

HONG LAI HUAT GROUP LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No. 199905292D)

PROPOSED RENOUNCEABLE NON-UNDERWRITTEN RIGHTS ISSUE – ELABORATION ON THE RATIONALE AND PURPOSE OF THE RIGHTS ISSUE AND CHANGE IN THE USE OF PROCEEDS

1. INTRODUCTION

The Board of Directors (the “**Board**” or “**Directors**”) of Hong Lai Huat Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the Company’s announcement on 3 December 2020 (the “**Previous Announcement**”) related to, amongst others, the Rights Issue. Unless otherwise defined in this announcement, all capitalised terms used in this announcement shall have the meanings ascribed to them in the Previous Announcement.

Shareholders are advised to refer to the Previous Announcement for, amongst others, the terms of the Rights Issue, the Irrevocable Undertaking granted by the Undertaking Shareholder and the Set-off.

The Board would like to elaborate on the rationale and purpose of the Rights Issue stated in paragraph 2 of the Previous Announcement and update Shareholders on a change in the intended use of the proceeds arising from the Rights Issue in the Maximum Subscription Scenario stated in paragraph 3.4.1 of the Previous Announcement. There is no change in the intended use of proceeds arising from the Rights Issue in the Minimum Subscription Scenario stated in paragraph 3.4.2 of the Previous Announcement.

2. ELABORATION ON THE RATIONALE AND PURPOSE OF THE RIGHTS ISSUE

The Company is undertaking the Rights Issue to pro-actively strengthen its balance sheet, enhance its financial flexibility and improve the competitive position of the Group. Simultaneously, the Rights Issue will also provide Shareholders with an opportunity to further participate in the equity of the Company.

In FY2019, the Group successfully completed the construction of its 1st mixed-use development project, D’Seaview, in Sihanoukville, Cambodia, and is in the process of handing over its residential and commercial units to its buyers progressively. In May 2020, the Group commenced the construction of its 2nd mixed-use development project, Royal Platinum, in Toul Kork. In September 2020, the Group entered into a sale and purchase agreement to acquire a plot of land in Toul Kork, for the Group’s 3rd mixed-use development project.

Given the cash flow requirements for the Group’s 2nd and 3rd mixed-use development projects in Toul Kork, the Rights Issue will provide the Group with additional capital to fund the development expenses associated with these projects and the cost of the land for the 3rd mixed-use development project. The Group had previously explored alternative fundraising methods via bank borrowings in Cambodia but had decided not to proceed given the high cost of borrowing in Cambodia.

Accordingly, the Directors believe that the Rights Issue is in the best interest of the Shareholders and the Company as a whole.

3. CHANGE IN THE USE OF PROCEEDS

Shareholders are advised to refer to paragraph 3.3 of the Previous Announcement for details of the US\$11,000,000 PHDC Loan granted by the Undertaking Shareholder to PHDC, which bears interest at a rate of 6% per annum. As at the date of this announcement, US\$10,726,150 of the PHDC Loan has been drawn down to fund land acquisition in Phnom Penh for PHDC's 3rd mixed-use development project in Toul Kork and the working capital of PHDC (collectively, the "PHDC Loan Purposes"). The PHDC Loan was intended to be a bridge to fund the PHDC Loan Purposes pending further fundraising by the Company.

After a review of the repayment terms and interest rates of the Group's existing bank borrowings, the Board has determined that the Group's internal resources are sufficient for the repayment of the bank borrowings as and when they fall due. Accordingly, the Board has reallocated the part of the proceeds originally allocated for the repayment of bank borrowings, and a portion of the proceeds originally allocated to project development cost for the on-going 2nd mixed-use development project, Royal Platinum, located in Toul Kork, and new project land and development cost for the 3rd mixed-use development located in Toul Kork, towards the repayment of the Outstanding Indebtedness.

Further to the above, assuming the Maximum Subscription Scenario, the intended use of the net proceeds of approximately S\$26.3 million from the Rights Issue, after deducting estimated expenses incurred in connection with the Rights Issue of approximately S\$0.6 million, is as follows:

Use of proceeds	Percentage allocation (%)	Estimated amount (\$' million)
Repayment of the Outstanding Indebtedness ⁽¹⁾⁽²⁾	54.8	14.41
Project development cost for on-going 2nd mixed-use development project, Royal Platinum, located in Toul Kork	17.6	4.63
New project land and development cost for the 3rd mixed-use development project located in Toul Kork	17.6	4.63
General working capital	10.0	2.63
Net proceeds	100.0	26.30

Notes:

- (1) The Outstanding Indebtedness was utilised (a) to fund the purchase of land for PHDC's 3rd mixed-use development project in Toul Kork, and (b) for the working capital of PHDC.
- (2) In the Maximum Subscription Scenario, the Outstanding Indebtedness will be satisfied by (a) setting off the amounts payable by the Undertaking Shareholder for his subscription of the Entitlement Rights Shares and any Excess Rights Shares allocated to him (if applicable), and (b) any balance of the Outstanding Indebtedness shall be repaid from the proceeds of the Rights Issue.

Pending the deployment of the proceeds from the Rights Issue for the uses mentioned above, the net proceeds may be placed as deposits with financial institutions or invested in short-term money market or debt instruments or for any other purposes on a short-term basis as the Directors may, in their absolute discretion, deem fit in the interests of the Group.

The Company will make periodic announcements on the utilisation of the proceeds from the Rights Issue, as the funds from the Rights Issue are materially disbursed and provide a status report on the use of the proceeds from the Rights Issue in the Company's annual report, in accordance with the rules of the Listing Manual.

4. CIRCULAR

A Circular setting out, amongst others, the details of, and other relevant information pertaining to, the Rights Issue and the Whitewash Resolution, together with the notice of the EGM, will be despatched to the Shareholders in due course.

5. CAUTIONARY STATEMENT

Shareholders and potential investors should exercise caution when trading in the Company's securities. The completion of the Rights Issue is subject to certain conditions. As at the date of this announcement, there is no certainty or assurance that the Rights Issue will be completed or that no changes will be made to the terms thereof. The Company will make the necessary announcements when there are further developments. Shareholders and potential investors are advised to read this announcement and any further announcements by the Company carefully. Shareholders and potential investors should consult their stockbrokers, bank managers, solicitors, accountants, tax advisers or other professional advisers if they have any doubt about the actions they should take.

BY ORDER OF THE BOARD

Liew Meng Ling
Company Secretary

Singapore,
Date: 27 December 2020