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PROPNEX LIMITED
(Company Registration No.: 201801373N)
(Incorporated in the Republic of Singapore)

ANNUAL GENERAL MEETING TO BE HELD ON 26 JUNE 2020
RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) AND SHAREHOLDERS

The Board of Directors (the "**Board**") of PropNex Limited (the "**Company**") would like to thank shareholders for submitting their questions in advance of the Annual General Meeting to be held by way of electronic means on Friday, 26 June 2020 at 10.00 a.m. (Singapore time). The Company has also received a set of queries from the Securities Investors Association (Singapore) ("**SIAS**") in relation to its annual report for the financial year ended 31 December 2019 (the "**2019 Annual Report**").

The following are the Company's responses to the corresponding questions from SIAS and shareholders:

A. QUESTIONS RECEIVED FROM SIAS

<u>Question 1 from SIAS</u>

As noted in the chairman's statement, the group further strengthened its position as the largest real estate agency, with an enlarged salesforce of 8,441 as at 23 February 2020. This marked an increase of 1,041 sales agents or 14.1% from 1 January 2019. The group has a vision of attaining the size of 10,000 salespersons.

As noted in the company's update dated 14 May 2020, in line with the COVID-19 circuit breaker measures introduced in early April, property viewings and marketing roadshows have been suspended, alongside the temporary closure of project sales galleries. In addition, developers are adopting a wait-and-see approach, before deciding to go ahead with their project launches.

(i) As the economy comes to a standstill during the circuit breaker, how does management turn its large salesforce of over 8000 into an advantage during the lull period?

<u>Company's response</u>

Since the announcement of circuit breaker measures by the Singapore Government on 3 April 2020, the Group, leveraging on its large salesforce of over 8000 salespersons, was fast to adapt to the changing circumstances for salespersons. The Group took the following measures:

1) Encouraged salespersons to use digital alternatives in their engagement with clients.

2) Introduce online trainings to train salespersons in the following:

   (i) Using digital solutions to engage and reach out to clients.
   (ii) Educating salespersons on the current market opportunities and how to communicate them to their clients to seize these opportunities.

3) Conducting consumer seminars online since physical meetings are not allowed. The consumer seminars are often conducted by key management and top salespersons to empower consumers in understanding the real estate market.

Despite the expected decline in overall transactions during the circuit breaker period, the Group is pleased to share with shareholders that in the month of April 2020, approximately 3 weeks into the circuit breaker, the Group's total property transactions[1] across all market segments ("**Overall Indicative Transactions Volume**") is approximately 75% of an average month in 2019. In the month of May 2020, where the entire month is under circuit breaker, the Group's Overall Indicative Transactions Volume is approximately 50% of an average month's volume in 2019. Notably, based on information gathered by the Group from developers' sales during the circuit breaker period, the Group led in market share in the primary private segment of approximately 60%. Assuming no material adverse changes to the economy and intentions of the transacting parties, most of the transactions during the circuit breaker period are scheduled to be completed and invoiced[2] after the second half of FY2020.

(ii) How is the company helping its salespersons whose earnings might be affected during this period and who may be faced with cash flow issues?

Company's response

To assist the Group's salespersons to tide over potential cashflows issue during this period, the Group intends to provide financial support of up to $10,000 per salesperson by way of advance payment of their commission based on a salesperson's completed transactions but in respect of which the commissions are pending payment from clients/ developers.

The Group maintains regular communications with salespersons to consistently gather feedbacks via various channels. The Group will consider further measures to assist salespersons affected by the slowdown in economy should the need arise. The Group also would like to highlight that the Singapore Government has also provided support for self-employed persons which include real estate salespersons. Such support from government includes, among others, the Self-Employed Person Income Relief Scheme (SIRS) which give self-employed persons $3,000 each in end-May, July and October 2020 subject to criteria being met.

(iii) Does the group see any silver lining during this period? Are there more opportunities in training services and in real estate consultancy services?

Company's response

The COVID-19 pandemic has accelerated the adoption of digital methods of doing business regardless of business segments. The Group view this accelerated change as a positive change towards higher productivity in the long term. With the rising phenomena of virtual sales galleries, buyers and investors adjusting to the new normal and digital modes of property marketing and sales, there may be greater acceptance in buyers to view properties via digital means first, before narrowing down and physically view only the shortlisted properties. This will enhance the productivity of salespersons and also improve the efficiency for potential buyers and investors.

The Group wishes to highlight its robust balance sheet with healthy cash equivalents of S$89.8 million as at 31 March 2020. For more information on the Group's latest financial results, please refer to the Group's 1Q2020 results announcement on 14 May 2020 uploaded on SGXNET.

[1] Total property transactions with reference to property sales refer to the total number of Option-to-Purchase issued by property sellers and developers to buyers but yet to be exercised.

[2] A property transaction is completed when the Option-to-Purchase is exercised by the buyer and the Company invoiced the buyer/seller/developer to recognise the commission income as revenue.

