

Investment Memo

Shop at Sanctuary Green

Ver. 1.0

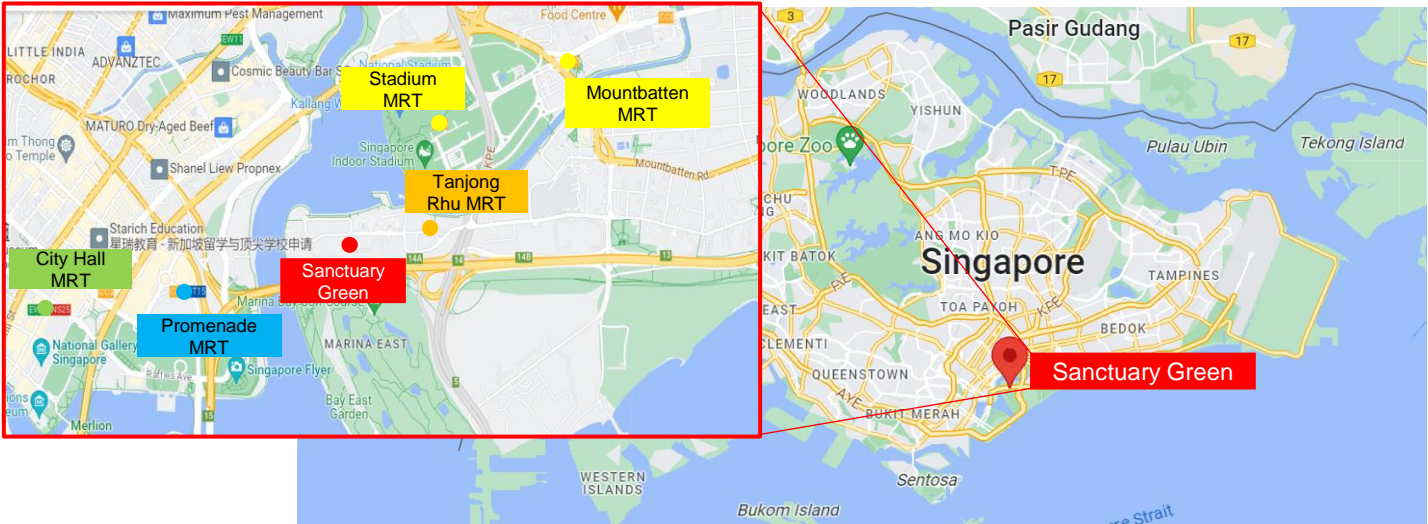


** Info subject to due diligence and change*

Property Info

- **Strong property fundamentals:**
 - The only shop within condo, with good frontage facing swimming pool
 - Lack of amenities outside condo (e.g. groceries, supermarket, F&B) which makes the mini-mart most visited place serving residents' daily needs
 - The mini-mart business has been survived from day 1 after the completion of condo development
- **En-bloc potential:**
 - En bloc potential considering central location, decaying land tenure and new Tanjong Rhu MRT station opening at doorstep in year 2024
 - The subject unit holds 3 MCST shares which translate to resi area of ~700 sqft. Potential en-bloc price of 1,300 psf would yield >900k for the subject property

