Capital World Limited
(Incorporated in the Cayman Islands)
Company Registration Number: CT-276295

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RESPONSE TO QUERIES FROM THE SGX-ST

The board of directors (the "**Board**" or the "**Directors**") of Capital World Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the Company's announcements dated 14 October 2019 ("**Previous Announcements**") in relation to the variances between audited financial statements and unaudited financial statements for the year ended 30 June 2019 ("**FY2019**"), and the disclaimer opinion of the auditor's report in the FY2019 annual report. Unless otherwise defined, capitalised terms used in this announcement shall bear the same meanings as ascribed to them in the Previous Announcements.

The Board would like to provide the following information in response to queries raised by the SGX-ST on 14 October 2019.

1. With reference to explanation for flux on balance sheet item no. 10, the decrease in PPE from RM147m to 129m is as a result of reversal of land unwinding cost which was over provided in the unaudited financial statement. Land winding cost is the difference between the net present value of the land cost and the maximum land cost of RM324 million under the joint venture agreement with the landowner of the Capital City Project.

   Please elaborate on how the difference was derived, and why was there a need for such an adjustment.

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

   1) Land unwinding cost arose from discounting future projected payments to APSB, the landowner of the Capital City Project. Pursuant to the joint venture agreement, the maximum land cost is RM324 million which the Group estimates that it would take 3 years to pay in full after FY2019. From the accounting aspect, the amount of RM324 million is required to be discounted back to the net present value ("**NPV**") using discount rate of 7.1% per annum, thereby creating a difference between the maximum land cost of RM324 million and the NPV, which would be the land unwinding cost. The land unwinding cost would be added to the PPE (also other categories as referred to under Note 9(a) of the financial statements) to build up the land cost which will accrete up to RM324 million. The discount rate of 7.1% per annum has been consistently applied throughout the years from FY2014 to FY2019.

Financial statements in the annual report has stated the descriptions of the land unwinding cost. Example of which is Note 9 (a) of the financial statement which sets out below:

The purchase consideration of the Land has been recognised in property, plant and equipment, investment properties under construction and inventory properties according to the Group's intention regarding the use of the Land on initial recognition.

The carrying amount of the deferred payment of the land payable to APSB as at 30 June 2019 and 30 June 2018 is determined based on the present value of deferred payment discounted at 7.1% (2018: 7.1%).

The interest capitalised consists of unwinding interest for the consideration payable for allocated land cost capitalised in inventory properties.

2) The reversal adjustment is required to correct the errors made. If there were no adjustments made, the PPE and land cost payable (under trade payables) will be overstated.

2. The impairment of intangible assets of RM72.0 million mainly pertaining to the mining rights and goodwill arising from the reverse takeover of mining business by the property business on 4 May 2017 (in FY2018) has contributed to a significant increase in general administrative expenses.

   The Group recorded a loss after tax of RM45.6 million in FY2019 as compared to a profit after tax of RM56.6 million in FY2018. Had there been no impairment of RM72.0 million, the Group would have recorded a profit after tax of RM11.9 million, after taking into account of the deferred tax on the impairment.

   In FY2018, intangible assets of RM82.5m and goodwill of RM11.4m were recorded. In FY2019, after testing for impairment, mining rights were recorded at RM21.9m and goodwill at nil.

   a) Please explain the key assumptions and factors used in the value in use calculation, and any other reasons that led to the need for the recognition of the material impairment loss in FY2019.
   b) What were the key assumptions leading to the valuation and consideration in FY2018 and what has changed that led to the need for impairment?

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

   The key assumptions and factors used are disclosed in Note 19 of the financial statements which is extracted as follows:

   The recoverable amount of mining rights, goodwill and mining infrastructure under the mining GGU is determined based on value-in-use calculations using cash flow projection from the production forecast approved by management, covering periods up to the forecast concession right period ending in 2044. The pre-tax discount rate applied to the cash flow projections is 13.5% (2018: 14.3%). The growth rate used to extrapolate the cash flows beyond the five-year period ranges from 3% to 5% (2018: 3% to 5%) during the forecast concession right period.