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Question 2 from SIAS

The group further added that it has ambitions to the leading regional real estate agency and it is constantly on the lookout to grow its Southeast Asia footprint. The group is currently exploring opportunities in the Philippines and Thailand.

The group has already entered Indonesia in 2016, and Malaysia and Vietnam in 2018. Since then, the Indonesia team has grown to 1,400 salespersons in 12 offices.

(i) Based on the group's experience, how will the group finetune its market entry strategy for the Philippines and Thailand?

Company's response

When the Group set sights on a new geographical market, its top priority is to source for like-minded business partners – partners who are passionate, performance-driven, nimble, service-oriented and with a strong sense of professionalism and integrity. The Group strategy and approach for new market penetration has not changed.

The Group prefers to enter a new geographical market through franchise arrangements, with option to take an equity stake should the Group sees good potential in the franchisee. For example, the Group recognised the potential of PropNex Realty Sdn. Bhd.'s ("**PropNex Malaysia**") and decided to subscribe for a 20% equity stake in the enlarged share capital of PropNex Malaysia in November 2019. For more information on the acquisition, please refer to the Company's announcement on 6 November 2019 upload on SGXNET.

The Group takes a long-term view of our expansion in overseas markets, and the immediate focus continues to be in Southeast Asia.

(ii) Are the group's proprietary technology, systems, services and training shared with/licenced to the partners?

Company's response

The Group licenses the internal management systems to the franchisees, including operational management systems and salespersons management system. Most importantly, the Group shares with the franchisees the training methodology of the salespersons. From time to time, the key management also provides training to the partners' salespersons and provides guidance to their partners. Salespersons from the franchisees were also allowed to join the Group's bootcamp in Singapore before it was suspended due to COVID-19.

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As disclosed in Note 26 (pages 91 to 94 – Operating segments), the group's revenue is still substantially derived from Singapore and the group does not show the geographical breakdown of revenue.

(iii) Would the board help shareholders understand the tangible benefits and earnings potential of its regional growth strategy?

Company's response

The Group would like to highlight that the Group's regional expansion has been fairly recent and secured three franchisees thus far. The Indonesian franchisee started in 2016 followed by the Malaysian and Vietnamese franchisees in 2018. While the total revenue contribution from these franchisees is relatively small in comparison to the Singapore market, where the Group has leading market share, the Group sees growth potential in the regional market in the longer term.

Question 3 from SIAS

The "Valuation of trade receivables of $61.7 million" is a key audit matter (KAM) highlighted by the independent auditors in their Report on the audit of the financial statements (page 46).

Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM:

> ***As at 31 December 2019, the Group has trade receivables of $61.7 million, which represents 40% of its total assets. Given the size of the balance and the risk that some of the trade receivables may not be recoverable, judgement is required to evaluate whether any allowance should be made to reflect the risk.***
>
> ***The Group assessed the recoverability of trade receivables with reference to the ageing analysis of the trade receivables, adjusted for management's judgement based on the current economic and credit conditions of these trade receivables due from specific trade debtors, i.e. individual customers. The Group assessed the impairment losses on the trade receivables using expected credit loss ("ECL") model, which is based on a probability-weighted estimate of credit losses using historical loss rate, then adjusted for a forward-looking overlay, such as GDP growth in the estimate.***

As shown in Note 27 (page 95 – Credit risk), the group recorded impairment losses recognised on trade and other receivables of $(644,288) in FY2019, up from $(63,681) a year ago.

(i) Would management help shareholders understand the reasons for the significant increase in impairment losses?

(ii) Can the company show how the impairment loss of $(644,288) was calculated?

Company's response

The computation of allowance for impairment loss comprised of the following:

1 Identification of receivables that are **credit-impaired** – Management performed review of its overdue receivables as at year end and made allowance for impairment loss for specific receivables considered credit-impaired. The increase of allowance for impairment loss in FY2019 is mainly due to higher overdue receivables by more than 12 months as compared to FY2018.

2 Remaining receivables that are **not credit-impaired** – Management provided allowance for impairment loss for this group of receivables using the expected credit loss model. This is based on a probability-weighted estimate of credit losses using 3 years historical default rate, and adjusted for a forward-looking overlay, such as GDP growth in the estimate.

The table below shows the movement in the accumulated allowance for impairment loss for the respective financial years.

	FY2019 $	**FY2018 $**	**Difference $**
Accumulated allowance for impairment loss			
Opening balance as at 1 January	802,250	945,274	(143,024)
Impairment loss recognised in profit or loss	***644,288***	***63,681***	***580,607***
Amounts written off against receivables	(135,048)	(206,705)	71,657
Closing balance at 31 December	***1,311,490***	***802,250***	***509,240***
Trade and other receivables	63,466,425	63,458,007	8,418
Allowance loss as a percentage of receivables	2.1%	1.3%	0.8%
Allowance for impairment loss is represented by:			
Credit impaired receivables (long-outstanding receivables)	***1,261,973***	***753,213***	***508,760***
Not credit-impaired receivables	49,517	49,037	480
	1,311,490	802,250	509,240

The increase in impairment losses from $64,681 in FY2018 to $644,288 is mainly due to the increase in allowance for impairment loss (the "**Allowance**") from $802,250 in FY2018 to $1,311,490 in FY2019 which represents 1.3% and 2.1% of trade and other receivables in FY2019 and FY2018 respectively. The increase in the Allowance is mainly due to increase in credit impaired receivables (long-outstanding receivables) from Real Estate Agency services. These receivables mainly pertain to resale transactions between individuals and not with corporate clients. The Group would like to highlight that as part the Board's risk management, the Group has a dedicated and experienced department solely to follow up with long outstanding receivables from non-corporate clients.