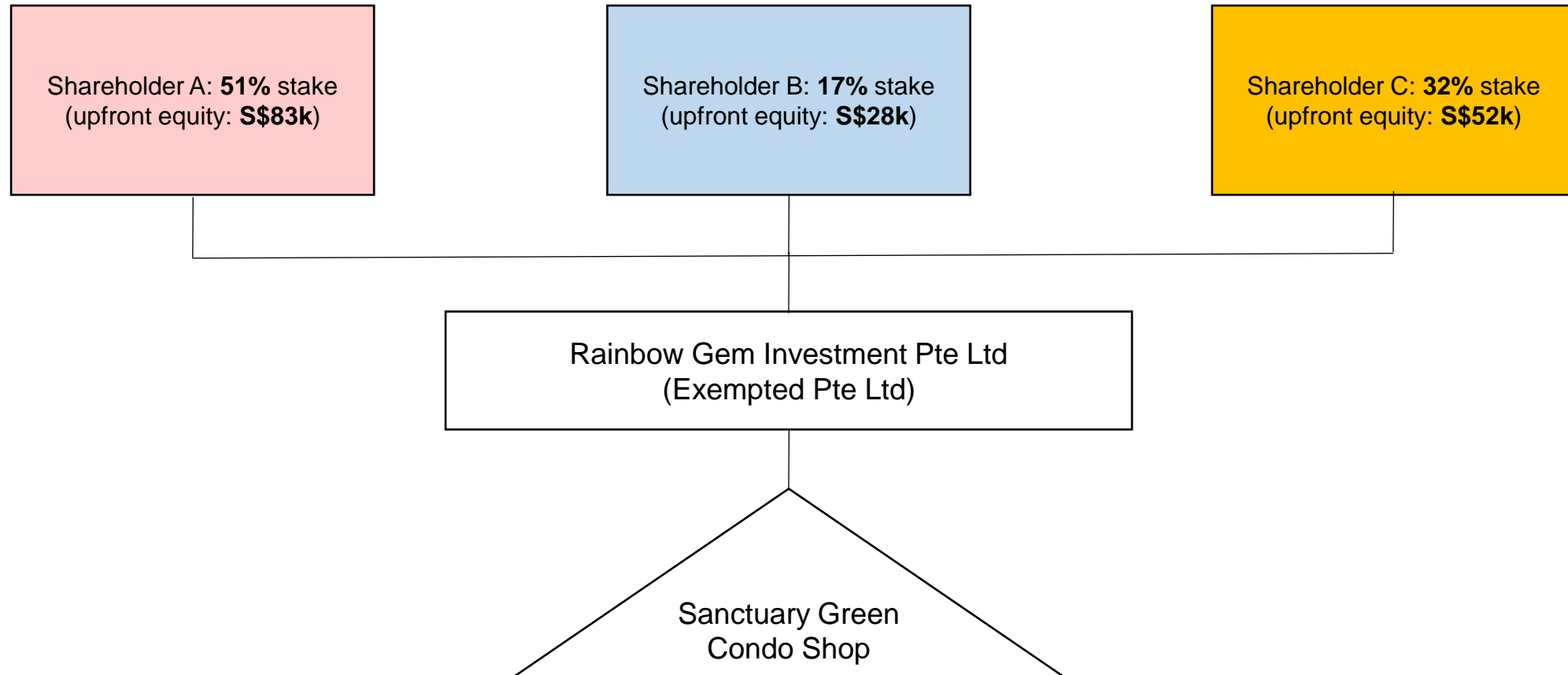
Property Name	Shop at Sanctuary Green Condo
Address	#01-01, 189 Tanjong Rhu Road, Sanctuary Green, Singapore 436923
Unit Size	258 sqft
Approved Use	Shop/Café
Building Completion Year	2003
Land Tenure	99 years from 1997
Total Residential Units	522
Secured Lease	3-year lease commencing from transaction completion date; Monthly rent: S\$2,650
Current Use	Mini-mart



Co-Investment Structure

- The subject property will be held under an investment holding company, considering benefits below:

- ✓ Effective corporate tax rate (Partial Tax Exemption Scheme is applicable) is less than personal income tax rate
- ✓ Easy for individual shareholder to exit by transferring shares to replacing shareholder without touching underlying property
- ✓ No GST on sale of shares
- ✓ No disruption of loan if company shares instead of property is transferred
- ✓ Stronger affordability by buyer from the stamp duty savings when acquiring company shares (BSD of 0.2% on share value) instead of buying property (BSD of 3% on property price)



Asset Management Plan

The subject property is recommended to be held for long term (i.e. > 5 years) considering:

