



## HONG LAI HUAT GROUP LIMITED

(Incorporated in the Republic of Singapore)

Reg. No. 199905292D

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### RESPONSE TO THE SGX-ST'S QUERIES IN RESPECT OF THE ANNOUNCEMENT DATED 14 APRIL 2020

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The board of directors (the “**Board**”) of Hong Lai Huat Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to inform shareholders that it had received queries from the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) (the “**Queries**”) in relation to Company’s announcement dated 14 April 2020 in respect of the discrepancies between unaudited and audited accounts for the financial year ended 31 December 2019 (“**FY2019**”). The Board wishes to respond to the Queries as follows:

#### Query 1

Page 2: Cost of sales increase from S\$13,407,000 to S\$14,426,000

Please provide a breakdown and description of the material underlying items, and the reasons for reclassification.

#### Company’s Response

	S\$	Note
Cost of sales (unaudited)	13,407,000	
Depreciation expenses	75,000	a
Biological assets	944,000	b
Cost of sales (audited)	<u>14,426,000</u>	

- (a) Reclassification of depreciation expense of starch factory from administrative expenses to cost of sale as the Company presents its financial statement on a functional basis.
- (b) Reclassification from biological assets in balance sheet to record cost of sale when revenue is recognised for the sale of crops.

### Query 2

Page 2: Other Income increase from S\$423,000 to S\$1,376,000

Please disclose the nature of the items and explain why these had to be restated. Please provide a breakdown of the material underlying items that were restated.

#### Company's Response

	S\$	Note
Other income (unaudited)	423,000	
Gain on fair value of biological assets	<u>953,000</u>	a
Other income (audited)	<u><u>1,376,000</u></u>	

The fair values of biological assets (cassava) have been determined based on the estimate of selling price less estimated point-of-sale costs. Point-of-sale costs include all costs that would be necessary to sell the assets.

Gain of \$953,000 arising from the change in fair value less estimated point-of-sale costs of plantations at 31 December 2019 was included in the profit or loss as other income .

### Query 3

Page 3: Property, plant and equipment (S\$11,864,000) and Right-of-use assets (S\$67,681,000)

Please provide a description and breakdown of the material underlying items that were restated, and reasons for the re-statement.

#### Company's Response

	Property, plant & equipment S\$	Right-of-use assets S\$	Note
Unaudited	79,419,000	126,000	
Leasehold land and improvements	(67,234,000)	67,234,000	a
Motor vehicles	<u>(321,000)</u>	<u>321,000</u>	b
Audited	<u><u>11,864,000</u></u>	<u><u>67,681,000</u></u>	

Singapore Financial Reporting Standards (International) (“**SFRS(I)**”) 16 introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted.

- (a) Reclassification of the Group's 50-year leasehold concession land with net carrying amounts of \$67,234,000 from Property, Plant and Equipment to Right-of-use Assets on adoption of SFRS(I) 16.
- (b) Reclassification of the Group's motor vehicles under finance leases with net carrying amounts of \$321,000 from Property, Plant and Equipment to Right-of-use Assets on adoption of SFRS(I)16.

**Query 4**

Page 3: Investment property decrease from S\$9,753,000 to S\$9,000,000

Please elaborate on the circumstances giving rise to, and need for, reclassification to Asset classified as held for sale.

**Company's Response**

	Investment property S\$	Asset classified as held for sale S\$	Note
Unaudited	9,753,000	-	
Sale of land	<u>(753,000)</u>	<u>684,000</u>	a
Audited	<u>9,000,000</u>	<u>684,000</u>	

- (a) Subsequent to the reporting period, the Group entered into a Sale and Purchase Agreement with third party for the sale of land located in Kmougne Village, Kmougne Commune, Sean Sock District, Phnom Penh City, Cambodia (20% interest owned by the Group). The Group's interest in the property was sold for \$684,000. The property was presented as asset held for sale on 31 December 2019. As at report date, the Group has received full payment from the buyer.

**By Order of the Board**

Dato Dr. Ong Bee Huat  
Executive Director & CEO  
21 April 2020