Second Chance Properties Ltd
(Company Registration No.198103193M)

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2016

The Board of Directors of Second Chance Properties Ltd (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the query raised by the Securities Investors Association (Singapore) in relation to the Company's Annual Report for the Financial Year ended 31 August 2016 and appends the requisite replies as follows:

Q1. Shareholders would like to ask the company for more details on the operational performance of the business segments.

Apparel

Q1. a) The Malaysia apparel segment reported segmental results of ($1.28) million, ($0.83) million and $0.50 million in 2016, 2015 and 2014 respectively. Revenue has dropped from $16.1 million in 2014 to $8.4 million in 2016. How has the decision to reduce the number of stores in Malaysia from 34 to 20 affected the operations and the profitability of the segment?

A1-a) The increasing intense competition has affected the profitability of the apparel segment. The stores that were loss- making were closed so as to avoid bigger losses in future. As the situation is expected to worsen, the profitability of this segment is expected to continue to be under pressure.

b) Mega First Lady, the group's flagship store at Jalan Tuanku Abdul Rahman in Kuala Lumpur, has been operational for the full financial year 2016. Is Mega First Lady profitable at the store-level? Has the store performed up to expectations?

A1-b) The opening of Mega First Lady coincided with the downturn in the Malaysian economy and the implementation of GST. As this store is about ten times bigger than the average First Lady shops, we need to expand our range of products with new items such as handbags, shoes, western apparels etc., which will need time to improve upon.

c) Can the business of retailing and wholesaling of modern Islamic apparel be severely disrupted by ecommerce/online shopping?

A1-c) Online shopping has to a certain degree affected our apparel business and can be expected to cause further disruption.

d) Why has the profitability of the apparel segment dropped from $0.92 million in 2015 to a loss of $0.76 million in 2016? How much of the loss can be attributed to the unrealised foreign exchange loss? Is the segment expected to return to profitability?

A1-d) The profitability of the apparel segment was affected by the following:

1) A drop in gross profit from 29% in 2015 to 23% in 2016 due to reduced retail prices to clear stocks of closing stores
2) Average drop of 30% in sale turnover of all stores
3) Write off for furniture and fittings of closed shops

The total unrealised foreign exchange loss was $148,269/-out of which only $1,700/- related to the apparel segment or 0.22%. We expect this segment to return to profitability in due course.

Property rental

e) Revenue from properties dropped 7% from $8.9 million in 2015 to $8.3 million in 2016. The segment profit (page 13 of the annual report) dropped from $9.97 million in 2015 to $5.9 million in 2016, a drop of more than 41%. Adjusting for revaluation losses/gains in 2016 and 2015 respectively, adjusted profit would have dropped from $8.75 million to $7.4 million. Can the board explain to shareholders the impact on rental revenue from the four investment properties that were sold during the year? What is the impact on revenue and on profit from lower rental renewals?

A 1 –e) The total rental revenue from the 4 investment properties that were sold during the year amounted to $451,007.50. After taking out property tax and other direct expenses the impact on net profit was $192,553/-.

The financial impact on revenue would be the difference between the old and new rental income and on segment profit would be the amount after netting off direct property expenses like property tax, service and management fees etc.

f) With 30 leases up for renewal in 2017, would the segment face even greater margin pressure?

A1- f) This segment is expected to end- up with lower profits in 2017 as we expect an average drop of about 15 – 20% in rentals from the 30 leases upon the renewal

g) Can management provide better visibility into key metrics such as the weighted average lease expiry (WALE) (as a percentage of total net lettable area and gross rental income), tenant retention rate and rental reversion?

A1 – g) The following are the Weighted Average Lease Expiry (**WALE**), Tenant Retention and Rental Reversion Rate:

1)	**WALE** - as a percentage of total Net Lettable Area	= 1.12 yrs	From 01/09/2016
2)	**WALE** – as a percentage of gross rental income	=1.25 yrs	
3)	Tenant Retention Rate	= 98.02%	For FY16
4)	Rental Reversion	= 2.30%	

Q2. The directors have "decided to be prudent" (page 30) and the dividend policy has now been changed to one where not more than 30% of net profit after tax can be distributed to shareholders as dividend (page 51). The company had maintained a dividend payout ratio of 234% in 2016 and 143% in 2015.

a) Can the board help shareholders understand how the limit of 30% was arrived?