- *Forecasted revenue*

  - *Estimated sale volume: Estimated sale volume is derived from projected customers' demand during the year. Management estimated customers' demand to increase ranges from 3% to 5% (2018: 3% to 5%) during the forecast concession right period.*

  - *Estimated selling price: Management estimated the selling price based on the historical track record and current transacted price.*

- *Discount rate – discount rate represents the current market assessment of the risk specific to the CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the CGUs and derived from weighted average cost of capital ("WACC") of the CGUs. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the publicly available market data. Segment-specific risk is incorporated by applying individual beta factors.*

The key assumptions used in FY2018 assessment were i) pre-tax discount rate of 14.3% and growth rate of 3% to 5% which had been disclosed in the Note 19 above.

The changes led to the impairment loss in FY2019 was due to the decrease in estimated sales of the Group's marble business arising from a lower projected customers' demand during the year. Whilst the estimated increase in customers' demand remains the same at 3-5% during the concession right period ending in 2044, the increase would be based on a lower sales projection. In addition, during FY2019, the Group has engaged an operator to do the extraction of the quarry. Instead of incurring expenses to extract the quarry and then having to find customers to sell the extracted quarries to, which the Group would then face inventory risk, the Group will charge the operator a fee for the quarry extracted by the operator, which is calculated monthly by using a fixed fee per tonnage extracted, multiplied by the total tonnage of the quarry extracted per month. The operator would then have the rights to the extracted quarries and be responsible for the expenses involved in the extraction. This arrangement has helped the cash flow of the Group. However, it has restricted Group's cash flow projection and resulted in an impairment.

3. On the disclaimer of opinion received, basis of which is the use of going concern assumption, we have the following queries:

   Group's loans and borrowings amounted to RM44.6m, which far exceeded cash of RM2.4. Group is in net current liability of RM57m. With the extension of repayment date of loans of borrowings of RM26.5m by a further 12 months to 31 Oct 2020, outstanding loans and borrowings of RM18.1m remain due during the year.

   On 10 July 2019, the Company also announced the entry into a term sheet in relation to Proposed Subscription to raise proceeds of S$17.6m, and on 3 Oct 2019 the Company announced entry into a CLA for proceeds of S$5.5m for repayment of outstanding convertible bond debt.

   The Group has also reached an agreement with a supplier to cap payment in the next 15 months as at 30 June 2019 at an agreed amount, and to defer the payment for construction services to be rendered by this supplier over the next 15 months from July 2019 to September 2020.

a) How much current liabilities remain outstanding in the next 12 months? Who is the supplier in question?
b) How much debt is owing to the supplier? In the coming year, will the Company continue to incur more debts with the supplier? Will the deference of repayment to the supplier attract interest, if so, how much?

Company's reply:

To clarify, following the adjustments made to the unaudited financial statements for FY2019, the Group was in an audited net current asset (not a net current liability) position of RM56.7 million as at 30 June 2019.

a) The supplier is the main contractor ("Main Contractor") of the Capital City Project. Due to commercial sensitivity, the name of the Main Contractor is not disclosed in this announcement. Amount owing to the Main Contractor was RM154.7 million as at 30 June 2019, out of which RM18.0 million was classified under current liability and remaining RM136.7 million was classified under non-current liability.

b) The Group owed Main Contractor RM154.7 million as at 30 June 2019. Group will continue to engage the Main Contractor in the coming year for the construction of the remaining component of the Capital City Project which will see the Group incurring more debts. Such new debts to be incurred will not be required to be paid to the Main Contractor in the next 15 months from 1 July 2019 to 30 September 2020.There is no interest for the deferred payments.

