ASPEN GROUP
Redefine Living

ASPEN (GROUP) HOLDINGS LIMITED
Company Registration No.: 201634750K
(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON ANNUAL REPORT 2022

The Board of Directors (the "**Board**") of Aspen (Group) Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the questions raised by the Securities Investors Association (Singapore) ("**SIAS**") relating to the Company's Annual Report for the financial year ended 30 June 2022 ("**Annual Report 2022**") which covers an eighteen (18) months financial period from 1 January 2021 to 30 June 2022 ("**FY2022**") and appends the replies as follows:-

SIAS Question 1:

For the 18-month financial period ended 30 June 2022, the group recorded a loss after tax of RM(213.1) million compared to a profit after tax of RM75.8 million for the 12 months ended 31 December 2020. This was mainly due to the impairment loss of machinery on glove manufacturing amounting to RM(72.2) million and impairment loss on factory building amounting to RM(26.2) million.

Loss attributable to shareholders amounted to RM(180.1) million.

In the message from the president and group CEO (page 6), he said the following:

> ***The healthcare sector that we expected to contribute positively to the Group took a severe hit when the demand for gloves experienced an off-the-cliff plunge worldwide. We were caught off-guard by an onslaught of issues ranging from lower average selling price ("ASP") and significant increase in operating costs… This was a global phenomenon that none could have anticipated, and we went to great lengths to strategise and manoeuvre around the challenges in an effort to turn the situation around [emphasis added].***

(i) Can the company help shareholders better understand the board approval process for the diversification into the healthcare business?

(ii) What was the level of due diligence carried out by the company and by the board?

(iii) Did the company and the board, especially the independent directors, carry out a comprehensive risk assessment? What were the key risks identified before the company invested in the healthcare sector? Was the decline in ASP of gloves not one of the key risks identified?

Separately, it is noted that the company and the executive directors were reprimanded by SGX-ST Listings Disciplinary Committee for breaching, or for causing the company to breach, Mainboard Rules 703 and 719(1). The details can be found here: https://www.sgx.com/regulation/public-disciplinary-actions/sgx-st-listings-disciplinarycommittee-reprimands-aspen

On page 86, it was disclosed that the nominating committee (NC) had recommended and the board has agreed that Ir Anilarasu Amaranazan (group managing director) be re-

elected as a director.

(iv) **Can the NC elaborate further on its recommendation for the re-election of Ir Anilarasu Amaranazan given his reprimand by the SGX-ST Listings Disciplinary Committee (LDC) for causing the company to breach Mainboard Rules 703 and 719(1)?**

(v) **Similarly, would the NC be reviewing the suitability of the executive directors who have been reprimanded by the LDC to continue in their offices as directors of the company?**

(vi) **What additional safeguards have been introduced by the board to better ensure that the company, its directors and its executives comply with the listing rules?**

Company's response to Question 1(i) to 1(iii):

Diversification of the Group's business to include manufacturing and distribution of rubber gloves and other related activities, was approved by the Board after giving due consideration to the risk involved, the proposed structure, market analysis, financial projections and other relevant information to enable the Board to make an informed decision.

The Company and the Board had applied due care and diligence. The Company had conducted extensive market research and studies, which the Board had given due deliberation. The Company's Circular dated 3 September 2020, had outlined the risks involved for the diversification into the healthcare sector which the Group and the Board had identified and assessed, including but not limited to pricing and market trends. However, contrary to earlier market research studies, the average selling price trend softened faster than expected and the margins compressed below pre-Covid-19 levels due to heightened competition, global supply chain challenges, higher shipping and logistics costs, high inflation and higher production costs which had further worsened due to the ongoing Russia-Ukraine conflict and geopolitical tensions.

Company's response to Question 1(iv) to 1(vi):

The Nominating Committee (the "**NC**") acknowledges that Dato' Murly, Dato' Seri Nazir Ariff and Ir Anilarasu Amaranazan (collectively the "**Executive Directors**") were reprimanded by the SGX-ST Listings Disciplinary Committee (the "**LDC**") for causing the company to breach Mainboard Rules. However, similar to the findings of the LDC, the NC is of the opinion that the breaches did not imply any character or integrity issues on the part of the Executive Directors.

