POLLUX PROPERTIES

POLLUX PROPERTIES LTD.
(Incorporated in Republic of Singapore)
(Company Registration Number: 199904729G)

RESPONSE TO QUESTIONS RAISED BY SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS") ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

The Board of Directors (the "**Board**") of Pollux Properties Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to respond to the questions received from the SIAS in relation to the Company's Annual Report for the financial year ended 31 December 2022 ("**AR2022**") released on 4 April 2023. The Company's responses to the questions are set out below: -

Questions from SIAS

Q1. In FY2022, the group achieved full occupancy at the commercial office building, Macdonald House, and also experienced increased average daily rates for the serviced apartments. This led to a 51.2% increase in revenue from $9.13 million in FY2021 to approximately $13.80 million in FY2022.

Consequently, the group saw a substantial 62.6% increase in net profit after tax, from $3.99 million to $6.49 million year-on-year.

(i) Can management provide shareholders with a clearer understanding of the lease maturity distribution and tenant profile for Macdonald House? On page 96 (Note 33 Segment information), it can be seen that the top three customers contributed $1.44 million, $1.47 million and $1.68 million in revenue in FY2022.

Company's response: A standard tenancy agreement is typically a 3 years' term with the option to renew for another 3 years and tenants are mainly media companies, technology companies, co-sharing companies and retailer companies.

(ii) What is the weighted average lease expiry for the property?

Company's response: 19.3 months.

(iii) Can management confirm that all tenants are up to date with their payments and that the group is not experiencing any significant rent arrears?

Company's response: The Company follows the collection terms set out in the tenancy agreement. Should there be any significant rent arrears, we will seek advice from our legal advisers. There are no significant rent arrears as of the date of this announcement.

As at 31 December 2022, the group has interest bearing loans and borrowings amounting to $156.2 million. Total finance cost for 2022 was $4.23 million (2021: $2.04 million). In fact, finance costs for 2H 2022 were $3.05 million as compared to $1.18 million in the first half of the year. Extrapolating that, one might estimate that finance costs in 2023 might be as high as $6.1 million. During the financial year, the effective interest rates of the bank loans ranged from 1.05% to 4.78% (2021: 1.00% to 3.21%) per annum.

In Note 34 (Financial risk management objective and policies), management simply states that the group's policy "*is to obtain then the most competitive market interest rates in the prevailing market*" (page 100). The sensitivity analysis shows that an increase of 50 basis points in the interest rates would lead to a decrease of the group's profit before tax of $781,059.

(iv) What percentage of the group's borrowings is subject to floating interest rates?

Company's response: All of the loans and borrowings are subject to floating interest rates.

(v) Can the board elaborate on the guidance provided to management for a more comprehensive approach to managing the group's interest rate risks? Has the board considered refinancing risks and interest rate trends beyond simply securing the "*most competitive market interest rates in the prevailing market*"? Please provide details on the framework and policy established to guide management in implementing risk mitigation strategies effectively.

Company's response: To comprehensively manage interest rate risks, the Board provides guidance to management by identifying and assessing the Group's exposure to interest rate movements, determining risk tolerances and limits, and developing strategies to mitigate risks within those limits. These processes are considered when assessing the potential impact of interest rate changes on the Group's earnings, cash flow and balance sheet.

The Board also considers the potential risks associated with refinancing, such as refinancing costs, the availability of financing, and changes in credit conditions, in addition to the interest rate trends, beyond simply securing the "most competitive market interest rates in the prevailing market", as part of the Company's risk management framework.

The risk management framework includes policies and procedures for monitoring and managing interest rate risks, including regular reporting to the Board on interest rate exposures, risk positions, and risk mitigation strategies. The Board also ensures that management has the necessary resources, expertise, and authority to implement risk management strategies effectively.

Some common risk mitigation strategies for managing interest rate risks include interest rate swaps, caps and floors, which allow the group to lock in interest rates or limit exposure to interest rate movements. Other strategies may include diversifying funding sources, lengthening or shortening the duration of debt, and adjusting asset and liability mix. The Management will utilise the relevant strategies when deemed suitable to do so.

