



HONG LAI HUAT GROUP LIMITED

(Incorporated in the Republic of Singapore)

Reg. No. 199905292D

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PROPOSED RENOUNCEABLE NON-UNDERWRITTEN RIGHTS ISSUE – EXTRAORDINARY GENERAL MEETING AND RESPONSE TO QUESTIONS RAISED BY SHAREHOLDERS

Unless otherwise defined, all terms and references used herein shall bear the same meanings ascribed to them in the Circular (as defined below) in relation to, amongst others, the Rights Issue.

The Board of Directors of Hong Lai Huat Group Limited (the “**Company**”) refers to the Company’s announcements dated 3 December 2020, 27 December 2020 and 1 February 2021 and the Circular to Shareholders dated 1 February 2021 (the “**Circular**”) in relation to, amongst others, the Rights Issue and the extraordinary general meeting to be held by way of electronic means at 9.00 a.m. on 23 February 2021 (the “**EGM**”).

The Company would like to express its appreciation to Shareholders for submitting their questions in advance of the EGM by the deadline of 9.00 a.m. on 20 February 2021. The Company has received questions from Shareholders in relation to the Rights Issue, the Company’s property development business and the COVID-19 situation in Cambodia, and has set out in the Appendix to this announcement responses to all the questions submitted.

BY ORDER OF THE BOARD

Liew Meng Ling
Company Secretary
Date: 22 February 2021

APPENDIX

1. Will the substantial shareholder(s) commit to subscribing for the excess rights shares?

As disclosed in section 4.1 of the Circular, Dato Dr. Ong Bee Huat, Executive Deputy Chairman and Group Chief Executive Officer of the Company (the “**Undertaking Shareholder**”), has provided an irrevocable undertaking dated 3 December 2020 in favour of the Company (the “**Irrevocable Undertaking**”), pursuant to which he has agreed to subscribe and pay in full for:

- (a) his *pro rata* entitlement of 62,208,000 Rights Shares (entitlement *pro rata vis-à-vis* all other Shareholders) (representing approximately 21.0% of the total number of Rights Shares); and
- (b) subject to availability, 96,141,771 Excess Rights Shares (representing approximately 32.5% of the total number of Rights Shares).

The Undertaking Shareholder holds approximately 21.0% of the existing share capital of the Company and is a Substantial Shareholder.

The Irrevocable Undertaking is subject to and conditional upon the satisfaction of the conditions set out in section 4.1 of the Circular.

Shareholders should note that in the allotment of Excess Rights Shares, preference will be given to the rounding of odd lots, and Directors and Substantial Shareholders who have control or influence over the Company in connection with the day-to-day affairs of the Company or the terms of the Rights Issue, or have representation (direct or through a nominee) on the Board, will rank last in priority for the rounding of odd lots and the allotment of Excess Rights Shares.

2. How is the company’s property development business doing amidst COVID-19?

As disclosed in section 3.1 of the Circular, with regards to the 1st mixed-use development project, the Group has sold approximately 71% of the units as at 26 January 2021. This project has been built and the construction costs fully paid for. The Group has experienced slower than expected sales as a result of the COVID-19 pandemic. In addition, the Group expects delays in the handing over of its residential and commercial units to its overseas buyers due to the travel restrictions imposed to control the COVID-19 pandemic.

The 2nd mixed-use development project is undertaken through a joint venture (Royal Hong Lai Huat One Company Limited (“**RHLHOC**”)) between the Group and the Royal Group of Companies Ltd (the “**Royal Group**”). As at 26 January 2021, approximately 9.1% of the units have been sold and approximately US\$6.1 million have been collected due to the sales of the units. As at 31 December 2020, Royal Hong Lai Huat One Company Limited has incurred construction costs amounting to US\$7.5 million. Pursuant to a joint venture agreement between the Group and the Royal Group, the Group is required to contribute share capital amounting to US\$20.6 million, which is equivalent to the fair value of the land contributed by the Royal Group. In this regard, the Group has contributed US\$6.0 million as share capital to RHLHOC as at 31 December 2020, which will be used by RHLHOC to finance its construction costs. Construction of the 2nd mixed-use development is progressing well amidst the COVID-19 pandemic and the Group expects the project to be completed in 2023. However, sales are slower due to ongoing travel restrictions to control the COVID-19 pandemic, affecting demand from overseas buyers. The Group expects its sales from the 2nd mixed-use development project to gradually improve after travel restrictions are relaxed.

With regards to the 3rd mixed-use development project, the Group has yet to fully pay off the land acquisition cost. Barring unforeseen circumstances, the Company expects to complete the land acquisition on or before 10 March 2021. The 3rd mixed-use development project is still currently in the design phase and no sales have commenced.

As disclosed in section 2.1 in Appendix B of the Circular, the Group's revenue decreased by approximately S\$8.0 million from approximately S\$13.5 million in 1H2019 to approximately S\$5.5 million in 1H2020, mainly due to a reduction in sales volume as a result of the COVID-19 pandemic, and a lower percentage of progressive revenue recognition from the 1st mixed-use development project. The Group expects to report a net loss for the financial year ended 31 December 2020, based on its preliminary review of the Group's unaudited financial results for FY2020. The loss is mainly due to a decline in revenue resulting from the adverse impact of the COVID-19 pandemic. Shareholders may refer to the Company's announcement on 29 January 2021 on the profit guidance for the full year ended 31 December 2020 at www.sgx.com/securities/company-announcements.

