HIAP HOE LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 199400676Z)

RESPONSE TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The board of directors (the "**Board**" or the "**Directors**") of Hiap Hoe Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to inform that as at the date of this announcement, the Company has not received any questions from shareholders in relation to the annual general meeting to be held on 28 April 2023. Nonetheless, the Company has received on 17 April 2023, questions raised by the Singapore Investors Association (Singapore) ("**SIAS**") relating to the Company's Annual Report for the financial year ended 31 December 2022.

The Board wishes to announce the following in response to the substantial and relevant queries received from the SIAS:

<u>Query 1</u>

The collective sale of Orchard Towers failed as the required threshold to proceed with the sale was not reached. The group owns 59 strata lots at Orchard Towers, comprising 21 shops and 38 offices. Management believes that the imminent cessation of the Public Entertainment license will have a positive impact on the property, as the removal of nightlife activities is expected to boost demand for its shop and office spaces.

(i) **What was the final level of consent from unit owners of Orchard Towers? In management's view, how feasible is it to bridge the gap to attempt a collective sale again?**

(ii) **To the best of management's knowledge, what were the main reasons cited by unit owners who did not support the collective sale of Orchard Towers? Were there any common concerns or objections that were raised?**

(iii) **What role did the group play in the collective sale (prior to its termination)?**

(iv) The occupancy rate at the group's Orchard Towers units has dropped to 44%. **Can management clarify if that is based on floor area? What is the current monthly rental?**

(v) **When the board approved the purchase of the Orchard Towers strata lots, did they consider the possibility that an attempt at collective sale would fail and that a collective sale may or may not materialise? What is the board's strategy to maximise the group's returns?**

(vi) **To what extent is management confident that Orchard Towers will be effectively repositioned after the cessation of public entertainment activities? What specific initiatives is management undertaking to support the repositioning process?**

(vii) **Separately, in relation to the planned rebranding exercise to Aloft Singapore Novena, will the group's hotels be temporarily closed during the process? If so, what is the expected impact on the group's operations and revenue? What were the key factors that motivated the decision to switch the hotel management from Wyndham Hotel Group to Marriott, and what potential benefits does management anticipate as a result? Lastly, can management provide any estimates or guidance on the level of anticipated capital expenditures required to rebrand the hotels to the Aloft brand?**

<u>Company's response</u>

(i) As the Company's subsidiary, Golden Bay Realty (Private) Limited, only owns 59 strata lots at Orchard Towers (the "**Property**") out of more than 350 strata lots, any information or opinion pertaining to a likelihood of a collective sale could be speculative and might prejudice the commercial interests of individuals or other companies. As such, the Group would not be able to comment on such feasibility.

(ii) We are not able to comment on the reasons why the unit owners did not support the collective sale of the Property as the voting was at each owner's discretion.

(iii) A management staff of the Company was elected as one of the members of the collective sale committee. The collective sale committee was responsible for appointing a marketing agent and the solicitors for the en-bloc sale.

(iv) The occupancy rate of 44% was computed based on net lettable area for the Group's 21 retail spaces and 38 offices in the Property. We are not able to divulge any current monthly rentals with tenants as this information is confidential and commercially sensitive to all parties.

(v) The acquisition was in line with the Group's strategic plans to enlarge its existing property investment portfolio to further strengthen its recurring income stream. In due course, in view of the age of the property (completed 1975), its strategic location at the corner of Claymore Road and Orchard Road, and its freehold tenure, the Group believes that the Property should be well placed to generate capital appreciation.

(vi) In line with the current concerns over safety, vice activities and public nuisances contributed by the presence of nightclubs and bars in the area, the Singapore authorities have ceased the renewal of public entertainment licences at the Property. The Group believes that such a measure, combined with the aforementioned prime shopping location, will reposition the Property, increase the demand for its retail and office spaces, and improve its income generation capacity.

