APAC Realty Limited

(Company Registration No. 201319080C)
(Incorporated in Singapore on 15 July 2013)

RESPONSE TO QUERIES BY SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The board of directors (the “**Board**” or the “**Directors**”) of APAC Realty Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the Company’s Annual Report for the financial year ended 31 December 2017 (“**FY2017 Annual Report**”).

The Board would like to respond to the following queries raised by the Securities Investors Association (Singapore) (“**SIAS**”) to the Company on 20 April 2018 (“**SIAS Queries**”) as follows:

SIAS Queries

Question 1
As noted in the Joint Statement by Chairman and CEO, revenue in FY2017 increased by 39.2% to $400.6 million as the volume of transactions increased. Net profit also increased to $25.9 million, or 63.1% higher than the FY2016 level.

a) For the Singapore market, what would the recent spate of enbloc sales mean for transaction volume in the next 2-3 years?

Reply: We would expect to see an increase in transaction volume given the recent spate of enbloc sales. Not only would there be an increase in the number of housing units to the existing supply pipeline, we would expect the displaced residents to also search for new homes or nearer term alternatives such as rental homes. The transaction volume in the next 2-3 years, however, would also depend on local and global economic conditions, mortgage interest rates, among other factors.

b) How does the group stand out against its competitors to secure developer project launches? Would this be a key driver to the group’s growth in FY2018 and beyond?

Reply: The Group’s ability to secure developer project launches is based on its strong relationship with developers, an established track record and strong brand recognition in Singapore. This would be a key driver to the Group’s growth in FY2018 and beyond.

c) As the volume of transaction increases, would management expect the group to reap increasing operating leverage and to report better profit margin?

Reply: When the revenue of the Group increases, the Group would enjoy operating leverage as overall overheads increase less than proportionately. The reported profit margins would also depend on the sales mix as the gross profit margin varies for different business segments. Operating expenses (excluding finance costs and IPO expenses) as a percentage of total revenue have decreased from 7.2% in FY2016 to 6.0% in FY2017 as the revenue for FY2017 has increased substantially as compared to FY2016.

Refer to page 92 of the Company's prospectus dated 21 September 2017 for more details about the Group's operating expense structure.

d) With 6,053 agents registered as at 22 March 2018, the group is one of the largest real estate agencies in Singapore. As shown in the prospectus dated 21 September 2017, the group had a market share of 37.5% in FY2016. **Has the group explored or evaluated options in Singapore to further consolidate its market leading position?**

Reply: The Group has allocated $10.0 million of the IPO proceeds for strengthening and expanding its presence in Singapore. Refer to page 102 of the Company's prospectus dated 21 September 2017 for more details about the Group's strategy to strengthen and expand its presence in Singapore, namely, to establish a centralized business centre and also explore opportunities to increase our agent network.

Question 2

The group expanded the ERA network to Vietnam and Cambodia since the group's listing on the Mainboard of the Singapore Exchange Securities Trading Limited on 28 September 2017. Under the Regional Master Franchise Agreement (Regional MFA), the group holds the exclusive ERA rights to other countries including China (including Hong Kong and Macau), Philippines, Australia and New Zealand for an initial term of 30 years, expiring in 2029.

a) Can management help shareholders understand the market entry strategy for these two new markets? What is the projected impact on revenue and profit from these two new markets?

Reply: The Company entered into two Master Franchise Agreements with Eurocapital JSC in June 2017 (before the Group's listing) and Smart Property Intelligence Co., Ltd in February 2018 (after the Group's listing) for Vietnam and Cambodia respectively.

As mentioned in the prospectus, we will explore opportunities to expand in the Asia-Pacific region either by setting up a brokerage office, entering into sub-franchise arrangements with local operators or acquiring an existing network. For Vietnam and Cambodia, we are excited to have identified 2 local operators who we think can provide good platforms to grow the ERA brand in their respective markets.

The Company would earn royalty income from these two franchisees but they are not expected to have any material impact on the consolidated net tangible assets per share or earnings per share of the Group for the current financial year ending 31 December 2018.

As shown in the prospectus, the Singapore operations contributed 99.9% of the group's revenue in FY2016.

b) Has the board worked with management to develop a growth strategy to diversify the group's revenue stream and to reduce the reliance on the Singapore market?

Reply: The Board works closely with the management team to continually explore growth opportunities in the markets outside of Singapore. The Group has allocated $10.0 million of the IPO proceeds for expanding the range of services and geographical presence in the Asia-Pacific region. Refer to page 103 of the Company's prospectus dated 21 September 2017 for a detailed elaboration of the Group's strategy to expand its geographical presence in the Asia-Pacific region.

c) If so, what are the revenue and profit targets from overseas markets in 3-5 years' time?

