

Memorandum

Date : 10 November 2011

To : Credit Lending Committee ("CLC")
OSK Indochina Bank Limited ("OSKIBL") – via circulation

From : Corporate Credit Department

Borrower : **B.T.I. Marketing & Travel Co. Ltd**

Subject : **1) To Request for Additional LC/TR/BG2 of USD100,000**
2) To reduce the interest rate of the existing credit facilities i.e. Term Loan 1 (TL1), Overdraft 1 (OD1) and Trust Receipt (under LC/TR/BG 1) to 10.0% p.a. i.e. ECOF (currently at 6% p.a) + 4.0% p.a. subject to minimum 10.0% p.a.
3) To extend the facilities for another 1 year expiring 28 October 2012

CA No. : **OSKIBL/0003/2011/0013-1**

A. REQUEST

For OSKIBL to seek the approval of CLC-OSKIBL in respect of the following:

- i) Additional new facility of USD100,000 in the form of Letter of Credit/ Trust Receipts/ Bank Guarantee 2 ("LC/TR/BG2") based on terms and conditions as set out in Section B herein.
- ii) To reduce the interest rates in respect of the existing TL, OD and LC/TR/BG 1 facilities as follows:

Facility	Existing	Proposed
TL	<u>1st to 3rd year</u> : 11% p.a. on monthly rest (fixed rate) <u>4th to 10th year</u> : ECOF (currently at 6% p.a.) + 4.25% p.a. on monthly rest. Minimum 10.25% p.a.	ECOF (currently at 6%p.a) + 4.0% p.a, subject to minimum 10.0% p.a.
OD	ECOF (currently at 6% p.a.) + 5% p.a. on daily rest subject to minimum 11% p.a.	
LC/TR/BG 1	<u>TR Interest</u> : ECOF (currently at 6%p.a) + 4.5% p.a on monthly rest. Minimum 10.5% p.a.	

- iii) To extend the facilities for another 1 year expiring 28 October 2012.

B. FACILITY STRUCTURE

The salient features of the approved Facilities and the additional LC/TR/BG2 requested are as follows:

		Existing Facilities		New Facility	
1. Facility Type	:	TL of USD700K	OD of USD300K	LC/TR/BG1 of USD100K	LC/TR/BG2 of USD100K
2. Facility Purpose	:	Refinancing of existing banking facilities with ANZ Royal Bank	For working capital requirement	<u>LC:</u> To facilitate the import of goods related to the Borrower's business <u>TR:</u> For conversion of bill drawn under LCs and inward bills for collection <u>BG:</u> Issuance of financial and performance guarantees in relation to the business	<u>LC</u> To facilitate the import of goods related to the Borrower's business. <u>TR:</u> For conversion of bill drawn under LCs and inward bills for collection <u>BG:</u> Issuance of financial and performance guarantees in relation to the business
3. Facility Tenure	:	10 years, subject to annual review	1 year, subject to annual review	<u>TR:</u> Maximum 120 days <u>BG:</u> Maximum 1 year subject to annual review	<u>TR:</u> Maximum 120 days <u>BG:</u> Maximum 1 year
4. Interest Rate	:	<u>1st to 3rd year:</u> 11% p.a. on monthly rest (fixed rate) <u>4th to 10th year:</u> ECOF (currently at 6% p.a.) + 4.25% p.a. on monthly rest. Minimum 10.25% p.a.	ECOF (currently at 6% p.a.) + 5% p.a. on daily rest subject to minimum 11% p.a.	<u>TR:</u> ECOF (currently at 6% p.a.) + 4.5% p.a. on monthly rest. Minimum 10.5% p.a.	<u>TR:</u> ECOF (currently at 6%p.a.) + 4.0% p.a, subject to minimum 10.0% p.a.