(vii) The Group's hotels will be temporarily closed during this re-branding period and the Group estimates a loss of approximately two months' revenue. The management contract with Wyndham Hotel Group is expiring after a tenure of 10 years and the Group took the opportunity to partner with the Marriott Group to introduce the Aloft brand to Singapore. This lifestyle hotel is known to be designed for the next generation of travellers and it embodies a different design philosophy which aligns with the new age travellers' mindset in our fast-moving environment today. The Group will exercise prudence with respect to the capital expenditures on the hotel rebranding to meet Marriott's design requirements.

<u>Query 2</u>

On page 9 of the annual report, management shared its risk management framework and set out the key risks as:
- interest rate exposure
- foreign exchange risk
- liquidity risk
- market price risk
- business continuity risk

Despite recognising the risks, management did not appear to have been effective at hedging the group's risks, as shown in the carrying value of the derivatives (net carrying value of $133,355).

In FY2022, the group recognised foreign exchange loss of $(3.2) million, fair value loss in financial instruments $(29.2) million, and foreign currency translation loss of $(8.5) million.

22. DERIVATIVES

	Group			
	2022		2021	
	Assets **$**	**Liabilities** **$**	Assets $	Liabilities $
Currency swaps	**199,079**	**–**	61,135	–
Options	**600**	**(66,324)**	–	(288,892)
	199,679	**(66,324)**	61,135	(288,892)
Add: Other investments (Note 20)	**297,167,938**	**–**	315,564,404	–
Total financial assets/(liabilities) at fair value through profit or loss	**297,367,617**	**(66,324)**	315,625,539	(288,892)

During the financial year, the Group recognised fair value gain of $286,407 (2021: $17,400) on derivative instruments (Note 8).

Currency swaps

Currency swaps are used to hedge foreign currency risk arising from the Group's trading investments denominated in foreign currencies.

Options

Options derivatives contracts are entered which gives the Group's the right to buy or sell an underlying trading investment at a specified strike price on a specified date.

(i) **Interest rate risk:** The effective rates increased from 1.47%-1.61% in 2021 to 4.58%-4.98% in 2022 for total borrowings of over $710-720 million. The group did not appear to have hedged its interest rate risk and the sensitivity analysis showed that an increase in 100 basis points in the interest rate would lead to a higher loss of $5.9 million. In 2022, finance cost increased from $10.9 million to $19.9 million. **Can the audit committee (AC) provide shareholders with insights into the guidance it provided to management on effectively managing the company's interest rate risks? Has management been actively engaged in managing these risks, and if not, what are the reasons behind this decision?**

(ii) **Foreign exchange risk:** The sensitivity analysis of the group's foreign currency risk can be found on page 116. **What is the degree of natural hedging in place for the company's main foreign currency exposures, and how effective is it in mitigating currency risks? What are the notional amounts of its forward currency contracts/swaps, if any?**

(iii) **Market price risk: What was the underlying investment thesis for Credit Suisse's Additional Tier 1 Capital, and how did the board evaluate and approve this investment? Did the group invest in other Tier 1 Capital bonds?**

(iv) **A2I Holdings S.A.R.L ("A2I"):** The group currently holds a 20.71% interest in A2I, which represents an investment in AccorInvest Group. Management has classified this investment as passive, and it is measured at fair value through profit or loss, falling under level 3 of the fair value hierarchy. **Can the AC provide insights into the rationale behind using a price-to-book multiple of 1.29 times as the unobservable input for the valuation technique?** It may be noted that the company itself trades at a price-to-book multiple of 0.5 times.

Company's response

(i) Our overall financing strategy involves matching short and long term credit facilities offered or sought, against the needs of the Group, within the context and constraints of pricing, security packages required for such financing, the competing financing packages offered by various banks, the present and future interest rate expectation, any hedging instruments offered or are available, the expected future profitability and cash position that such facilities are intended to generate for the Group, cash flow mechanics in meeting such facility repayments or costs, among other considerations. Within the context of such variables, decisions are made on specific and overall financing requirements. Interest rate risks are an important, but only one of several considerations in managing borrowing facilities, and should be seen within the context of an overall higher interest rate environment affecting all industries. These issues are discussed during Audit and Risk Committee ("**ARC**") meetings with management. As such, the Group's financial management is actively engaged in managing interest rate and other financing risks.

