

THE STRAITS TRADING COMPANY LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number: 188700008D)

RESPONSES TO RELEVANT AND SUBSTANTIAL QUESTIONS FOR THE PURPOSES OF THE ANNUAL GENERAL MEETING TO BE HELD ON 28 APRIL 2023

The Straits Trading Company Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) would like to thank shareholders for submitting their questions in advance of the Annual General Meeting to be held by electronic means on 28 April 2023. The following are the questions submitted by shareholders and Securities Investors Association (Singapore) and the responses of the Company.

Responses to shareholders’ questions

Question 1

- I. From page 5 of AR, it seems that the company still holds a stake in ESR. What are the company's plans for the remaining ESR shares? Will these ESR shares be distributed to shareholders also?

Company’s Response

The Company had conducted a dividend in specie exercise in FY2022 to distribute ESR Group shares or Straits Trading shares to reward shareholders. Approximately 100 million ESR Group shares are set aside as exchange property for the issuance of S\$370 million exchangeable bonds in late January 2023. Currently, there are no plans for the remaining ESR Group shares. As always, our strategy is driven by being a strategic capital allocator and investing in opportunities with the right risk-adjusted returns.

- II. What are the company's plans for its stake in Malaysia Smelting Corporation (MSC)? Will it similarly distribute its stake in MSC (as in the case of ESR) to shareholders?

Company’s Response

As a conglomerate investment company, we hold strategic interests in property, resources and hospitality. At this point of time, we have no plans to distribute our stake in MSC.

Question 2

How many phases of development are there for Straits City? The last time I attended the AGM a few years ago, it was mentioned that the group is exploring whether to undertake the development itself or through partnerships. Is there a more concrete plan currently, and how much capital commitment is expected of STC?

Company's Response

Straits City is an integrated mixed-use development with 10 parcels, the uses comprise of residential, retail, office, hotel and serviced apartment. The development project is currently in its first phase. The hotel and serviced apartment component, which will be operated by IHG Group under the Crowne Plaza brand, is slated to open in 1Q 2024.

Responses to SIAS' questions

Question 1

In FY2022, the group completed the divestment of its 22% stake in ARA Asset Management Holding Pte Ltd ("ARA") and received around \$142.5 million in cash and 214.7 million shares in ESR Group Limited ("ESR").

Following a corporate action in which the group distributed either new shares in the company or ESR shares, the group retained 166.2 million ESR shares, or a 3.7% stake in ESR after distributing 48.5 million ESR shares to the company's shareholders.

As noted in the chairman's statement, the enlarged ESR Group is Asia Pacific's largest real asset manager and the third-largest listed real estate investment manager globally with significant exposure to new economy real estate. It is a formidable player with a fully integrated development and investment management platform.

- I. Would the board help shareholders better understand how it views the prospects of ESR, an asset manager, in a high interest rate environment?

Company's Response

We believe ESR, Asia Pacific's largest real asset manager, is an attractive asset management platform. ARA was an attractive asset management platform with its own growth potential. In our view, the merger with ESR, a significant player in the new economy segment will be more sustainable in the longer term.

- II. What are the valuation methods used by the board to determine the value of its investment in ESR?

Company's Response

One of the methods is peer evaluation, we compare ESR with other new economy-focused listed real estate managers.

- III. Could the board provide more information on the decision-making process behind the distribution of 50 cents per share in specie to shareholders, which resulted in the group retaining a 3.7% stake in ESR?

Company's Response

Straits Trading has a track record of rewarding our shareholders when there is a significant profit realised from an investment.

- IV. How does the board exercise its level of influence and oversight as a 3.7% investor in ESR, and what measures does it have in place to protect the interests of the group and its shareholders in relation to this investment?

Company's Response

We are mindful of our role as an active shareholder. We have good relations with board members and exercise good influence accordingly. We believe that any good board will always be receptive to well-intentioned views, which is always the position that we maintain.

Question 2

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

- I. Hospitality: Can the board provide an update on the progress made by Far East Hospitality Holdings Pte Ltd and how it compares to its competitors?

Company's Response

As published in page 23 of the FY2022 annual report, Far East Hospitality Holdings (FEHH) is a hospitality platform that has the potential to scale. FEHH had taken the opportunity to rejuvenate its portfolio amidst the pandemic. In FY2022, FEHH made significant progress in positioning itself to capture opportunities as borders re-opened and travel restrictions relaxed. As highlighted by our partner, Far East Orchard, FEHH's strategy is to grow its rooms under management to 25,000 by 2025, from around 16,500 currently.

