AMARA HOLDINGS LIMITED

RESPONSES TO QUESTIONS FROM SIAS

The Board of Directors of Amara Holdings Limited (the “Company” or “Amara”, and together with its subsidiaries, the “Group”) refers to the questions (“Questions”) received from Securities Investors Association (Singapore) (“SIAS”) in relation to the Company’s Annual Report for the financial year ended 31 December 2022 (“Annual Report FY2022”). The Company wishes to provide its responses to the Questions in **ANNEX A.**

By Order of the Board

Susan Teo Geok Tin / Foo Soon Soo
Company Secretaries
23 April 2023

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ANNEX A

RESPONSES TO QUESTIONS FROM SIAS

Q1. Would the board/management provide shareholders greater clarity on the following operational and financial matters? Specifically:

(i) **Shanghai: What are the sentiments on the ground in China, in particular Shanghai, after COVID-related restrictions were lifted in December 2022?**

Company's response

- Since China reopened its borders on 8 January 2023, the country's tourism sector is showing signs of recovery.
- In 2022, China's domestic tourism remained relatively strong. According to statistics from The State Council, 2022 registered 2.53 billion domestic tourists, down by 22.1% over that of the previous year[1]. That said, the country expects its tourism market to flourish in 2023. According to data from the China Tourism Academy, domestic tourism revenue in 2023 could recover to about 71% of 2019 levels. Meanwhile, inbound and outbound tourist numbers are expected to reach 90 million, doubling year on year[2]. This shows that locals and foreigners are eager to travel to and within China.
- Both inbound overseas tourism and domestic tourism play integral roles in China's tourism landscape. With the growth of both groups in 2023, we are expecting gradual recovery of the tourism sector this year.
- For Shanghai, we see tourism on the uptrend following the removal of COVID-19 restrictions. Shanghai is a vibrant and culturally rich global city, with many unique attractions and experiences for families to singles. As a global financial hub, we can also expect to see foreign professionals coming to Shanghai to work and travel. Hence, we are optimistic that domestic and international tourism in Shanghai will prosper in 2023, barring any unforeseen circumstances.

(ii) **Hotels: How is the group capitalising on the anticipated rebound in travel and hospitality?**

Company's response

- The Group's Hotel Investment and Management segment is our core business. Our hotels in Singapore, Shanghai and Bangkok are all strategically located near city centres as well as public transport, which is greatly appreciated by many guests who stay with us. In our hotels, we have rooms of different configurations, which makes us well poised to suit the needs of our guests, and well-supported by warm hospitality from an experienced team.

[1] *National Bureau of Statistics of China – Statistical Communique of the People's Republic of China on the 2022 National Economic and Social Development, 28 February 2023.*

[2] *Reuters – China expects sharp rebound in tourism this year, 22 February 2023.*

- To reach out to a wider group of people, we introduced work-cation and staycation packages, which were well-received by our guests. We expect the popularity of such packages to continue with the rise of the hybrid work model.
- Moving forward, we will also look into further enhancing our services and medium-term product offerings (e.g., through Asset Enhancement Initiatives, refurbishments, new fittings/fixtures, investments into new technology) so as to stay competitive, generate additional income and/or gain a bigger market share.
- All our hotels are self-managed and we will continue to focus on perfecting/fine tuning our business processes and building strong brand recognition overseas – critical fundamentals that are required to offer management services, which we intend to continue to do in the future.

(iii) **100 AM Shanghai: Will the rejuvenation of 100 AM Shanghai require the partial or complete closure of the mall and will it require significant capital expenditure?**

Company's response

- Our 100 AM Shanghai mall and office officially opened in 2019. A refreshing lifestyle mall, it features a varied collection of dining options, lifestyle services as well as cultural elements to offer consumers a differentiated experience.
- Whilst we continually look into the need for tenant rejuvenation to cater to the fast-evolving needs of consumers, this will not lead to a partial or complete closure of the mall as there is no plan for large-scale renovation at the moment.