5. Commission	: Not applicable	Not applicable	LC: At sight: 0.15% per month (min USD50) At usance: 0.25% per month (min USD100) BG: 0.15% per month (min USD50)	LC: At sight: 0.15% per month (min USD50) At usance: 0.25% per month (min USD100) BG: 0.15% per month (min USD50)
6. Repayment Terms	: 120 monthly instalments of USD9,642.50	Interest in arrears to be serviced monthly and principal repayable on demand	TR: Upon maturity or on demand subject to annual review	TR: Upon maturity or on demand subject to annual review
7. Charges				
a. Processing Fee	: 1% on the total approved amount, i.e., USD7,000	1% on the total approved amount, i.e., USD3,000	1% on the total approved amount, i.e., USD1,000	0.5% on the approved amount
b. Commitment Fee	: Not applicable	1% on unutilised amount	Not applicable	Not applicable
c. Renewal Fee	: Not applicable	1% on the renewal amount	Not applicable	Not applicable
8. Prepayment Penalty	: 1% on prepayment amount if the TL is fully/ partially settled before the expiry date	1% on total approved limit cancelled and/or reduced prior to expiry of tenure	1% on approved limit cancelled and/or reduced prior to expiry of one year from disbursement	1% on approved limit cancelled and/or reduced prior to expiry of one year from disbursement.
9. Security	: <u>Existing & Proposed Facilities</u>			

1) Third party first legal charge over the following properties:

(a) A freehold vacant land held under title no. 12060103-0552 located at Trea Village, Sangkat Stoeung Meanchey, Khan Meanchey, Phnom Penh City.

The land is located in a residential and industrial zone, 5km from the OSK-Stoeung Meanchey Branch along Northbridge Road.

It is noted that the said land has appreciated by 24.4%, based on the formal valuation by Key Real Estate on 24 October 2011 as compared to the valuation report prepared by Bonna Realty on 5 October 2009.

Valuer	Date Valuation Conducted	Area (sqm)	USD/sqm	USD
Bonna Realty Group	05/10/2009	1,543	250	385,750
Key Real Estate	24/10/2011		311	480,000
Percentage of appreciation				24.4%

(b) A freehold land held under title deed no. PP28103 located at No. 1A, 3A, 5A, Street 271, Sangkat Teuk Thla, Khan Russey keo, Phnom Penh, together with three units of four storey building erected thereon. The property is currently tenanted to OSKIBL Pet Lok Song branch for a monthly rental of USD5,000.

Valuer	Date Valuation Conducted	Area (sqm)	USD/sqm	Land + Building in USD
Bonna Realty Group	05/10/2009	<u>Land:</u> 348.49 sqm <u>Building:</u> 1254 sqm	<u>Land:</u> 2,000 <u>Building:</u> 300	<u>Land:</u> 696,980 <u>Building:</u> 376,200 <u>Total:</u> 1,073,180
Key Real Estate	24/10/2011	<u>Land:</u> 229 sqm <u>Building:</u> 1143 sqm	NA	<u>Land & Building:</u> 1,050,000 (Based on title deed)

Impact on the Bank's Security Coverage

	Market Value by Bonna Realty Group on 5 October 2009	Market Value by Key Real Estate on 24 October 2011
	USD1,458,930	USD1,530,000
Existing TL, OD, LC/TR/BG1 and Proposed LC/TR/BG2	USD1,200,000	USD1,200,000
Security Coverage	1.22 times	1.275 times

Based on the latest market value by Key Real Estate, the market value of the land and building charged to OSKIBL registered an increase of 5% from the earlier USD1.46 million valued by Bonna Realty Group to USD1.53 million. This indicates an increase in security coverage from 1.22 times to 1.275 times.

2) Assignment of monthly rental proceeds arising from tenancy agreement between Mr Lin Chi Hui and Madam Lav Bunritheary and OSKIBL in respect of OSKIBL's rental of the four-storey building which is currently used as OSKIBL's Pek Lok Song Branch.

3) Joint and several guarantee for USD1.2 million by Mr Lin Chi Hui and Madam Lav Bunritheary.