4. From the cashflow statement, it is noted that the Company generated cashflows RM56.6m from operations. However, 31% of such cashflows, amounting to RM17.8m, is paid out as interest.

   a) Given that the proposed entry into the CLA will also attract interest payments of 15% p.a. and arranger fees in cash of 7%, is the operational cashflow of the company sustainable?
   b) Other than the Subscription Agreement and the CLA, what other financing options are available to the Group?

   Company's reply:

   a) The high facility fee relating to the convertible bonds subscription agreement resulted in the high interest payments in FY2019. The CLA does not have such facility fees and the operational cashflow of the Group will therefore be sustainable.

   b) As mentioned in the announcement dated 10 October 2019, the Company has been exploring financing with financial institutions and banks but had not been successful due to the weak real estate market sentiments in Malaysia. The Company has been discussing with private funds for financing options and will make the relevant announcement if and when it is materialized.

5. Note 2.1 para (d)(i) states that the current portion of the cost of land payable to APSB is RM24.3m which has been accrued based on the Group's forecasted cash receipts from progress billings and project sales of Capital City Mall and Capital Suites. According to the land acquisition agreement signed with APSB, **if the forecasted cash receipts do not materialize**, the Group will not be required to make the payment to APSB during the construction phase of the development project.

   a) How much are the forecasted cash receipts per the land acquisition agreement signed? In the event that the forecasted cash receipts do not materialize, what is the impact of the Group's ability to continue as a going concern?

   Company's reply:

   1) Under the land acquisition agreement with APSB, which is usually referred to as the joint venture agreement, the Group is only required to pay APSB if the Group receives the progress billing from the sales of the units. If Group does not receive any amount from the progress billing, there is no obligation of the Group to pay APSB. To clarify, the forecasted cash receipts is only a forecast made by the Company based on its historical progress billings and projected sales of Capital City Mall and Capital Suites, in order to provide an estimate of the amount required to be paid to APSB. There is no mention of the forecasted cash receipts in the land acquisition agreement. Hence, if there are no cash receipts from the progress billing, it would mean that the forecasted cash receipts do not materialize.

   2) If the forecasted cash receipts do not materialize, the Group will supplement its cash flow from the potential financing options. Noe materializing cash receipts alone would not affect the Group's ability to continue as a going concern.

6. AC and Board – Please provide the basis for confirming adequacy of working capital of the Group for the next 12 months.

   Company's reply:

   Referring to the reasons under the disclaimer opinion announcement dated 14 October 2019, the AC and Board are of the opinion that, after taking into consideration the current credit facility, the financing options that the Group is exploring, as well as the cash flow from sales of the units, the working capital available to the Group is sufficient to fund its requirements for the next twelve months.

7. Can the Board of Directors please provide your opinion as to whether trading of the Company's shares should be suspended pursuant to Listing Rule 1303(3).

   Company's reply:

   Pursuant to Listing Rule 1303(3), the Board of Directors confirms that the trading of the Company's share should not be suspended as described below:

   1) There is no application filed with a court to place the Company (or significant subsidiary) under judicial management;

2) There is no application filed with a court for the liquidation of the Company (or significant subsidiary) and the amount of the debt alleged is significant; or

3) The Company is able to reasonably assess its financial position and inform the market accordingly.

8. Can the Board of Directors please confirm if sufficient information has been disclosed to enable trading of the Company's shares to continue in an orderly manner, and the bases for its views.

   Company's reply:

   The Company has disclosed its steps taken to address the material uncertainty on the going concern issue in the Previous Announcements. Accordingly, the Board of Directors confirm that sufficient information has been disclosed to enable trading of the Company's shares to continue in an orderly manner.

By Order of the Board
CAPITAL WORLD LIMITED

Siow Chien Fu
Executive Director and Chief Executive Officer
17 October 2019

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor") in accordance with Rules 226(2)(b) and 753(2) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalist.

The contact person for the Sponsor is Ms. Gillian Goh, Director, Head of Continuing Sponsorship (Mailing address: 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318, and Email: sponsorship@ppcf.com.sg).