

# WORLD CLASS GLOBAL LIMITED

(Company Registration No: 201329185H)  
(Incorporated in the Republic of Singapore)

## UNAUDITED HALF YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

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*This announcement has been prepared by World Class Global Limited (the "Company") and its contents have been reviewed by the Company's sponsor, ZICO Capital Pte. Ltd. ("Sponsor"), in accordance 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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## 1. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income For The Financial Period From 1 January 2020 to 30 June 2020 ("1H 2020")

	Group		Change %
	1H 2020 (Unaudited) S\$'000	1H 2019 (Unaudited) S\$'000	
Revenue	97,979	158,091	-38%
Cost of sales	(66,630)	(121,256)	-45%
Employee benefits	(1,563)	(1,752)	-11%
Depreciation	(121)	(65)	86%
Net foreign exchange gain/(loss)	340	(2,886)	n.m
Finance costs	(3,110)	(1,017)	206%
Other operating expenses	(13,831)	(15,817)	-13%
Interest income	608	1,635	-63%
Rental income	463	512	-10%
Other income	361	1,324	-73%
<b>Profit before tax</b>	<b>14,496</b>	<b>18,769</b>	<b>-23%</b>
Income tax expense	(7,160)	(8,198)	-13%
<b>Profit for the period</b>	<b>7,336</b>	<b>10,571</b>	<b>-31%</b>
<b>Other comprehensive income:</b>			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation, representing other comprehensive income for the period	3,703	(2,188)	n.m
<b>Total comprehensive income for the period</b>	<b>11,039</b>	<b>8,383</b>	<b>32%</b>
<b><u>Profit/(loss) for the period attributable to:</u></b>			
Owners of the Company	7,392	11,027	-33%
Non-controlling interests	(56)	(456)	-88%
	<b>7,336</b>	<b>10,571</b>	<b>-31%</b>
<b><u>Total comprehensive income attributable to:</u></b>			
Owners of the Company	10,941	8,948	22%
Non-controlling interests	98	(565)	n.m
	<b>11,039</b>	<b>8,383</b>	<b>32%</b>
<b>Earnings per share (cents)</b>			
Basic	0.81	1.20	-33%
Diluted	0.81	1.20	-33%
<b><i>Other information:-</i></b>			
	Group		Change %
	1H 2020 S\$'000	1H 2019 S\$'000	
Marketing and selling expenses	5,407	11,020	-51%
Net fair value (loss)/gain on derivatives	(4,975)	644	n.m
Allowance for write-down of a development property	-	1,246	-100%
n.m - Not meaningful			

## 1. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CON'T)

### NOTES:

- 1a. Revenue for 1H 2020 was primarily in relation to the settlements by purchasers of *Australia 108*. Revenue for 1H 2019 was in relation to the settlements by purchasers of *Australia 108*, with the balance in relation to the settlements by purchasers of *AVANT*.
- 1b. Cost of sales comprise mainly costs directly associated with the acquisition and development of properties, which include land costs, related stamp duties on land purchase, construction costs, project management costs and interest expense incurred on project-related loans and borrowings. The decrease in cost of sales for 1H 2020 (as compared to 1H 2019) was mainly due to the lower revenue and higher profit margin for *Australia 108*.
- 1c. The decrease in employee benefits expenses for 1H 2020 (as compared to 1H 2019) was mainly due to wage support grants from government and lower provision for annual leave.
- 1d. Depreciation expenses relate to depreciation of building, renovations, electrical fittings, furniture and fittings, computers, office equipment and motor vehicles, which were insignificant in 1H 2020 and 1H 2019.
- 1e. Foreign exchange gain or loss recorded in profit or loss mainly arises from period-end revaluation of the Company's loans to its subsidiaries.
- The Group recorded a net foreign exchange gain in 1H 2020 (as compared to a net foreign exchange loss in 1H 2019) mainly due to the strengthening of Australian Dollars ("AUD") against Singapore Dollars ("SGD") (the Group's reporting currency) between 1 January 2020 and 30 June 2020, partially offset by the weakening of Malaysian Ringgit ("MYR") against SGD during the same period.
- 1f. The increase in finance costs for 1H 2020 (as compared to 1H 2019) was mainly due to interest expenses incurred on completed units of *Australia 108*, partially offset by lower interest rate incurred for properties held for sale and investment properties.
- 1g. The decrease in other operating expenses in 1H 2020 (as compared to 1H 2019) was mainly due to lower marketing and selling expenses and hotel operating costs, partially offset by a net fair value loss on derivatives, which relate to forward currency contracts entered into to mitigate the Group's exposure to AUD. The Group recorded a net foreign exchange gain of S\$0.3 million and foreign currency translation gain in other comprehensive income of S\$3.7 million.
- 1h. The decrease in interest income in 1H 2020 (as compared to 1H 2019) was mainly due to lower interest-bearing deposits at bank, and interest earned from deposits held in escrow account upon settlement by purchasers of *Australia 108*.
- 1i. The decrease in other income in 1H 2020 (as compared to 1H 2019) was mainly due to a decrease in the hotel room revenue contributed by the Group's hotels in Georgetown, Penang.
- 1j. Income tax expense recorded in 1H 2020 was mainly due to the provision of current year's income tax expense and recognition of deferred tax liabilities.