C. BORROWER'S BACKGROUND

The Borrower is a sole ownership limited company registered on 20 June 2003, under the name of Madam Lav Bunritheary, with the Ministry of Commerce, with a paid-up capital of USD5,000. The Borrower is involved in import/ wholesale/ retail of construction and interior decorative materials (floor tiles, bathroom accessories and glasses) and consumer products such as biscuit, snack and confectionary. Most of the products are imported from Malaysia, Thailand, Vietnam and China.

Madam Lav Bunritheary manages the business together with her husband, Mr Lin Chi Hui. With the business expansion, they formed another company in 2005 known as Hon Hui Trading Company Ltd with two offices in Ho Chi Minh City and Hanoi, Vietnam. The company derives 70% of its income from consumer products and 30% from construction materials.

D. FINANCIAL PERFORMANCE

Unaudited accounts :	31 Dec 2009 (USD)	31 Dec 2010 (USD)	30 Jun 2011 (USD)
Turnover	1,859,848.47	1,923,086.56	964,391.21
EBIT	254,696.55	242,955.95	150,300.87
Profit Before Tax	170,481.12	144,489.76	100,837.12
Profit After Tax	170,481.12	144,489.76	100,837.12
Current Assets	1,597,896.29	2,542,744.80	2,402,918.78
Total Assets	1,903,376.29	2,814,954.80	2,708,398.78
Current Liabilities	113,300.93	940,389.68	732,996.54
Total Liabilities	113,300.93	940,389.68	732,996.54
Paid Up Capital	1,790,075.36	1,790,075.36	1,874,565.12
Networth	1,790,075.36	1,874,565.12	1,975,402.24
Profitability			
Pre-tax Profit Margin (%)	9.17%	7.51%	10.46%
Return on net worth (%)	9.53%	7.71%	5.10%
Return of capital employed (%)	9.53%	7.71%	5.38%
Day Inventory	272	341	360
Days Receivables	11	42	36
Solvency			
Current Ratio (X)	14.1	9.2	30.7
Gearing Ratio (X)	0.1	0.50	0.4
Interest Cover Ratio (X)	3.02	2.47	3.04

In tandem with the improved economy, turnover of the company has registered an improvement to USD1.92 million in 2010 from USD1.86 million which represents an increase of 3.2%. However on an annualized basis, the turnover in 2011 remains relatively unchanged. However, pretax profit is expected to improve by USD201,674 on an annualized basis in 2011 as compared to USD144,490 in 2010.

In 2010, the inventory turnover deteriorated to 341 days from 272 days on 2009, indicating a built up of stocks. The tied-up of the working capital in inventory resulted in negative operating cash flow of USD851,359 in 2010. For the 6-month ended 30 June 2011, inventory turnover further deteriorated to 360 days.

Three year cash flow projection:

	2012 (USD)	2013 (USD)	2014(USD)
A. Cash Inflow			
Operating Revenue			
Sales Revenues	2,000,000.00	2,100,000.00	2,225,000.00
Rental income	60,000.00	60,000.00	60,000.00
Total	2,060,000.00	2,160,000.00	2,285,000.00
B. Cash Outflow			
Operating Expenses			
Cost of goods sold	1,500,000.00	1,577,000.00	1,675,000.00
General and Administrative Expense	185,000.00	190,000.00	195,000.00
Total	1,783,000.00	1,862,000.00	1,960,000.00
Net operating cash flow	277,000.00	298,000.00	325,000.00
Debt Service Cover	2.6	2.8	2.9

Based on the 3 years cash flow projections(2012-2014) furnished by the Borrower, it is expected that Borrower's business operations would generate net operating cash surplus of above USD270,000 from 2012 to 2014 which is adequate in meeting the financial obligations and the operating expenses of the borrower during the said period.

