- (iii) Is the group also exposed to the foreign exchange risks associated with these overseas property development projects? Has management actively managed the foreign exchange risks?

During the current year ended December 31, 2022, the group sought a consent solicitation to (i) suspend compliance with the financial covenant requirements for its term notes (Note 23) from July 26, 2023 to July 26, 2026, (ii) extend the maturity date of the term notes to July 26, 2026 (iii) amend the non-disposal provision under Trust Deed of the term note and (iv) waive non-disposal provision of the assets of its principal subsidiaries. The suspension of compliances with the relevant financial covenants, extension of maturity date, and the amendment and waiver were approved in November 2022.

- (iv) What are the management's plans to deleverage and to ensure that the group meets all its financial covenant requirements?
- (v) The group has a gearing of 3.0 as at 31 December 2022. Has the board set a limit to the group's gearing given the high interest rates and the uncertainties in the market? If so, what is the limit on leverage?

Company's Response:

- (i) The Group does not expect any major/significant capital expenditure requirement in the next 18-24 months.
- (ii) Note 11 to the FY2022 financial statements of the Group shows that the group have \$155.7 million in completed properties held for sale, and a further \$34.8 million in unsold units. Due to commercial sensitivity, we are unable to disclose the actual breakdown of development properties by value and by project.
- (iii) The foreign exchange risk of the Group is not significant as the overseas projects are mainly funded by local functional currency loans and the construction costs and selling price are denominated in the same functional currencies where the projects are.

For the Cambodia Project, the construction cost is quoted in US Dollars and our sales are denominated in US Dollars as well. Likewise for our Thailand Project, where the construction cost is quoted in Thai Bhat and our sales are also denominated in Thai Bhat.

With this strategy in place, this gives the Group a natural hedge against foreign exchange risk.

- (iv) The management's plan would be to realise and market the Group's overseas projects and landbanks to deleverage together with future operation profits from the diverse business operations under the Group to further improve the financial position of the Group. This will help to deleverage the Group's balance sheet, and this will improve the financial position of the Group and able to meet all the financial covenant requirements.
- (v) The Group adopted a disciplined approach towards capital management. The Board and Audit Committee regularly review the Group's financial covenants' report in the regular meeting held. Although the Board did not set a limit to the Group's gearing, the Group is required to comply with the gearing ratios set by the lenders. Any non-compliance is being rectified or waiver obtained from the lenders.

3. SIAS's Query

On 12 April 2023, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 31 December 2022 following the finalisation of audit.

The announcement on the unaudited financial results was first released via SGXNet on 28 February 2023 while the announcement of material differences came 6 weeks after.

Following the finalisation of audit, revenue was \$5.1 million higher, while deposits and prepayments increased by \$8.9 million (or over 100%). Trade and other payables were also \$3.6 million higher.

Some of the reasons for the changes include:

- crystallisation of significant financing component under a point in time revenue recognition accounting policies from an overseas development project
- exchange differences
- additional accruals for outstanding tax concession
- reclassification from contract liabilities
- reduction in net cash used in financing activities is mainly due to lower pledged deposit upon refinancing of a facility

This is the second consecutive year that the company reported material variances between the unaudited and audited financial statements.

- (i) **Can the audit committee (AC) help shareholders better understand the underlying reasons for the material variances? Can management clarify if the overseas development project being referred to is The Gateway, Phnom Penh, Cambodia?**
- (ii) **What are the challenges faced by the company's finance and accounting staff in meeting the Singapore Financial Reporting Standards (International) (SFRS(I))?**
- (iii) **How can shareholders be assured that the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements? In addition, is there a local team in Cambodia and if so, what changes have been made to the team?**
- (iv) **What role did the AC play in the preparation of the financial statements? Was it adequate?**

Company's Response:

- (i) The variances between unaudited financial statements and audited financial statements are mainly due to presentation and reclassification of items.

Subsequent to the announcement of unaudited financial statements, the Management and the audit team continued to discuss and scrutinise the balances and transactions in the financial statements, as a result, the Group determined that the reclassifications and additional presentation are necessary to present a clearer picture on the overall financial position and performance of the Group for FY2022. The major bases of the reclassifications and presentations are explained and disclosed in our announcement dated 12 April 2023.

At the same time, the management confirmed that the overseas development project being referred to is The Gateway, Phnom Penh, Cambodia.

- (ii) The company's finance and accounting staff do not have any issue in terms of meeting the standards. The reason was primarily due to the timing of gathering financial information from overseas auditors and late audit adjustments made upon completion of the audit (refer above explanation).

We have learnt from this and will ensure that information from the overseas subsidiary to be timely received before the relevant deadline.

- (iii) The Audit Committee continues to monitor the performance of the internal financial reporting/finance team and adequacy of the staffing and is satisfied that it is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements. Nonetheless, in line with the expansion of certain segments of our Group, we will strengthen our resources in the future to keep up with the business volume.

We have a local accounting team in Cambodia and the Singapore accounting team has close involvement with the Cambodia accounting team and there are currently no changes to the teams. We will continue to monitor closely and make improvement to the process when required.

- (iv) The Audit Committee ("AC") reviews the key financial risk areas, significant financial reporting issues and judgements made in the preparation of financial statements as well as results announcements and the audited financial statements of the Group. In the Board's opinion, the AC's role is adequate in overseeing to ensure there are no significant financial misstatements or omissions in the financial statements.

The AC has reviewed the Audit Memorandum during the audit planning stage and before finalisation of the audited financial statements, the auditors report the result of the audit together with the proposed adjustments and AC is satisfied that the adjustments made are appropriate before the financial statements are issued.

BY ORDER OF THE BOARD

Foo Soon Soo/Tam Siew Kheong
Company Secretaries
Date: April 21, 2023