## 2. STATEMENTS OF FINANCIAL POSITION

	Group		Company	
	30-Jun-20 (Unaudited)	31-Dec-19 (Audited)	30-Jun-20 (Unaudited)	31-Dec-19 (Audited)
	S\$'000	S\$'000	S\$'000	S\$'000
<b>Non-current assets</b>				
Property, plant and equipment	62,486	61,131	27	36
Investment properties	16,582	16,771	-	-
Investment in subsidiaries	-	-	170,315	170,315
Deferred tax assets	124	274	124	274
	<u>79,192</u>	<u>78,176</u>	<u>170,466</u>	<u>170,625</u>
<b>Current assets</b>				
Development properties	513,895	534,014	-	-
Properties held for sale	32,511	32,734	-	-
Trade and other receivables	2,898	3,098	1,878	1,225
Prepayments	570	649	3	26
Due from subsidiaries	-	-	185,538	240,611
Derivatives	-	1,431	-	1,431
Cash and bank balances	20,756	98,989	742	62,291
	<u>570,630</u>	<u>670,915</u>	<u>188,161</u>	<u>305,584</u>
<b>Total assets</b>	<u>649,822</u>	<u>749,091</u>	<u>358,627</u>	<u>476,209</u>
<b>Current liabilities</b>				
Trade and other payables	26,084	17,377	2,340	2,134
Interest-bearing loans and borrowings	149,885	174,780	-	-
Derivatives	2,068	-	2,068	-
Due to immediate holding company	10,558	514	10,050	-
Due to fellow subsidiaries	242,503	367,010	242,503	367,010
Provision for taxation	13,266	5,988	271	757
	<u>444,364</u>	<u>565,669</u>	<u>257,232</u>	<u>369,901</u>
<b>Net current assets/(liabilities)</b>	<u>126,266</u>	<u>105,246</u>	<u>(69,071)</u>	<u>(64,317)</u>
<b>Non-current liabilities</b>				
Other payables	5,901	5,830	-	-
Interest-bearing loans and borrowings	54,440	43,687	-	-
Deferred tax liabilities	10,907	10,734	-	-
	<u>71,248</u>	<u>60,251</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<u>515,612</u>	<u>625,920</u>	<u>257,232</u>	<u>369,901</u>
<b>Net assets</b>	<u>134,210</u>	<u>123,171</u>	<u>101,395</u>	<u>106,308</u>
<b>Equity attributable to owners of the Company</b>				
Share capital	142,556	142,556	142,556	142,556
Other reserves	(18,774)	(22,323)	-	-
Revenue reserves	3,575	(3,817)	(41,161)	(36,248)
	<u>127,357</u>	<u>116,416</u>	<u>101,395</u>	<u>106,308</u>
Non-controlling interests	6,853	6,755	-	-
<b>Total equity</b>	<u>134,210</u>	<u>123,171</u>	<u>101,395</u>	<u>106,308</u>
<b>Total equity and liabilities</b>	<u>649,822</u>	<u>749,091</u>	<u>358,627</u>	<u>476,209</u>
<b>Net asset value per ordinary share (cents)</b>	<u>13.91</u>	<u>12.71</u>	<u>11.07</u>	<u>11.61</u>

## 2. STATEMENTS OF FINANCIAL POSITION (CON'T)

### 2a. Review of Financial Position

Equity attributable to owners of the Company increased from S\$116.4 million as at 31 December 2019 to S\$127.4 million as at 30 June 2020, due to increase in revenue reserves and other reserves. The increase in revenue reserves was due to profit generated in 1H 2020 attributable to owners of the Company. The increase in other reserves was mainly due to foreign currency translation gain.