E. REPAYMENT ASSESSMENT

Description	Loan Approved Limit	Monthly instalment	Monthly interest
Term Loan (existing)	USD700,000.00	USD9,624.00	0.00
OD(existing)(assuming fully utilized)	USD300,000.00	N/A	USD2,750.00
LC/TR/BG1(existing) (assuming fully utilized)	USD100,000.00	N/A	USD892.00
LC/TR/BG2(new) (assuming fully utilized)	USD100,000.00	N/A	USD892.00
Total		USD 9,624	USD4,534.00

OSKIBL has provided the table above which indicate monthly financial commitment of borrower's existing and proposed credit facilities amount to **USD14,158.00**

F. REPAYMENT CONDUCT**Term Loan of USD700,000**

According to OSKIBL, monthly instalment is promptly paid and up-to-date.

Overdraft of USD300,000

Date	CREDIT	Items	DEBIT	Items	BALANCE
Beginning Balance					279,170.52-
Sep, 2010	81,203.52	24	103,697.74	17	256,676.30-
Oct, 2010	234,126.23	75	241,756.83	12	249,045.70-
Nov, 2010	183,137.47	74	145,829.32	24	286,353.85-
Dec, 2010	207,378.92	70	216,187.00	29	277,545.77-
Jan, 2011	237,724.11	78	247,386.25	38	267,883.63-
Feb, 2011	157,365.79	65	134,192.10	17	291,057.32-
Mar, 2011	215,577.30	66	209,695.16	25	296,939.46-
Apr, 2011	150,499.49	66	176,037.65	27	271,401.30-
May, 2011	223,194.89	75	224,650.48	32	269,945.71-
Jun, 2011	178,027.13	66	355,925.20	21	92,047.64-
Jul, 2011	160,206.16	31	155,055.66	65	86,897.14-
Aug, 2011	200,162.90	34	252,600.61	87	139,334.85-
Sep, 2010	231,234.90	26	229,905.61	85	138,005.56-
Total	2,459,838.81	750	2,692,919.61	479	N/A
Average	189,218.37	N/A	207,147.66	N/A	N/A

According to OSKIBL, the current account has been active and satisfactorily conducted. No adverse conduct is noted.

Trust Receipt (LC/TR/BG1) of USD100,000

Trust receipt due has been regularly paid with no overdue Trust Receipt at the moment.

G. RISK FACTORS

1. The projected service coverage ratio of 1.43 times is considered low and does not meet the required minimum service coverage ratio of 3 times.
2. It is noted that there are inconsistencies in respect of the total area of the land and building situated under the land held under title deed No PP28103. Based on the valuation report by Bonna Realty Group, the total area is 1,602.49 sqm as compared to total area of 1,372 sqm based on valuation report by Key Real Estate. These inconsistencies should be clarified to indicate the actual total area to provide a more reliable valuation on the security properties. In addition, the valuation by Key Real Estate dated 24/10/2011 is not supported by a reasonableness check with another valuer.

3. Based on the financial performance of the Borrower, it appears that the cash flow of the Borrower is strained given the tied-up of its working capital arising from the higher inventory turnover which has increased from 341 days in 2010 to 360 days as at 30 June 2011. This has resulted in negative operating cash flow in 2010 and a marginal surplus for the 6-month ended 2011. A close monitoring of its inventory is warranted.
4. OSKIBL should provide an assessment of the repayment capacity of the Borrower instead of highlighting Borrower's monthly financial commitment. It is uncertain how the Borrower has derived the projected debt service cover of above 2.6 times for the years 2012-2014. Based on the monthly financial commitment of USD14,158, the financial expenses should be USD169,896 per annum instead of USD98,000, USD95,000 and USD90,000 as projected for year 2012, 2013 and 2014 respectively, which would provide a lower debt service coverage.
5. It has also been noted that the shareholder/key personnel of the Borrower, namely Mr Lin and Madam Lav have also ventured into a new business of distributing Vespal/Piaggio scooters, which would require high investments. Mr Lin and Madam Lav do not appear to have the experience in this business. In the event the new business does not take off well, there is a possibility that the cash flow from the Borrower could be channelled into the new business, thus eroding the Borrower's cash flow. In addition, it has been noted that the initial repayment from the borrowings of the new business will be supported by the cash flow from the Borrower.