Notwithstanding the above, even in the unlikely event that the entire Allowance becomes bad, the financial impact on the Group is immaterial as the Group's exposure is only approximately 6% of the Allowance as the remaining amounts of approximately 94% are amounts the Group will be paying out as commissions to salespersons and their respective team leaders or managers. As part of the agency agreement between the Group and all its salespersons, the Group will not be obligated to pay to the salespersons (together with their leaders and managers) if the Group has not first received the commission payments from the sellers for any transaction completed. As an illustration, if the entire amount of the Allowance for FY2019 of $1,311,490 become bad debts, the estimated financial impact to the Group will only be approximately a loss of $78,700, based on 6% of $1,311,490. This is less than 1% of the Group's FY2019 profit.

Lastly, for the avoidance for doubt, with reference to the Company's response to SIAS' question 1(ii) above, the Group has internal controls in place to ensure that no advance payment in terms of the Group's financial support will be made to salespersons with respect to transactions that have been provided as impairment.

For more information, please refer to the Group's 2019 annual report, note 27, pages 95 to 98 for a detailed breakdown of the Allowance by business segments and credit-impaired/ not credit-impaired allowances for both FY2018 and FY2019.

B. QUESTIONS RECEIVED FROM SHAREHOLDERS

Question 1 from Shareholder

Going forward may I know what is the dividend policy for PropNex? A key worry for shareholders would be a sharp fall in 2020 earnings that could lead to lower dividends.

Company's response

Based on the Group's current dividend policy, The Company wishes to reward shareholders for participating in the growth of the Group, accordingly, the Board intends to recommend and distribute dividends of at least 50% of the Group's announced profit attributable to the owners of the Company (excluding exceptional items, if any) semi-annually. The dividend policy may be subject to modification (including reduction or non-declaration thereof) at the Board's sole discretion. Shareholders may refer to the Group's dividend policy on page 37 of the Group's 2019 annual report.

The Board would also like to assure shareholders the Board understands that dividends is one of the key concerns for shareholders and will take into consideration among other keys factors including but not limited to the financial position, results of operations and cash flow of the Group when declaring dividend.

Question 2 from Shareholder

The Group's cash seems to be getting bigger at over 20 cents per share, what are the key plans to utilize the cash? Example: Paying special dividends, acquisitions or more share-buybacks?

Company's response

The Group is always on a lookout for investment opportunities such as, joint ventures, acquisition, overseas expansion and investment in IT solutions. The Group will also balance such decisions with rewarding shareholders through special dividend in years of good performance and evaluate the market conditions for any share buyback. In considering the utilisation of the Group's cash balances whether for acquisitions, share-buybacks or business expansion, the Group will consider the financial position, the expected working capital requirements and current economic conditions among others relevant factors.

<u>Question 3 from Shareholder</u>

With the digitisation of various processes including artificial intelligence, how confident is the Group that the real estate brokerage business can survive in the long-term?

<u>Company's response</u>

While the application of artificial intelligence bots may give rise to more online do-it-yourself (DIY) alternatives, the Group believes that the value proposition of a real estate salesperson is still fundamentally strong in the long term. Property purchases are high value purchases, whereby most prospective buyers would like to have full knowledge of the property and a good degree of understanding of the market before committing into a transaction. Hence, the role of a properly trained salesperson with good industry understanding and technical know-how are vital in providing the information and advice to support sound investment decision. Further, DIY transactions via online alternatives may carry risks due to lack of professional knowledge, understanding of market being limited to the user's own research and the lack of professional experience to support the due process of property transactions.

Similarly, as mentioned in the Company's response to SIAS's question 1(iii), the COVID-19 pandemic has accelerated the adoption of digital methods of doing business regardless of business segments. The Group view this accelerated change as a positive change towards higher productivity for our salespersons in the long term. With the rising phenomena of virtual sales galleries, buyers and investors adjusting to the new normal and digital modes of property marketing and sales, there may be greater acceptance in buyers to view properties via digital means first, before narrowing down and physically view only the shortlisted properties. This will enhance the productivity of salespersons and also improve the efficiency for potential buyers and investors. Overall, the Group embraces digital transformation as an essential productivity tool that will help its salespersons to improve outreach, educate its consumers and also assists developers in marketing their products.

By Order of the Board

Ismail Gafoore
Executive Chairman and CEO
24 June 2020

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