The Group's total assets of S\$649.8 million as at 30 June 2020 was S\$99.3 million lower than that as at 31 December 2019. This was mainly attributable to the decrease in development properties, derivatives and cash and bank balances, partially offset by the increase in property, plant and equipment. The decrease in development properties was mainly due to partial recognition of *Australia 108* to cost of sales, offset by development expenditures incurred for on-going projects. The decrease in derivatives (forward currency contracts) was mainly due to the net fair value loss recognised at the end of the financial period. The decrease in cash and bank balances was mainly due to the partial repayment of interest-bearing loans and borrowings and partial repayment of amounts due to fellow subsidiaries, offset by loan from immediate holding company. The increase in property, plant and equipment was mainly due to the construction costs incurred in Georgetown, Penang for hotel use.

The Group's total liabilities of S\$515.6 million as at 30 June 2020 was S\$110.3 million lower than that as at 31 December 2019, mainly due to the decrease in interest-bearing loans and borrowings and amounts due to fellow subsidiaries, partially offset by the increase in trade and other payables and amounts due to immediate holding company. The decrease in interest-bearing loans and borrowings was mainly due to the partial repayment of loan for *Australia 108* project, offset by drawdown of loans for some projects in Georgetown, Penang. The increase in derivatives (forward currency contracts) was mainly due to the net fair value loss recognised at the end of the financial period. The decrease in amounts due to fellow subsidiaries was due to partial repayments. The increase in trade and other payables was mainly due to the accrued development costs. The increase in amounts due to immediate holding company was due to the funding required for working capital purposes.

### 3. CONSOLIDATED STATEMENT OF CASH FLOWS

	Group	
	1H 2020 (Unaudited) S\$'000	1H 2019 (Unaudited) S\$'000
<b>Operating activities</b>		
Profit before tax	14,496	18,769
<u>Adjustments for:</u>		
Depreciation of plant and equipment	121	65
Interest income	(608)	(1,635)
Interest expense	3,110	1,017
Net fair value loss/(gain) on derivatives	4,975	(644)
Unrealised foreign exchange (gain)/loss	(2,770)	2,322
Allowance for write-down of a development property	-	1,246
<b>Operating cash flows before changes in working capital</b>	<b>19,324</b>	<b>21,140</b>
<u>Changes in working capital</u>		
Decrease in development and investment properties	31,014	63,469
Decrease in trade and other receivables	220	1,792
Decrease in prepayments	90	733
Decrease in restricted cash	3,186	-
Increase/(decrease) in trade and other payables	8,574	(1,026)
<b>Cash flows generated from operations</b>	<b>62,408</b>	<b>86,108</b>
Interest received	608	1,635
Interest paid	(13,753)	(22,694)
Income taxes refunded/(paid)	110	(975)
<b>Net cash flows generated from operating activities</b>	<b>49,373</b>	<b>64,074</b>
<b>Investing activity</b>		
Purchase of plant and equipment	(2,168)	(144)
<b>Net cash flows used in investing activity</b>	<b>(2,168)</b>	<b>(144)</b>
<b>Financing activities</b>		
Proceeds from interest-bearing loans and borrowings	50,568	6,815
Repayment of interest-bearing loans and borrowings	(66,766)	(67,689)
Increase/(decrease) in amounts due to immediate holding company (non-trade)	10,044	(6,579)
(Decrease)/increase in amounts due to fellow subsidiaries (non-trade)	(116,484)	5,192
<b>Net cash flows used in financing activities</b>	<b>(122,638)</b>	<b>(62,261)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(75,433)</b>	<b>1,669</b>
Effect of exchange rate changes on cash and cash equivalents	386	(126)
<b>Cash and cash equivalents at beginning of period</b>	<b>85,792</b>	<b>16,970</b>
<b>Cash and cash equivalents at end of period</b>	<b>10,745</b>	<b>18,513</b>