(ii) The Group is exposed to foreign exchange risk mainly from its quoted and unquoted investment portfolios and its foreign operations in Australia and the United Kingdom. The Group uses loans in foreign currency to hedge its exposure to foreign exchange risk for its foreign investment portfolios. The Group is also exposed to foreign exchange risk from its foreign operations, particularly in Australia, where the Group has SGD bank borrowings which are secured over the Australian assets of which the Group has assessed the forex risk to be acceptable.

(iii) The underlying investment thesis is yield enhancement as part of a well-diversified investment portfolio, taking into account the risk reward equation of each investment. For Additional Tier 1 investments, relevant considerations include factors such as the company's financial position, Common Equity Tier 1 (CET1) capital and liquidity ratios. The group has investments in other Tier 1 capital bonds as well as those of different seniorities to ensure diversification of its investments in the fixed income asset class. The board sets certain parameters and guard rails in terms of allocation to financial assets and limitations with regard to exposure to assets of limited liquidity.

(iv) The Management has evaluated and determined with the assistance and concurrence of its external auditors that the market approach is an appropriate methodology to determine the carrying value of A2I as at 31 December 2022, where the market multiple of comparable listed peers are considered to determine the fair value of the investment in A2I. The selected comparable listed peers are hotel owners, managers and operators with operations mainly in Europe which is similar to the operating environment of the AccorInvest Group.

Query 3

On 11 January 2023, Singapore Exchange Regulation (SGX RegCo) announced that it will limit the tenure of independent directors (IDs) serving on the boards of listed issuers to nine years[1]. This stemmed from recommendations by the Corporate Governance Advisory Committee (CGAC). There was broad market support for this change during the public consultation carried out by SGX RegCo.

Mr Tan Boon Gin, CEO of SGX RegCo, also noted that the limit on tenure of IDs provides an opportunity for companies to inject new skills, experience and knowledge into their boards, all of which will be invaluable in guiding the business for the long term.

(i) Has the nominating committee (NC) reviewed the current competency matrix of the board and identified any gaps in skills or competencies that need to be addressed in future director appointments?

The two independent directors, Mr Ronald Lim Cheng Aun and Mr Koh Kok Heng Leslie, were appointed on 28 April 2015, and would have each completed 8 years of service as director by 28 April 2023.

(ii) What is the progress made in identifying and appointing new directors?

(iii) Can the NC elaborate further on the search and nomination process for directors, especially independent directors? Will the NC engage a third-party search firm or a professional body to broaden the pool of potential candidates?

(iv) Separately, what are the key findings from the most recent formal assessment of the effectiveness of the board and the board committees?

[1] https://www.sgxgroup.com/media-centre/20230111-sgx-regco-caps-independent-directors-tenureenhances-remuneration

<u>Company's response</u>

(i) The NC evaluates the Board's performance as a whole, including the participation and contribution of each individual director on an annual basis. Having taken into consideration multiple factors such as each director's ability to contribute to Board discussions, constructively challenge and contribute effectively to the Board, the NC is of the view that the performance of the Board and each director is satisfactory, and that there are no current gaps in skills or competencies that need to be addressed in future director appointments.

(ii) The NC and Board has shortlisted candidates for potential new independent directors. The Company will release announcements on the appointment of directors, if any, when appropriate.

(iii) The NC sources for suitable candidates as new directors through various avenues. These avenues include the directors' personal contacts, recommendations, or through internal assessments conducted on any suitable candidates within the Group. If required, the NC may also engage a third-party search firm or a professional body to source for candidates for new directors of the Group. In selecting potential new directors, the NC will take into consideration the experience, skills, qualifications, knowledge, character, independence, existing directorships and other principal commitments of the candidates.

(iv) To improve the board diversity of the Company, the NC endeavours to consider female candidates when identifying the candidates to be appointed as new directors, as well as candidates with more diverse backgrounds.

By Order of the Board

Ong Beng Hong
Joint Company Secretary

21 April 2023