Q2. The group acquired three hotels in Bekasi, West Java, Indonesia. These hotels, spanning 6,217 square metres, 3,200 square metres and 3,246 square metres are fully furnished with 182 units, 74 units and 74 units respectively. In order to maximise earnings, the group intends to manage these hotels internally under the Louis Kienne brand name. These properties will operate as full-service hotels, and management anticipates that operations will commence by the end of 2023.

(i) Would management be showing shareholders (updated) pictures and videos of the newly acquired hotels during the annual general meeting?

Company's response: The Company will publish pictures of the newly acquired hotels on the Company's website when the hotels are ready for its official opening.

(ii) What are the reasons for having such an extended timeline, with the scheduled opening of the hotels being 6-8 months away?

Company's response: Firstly, the opening of a new hotel typically takes a considerable amount of time, and delays in fitting-out works can impact the overall timeline. The Group has faced challenges arising from inflation and labour shortage during the fitting-out period which led to delays, resulting in an extension of the timeline for the hotel's opening.

Secondly, the hotels need to undergo a thorough inspection and testing process before they can be opened to the public. This process involves ensuring that all systems, equipment, and facilities are operating correctly, and that the hotel is in compliance with local regulations and safety standards. The inspection process can take some time, and any issues that are identified during this process need to be addressed before the hotel can be opened.

Lastly, the Group may take some time to recruit and train staff, prepare marketing and sales campaigns, and establish partnerships with local vendors and suppliers. These tasks are critical to the successful launch of a hotel and can take several months to complete.

Overall, the timeline for opening a new hotel can vary depending on several factors, and a delay of 6-8 months may not be uncommon.

It was noted that the valuer was appointed by the seller, PT. Gunung Bimantara Sakti ("GBS"). GBS is an investment holding company that mainly invests in real estate-related companies. The ultimate holding company of GBS is Dasani International Group Ltd, an investment holding company which is incorporated in the British Virgin Islands.

(iii) Did the independent directors consider it prudent to appoint a qualified, independent valuer to appraise the assets which were not income-generating at the time of acquisition?

Company's response: Yes, the Board, including the independent directors, considered it prudent and was of the view that the valuer was qualified to appraise the assets. The Board has held discussions with the Company's management team in relation to the valuation of Rp. 216.9 billion (approximately S$20.4 million), and had also assessed the qualifications of the valuer. Based on the valuation, per room key basis is at approximately Rp. 673,522,000 (approximately S$63,000.00). Taking into consideration the above assessment, the Board is of the view that the valuation is reasonable.

(iv) What were the investment criteria used by the group to assess the properties? How was the group introduced to the seller? Who are the beneficial owners of Dasani International Group Ltd?

Company's response: While the hotels have not yet commenced operations, the Board has considered the income generation ability and cash flow projections of the hotels, in particular, after considering that the hotels are located in a good location. The hotels are located in Cikarang, Bekasi, which is a growing and buzzing city in Indonesia, approximately 90 minutes away from Jakarta. The Company believes that Cikarang, Bekasi, has bright prospects as it is a location where both local and global brands are looking to operate, or have already commenced operations, in industries such as data centres, high-end car battery manufacturing plants and automotive industries, all of which are fuelling the growth in the area.

The Board also considered the neighbouring hotels and service apartments within a 5-kilometre radius which are doing well with high occupancy rates and average room rates.

The beneficial owner of Dasani International Group Ltd is an entrepreneur and investor who actively invests in real-estate related projects.

(v) What level of commercial due diligence was conducted, and how were the negotiations carried out? What were the key assumptions that led to the valuation of Rp. 216.9 billion?

Company's response: The commercial due diligence involved comprehensive assessment of the market position, operational capabilities and potential risks which include analysing market trends and conducting site visits. The negotiations were carried out through several rounds of back-and-forth discussions between the seller on the terms of transaction which included purchase price, payment structure and other key provisions of the purchase agreement. The key assumptions used in the income valuation approach are based on historical and current market data of room rates and occupancy rates from comparable neighbouring properties such as Harper Hotel by Aston, Primebiz Hotel, Ayola Lippo Hotel, Santika Hotel, Sancrest Service Apartment and Sakura Park Hotel and Residences.

(vi) Did the board, especially the independent directors, consider it prudent to acquire the assets at the full valuation provided by the seller-appointed valuer, without any discount, considering that the assets were not completed and were not generating revenue?

Company's response: Please refer to Company's response in 2 (iii) above.