### 3. CONSOLIDATED STATEMENT OF CASH FLOWS (CON'T)

#### Cash and cash equivalents

Cash and cash equivalents included in the consolidated cash flow statements comprise the following amounts:-

	1H 2020 S\$'000	1H 2019 S\$'000
Cash at banks and on hand	8,130	16,217
Fixed deposits	2,615	2,296
<b>Cash and cash equivalents</b>	<b>10,745</b>	<b>18,513</b>

As at 30 June 2020, an amount of S\$10.0 million (1H 2019: S\$nil) has not been included in cash and cash equivalents of the Group as the amount relates to a reserve account held in escrow by a third party which will only be released upon repayment of the loan, interest and related development expenditures.

#### 3a. Cash Flows Analysis

##### 1H 2020

Net cash generated from operating activities for 1H 2020 was S\$49.4 million (1H 2019: S\$64.1 million). This was mainly attributable to (i) operating cash flows before changes in working capital of S\$19.3 million; (ii) changes in working capital of S\$43.1 million, mainly due to the decrease in development and investment properties of S\$31.0 million, decrease in restricted cash of S\$3.2 million and increase in trade and other payables of S\$8.6 million; and (iii) interest expenses paid of S\$13.7 million, partially offset by interest received and income taxes refunded of S\$0.6 million and S\$0.1 million respectively.

Net cash used in investing activity for 1H 2020 was S\$2.2 million (1H 2019: S\$0.1 million), which mainly related to construction costs incurred for hotel projects in Georgetown, Penang.

Net cash used in financing activities for 1H 2020 was S\$122.6 million (1H 2019: S\$62.3 million). This was mainly due to net repayment of interest-bearing loans and borrowings and repayment of amounts due to fellow subsidiaries (non-trade), offset by loan received from immediate holding company.

As a result of the above, cash and cash equivalents balance decreased to S\$10.7 million as at 30 June 2020, from S\$18.5 million as at 30 June 2019.

#### 4. STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital S\$'000	Other reserves S\$'000	Revenue reserves S\$'000	Equity attributable to owners of the Company S\$'000	Non-controlling interests S\$'000	Total equity S\$'000
<b>Group</b>						
At 1 January 2020	142,556	(22,323)	(3,817)	116,416	6,755	123,171
Profit/(loss) for the period	-	-	7,392	7,392	(56)	7,336
<u>Other comprehensive income</u>						
Foreign currency translation	-	3,549	-	3,549	154	3,703
Total comprehensive income for the period	-	3,549	7,392	10,941	98	11,039
At 30 June 2020	142,556	(18,774)	3,575	127,357	6,853	134,210
At 1 January 2019	142,556	(19,508)	(17,442)	105,606	7,768	113,374
Profit/(loss) for the period	-	-	11,027	11,027	(456)	10,571
<u>Other comprehensive income</u>						
Foreign currency translation	-	(2,079)	-	(2,079)	(109)	(2,188)
Total comprehensive income for the period	-	(2,079)	11,027	8,948	(565)	8,383
At 30 June 2019	142,556	(21,587)	(6,415)	114,554	7,203	121,757

	Attributable to owners of the Company					
	Share capital S\$'000	Other reserves S\$'000	Revenue reserves S\$'000	Equity attributable to owners of the Company S\$'000	Non-controlling interests S\$'000	Total equity S\$'000
<b>Company</b>						
At 1 January 2020	142,556	-	(36,248)	106,308	-	106,308
Loss for the period	-	-	(4,913)	(4,913)	-	(4,913)
At 30 June 2020	142,556	-	(41,161)	101,395	-	101,395
At 1 January 2019	142,556	-	(34,577)	107,979	-	107,979
Loss for the period	-	-	(3,150)	(3,150)	-	(3,150)
At 30 June 2019	142,556	-	(37,727)	104,829	-	104,829



## 5. CHANGES IN SHARE CAPITAL

	No. of shares '000	Issued and fully paid-up share capital S\$'000
Balance at 31 December 2019 and 30 June 2020	915,875	142,556

The Company does not have any treasury shares, subsidiary holdings or convertible instruments as at 30 June 2020 and 30 June 2019.

