



AF Global Limited

Company Registration No. 197301118N
(Incorporated in the Republic of Singapore)

Response to Questions from the Securities Investors Association (Singapore) ("SIAS") on the Company's Annual Report 2021 ("AR2021")

The Board of Directors of AF Global Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the various questions raised by the SIAS on 19 April 2022 ("**Questions**"). The Questions are being suggested by SIAS for retail shareholders to raise. Accordingly, our Board has responded below to the Questions to the extent possible and appropriate. Meanwhile, our Board would like to recap the general response context.

SIAS's Questions

Q1. As noted in the chairman's statement, one of the highlights of FY2021 was the return of international guests to the group's resort, Holiday Inn Resort Phuket ("**HIRP**"), in Phuket, Thailand after 18 months of restrictions.

Occupancy rates in the two serviced residences, Cityview Apartments and Commercial Centre in Ho Chi Minh City, Vietnam, and Somerset Vientiane in Vientiane, Laos, were lower. With the easing of border and travel restrictions, the group's hospitality business will likely benefit although management has highlighted challenges such as labour shortages, rising inflation, and supply chain issues.

For the group's real estate consultancy business, despite the cooling measures, it is expected to perform well in 2022 in line with the anticipated rebound in the economy.

- (i) **Can management provide shareholders with insights on the pace of the recovery in tourism in Thailand and the achievements of HIRP as the country re-opens?**
- (ii) **How is management positioning itself for the rebound especially as the occupancy rates remain low while labour shortages, inflation and logistical challenges.**
- (iii) **For the benefit of shareholders, can management provide insights on the key drivers of performance for the serviced residences in Vietnam and Laos? What is the profile of the guests?**

Company's Response

The hospitality industry outlook in the countries that the Group operates have improved compared to 2021. However, as the pace at which COVID-19 travel restrictions are eased differs across the various countries where our assets are situated as well as in the countries where our inbound guests originate, the recovery of our business will take time and is dependent on several factors. In positioning the Group's hospitality business during these challenging times, we consider factors such as market uncertainties, current and forecast occupancy rates to assess staffing requirements and the costs of operating more rooms.

The geo-source of the guests at our serviced residences in Vietnam and Laos are mainly from the region.

The chairman has stated that the group is looking to re-constitute its portfolio which may include the divestment of certain assets.

- (iv) **Can the board help shareholders understand the board's vision for the group? What is the targeted capital allocation (by geography and by asset class/asset type)?**
- (v) **What are the criteria used by the board for its investment and divestment process?**

Company's Response

The Board is constantly looking for investment and divestment opportunities to optimise risk-adjusted returns and strengthen fundamentals to improve future growth prospects. The Board will also take into consideration factors such as the quality of the assets, long-term prospects, business synergies, geopolitical situation and general market conditions.

- Q2.** The group's 55%-owned joint venture, Xuzhou YinJian LumChang Real Estate Development Co., Ltd ("**Xuzhou JV**"), has been classified as a non-current asset as it no longer meets the criteria for held-for-sale classification under the accounting standards.

There has been no substantive progress on the negotiations with the JV partner nor any significant change in circumstances since 2019 (page 44 - Key audit matters).

The carrying value of the Xuzhou JV of \$55.53 million represents 17% of the group's total assets.

- (i) **Can the board/management help shareholders understand the current working relationship with the Joint JV partner?**
- (ii) **What is the financial situation of the Joint JV partner?**
- (iii) **Especially with the closure of national borders due to the pandemic, what is the level of oversight of the matters in the JV? How is the board monitoring the internal controls at the JV, such as payments following the usual payment procedures and no other irregularities being carried out, to safeguard the company's interest?**
- (iv) **What is the level of involvement of the local government authorities in the dispute/negotiation?**
- (v) **Is there sufficient expertise in the board/management, especially in the Chinese legal system, to help the company as it goes ahead with court proceedings?**

Company's Response

As disclosed in the 2021 Annual Report, Management has assessed that the Group is not able to substantively exercise its rights to jointly control nor exert significant influence over the relevant activities of the Xuzhou JV. In response, the Group has continued to seek legal advice from reputable Chinese legal firms to determine the means to enforce the Group's legal rights as per the equity transfer framework agreement and the court mediation agreement. In addition, the local court of Xuzhou City had extended the asset preservation order on certain bank accounts and saleable assets of the Xuzhou JV.

Q3. As shown in Note 24 (page 89 - Cash and short-term deposits), the group has \$5.4 million in cash and bank balances and \$8.0 million in fixed deposits.

24. CASH AND SHORT-TERM DEPOSITS

	Group		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Cash and bank balances	5,391	8,562	846	322
Fixed deposits	8,025	8,081	-	150
	13,416	16,643	846	472

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprised the following:

	Group	
	2021 \$'000	2020 \$'000
Cash and short-term deposits	13,416	16,643
Less: Fixed deposit pledged	(54)	(54)
	13,362	16,589

The weighted average effective interest rate of the fixed deposits of the Group at the end of the year was 4.28% (2020: 4.06%) per annum.

(Source: company annual report)

- (i) **How did the group obtain the relatively high interest rate of 4.28% per annum for its fixed deposits? Are these plain-vanilla fixed deposits?**
- (ii) **Also, are the balances held in currencies other than Singapore Dollar? If so, what are they?** Note 30(b) (Foreign currency risk) shows no significant holdings of any other foreign currency.

Company's Response

The balances placed are fixed deposits denominated mainly in Vietnamese Dong which are held through the Group's Vietnamese subsidiary. The interest rate of 4.28% per annum is in line with the prevailing fixed deposit interest rates offered by financial institutions in Vietnam.

12. INVESTMENT SECURITIES

At fair value through other comprehensive income:

	Group	
	2021 \$'000	2020 \$'000
Non-current		
Unquoted equity securities	4,033	3,582
Current		
Quoted debt securities	14,086	14,060

In the last financial year, the Group received dividend amounting to \$58,000 from its investment in unquoted equity securities.

At the end of the reporting period, the fair value of the unquoted equity securities increased by \$451,000 (2020: decreased by \$472,000) with the corresponding adjustment to fair value adjustment reserve.

(Source: company annual report)

In addition to the cash and cash equivalents, the group has \$14.1 million in quoted debt securities.

- (iii) **Would the board help shareholders better understand its capital management framework? Why is the group investing in quoted debt securities (of an interested person)? Is this aligned with the group's strategic objectives?**
- (iv) **Would the board consider right-sizing the balance sheet by returning the excess capital to shareholders via a special dividend/capital reduction?**

Company's Response

The Group is committed to explore ways to optimise long-term shareholders' value and return. In view of the ongoing pandemic, economic situation, market and geopolitical uncertainties, the Group seeks to conserve cash flow for operations while deploying the funds to earn income through passive investment in bonds. The quoted debt securities (of an interested person) have provided a reasonable return on the Group's investment since 2015.

BY ORDER OF THE BOARD

Lim Swee Ann
Company Secretary

27 April 2022