A2 –a) The declining profits of the Group and the poor outlook for its businesses prompted the Directors to review its dividend policy. The decision to limit it to not more than 30% was derived from the following reasons

i) After the Asian Financial crisis of 1997, the Company invested in properties for rental income which later propelled it to become a much bigger entity. The strategy now is to repeat the same in a much bigger way in the next recession or crisis. Reducing the dividends, will help to reduce debt level, thus positioning the company to be in a financially stronger position to seize opportunities when they arise.

ii) Many shareholders are concerned with the declining share price. They have also voiced concerns on the low liquidity making it difficult for them to exit. To overcome these two issues the company will be embarking on a share buyback program, which will require cash to acquire the treasury shares.

b) Is this overly prudent? The current gearing ratio is at 18% (page 105) and the group still generates very healthy cash flow from its operating activities. With a limit of 30%, the earnings per share will have to be at 12c for the company to pay a dividend of 3.6c (to match the FY 2015 dividend).

A2 – b) The amount "saved" by distributing much lower dividends will help in achieving both the above objectives.

c) Can the board elaborate further on the group's capital management policy and highlight the foreseeable big ticket capital investment needs?

A2 –c) We are "saving" now to maximise our capital investments when opportunities arise as we believe the best time to invest in properties and other big ticket investments during a recession or financial crisis

Q3. Ms. Geetha Padmanabhan is an Independent Non-executive director of the company and also the Chair of the audit committee. In the director's profile (page 6), it was disclosed that Ms Geetha "has been with the Group since April 2003. She worked with the Group as Finance Manager from April 2003 to 30 June 2006 and then from April 2007 to Jan 2012". Ms Geetha was first appointed to the board as a Non-executive director on 1 March 2012 and then re-designated as an Independent Non-executive director on 30 November 2013.

Guideline 2.3(a) of the Code of Corporate Governance issued by the Monetary Authority of Singapore in 2012 states that, inter alia:

> **The Board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including the following:**
>
> **(a) a director being employed by the company or any of its related corporations for the current or any of the past three financial years;**

a) Can the nominating committee justify in greater detail its decision to re-designate Ms Geetha as an Independent non-executive director within the three financial years as stipulated in the Code of Corporate Governance?

b) As Ms Geetha has been with the group as Finance Manager for almost 8 years and as recently as 2012, Ms Geetha would have put in place systems and processes that are

probably still being used by the group's finance team. As the Chairman of the Audit committee, would Ms Geetha be put in a position where she has to review her own work?

c) **Could the nominating committee comment on the appropriateness of Ms Geetha as the audit committee chairman?**

A3 – a, b & c) We refer to our response in 2014 when a similar question was also posed by SGX.

We maintain that our criteria for independence are determined based on the definition as provided in the Code of Corporate Governance. It is correct that Ms. Geetha Padmanabhan worked as Finance Manager in the Company up to January 2012 and was appointed as Non-Executive Director in March 2012 and thereafter appointed as Audit Committee member and subsequently as its Chairman and Independent Director in December 2013.

Her appointment at various stages was reviewed and recommended by the Nominating Committee ("NC") which recommendation was then adopted and approved by the Board in all cases.

Notwithstanding the fact that Ms Geetha was employed by the Company as Finance Manager in the past up to January 2012, the NC and the Board are satisfied that she has no relationship with the Company, or any of its related subsidiaries. As such, the Directors are satisfied that she has exercised and continued to exercise her independent business and professional judgement with a view to the best interest of the Company. Further Ms Geetha is independent in character and judgement and there are no relationships or circumstances which are likely to affect, or could appear to affect, her judgement. Ms Geetha has committed to disclose in full the existence of relationships or circumstances which may appear relevant to the Board's determination of her re-designation from NED to ID. So far, Ms Geetha has confirmed there has been no existence of any such relationships and circumstances.

Although she may have created policies during the period that she was Finance Manager, any policy of significance that may potentially have a material impact on the company is always escalated to the Board for review before it is adopted as a company policy. As such, the Board is satisfied that there is no likelihood for her to be in conflict with any policy of her creation that may be currently in place.

In view of the above and notwithstanding the existence of relationships or circumstances which may appear relevant to the Board's determination of her independence, including she being employed by the company or any of its related corporations for the current or any of the past 3 financial years, the Board firmly believes that Ms Geetha, as an ID and as Audit Committee Chairman, is able to exercise independent business and professional judgement with a view to the best interest of the Company.

BY ORDER OF THE BOARD

Mohamed Salleh s/o Kadir Mohideen Saibu Maricar
Executive Chairman & Chief Executive Officer

28 December 2016