## 6. CHANGES IN TREASURY SHARES

Not applicable. The Company does not have any treasury shares.

## 7. CHANGES IN SUBSIDIARY HOLDINGS

Not applicable. The Company does not have any subsidiary holdings.

## 8. GROUP BORROWINGS AND DEBT SECURITIES

Amount repayable in one year or less, or on demand

As at 30-Jun-20		As at 31-Dec-19	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
149,885	- <sup>(1)</sup>	174,780	- <sup>(1)</sup>

Amount repayable after one year

As at 30-Jun-20		As at 31-Dec-19	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
54,440	-	43,687	-

### Details of collateral:

The Group's borrowings and debt securities are secured as follows:-

- i) corporate guarantees by the Company and Aspial Corporation Limited (controlling shareholder of the Company);
- ii) guarantees by non-controlling interests of a subsidiary;
- iii) legal mortgages over the Company's subsidiaries' development properties, investment properties and properties held for sale; and
- iv) fixed and floating charge on all assets of certain of the Company's subsidiaries.

<sup>1</sup> As at 30 June 2020, an aggregate amount of S\$250.0 million excluding interest (31 December 2019: S\$365.0 million) owing to the Company's immediate holding company and a fellow subsidiary remained outstanding and had not been included in the table. This outstanding amount of S\$250.0 million is under a revolving credit facility (which will mature on 28 February 2021 and subject to shareholders' approval, the Company may seek 2 years' extension of the maturity date of the revolving credit facility from its immediate holding company) of up to an aggregate principal sum of S\$400.0 million. The revolving credit facility is interest-bearing and unsecured.

## 9. AUDITOR'S REPORT

The figures have not been audited or reviewed by the auditors.

## 10. AUDIT OPINION

Not applicable. The Group's latest audited financial statements for the financial year ended 31 December 2019 are not subject to adverse opinion, qualified opinion or disclaimer of opinion issued by the auditors.

## 11. ACCOUNTING POLICIES

The Group has applied the same accounting policies and methods of computation in the financial statements for the financial period ended 30 June 2020 as those of the audited financial statements for the financial year ended 31 December 2019, as well as adopted all applicable new and revised Singapore Financial Reporting Standards (International) ("SFRS(I)") which became effective for financial years beginning on or after 1 January 2020. The adoption of these new and revised SFRS(I) have no material effect on the financial statements.

## 12. EARNINGS PER SHARE

	Group	
	1H 2020	1H 2019
i) Basic earnings per share (cents)	0.81	1.20
ii) Diluted earnings per share (cents)	0.81	1.20
- Weighted average number of ordinary shares ('000)	915,875	915,875

Basic earnings per share is calculated by dividing the profit for the respective financial periods attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the respective financial periods. Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares existing during the respective financial periods.

## 13. NET ASSET VALUE PER SHARE

	Group		Company	
	30-Jun-20	31-Dec-19	30-Jun-20	31-Dec-19
Net asset value per ordinary share (cents)	13.91	12.71	11.07	11.61
Number of ordinary shares in issue ('000)	915,875	915,875	915,875	915,875

## 14. VARIANCE FROM FORECAST STATEMENT

No forecast for the financial period ended 30 June 2020 was previously provided.

## 15. REVIEW OF CORPORATE PERFORMANCE

In 1H 2020, the Group recorded a profit before tax of S\$14.5 million (1H 2019: S\$18.8 million). This was mainly due to the recognition of revenue of S\$98.0 million from the settlement by the purchasers of *Australia 108* in 1H 2020, net foreign exchange gain and a decrease in other operating expenses, partially offset by an increase in finance costs.

## 16. BUSINESS OUTLOOK

The outlook of the year ahead remains challenging with the global and domestic economic uncertainties due to the COVID-19 pandemic.

As at the date of this announcement, the Group has completed 98% of the construction of *Australia 108* and targets to achieve full completion by third quarter of FY 2020. The Group expects the *Australia 108* project to contribute positively to the Group's revenue and profitability for FY 2020.

The Group recognised revenue (i.e. billed sales) of S\$98.0 million in 1H 2020 and has a balance of approximately S\$300 million of unbilled sales from existing contracts from its on-going projects.