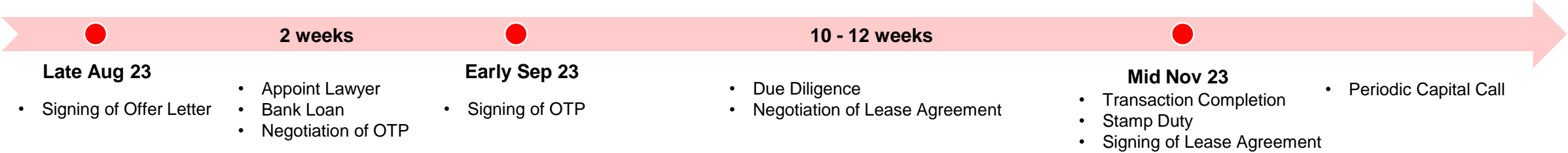
- Decent land tenure (>70 years) which helps hold value for property
- Low risk given secured lease and strong property fundamentals:
 - 1) Secured lease of 3 years with option to renew for 2 years at mutually agreed rent
 - 2) The only shop within condo, with good frontage facing swimming pool
 - 3) Operated as mini-mart from day 1 since the completion of condo development serving the needs of residences from > 500 units
 - 4) Lack of amenities (e.g. groceries, supermarket, F&B) outside condo
- En-bloc potential due to central location, excellent accessibility and new MRT opening at doorstep in year 2024

Nevertheless, divestment can be considered if:

- High price offer of close to \$1mil is received:
 - Possible during low interest rate environment, and/or after meaningful rental increase is achieved
 - At such a high price offer, en-bloc value has possibly been priced in already
- Change of property fundamentals/market environment:
 - Opening of new shops outside condo
 - Other unforeseeable events

Transaction Timeline and Payment

- Refer to chart and table below for indicative timeline of transaction and payments



Date	Payment Items	Amount	Capital Call Date	Capital Call Amount	Shareholder A (51%)	Shareholder B (17%)	Shareholder C (32%)
Late Aug 23	Sign Offer Letter, pay deposit (1% of purchase price)	6,889	~5 days before payment dates	6,889	3,513	1,171	2,204
Early Sep 23	Sign Option to Purchase, pay 4% of purchase price	27,556		53,155	27,109	9,036	17,010
	Legal, financing fee etc	10,333					
	Stamp Duty Preparation	15,267		103,333	52,700	17,567	33,067
Mid Nov 23	Completion (pay 95% of purchase price)	103,333					
Sum		163,378			83,323	27,774	52,281
Post Transaction	Periodic capital call for mortgage payment etc	~12,000 p.a.	1 Jun, 1 Dec	~6,000 per call	~3,060 per call	~1,020 per call	~1,920 per call

Investment Underwriting

- Base case return: 5.0% p.a. over 5-year investment period
- Upside (not considered in base case underwriting below):
 - Refinancing at lower interest rate after current 2-year fixed loan term
 - Higher rental after current lease term of 3 years. Expected renewal rent of \$2,800 to \$3,000 per month vs. current rent of \$2,650 per month
 - Higher property selling price than underwriting

Key Assumptions					
Property Purchase Price	\$688,888		Interest Cost	4.00%	p.a.
Stamp Duty	\$15,267	Tiered, 1% - 3% of property price	Loan Tenure	25	Years
Others Acquisition Costs	\$10,333	2% of property price	Annual Loan Payment	-\$35,278	p.a.
Sum	\$714,488				
Loan Amount	\$551,110	80% of property price			
Upfront Cash	\$163,378				

Returns Forecast					
	Year 1	Year 2	Year 3	Year 4	Year 5
Gross Rent Income	\$31,800	\$31,800	\$31,800	\$26,500	\$31,800
Property Tax	-\$3,180	-\$3,180	-\$3,180	-\$2,650	-\$3,180
Other Opex (e.g. insurance)	-\$400	-\$400	-\$400	-\$400	-\$400
Maintenance (MCST fees)	-\$4,200	-\$4,200	-\$4,200	-\$4,200	-\$4,200
Net Property Income	\$24,020	\$24,020	\$24,020	\$19,250	\$24,020
Net Sales Proceeds					\$744,782
Annual Loan Payment	-\$35,278	-\$35,278	-\$35,278	-\$35,278	-\$35,278
Loan Principal Repayment					-\$479,435
Equity Cash Flow	-\$163,378	-\$11,258	-\$11,258	-\$16,028	\$254,089.07
ROI	25.0%				
Annual Return	5.0%				