The Executive Directors are integral to the Company and play a key role in the Group's overall long-term strategy, business development, management, corporate planning and leading the different aspects of operations. Accordingly, the removal of the Executive Directors would be disproportionate and may have the unintended effect of jeopardising the operations of the Group to the detriment of shareholders.

As highlighted by the LDC, the breaches of the Mainboard Rules were partly contributed by the inadequacies of the former standard operating procedures, which were in place during the material time. The Company has since then, adopted a more robust compliance procedure to ensure compliance with the requirements of the Mainboard Rules. Subsequently, the Company's appointed internal auditor had also conducted a gap analysis in order to assist the Company in further strengthening and implementing its internal control policies.

SIAS Question 2:

On page 10, it was disclosed that the take-up rate of the group's development projects have improved. Going forward, the group will focus on its flagship development Aspen Vision City at Batu Kawan. The group also intends to launch three new projects, namely Versa, VIIO and Viluxe Phase 2 and Phase 3.

The total gross development value is estimated to be RM725 million. Cash and cash equivalents as at 30 June 2022 amounted to RM26.7 million (page 120 – Consolidated statement of cash flows).

(i) Does the group have the financial resources to fund these projects?

(ii) How have the group's strategy and approach to the core business of real estate development evolved over the past 2.5 years of the pandemic?

(iii) As shown in Note 8 (page 154 – Development properties), the carrying value of completed units have increased to RM132.4 million from RM44.8 million. Can management show a breakdown of the completed units by project and by number of units? Would it be prudent to sell down the inventory before committing additional capital to new phases/projects?

(iv) In addition, the group divested its 30% interest in Bandar Cassia Properties Sdn Bhd (BCP) at a loss. Can management elaborate further on the working relationship and ongoing projects with BCP/Ikano? How does the group ensure that the development of BCP remains aligned with and is complementary to the group's overall development plans?

(v) Separately, would the board/management provide shareholders greater clarity on the following items in the financial statements and in the notes to the financial statements? Specifically:

(a) Trade receivables (Note 12): What are the reasons that (current) trade receivables increased from RM14.3 million as at 31 December 2020 to RM62.4 million as at 30 June 2022?

(b) Other payables (Note 15): Similarly, why has the carrying value of "Other payables" increased from RM9.6 million to RM245.4 million?

(c) Expected credit loss (Note 29): Why is there an increase in trade receivables and contract assets past due? What are management's efforts to collect on its outstanding debts? How did management carry out the loss assessment?

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets as at 30 June/31 December:

	Group				
	Weighted average loss rate %	Gross carrying amount RM'000	Impairment loss allowance RM'000	Net carrying amount RM'000	Credit impaired
2022					
Current (not past due)	–	102,511	–	102,511	No
1 to 30 days past due	–	6,144	–	6,144	No
31 to 120 days past due	–	11,148	–	11,148	No
Over 120 days past due	–	2,577	–	2,577	No
		122,380	–	112,380	
2020					
Current (not past due)	–	110,053	–	110,053	No
1 to 30 days past due	–	1,116	–	1,116	No
31 to 120 days past due	–	81	–	81	No
Over 120 days past due	–	241	–	241	No
		111,491	–	111,491	

(Source: company annual report)

<u>Company's response to Question 2(i):</u>

The Group will have a sufficient source of funds to finance these new projects, through bridging financing which will finance the initial construction costs. Subsequently, the Group will rely on internally generated funds i.e., through progress billing corresponding with the construction progress of these new projects.

<u>Company's response to Question 2(ii):</u>

The Group was not spared from the adverse effect of the Covid-19 pandemic. However, the Group's projects and land banks is well located in prime economic activity zone and has benefitted greatly upon the easing of movement control orders. The Group also swiftly activated various digitalisation strategies and enhanced its e-commerce marketing in various digital platforms. This enabled the Group to register significant increase in unbilled sales post pandemic. While the Group is still assessing risks in the potential global recession and escalation of further tensions due to the Russia-Ukraine conflict, the management is committed to responding swiftly in the event of any global uncertainty and will update the shareholders as and when necessary.