The Group temporarily ceased its hotel operations and building works for four of its properties in Penang during the lock down period imposed by the Malaysian government, from 18 March 2020 to 3 May 2020. After the lifting of lock down period in May 2020, the aforesaid building works and some of the Group's hotel operations in Penang have resumed.

Barring unforeseen circumstances such as unfavorable changes in Australian and Malaysian currencies, the Group expects to be profitable in FY 2020.

## 17. INTERESTED PERSON TRANSACTIONS

The Group does not have a general mandate from shareholders for interested person transactions pursuant to Rule 920(1)(a)(ii) of the Catalist Rules.

## 18. DIVIDEND

- (i) Any dividend declared for the current financial period reported on?  
No.
- (ii) Any dividend declared for the previous corresponding financial period?  
No.
- (iii) If no dividend has been declared (recommended), a statement to that effect and the reason(s) for the decision.  
No dividend has been declared or recommended as the Board of Directors deemed it more appropriate to utilise the Group's cash to reduce its borrowings, improve working capital and for its future growth.

## 19. NEGATIVE CONFIRMATION BY THE BOARD PURSUANT TO RULE 705(5) OF THE SGX-ST LISTING MANUAL SECTION B: RULES OF CATALIST ("CATALIST RULES")

On behalf of the Board of Directors of the Company (the "Board"), we hereby confirm to the best of our knowledge that nothing has come to the attention of the Board which may render the unaudited financial statements for the half year ended 30 June 2020 to be false or misleading in any material aspect.

## 20. PROCURED UNDERTAKINGS BY THE BOARD AND EXECUTIVE OFFICERS PURSUANT TO RULE 720(1) OF THE CATALIST RULES

The Company confirms that all the required undertakings under Rule 720(1) of the Catalist Rules have been obtained from all its directors and executive officers in the format set out in Appendix 7H of the Catalist Rules.

## 21. UPDATE ON AUSTRALIA'S FOREIGN INVESTMENT REGIME

For the purposes of the Australian *Foreign Acquisitions and Takeovers Act 1975 (Cth)*, as amended by the *Foreign Acquisitions and Takeovers Legislation Amendment Act 2015 (Cth)* (the "FATA"), the Company would like to inform shareholders that, as at 30 June 2020:

- (a) Approximately 17% of the Company's and its subsidiaries' total assets consist of interests in Australian land assets (based on the exchange rate as at 30 June 2020 of A\$1.00 : S\$0.9589). Accordingly, the Company is not an Australian Land Corporation (as defined in Appendix A);
- (b) the Company holds an interest in 100.0% of the shares in World Class Land (Australia) Pty Ltd, in which gross Australian assets have a carrying value of approximately A\$445.0 million. Accordingly, World Class Land (Australia) Pty Ltd, is a Prescribed Australian Entity (as defined in Appendix A); and
- (c) the Company is an offshore company with respect to Australia, and the Company's Australian subsidiaries' aggregate assets in Australia amounted to approximately A\$445.0 million. Accordingly, the Company is an Offshore Corporation (as defined in Appendix A).

Please refer to Appendix A for information relating to the relevant FATA requirements.

On behalf of the Board,

NG SHENG TIONG  
CEO

KOH WEE SENG  
NON-EXECUTIVE CHAIRMAN

28 July 2020

**Foreign persons acquiring interests in an Australian Land Corporation**

An Australian Land Corporation (or ALC) is a corporation where the sum of the values of its and its subsidiaries' interests in Australian land assets exceeds 50% of the sum of the values of their total assets.

Under the FATA, a foreign person who proposes to acquire an interest in an ALC is required to notify the Treasurer of Australia (the "Australian Treasurer") (through the Foreign Investment Review Board (the "FIRB")) and obtain a statement of no objections ("FIRB Approval") prior to such investment.