Other Potential Leakages/Risks and Mitigations

Leakages/Risks	Description	Mitigations
Other fees or potential leakages not considered in underwriting	<p>Corporate tax:</p> <ul style="list-style-type: none"> - Minimum tax leakage expected given high interest expenses and Partial Tax Exemption Scheme - Investor would either pay for corporate tax or higher personal income tax if property is directly held under personal name <p>Management Fees: Minimum amount expected, refer to slide 9 for details</p> <p>Corporate service fee and accounting fee: the service may be outsourced temporality if needed, estimated amount of \$1k per year</p>	<p>Amount of leakages are not material therefore not considered in the underwriting</p> <p>Estimated buffer of ~\$4k in upfront costs (included in underwriting) can be used for additional expenses incurred during investment period</p>
Leasing Risk	<p>Prolonged downtime in the event of non-renewal</p> <p>Renewal/New rent is less than underwriting</p>	<p>Given the strong property fundamental, the leasing demand for subject property is strong</p> <p>The negotiation of renewal will kick start earlier possible in order to minimize potential downtime</p>
Building Age Risk	<p>Normal wear and tear</p> <p>Ad-hoc capex expenses (e.g. replacement of air-con etc)</p>	<p>Repairment cost of <\$200 will be borne by tenant</p> <p>Tenant is responsible for servicing air-con 4 times a year</p>

Key Terms for Co-Investment

Asset Management

- **Responsibilities of Asset Manager:** Asset Manager is responsible for producing company's P&L report on semi-annual basis, inform and answer queries from shareholders on key commercial decisions include leasing, financing, capital call etc
- **Rights of Asset Manager:** Asset Manager has right to make decisions on key commercial matters include property leasing, financing, capital call, etc
- Asset Management Fee (refer to next slide) shall be paid in advance for the services to be provided in next year

Capital Call

- **Frequency of Capital Call:** After completion of property purchase, capital will be called on semi-annual basis, or as and when required by Asset Manager for special situations (e.g. capex work, prolonged vacant period etc)
- **Capital Call Amount:** Asset Manager shall inform shareholders of capital call amount at least 5 days before the call, and shareholders should provide the amount of capital based on its pro-rata shares in company

Exit

- **Sale of Property:**
 - Lock-up period: No sale of property within 5 years unless market fundamental changes and all shareholders approve the sale
 - Asset Manager has right to solicit quotes for property. However, Selling price needs to be approved by all shareholders before the property can be sold
- **Sale of individual shareholder's share:**
 - Each individual shareholder has right to sell its own share to another party at any time, provided that:
 - 1) Existing shareholders have first right on the shares to be sold
 - 2) The replacing shareholder should accept the same Co-Investment Terms and Asset Management Fees as agreed in this Investment Memo

Management Services and Fees

Items	Services Scope	Management Fee Rate
Investment Management Fee	<ul style="list-style-type: none">Investment UnderwritingNegotiation of Price and Transaction TermsDue DiligenceCompany SetupLoan Financing	S\$150 per person
Asset Management Fee	<ul style="list-style-type: none">Lease ManagementMCST MattersTax Matters: Property Tax, Corporate Tax, Tax FilingAccounting: Book-keeping, Financial Statement FilingCompany Operations: AGM, Board Reso, P&L ReportingRefinancing	S\$100 per annum
Divestment Management Fee	<ul style="list-style-type: none">Divestment StrategyAppointment of Sales Agent, LawyerNegotiation of Price and Transaction TermsWork with Buyer on Due DiligenceDissolution of Company	S\$150 per person
Performance Fee	<ul style="list-style-type: none">Maximize overall Return for Investors	20% over 5% annual return (exclude management fees and corporate tax)

Example of Performance Fee Calculation:

Scenario 1: Year of divestment: end of year 3 Total equity cost: S\$100 Target return for performance fee: 3*5% p.a.* S\$100 = S\$15 Actual total return over 3-year period: S\$20 Performance fee: 20%*(S\$20 – S\$15) = S\$1	Scenario 2: Year of divestment: end of year 5 Total equity cost: S\$100 Target return for performance fee: 5*5% p.a.* S\$100 = S\$25 Actual total over 5-year period: S\$23 Performance fee: 20%*(S\$23 – S\$25) = S\$0 (No performance fee if target return is not achieved)
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Thank You