<u>Company's response to Question 2(iii)</u>

Breakdown of the Group's completed projects and units as at financial year ended 30 June 2022 are as follow:

Completed project	GDV (RM million)	Total unit	Unit sold*	Unit sold (%)	Unsold unit	Unsold unit (%)
Tri Pinnacle	427.2	Residential – 1,317 Retail – 4	Residential – 1,301 Retail – 0	98.5%	Residential – 16 Retail – 4	1.5%
Vervea	810.6	Shop office – 435	Shop office – 408	93.8%	Shop office – 27	6.2%
Vertu Resort	660.5	Residential – 1,246	Residential – 1,166	93.6%	Residential – 80	6.4%
Beacon Executive Suite	153.5	Residential – 227 Retail – 4	Residential – 178 Retail – 3	78.4%	Residential – 49 Retail – 1	21.6%

**Includes unit sold yet to be recognised as revenue which is in accordance to Singapore Financial Reporting Standards (International) (SFRS(I)).*

Based on the above breakdown, the Group has a relatively low inventory. Accordingly, the Group has to launch new projects to enhance business continuity and operational resilience and to capitalise on the growing demand for the Group's development in Aspen Vision City at Batu Kawan. Moreover, it is necessary for the Group to recover the opportunity loss during Covid-19 lockdown.

Company's response to Question 2(iv):

As highlighted in the Company's Circular dated 17 January 2022, the divestment of the Group's 30% equity interest in Bandar Cassia Properties (SC) Sdn. Bhd. ("**BCP**") to Ikano Pte. Ltd ("**Ikano**"), will not in any way affect the established good partnership between the Group and Ikano. Furthermore, the divestment of the Group's 30% equity interest in BCP does not affect the master joint venture agreement between the Group and Ikano. Both parties are fully committed to developing the 170-acre mixed development land in Aspen Vision City at Batu Kawan which is held by Aspen Vision City Sdn. Bhd. ("**AVC**"), the Company's indirect subsidiary, a joint venture between the Group and Ikano, where the Group holds 80% of the issued share capital in AVC and the remaining 20% is held by Ikano, based on the business plan approved by AVC board of directors and its respective shareholders. As disclosed in the Annual Report 2022, AVC's ongoing projects in Batu Kawan are Viluxe Phase 1 and Vivo Executive Apartment, which are expected to be completed by Q3 2023 and Q2 2024 respectively.

Ikano is currently developing in phases the land owned by BCP into a mixed-use retail hub known as 'Klippa'. The first phase of Klippa was launched in 2019, featuring 20 brands and 80,000 sq ft of GLA. Subsequently, in November 2021, a drive-thru concept was launched. Conveniently located with direct access to the Second Penang Bridge and seamless connection to IKEA, Klippa will offer a unique retail experience with an integrated shopping centre spanning 1.6 million sq ft of Gross Leasable Area (GLA) and housing over 300 brands. In addition to the list of key tenants in operation such as Harvey Norman, Mc Donald's, KFC and Tealive, Klippa will soon host new openings of essential offerings and food and beverages with brands such as TMG Plus Supermarket, Mr DIY, Mr TOY, A&W drive-thru, Coffee Bean & Tea Leaf, Kenny Rogers, Zus Coffee, Chicago Chicken City and a petrol station with an integrated drive-thru Starbucks. Ikano Centres is also exploring additional commercial and residential opportunities to add to its meeting place, which will be developed in a phased approach to meet Batu Kawan's growing community of students, families, and professionals at the neighbouring Batu Kawan Industrial Park (BKIP).

The Group and Ikano are working closely to seamlessly integrate Klippa within Aspen Vision City and complement the completed, ongoing and future developments and create an ideal balance of space, lifestyle and convenience.

Company's response to Question 2(v):

(a) The increase in the receivables is mainly attributable to an increase in trade receivables from the property development segment due to the issuance of progress billing on stakeholder sum (i.e. the sum retained by the stakeholder solicitor for 8 months and 24 months pursuant to the Housing Development Act to protect the homebuyer's interest and to ensure that developers rectify the defects during the defect liability period after obtaining the Certificate of Completion and Compliance) from completed projects during the 18 months financial year ended 30 June 2022 and improvement in property's take-up rate from property development segment as economic sectors reopen after better control of the Covid-19 pandemic.

(b) Other payables amounting to RM245.4 million mainly consist of the amount outstanding from the acquisition of properties, plant and equipment in the healthcare segment amounting to RM152.1 million, land cost payables amounting to RM59.7 million and payables related to general expenditures. Other payables include the amount claimed by Penang Development Corporation, Tialoc Malaysia Sdn. Bhd. and Multi Purpose Metal Tech Sdn. Bhd. which are currently pending court proceedings.