(vii) Does the group plan to carry out any hedging or establish a certain level of natural hedging to mitigate foreign exchange risk?

Company's response: The Company has considered and will continuously assess the impact of foreign exchange risk on the Group's financial statements. The Company will adopt suitable hedging strategies when necessary.

Q3. Mr Phua Cher Chew was first appointed as an independent director of the company on 31 May 2021. On 24 July 2021, the company announced the redesignation of Mr Phua Cher Chew as the chairman of the board of director, with effect from 26 July 2021.

Description (Please provide a detailed description of the event in the box below)
Appointment of Non-Executive Non-Independent Director.

Additional Details

Date Of Appointment
31/05/2021

Name Of Person
Phua Cher Chew (Pan Ziqiu)

Age
47

Country Of Principal Residence
Singapore

The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)
The Remuneration and Nominating Committee, after considering the credentials of Mr Phua Cher Chew (Mr Phua), has recommended to the Board of Directors (Board) the appointment of Mr Phua as a Director of the Company. The Board has approved the appointment.

Whether appointment is executive, and if so, the area of responsibility
Non-executive.

Description (Please provide a detailed description of the event in the box below)
Redesignation to Independent and Non-Executive Chairman.

Additional Details

Date Of Appointment
26/07/2021

Name Of Person
Phua Cher Chew (Pan Ziqiu)

Age
47

Country Of Principal Residence
Singapore

The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)
The Remuneration and Nominating Committee, after considering the experience and qualifications of Mr Phua Cher Chew ("Mr Phua"), has recommended to the Board of Directors ("Board") the redesignation of Mr Phua as Independent and Non-Executive Chairman of the Board of Directors of the Company. The Board has approved the redesignation.

Whether appointment is executive, and if so, the area of responsibility
Non-executive.

(Source: company's announcements on the appointment and redesignation of Mr Phua Cher Chew; emphasis added for clarity)

(i) Could the company/nominating committee (NC) disclose the rationale, selection criteria, and search and nomination process that led to the appointment of Mr Phua Cher Chew as an independent director and his subsequent redesignation as chairman, as required in the SGX announcement template?

Company's response: Mr. Phua Cher Chew ("**Mr. Phua**") was identified via recommendations within the Group's network. Mr. Phua was selected on the basis there are no relationships or conflicts of interest with the Company that may compromise his objectivity and independence. Additionally, Mr. Phua is equipped with the necessary skills, expertise and experience to contribute effectively to the Board's deliberations and decision-making process. Based on Mr. Phua's independence and non-executive nature as well as his commercial experience in the real-estate industry, the Remuneration and Nominating Committee ("**RNC**") and the Board have considered him to be suitable to lead the Board as Chairman.

(ii) In addition, can the NC help shareholders better understand the basis of its recommendation after considering Mr Phua Cher Chew's credentials, experience, and qualifications? Specifically, how did the NC assess and evaluate Mr Phua Cher Chew's performance as a director of an SGX-listed company (and concurrently as chief executive officer) in TEE Land Limited from 2012 to 2020? TEE Land Limited is now known as Amcorp Global Limited.

Company's response: The RNC had evaluated Mr. Phua's performance by considering various factors, including his contribution to the Company's strategic direction, financial performance, operational efficiency, and risk management. The RNC has also taken into account feedback from other Board members and senior executives. Additionally, the RNC had assessed Mr. Phua's leadership skills, ability to communicate effectively with stakeholders, and commitment to ethical and responsible business practices. The RNC also considered his experience and qualifications in the real estate industry, as well as his track record of success in other leadership roles and nothing had come to the attention of the RNC or Board that would deem Mr. Phua unsuitable as a director of the Company.

(iii) **Considering Mr Phua Cher Chew still serves on certain Amcorp-related entities, are there any potential conflicts of interest?**

Company's response: Each director is aware of the requirements in respect of his disclosure of conflicts of interest, amongst other requirements. Mr. Phua's service on certain Amcorp-related entities does not a pose any potential or actual conflict of interest.

By order of the Board

Jacob Lee
Chief Executive Officer and Executive Director

25 April 2023

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*This announcement has been prepared by the Company and reviewed by the Company's sponsor, Novus Corporate Finance Pte. Ltd. (the "**Sponsor**"), for compliance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist.*

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made, or reports contained in this announcement.

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