3. How is the COVID-19 situation in Cambodia?

Based on the Cambodia Coronavirus Disease 2019 (COVID-19) Situation Report #32 (the "WHO Report") issued by the World Health Organization ("WHO")¹ on 8 February 2021, Cambodia has had a total of 474 cases of COVID-19 with no reported deaths as of 8 February 2021. The Ministry of Health of Cambodia has approved the use of Sinopharm COVID-19 Vaccine and Cambodia received 600,000 doses of the vaccine on 7 February 2021. Vaccination campaigns will be targeted at priority groups, such as healthcare workers, frontline armed forces/police, frontline government officials, community focal points and volunteers and other groups in three phases.

While the COVID-19 situation appears to have been relatively controlled in Cambodia, as at the date of this announcement, the issuance of tourist visas remains suspended and a 14-day quarantine upon arrival remain mandatory for foreign visitors.

4. Why did the company borrow money from substantial shareholder at 6%, when it should have first conducted a rights issue instead to raise funds?

As disclosed in section 3.2 of the Circular, it has always been the intention of the Company to repay the US\$11,000,000 loan, bearing interest at a rate of 6.0% per annum, agreed to be extended by the Undertaking Shareholder to Public Housing Development (Cambodia) Limited ("PHDC"), a wholly-owned subsidiary of the Company (the "PHDC Loan")² out of the proceeds of the Right Issue as the PHDC Loan was intended to be a bridge to fund the acquisition of the freehold land with the total land size of approximately 1.2 hectares located in the Toul Kork District in Phnom Penh City, Cambodia (the "Land") and the working capital of PHDC in the interim pending further fundraising by the Company.

As disclosed in section 3.1 of the Circular, the terms of the acquisition of the Land were negotiated for about one (1) to two (2) months before the parties agreed on the terms and the sale and purchase agreement dated 11 September 2020 (the "Land SPA") for the acquisition of the Land was signed after the land title and land area had been verified. Under the Land SPA, the total purchase price for the Land is US\$22,452,300, out of which 50.0% (US\$11,226,150) was payable upon signing of the Land SPA and 30.0% (US\$6,735,690) was payable 90 business days from the date of the Land SPA. The remaining 20.0% of the purchase price (US\$4,490,460) is payable 180 business days from the date of the Land SPA.

If circumstances had permitted the Company to first undertake the Rights Issue to raise the requisite funds to acquire the Land, the Company may have proceeded on that basis. However, based on the indicative timeline, completion of the Rights Issue would only occur around four (4) to six (6) months after work on the Rights Issue formally commenced. Given the time taken to undertake a Rights Issue, it would have been impracticable for the Company to acquire the Land only after the completion of the Rights Issue.

¹ The WHO Report can be accessed at the World Health Organisation's website at: <https://www.who.int/cambodia/internal-publications-detail/covid-19-joint-who-moh-situation-report-32>

² Please refer to section 4.2 of the Circular for the principal terms of the PHDC Loan.

Without the financial support from the Undertaking Shareholder, the Group may not have been in a position to acquire the Land, and could have lost the opportunity to do so. Having considered the cost and limitations on quantum of bank borrowings in Cambodia at the time (discussed further below), as well as the time required and the uncertainty involved in undertaking an equity fundraising exercise, the Company decided to proceed with the PHDC Loan in order to complete the acquisition of the Land while the opportunity was available, given its strategic location and development potential. The Company had intended to repay the PHDC Loan with an equity offering (i.e., the current proposed Rights Issue).

5. Did the Board consider alternatives to the 6% interest loan, such as conducting a rights issue? Why did the company opt for a loan instead of a rights issue earlier?

As disclosed in section 3.1 of the Circular, prior to taking up the PHDC Loan, the Audit Committee had taken into consideration various funding options including term loans from commercial banks both in Singapore and Cambodia. However, based on information published by the National Bank of Cambodia, the Audit Committee noted that interest rates for new term loans denominated in US\$ ranged from approximately 8.8% to 9.6% for the period between January 2020 to August 2020,³ which is significantly higher than the interest rate for the PHDC Loan of 6.0% per annum. The Company does not consider the interest rate of 6.0% per annum to be high for an unsecured term loan in Cambodia with a two (2) year maturity and no restrictions on dividends or other forms of negative covenants which are customary in bank loans. In addition, the Audit Committee had considered taking up a term loan from commercial banks in Singapore. However, Singapore banks often require a local Singapore asset to be pledged as collateral. Given that majority of the Group's assets are located in Cambodia, which Singapore banks would not accept as collateral, the Group would face difficulties in obtaining the said term loans from Singapore banks. As the terms of PHDC loan are more favourable than those made available by banks in Cambodia, coupled with the difficulty in obtaining a term loan in Singapore, the Audit Committee is of the view that the PHDC Loan is entered into on normal commercial terms or otherwise in accordance with applicable industry norms, and is not prejudicial to the interests of the Group or the minority Shareholders.

Please refer to the Company's response to question 4 above for a discussion of the circumstances which made it impractical for the Company to conduct a rights issue prior to signing the Land SPA.

For Shareholders' reference as set out in section 3.3 of the Circular, the amount of interest payable on the PHDC Loan as at the date of the Set-off Agreement is US\$56,422.

³ The data on interest rates provided by the National Bank of Cambodia does not indicate tenure, or other terms.