A 'foreign person' is:

- (a) a natural person not ordinarily resident in Australia ("Non-Australian Resident");
- (b) a corporation in which a Non-Australian Resident, a foreign corporation (being a corporation incorporated in a country other than Australia) ("Non-Australian Corporation"), or a foreign government holds a substantial interest (an interest of at least 20%);
- (c) a corporation in which two or more persons, each of whom is either a Non-Australian Resident, a Non-Australian Corporation, or a foreign government hold in aggregate a substantial interest (an aggregate interest of at least 40%);
- (d) the trustee of a trust in which a Non-Australian Resident, a Non-Australian Corporation, or a foreign government holds a substantial interest (an interest of at least 20%);
- (e) the trustee of a trust in which two or more persons, each of whom is either a Non-Australian Resident, a Non-Australian Corporation, or a foreign government hold in aggregate a substantial interest (an aggregate interest of at least 40%);
- (f) a foreign government;
- (g) a general partner of a limited partnership who is a Non-Australian Resident, a Non-Australian Corporation, or a foreign government who holds an interest of at least 20% in the partnership; or
- (h) a general partner of a limited partnership in which two or more persons each of whom is a Non-Australian Resident, a Non-Australian Corporation, or a foreign government hold an aggregate interest of at least 40% in the partnership.

Pursuant to the FATA, an acquisition of shares by a foreign person in an ALC will not require pre-notification if all of the following conditions are satisfied:

- (a) the acquisition is of an interest in Australian land that is an acquisition of an interest in shares or units in a land entity;
- (b) the land entity is or will be listed for quotation in the official list of a stock exchange (whether or not in Australia);
- (c) after the acquisition, the foreign person, alone or together with one or more associates, holds an interest of less than 10% in the land entity; and
- (d) the foreign person is not in a position:
  - (i) to influence or participate in the central management and control of the land entity; or
  - (ii) to influence, participate in or determine the policy of the land entity.

In the event the Company is an ALC:

- conditions (a) and (b) above will be satisfied; and
- conditions (c) and (d) above will be satisfied so long as (i) the foreign person (alone or together with one or more associates), holds an interest of less than 10% in the Company; and (ii) such foreign person is not in a position to influence or participate in the central management and control of the Company or influence, participate in or determine the policy of the Company.

As such, an acquisition of Shares by a foreign person who satisfies conditions (c) and (d) will not be required to pre-notify and obtain FIRB Approval prior to such acquisition.

However, an acquisition of Shares by a foreign person who does not satisfy conditions (c) and (d) will be required to pre-notify and obtain FIRB Approval prior to such acquisition.

The obligation to notify and obtain FIRB Approval is imposed upon the acquirer of the interest (i.e. any persons who acquire shares in an ALC). The failure to notify and obtain FIRB Approval is an offence under the FATA by the acquirer of such interest which, if the acquirer is convicted, could result in a fine to, or imprisonment of, the acquirer of the shares, or both. The failure by an acquirer to notify and obtain FIRB Approval does not have a direct impact on the ALC as the requirement to notify is, and any penalties for not doing so are, only imposed on the acquirer of the shares.

While the acquisition of an interest in an ALC without prior notification and FIRB Approval is an offence, a failure to notify does not make such acquisition invalid or illegal. However, if the Australian Treasurer considers the proposed acquisition by a foreign person of an interest in an ALC to be contrary to Australia's national interest, the Australian Treasurer has powers to make adverse orders on the foreign person, including prohibition of the acquisition, if such acquisition has not occurred, or ordering the disposal of the interest acquired, if such acquisition has already occurred.

Under the FATA, in the event an acquirer of an interest in an ALC fails to notify the FIRB and obtain FIRB Approval for the acquisition, and the Australian Treasurer orders the disposal of the interest acquired, the disposal of such interest must be made within such period as specified in the disposal order.

The Australian Government's foreign investment policy ("Policy") states that the Australian Government's policy is to channel foreign investment into new dwellings and that all applications for FIRB Approval are considered in light of the overarching principle that proposed investment should increase Australia's housing stock.

Notification to the FIRB can be made online via the FIRB's website at [www.firb.gov.au](http://www.firb.gov.au). A fee is payable for all foreign investment applications. The notification requires information to be provided about the applicant, including, among other things, its structure and financial information, about the relevant Australian Land Corporation and the proposed acquisition.

The Australian Treasurer has a period of 30 days in which to make a decision on an application. This period may be extended for a further period of up to 90 days if the Australian Treasurer is of the view that additional time is required to assess the application.