Reply: The Group targets to grow its markets regionally. The Board recognises that different markets have different dynamics and have not set any revenue or profit targets for these overseas markets at this point.

d) China (including Hong Kong and Macau) and Australia are the two largest real estate investment destinations in the Asia-Pacific region and the group holds the Regional MFA for these markets. **Has the board evaluated the group's options to realise the value of these two markets?**

Reply: Please see responses to a) and b) above. The Group intends to expand its presence in the Asia Pacific region either by setting up a brokerage office, entering into sub-franchise arrangements with local operators or acquiring an existing agent network (subject to any applicable non-compete restrictions) in countries where there are currently no presence, including China and Australia. The Group also works closely with the global franchisor, Realogy, to assess and evaluate options for these markets.

Question 3

The "impairment assessment of trade receivables" is one of two key audit matters highlighted in the Independent Auditor's Report. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

It was disclosed that:

As at 31 December 2017, the gross balance of trade receivables amounted to $73.3 million, against which allowance for impairment amounted to $3.2 million. Trade receivable balances are significant to the Group as they represent 52.3% of the total current assets and 52.7% of total equity. The determination as to whether a trade receivable is collectible involves management judgement. As such, we considered this to be a key audit matter.

As seen in Note 9 (page 72 – Trade and other receivables), the group has trade receivables amounting to $7,979,495 (2016: $6,935,086) that are past due at the end of the reporting period but not impaired. The aging analysis of the trade receivables past due but not impaired is shown in the following table:

	Group		Company	
	2017	2016	2017	2016
	$	$	$	$
Not past due	62,077,505	40,872,790	57,000	48,000
Receivables that are past due but not impaired:				
Past due up to 30 days	2,685,245	2,853,895	–	–
Past due 31 to 60 days	2,060,045	1,332,979	–	–
Past due 61 to 90 days	1,300,934	1,281,671	–	–
Past due more than 90 days	1,933,271	1,466,541	–	–
	7,979,495	6,935,086	–	–
Total	70,057,000	47,807,876	57,000	48,000

(Source: Company annual report)

a) Can management help shareholders understand the upper limit of the aging of the long outstanding debt? Please provide a breakdown of the aging for the sum past due more than 90 days, and show the number of debtors and the amounts.

Reply: See table below and our response to part c) below for additional commentary.

Group - 2017	**Number of Debtors**	**Amount $**
Receivables that are past due but not impaired:		
Past due more than 90 days (7 to 9 months)		
- Individual debtors	131	970,120
- Corporate debtors	32	1,161,357
Past due more than 90 days (10 to 12 months)		
- Corporate debtors	1	23,851
	164	2,155,328
Provision for doubtful debts		(222,057)
Net receivables		**1,933,271**

b) What are management's plans to improve on the collection of long outstanding debt?

Reply: The Group has been in operations for the past 36 years and has well-established debt recovery procedures in place.

In addition, a sum of $2.56 million was recognised as allowance for doubtful debts in FY2017, a marked increase from $1.10 million that was recognised in FY2016.

c) Given the group's business model, can management help shareholders understand how it ended up in a situation where the group has substantial amounts due from debtors and that these debtors are now in significant financial difficulties and that they have defaulted on payment? What improvements have been made to the group's credit risk framework and policies?

Reply: As announced on 23 February 2018 (full year 2017 results), the increase in allowance for doubtful debts by approximately $1.5 million was mainly due to a more conservative allowance policy established in FY2017 and not due to a degradation of the Group's debtor profile.

The higher allowances provided in FY2017 are based on the age of trade receivables as follows: (a) 25% (vs. 2016: Nil) of the trade receivables outstanding for more than three months but less than six months, (b) 50% (vs. 2016: 25%) of the trade receivables outstanding for more than six months but less than nine months and (c) full provision for trade receivables outstanding for more than nine months (vs. 2016: 50% for more than nine months but less than twelve months and full provision for trade receivables outstanding for more than twelve months).

The Group's trade receivables mainly relate to commission receivable (derived from its real estate brokerage services) from various individual debtors as well as developers. For every commission dollar receivable, there is a corresponding commission payable to an ERA salesperson (for cost of services). More importantly, we would like to highlight that the Group's net exposure, after factoring in the corresponding commission payable, is less than 10% of the amount of the receivables that could have been impaired.

The credit risk is mainly from the individual debtors as the developers are well established in Singapore or overseas (some of which are listed in Singapore).

BY ORDER OF THE BOARD

Chua Khee Hak
CEO and Executive Director
24 April 2018

DBS Bank Ltd. is the sole issue manager of the initial public offering and listing of APAC Realty Limited. DBS Bank Ltd. assumes no responsibility for the contents of this announcement.