(c) Increase in trade receivables and contract assets past due is due to longer processing time required on drawdown of purchaser loan from end-financier. Under the Board's assessment, the recoverability of the Group's trade and other receivables is probable. The Group does not have any significant credit risk from its property development activities as its products are predominantly sold to a large number of purchasers with end financing facilities from reputable financiers. In addition, the credit risk is limited as the ownership and rights to the properties revert to the Group in the event of default, and the products do not suffer from physical, technological or fashion obsolescence. As for trade receivables for the healthcare segment, buyers are required to place a deposit upon the issuance of a purchase order and pay the balance payment upon delivery.

SIAS Question 3:

On 16 October 2022, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial period ended 30 June 2022 following the finalisation of audit.

The announcement on the unaudited financial results for the financial period ended 30 June 2022 was first released via SGXNet on 29 August 2022. The announcement of material differences came nearly 7 weeks after the company first announced the unaudited financial statements.

Property, plant and equipment decreased by RM(68.2) million, trade and other receivables declined RM(84.4) million and loss after tax was RM(213.1) million instead of RM(146.5) million.

Reasons given included:

- **recognition of a further impairment loss on factory building and plant and machinery amounting to RM26.2 million and RM40.4 million respectively**
- **reversal of contract costs over-classified to development properties amounting to RM32.7 million - amount owing by subsidiaries was written down by RM84.4 million due to provision for expected credit loss**
- **"Acquisition of property, plant and equipment in investing activity" amounting to RM38.2 million was overstated and adjusted to "changes in development properties"**
- **Reclassification of "proceeds from sale of an associate in investing activity" to "changes in trade and other receivables" amounting to RM15.2 million for repayment of advance by an associate.**

Details can be found here:
https://links.sgx.com/1.0.0/corporateannouncements/9IOF7GKF4K7O3EPZ/4cd60b2022e727b8c5b9b2c7db26d46bba243cb61 748e9bea270fbe3877abb1f

(i) **Is the group (including its officers) familiar with the Singapore Financial Reporting Standards (International) (SFRS(I))? What were the underlying reasons that impairments were omitted and reclassifications were necessary?**

(ii) **How can shareholders get assurance from management that the financial**

statements are prepared in accordance with the relevant Act and financial reporting standards?

(iii) Has the audit committee (AC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?

(iv) Can the AC help shareholders better understand if it has discharged its duties objectively (Principle 10 of the Code of corporate governance 2018)? If so, how so?

(v) What changes have been made/will be made to the group's financial reporting systems and processes?

<u>Company's response to Question 3(i):</u>

The Company's finance and accounting staff have sufficient experiences and competence to meet the Singapore Financial Reporting Standards (International) (SFRS(I)) requirement. Impairment had been provided on the unaudited financial results for the financial period ended 30 June 2022 released via SGXNet on 29 August 2022. However, the deteriorating market conditions and rapid changes of healthcare segment showed further impairment was needed. Hence, on a prudent basis, the Group had further recognised impairment loss on factory building and plant and machine, and further writen down on amount owing by subsidiaries. There were also certain reclassifications due to differences in the interpretation of accounting standards, oversight of the nature of transactions and to better present the accounts to shareholders which did not have any impact on the bottom line.

<u>Company's response to Question 3(ii):</u>

The financial statements are prepared in accordance with the relevant act and financial reporting standards. Further, the external auditors of the Company do provide frequent updates to the management in respect of accounting and financial reporting standards.

<u>Company's response to Question 3(iii):</u>

The AC continues to monitor the performance of the internal financial reporting/finance team and is satisfied that it is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements.

<u>Company's response to Question 3(iv):</u>

The AC exercise due diligence and discharge their duties and responsibilities objectively at all times as fiduciaries, in the best interests of the Company. Please refer to page 97 of the Annual Report 2022, for more clarity on the roles, functions, and responsibilities of the AC in terms of corporate governance that the AC has carried out.

<u>Company's response to Question 3(v):</u>

The Group is satisfied with its current financial reporting systems and processes, but the management continues to monitor the adequacy and robustness of the systems and processes.

BY ORDER OF THE BOARD
Aspen (Group) Holdings Limited

Dato' Murly Manokharan
President and Group Chief Executive Officer
30 October 2022