- II. Straits Real Estate (SRE): What level of hedging has SRE achieved for its exposure to interest rates and foreign currencies? What is management's view on the strength of the Singapore dollar in the mid to long term and how does it affect SRE's strategy?

Company's Response

As of 31 Dec 2022, SRE has hedged an equitable level of its interest rate and foreign currency exposures. Given Singapore's stable economic performance and outlook, we are of the view that the SGD will remain relatively strong against the currencies of markets that SRE invest in over the mid-to-long term. SRE's investment strategies are developed and founded on its view of market and sector fundamentals and potential, which would take into consideration the outlook of respective currencies and related foreign exchange risks.

- III. Straits Investment Management: Of the \$510 million in assets under management and advisory, what is the split between the two? Does growth become more challenging in a high-interest rate environment?

Company's Response

The asset under management is \$70 million while asset under advisory is \$440 million. In a high interest rate environment, we focus our strategy to preserve capital, minimise volatility and achieve steady risk-adjusted growth over the long-term.

- IV. Straits City: Can management indicate the amount it plans to commit to the development of Straits City? Can management share its views on the growth trajectory of Penang in the post-COVID recovery environment?

Company's Response

The development of Straits City is a project that is in-line with the growth potential of Penang. The management takes a long-term view of this project and may revise its plans according to market demand.

Penang targets to achieve 5.4% GDP growth by 2025 by pursuing the goals of its Penang Vision 2030.

Question 3

On 18 January 2022, the company announced that it would carry out a placement of 26 million new ordinary shares at an issue price of \$3.11 per placement share to raise gross proceeds of \$80.86 million.

The placement price of \$3.11 per share represents a discount of approximately 8.9% to the volume weighted average price of \$3.4126 per share of all trades on 13 January 2022, the day prior to the trading halt.

The following was stated in the company's announcement dated 18 January:

The Directors are of the view that the Private Placement is beneficial to the Company as it will address the low trading liquidity of the Company's shares, increase resources and working capital available to the Company so as to pursue acquisition and/or business opportunities and improve its cash flow, as part of its strategy to achieve long-term growth and delivering shareholders value.

The placement involved 6.4% of the issued share capital and 6.0% of the enlarged share capital.

- I. Can the board help shareholders understand if it has reviewed the matter of "low trading liquidity" and if the placement had indeed addressed the low trading liquidity?
- II. Can the board also help shareholders understand the focus on trading liquidity versus value creation?

On 24 February 2022, the full-year results for FY2021 were released, showing a NAV per share of \$4.35 as of 31 December 2021. On a pro-forma basis, taking into account the ESR transaction that was already completed on 20 January 2022, the pro-forma NAV per share was \$6.01, and the pro-forma net gearing would decrease from 46.7% to 29.1%. The full-year EBITDA for FY2021 was \$401 million.

- III. Can the board, particularly the independent directors, provide clarity on whether they approved the private placement? If so, what were the deliberations that took place? Was the decision to carry out a private placement at \$3.11 when the NAV per share was \$4.35 (pro-forma NAV per share was \$6.01) unanimous? Were there any dissenting directors?
- IV. Did the board, especially the independent directors, consider the dilutive impact of the private placement and if so, how did the board weigh the potential value destruction of the private placement against the benefits of potentially higher trading liquidity, especially for long term shareholders?

Company's Response

We will address first four parts of the question as whole.

We had investor feedback that the stock of Straits Trading is tightly held, the free float prior to the placement was approximately 25%. Following the placement, free float increased to around 30% and shareholder base was enlarged. The placement is a small part of the plan to improve the free float and trading liquidity of the Company.

Value creation and trading liquidity are symbiotic and mutually beneficial. The private placement was approved by the Board. Shareholders have also voted in favour of issuing new shares of the Company in past AGMs.

- V. How critical is the capital injection and did the group have any challenges accessing credit?

Company's Response

The group did not have any challenge in accessing credit. Shareholders would note that the group raised S\$170 million via a medium-term note issuance in April the same year.

By Order of the Board

Ngiam May Ling
Company Secretary
21 April 2023
Singapore