(iv) **Other receivables:** The group recognised $5.37 million in gross other receivables that is in default since 2019 (recognised in 2020) and fully written down. **Can management help shareholders understand the nature of this other receivables and identify the counterparty? What are the efforts made by the management to collect on this long outstanding debt?**

Company's response

- This other receivables relate to the receivable of US$3.9 million from the joint venture partner of the Vietnam entity divested in 2008.

  As announced via SGXNet on 25 April 2008, AOI Saigon Pte Ltd ("AOISPL"), a subsidiary of the Company, has reached an agreement with Vina Properties Development Co., Ltd ("Vina Properties"), for the sale of AOISPL's 70% equity interest in the registered capital of Amara Hotel Saigon Company, Ltd. ("AHSCL") to Vina Properties.

  AHSCL which was incorporated in Vietnam was a joint venture entity which was 70% held by AOISPL. It was principally involved in hotel development and ownership in Ho Chi Minh City, Vietnam.

  AOISPL had entered into several conditional agreements to divest its equity interest in AHSCL for a consideration of US$14.5 million and a further US$11.5 million for the settlement of inter-company debts. 85% of these proceeds were received in April 2008.

For the balance proceeds of US$3.9m, Vina Properties has defaulted on this payment which was due upon the closing of the transaction.

In accordance with the agreements, AOISPL took the case to Singapore International Arbitration Centre ("SIAC"). AOISPL has been awarded the Arbitration Awards by SIAC and these awards have been recognised for enforcement in Vietnam. AOISPL is still pursuing the collection, notwithstanding that full provision has been made for the amount receivable.

Q2. In his message to shareholders, the CEO focused on "successfully launching" all of the group's developments. However, development properties carried on the books amount to $110.1 million in 2021 and $98.6 million in 2022. This excludes the 40%-owned ASK Development Pte. Ltd., a jointly controlled entity, that is developing Sanctuary@Newton.

10. DEVELOPMENT PROPERTIES

	Group	
	2022 **$'000**	2021 $'000
Properties under development	16,340	82,788
Completed properties held for sale	82,238	27,303
	98,578	110,091

The group's development properties as at 31 December 2022 and 2021 are set out below:

	Address	Title	Stage of development/ Estimated date of completion	Actual/ Proposed gross floor area (sq m)	Description
(i)	9 Devonshire Road, Singapore	Freehold	Completed	234	Residential apartment
(ii)	5 Jalan Mutiara, Singapore	Freehold	Completed	2,345	Residential development of 1 block of 12 storey apartments
(iii)	10 Evelyn Road, Singapore	Freehold	Completed	3,941	Residential development of 4 blocks of 5 storey apartments
(iv)	15 Bedok Avenue, Singapore	Freehold	Under development/ 2023	1,076	Proposed residential development

(Source: company annual report)

(i) **What is the breakdown of development properties by value and by project?** Note 10 shows that the group have $82.2 million in completed properties held for sale, and a further $16.3 million in carrying value of properties under development.

<u>Company's response</u>

- Due to commercial sensitivity, we are unable to disclose the actual breakdown of development properties by value and by project.

(ii) **How many units of 10 Evelyn and M5 remain unsold?**

The group has borrowing costs of 5.36% per annum (see Question 3). The CEO considers the group's project developments as "well-designed", "attractively priced" and having "prime locations". These should cater to discerning homeowners and real estate investors.

However, it is also noted that 10 Evelyn with 56 units was launched for sale in 2018 and M5 with 33 units was soft launched in September 2014.

<u>Company's response</u>

- Sale of development properties was impacted amidst the macroeconomic headwinds, higher interest rate environment and property cooling measures implemented by the government. Notwithstanding this and with active marketing efforts, 10 Evelyn and M5 have recorded more units sold in 2022.
- 10 Evelyn**,** a 5-storey luxury residential development, obtained TOP in November 2022 and 36 units remain unsold. For our boutique residential project, M5, at Jalan Mutiara, 19 units remain unsold.

(iii) **Would the lead independent director, aided by the newly appointed independent directors, carry out a strategic review of the group's track record in property development?** The review should also look at possible gaps between market expectations, buyers' preference, property norms in Singapore, and the group's strategy and its execution, including a review of the design, price point and location.