H. COMMENTS AND RECOMMENDATION

Corporate Credit concurs with the OSKIBL's recommendation based on the following:

1. The repayment conduct of the existing facilities since disbursement has been good and up-to-date. The transaction in the OD account is healthy which indicates active trade flows and is within the authorized limit. /
2. The security coverage is marginally adequate at 1.275 times based on total facilities of USD1.2 million. However, the facilities are also supported by an assignment of Borrower's rental/proceeds.
3. The purpose of the additional facility of USD100,000 is to facilitate Borrower's business expansion in the import of tiles in order to meet the demand due to increase affluence in the population and high growth rate in the construction sector. /
4. The owner has also shown commitment by providing her personal guarantee and also the guarantee of her husband, namely Mr. Lin Chi Hui. /
5. The business is managed by a husband and wife team who has 20 years of experience in the industry and the business has been able to withstand the global economic downturn in 2008. /
6. To retain the Borrower from being refinanced by Maybank, which has indicated its willingness to grant facilities totaling USD2.2 million. /

7. The recommendation is subject to the following:

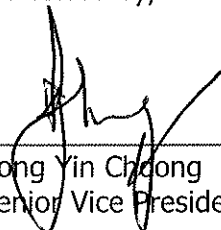
- i. Security coverage of 1.275 times is deemed to be low. If the security coverage would to decline to below 1.275 times, Borrower is required to provide additional tangible security to improve the security coverage. ✓
- ii. The inventory holding period is deemed to be very high at 341 days and 360 days in 2010 and 6-month ended 2011 respectively which could adversely impact the Borrower's cash flow. As such a half-yearly review of the Borrower's inventory position should be conducted. ✓
- iii. In view of low debt service cover and low security coverage ratio, a debenture over BTI should be considered.

Prepared by,



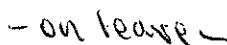
Moo Min Min
Operations Associate

Reviewed by,



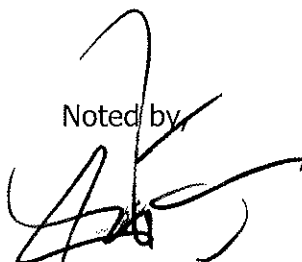
Yong Yin Chong
Senior Vice President

Concurred by



Loo Kok Chee
Associate Director

Noted by,



U Chen Hock
CEO / Executive Director

Memorandum

Date : 10 November 2011

To : Credit Lending Committee ("CLC")
OSK Indochina Bank Limited ("OSKIBL") – via circulation

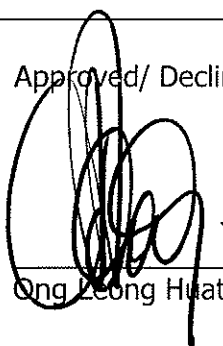
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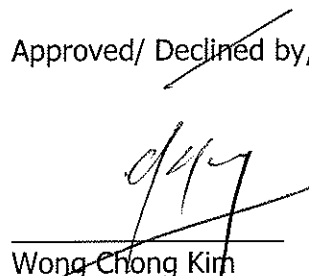
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Approved/ Declined by,



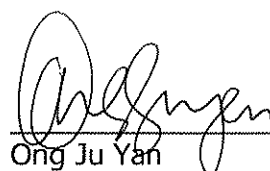
Ong Leong Huat

Approved/ Declined by,



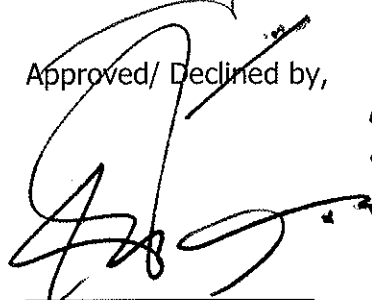
Wong Chong Kim

Approved/ Declined by,




Ong Ju Yan

Approved/ Declined by,




U Chen Hock
Processing fee should be 1%.

Approved/ Declined by,



Woon Chong Boon

Approved/ Declined by,



Lim Loong Seng