**Foreign persons acquiring interests in a company whose Australian subsidiaries or gross Australian assets (whether represented by interests in Australian land or otherwise) are valued above A\$275 million (or such other amount as is prescribed by the Australian Government regulation)**

***When such action is a notifiable action***

As highlighted above, an action is a notifiable action, if, amongst other things, a foreign person acquires a substantial interest in an Australian entity, being an entity incorporated in Australia, whose Australian subsidiaries or gross Australian assets (whether represented by interests in Australian land or otherwise) are valued above A\$275 million or such other amount as is prescribed by the Australian Government regulation (a "Prescribed Australian Entity").

As the Company is not incorporated in Australia, acquisitions of Shares in the Company will not be considered an acquisition of an interest in an Australian entity. As such, an acquisition of a substantial interest in the Company will not be a notifiable action and thus will not require pre-notification and FIRB approval before such an acquisition, unless the acquisition results in the acquirer being able to exercise or control the exercise of a right attaching to shares in any Australian subsidiaries of the Company which are Prescribed Australian Entities.

**Any foreign person who proposes to enter into a transaction or arrangement that would entitle the foreign person to potentially exercise control over rights attaching to shares in an Australian entity or an Australian Land Corporation should satisfy themselves as to their compliance with Australia's foreign investment regime before entering into the transaction or arrangement.**

***When such action is a significant action***

Under the FATA, if an action is a significant action, a foreign person may voluntarily pre-notify and obtain FIRB Approval for such significant action. In the context of acquisitions of shares, an action is a significant action, if:

- (i) the action is to acquire interests in securities in an entity;
- (ii) the threshold test is met in relation to the entity (that is, the entity has gross Australian assets or Australian subsidiaries valued at more than A\$275 million or such other amount as is prescribed by Australian Government regulation);
- (iii) the entity is a holding entity of a corporation that is a relevant entity that carries on an Australian business, whether alone or together with one or more other persons;
- (iv) the action is taken by a foreign person; and
- (v) there would be or has been change in control of the entity as a result of the action.

This means that an action is a significant action if a foreign person (i) acquires an interest in an offshore company whose Australian subsidiaries or gross Australian assets (whether represented by interests in Australian land or otherwise) are valued above A\$275 million or such other amount as is prescribed by Australian Government regulation (the “Offshore Corporation”), and (ii) such acquisition results in there being a ‘change of control’ of the Offshore Corporation.

Generally, there will be a ‘change of control’ under the FATA if, amongst other things, a foreign person acquires a substantial interest<sup>1</sup> in the entity as a result of the acquisition.

Whilst a proposed acquisition of an interest in an Offshore Corporation by a foreign person which gives rise to a change in control in the Offshore Corporation (i) does not require mandatory pre-notification under the FATA (as the Offshore Corporation is an offshore company) and (ii) does not expose the acquirer to potential penalties for breach of the FATA, as the failure to notify prior to acquisition is not a breach of the FATA, if the Australian Treasurer forms the view that the proposed acquisition of an interest in an Offshore Corporation is contrary to the national interest, the Australian Treasurer may make an order blocking the proposed acquisition, if such acquisition has not occurred, or ordering a disposal of the interest acquired, if such acquisition has already occurred. The timelines for approval of an acquisition of an interest in an Offshore Corporation and for disposal of that interest in the event that a disposal order is made by the Australian Treasurer are the same as set out above in relation to the acquisition of interests in ALCs.

The Offshore Corporation provisions operate independently of the ALC provisions. Both regimes may apply to a proposed acquisition - for example, in relation to the proposed acquisition of a substantial interest in a company with Australian assets greater than A\$275 million (and of which more than 50% of its assets constitute interests in Australian land in circumstances where a relevant exemption does not apply).

If both the ALC provisions and the Offshore Corporation provisions apply, only one (1) FIRB notification is required. The FATA provides that any approval of the Australian Treasurer for the purposes of the provisions of the FATA dealing with ALCs will also be an approval for the purposes of the provisions of the FATA dealing with Offshore Corporations.

**It is the responsibility of any persons who wish to acquire Shares in the Company to satisfy themselves as to their compliance with Australia’s foreign investment regime which is set out in the FATA and the Policy before acquiring Shares in the Company.**

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<sup>2</sup> An interest of at least 20% in an entity.