(iv) **In addition, would the independent directors consider working with management to develop strategies for the orderly monetisation of the development properties, with the aim of reducing the group's leverage and risk exposure, particularly in a high-interest rate environment?**

<u>Company's response to (iii) and (iv)</u>

- The Board of Directors, together with the management, had initiated a review of the future strategies and directions of the Group for all three business segments, which included property development. The management has actively stepped up marketing efforts to sell the remaining units of its development properties.
- The Group will continue to seek quality projects with the potential to offer good development profit, as well as potential appreciation in capital values. We will remain focused on opportunities primarily in Singapore in the short to medium term.

Q3. In FY2022, finance costs increased to $11.9 million from $8.3 million a year ago. In particular, interest expense on bank loans and overdraft increased by 61% to $9.95 million. The balance of interest expense relates to lease liabilities of $1.95 million.

Non-derivative financial liabilities (continued)

	Weighted average effective interest rate % p.a.	On demand or within 1 year $'000	Within 2 to 5 years $'000	More than 5 years $'000	Adjustments $'000	Total $'000
Group						
31 December 2022						
Non-interest bearing	-	17,047	4,327	-	-	21,374
Lease liabilities (fixed rate)	5.35	2,018	6,401	124,005	(94,458)	37,966
Variable interest rate instruments	5.36	94,535	248,828	-	(28,358)	315,005
		113,600	259,556	124,005	(122,816)	374,345

(Source: company annual report)

In 2021, the variable interest rate instruments had weighted average effective interest rate of 1.69%. The rates have increased to 5.36% in 2022.

In Note 21 (Bank loans), management has disclosed the following (page 137):

> *The weighted average effective interest rates for the bank loans is **5.36%** (2021: 1.69%) per annum for the group. These loans have maturity dates ranging from March 2023 to July 2026 (2021: March 2022 to July 2026) and are based on floating rates.*
>
> *Under current liabilities, the group has certain bank loans from financial institutions totalling $24,283,000 (2021: $NIL) which **did not meet the covenant tests** as at the end of the reporting period due to the impact of COVID-19 on business operations and the waiver from those financial institutions were received subsequent to year end. Out of the total loans of $24,283,000, a long-term bank loan of $18,221,000 was classified from non-current liabilities to current liabilities as at 31 December 2022.*

The outstanding quantum stands at over $315 million as at 31 December 2022. Based on this, the interest payment on bank loans alone will further increase to an estimated $16.9 million in 2023, higher than $9.95 million paid in 2022, i.e., an estimated increase of as high as $7 million.

(i) **Can the audit committee confirm that the group had not hedged its interest rate risks? Was interest rate risk a key risk identified by the board and if so, what deliberations did the audit committee (AC) have over proactively managing this risk?**

Company's response

- Interest rate risk is a key risk identified by the Board, as stated under Note 4(c)(ii) to the Financial Statements in our Annual Report FY2022.

- To manage interest rate risks, the Group, where appropriate, uses interest rate swaps, and it is our policy to obtain the most favourable interest rates without increasing our interest rate risk exposure.
- In the second half of 2022, there was an unprecedented sudden spike in the interest rates due to the Russia-Ukraine war. Since then we had hedged some of the interest rate payments for our bank loans and has been monitoring the interest rate movements closely.

In addition, the group did not meet its covenant tests.

(ii) **What are the covenant terms? And how is management addressing the underlying issue even though a waiver from those financial institutions has been received subsequent to year end?**

Company's response

- The bank loans which did not meet the financial covenant tests as at the end of the reporting period relate to the overseas entities.

  Due to the impact of COVID-19 on our business operations in Shanghai and Bangkok, the overseas entities were unable to meet certain performance-related covenants under the bank loan agreements.

  With the reopening of borders and lifting of COVID-19 travel restrictions, we are cautiously optimistic that global tourism is set to return to pre-pandemic levels which will accelerate the recovery of the business of our overseas hotels.