



HONG LAI HUAT GROUP LIMITED

(Incorporated in the Republic of Singapore)

Reg. No. 199905292D

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RESPONSE TO SGX-ST'S QUERIES IN RELATED TO THE UNAUDITED FULL YEAR FINANCIAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

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 26 February 2021 in respect of the Company’s unaudited full year financial results for the financial year ended 31 December 2020. The Board wishes to respond to the Queries as follows:

Query 1

Page 3: Current liabilities: Other payables and accruals

Explain the significant increase to \$6,478,000.

Company’s Response

	<u>Group</u>			
	2020	2019	Change	Note
	\$'000	\$'000	\$'000	
Other payables	4,358	551	3,807	(a)
Deposits received / Contract liabilities	1,511	2,481	(970)	(b)
Accrued operating expenses	609	634	(25)	
Total other payables and accruals	<u>6,478</u>	<u>3,666</u>	<u>2,812</u>	

Other payables and accruals increased by \$2.8 million from \$3.7 million in FY2019 to \$6.5 million in FY2020, mainly due to (a) strata title transfer fees of \$1.5 million on properties handed over to buyers payable to Royal Government of Cambodia, Guarantee Rental Return (the “**GRR**”) of \$1.3 million payable to property buyers under GRR scheme and \$1.0 million payable on the acquisition of freehold land. This was partially offset by (b) a decreased in downpayment of \$1.0 million received on sale of property due to a reduction in property sales as a result of the COVID-19 pandemic in FY2020.

Query 2

Page 3: Current liabilities: Bank loans

Explain the significant increase to \$2,651,000.

Query 3

Page 3: Non-current liabilities: Bank loans

Explain the significant increase to \$5,346,000.

Company's Response

Net bank loans increased by \$6.8 million from \$1.2 million in FY2019 to \$8.0 million in FY2020, mainly due to new bank loans raised in FY2020.

The new bank loans raised in FY2020:

- a. A loan of \$1.0 million (2019: nil). The loan was raised on 22 July 2020. The loan bears interest at a rate of 5.25% (2019: nil) per annum. It is repayable in 36 equal instalments and will be fully repaid in June 2023, in accordance with the terms of the loan agreement.
- b. A loan of \$1.0 million (2019: nil). The loan was raised on 4 July 2020. The loan bears interest at a rate of 3.0% (2019: nil) per annum. It is repayable in 60 equal instalments and will be fully repaid in June 2025, in accordance with the terms of the loan agreement.
- c. A loan of \$1.5 million (2019: nil). The loan was raised on 31 July 2020. The loan bears interest at a rate of 3.0% (2019: nil) per annum. It is repayable in 60 equal instalments and will be fully repaid in June 2025, in accordance with the terms of the loan agreement.
- d. A loan of \$2.5 million (2019: nil). The loan was raised on 1 August 2020. The loan bears interest at a rate of 3.0% (2019: nil) per annum. It is repayable in 60 equal instalments and will be fully repaid in July 2025, in accordance with the terms of the loan agreement.
- e. A loan of US\$2 million (2019: nil). The loan was raised on 30 May 2020. The loan bears interest at a rate of 2.5% (2019: nil) per annum. It is repayable in 36 equal instalments and will be fully repaid in April 2023, in accordance with the terms of the loan agreement.

Query 4

Page 3: Non-current liabilities: Loan from controlling shareholder

Explain the significant increase to \$14,177,000.

Company's Response

On 30 October 2020, Public Housing Development (Cambodia) Limited (the “**PHDC**”), a wholly-owned subsidiary of the Company, entered into a loan agreement (the “**PHDC Loan Agreement**”) with the Controlling Shareholder, pursuant to which the Controlling Shareholder agreed to extend a loan of US\$11 million, bearing interest at a rate of 6.0% per annum, to PHDC. The maturity date of the PHDC Loan is 24 months from the drawdown date of the PHDC Loan. Please refer to the Company’s announcement on 30 October 2020 for further details of the PHDC Loan. The PHDC Loan was intended to be a bridge to fund (a) the acquisition of the freehold land for the Group’s 3rd mixed-use development project in the Toul Kork District in Phnom Penh City, Cambodia (the “**Toul Kork**”), and (b) the working capital of PHDC in the interim, pending further fundraising by the Company.

Query 5

Page 5: Net cash used in operating activities

We note the net cash used of \$18,661,000 was mainly due to acquisition of freehold land. Provide details of this acquisition, including consideration for the freehold land and how it will be financed.

Company's Response

As announce on 12 September 2020, PHDC has entered into a sale and purchase agreement dated 11 September 2020 to acquire a plot of freehold land with the total land size of approximately 1.2 hectares located in Toul Kork, which is proposed to be used for the Group’s 3rd mixed-use development project for a purchase price of US\$22,452,300.

The Group’s 3rd mixed-use development project is intended to mainly focus on affordable housing for middle to lower income Cambodians, with approximately 2,432 residential units and 20 commercial units. This project has yet to commence construction.

As at FY2020, the Company has made the First Tranche Payment and Second Tranche Payment for the Land Acquisition amounting to approximately US\$18.0 million, out of which approximately US\$10.2 million was financed by the PHDC Loan and the remaining amount was funded by a combination of the Group’s internal resources and payment in kind through six (6) units from the Group’s 1st and 2nd mixed-use development projects with an aggregate value of approximately US\$4.2 million, which is based on the prevailing selling prices at the time of transfer. With respect to the Third Tranche Payment of US\$4.5 million shall be financed by the Group’s internal resources and net proceeds from the Rights Issue (if available) announced on 3 December 2020. The Company is expecting to complete the Land Acquisition before 31 March 2021.

Query 6

Page 9: Restatements

We note management has performed an impairment test for investments in subsidiaries and noted that the recoverable amounts have exceeded their respective net carrying amounts of the investments in subsidiaries. Provide details of these subsidiaries, their performance and what led to the reason for the reversal of their previous impairments.

Company's Response

The reversal of impairment losses pertains to the investments in subsidiaries - Hong Lai Huat International Pte. Ltd. (the "**HLHIPL**") and HLH Agri International Pte. Ltd. (the "**HLHAI**"). The impairment losses on investments in these subsidiaries were recognised in the Company's profit or loss prior to financial year of 2014.

HLHIPL and its subsidiaries (the "**HLHIPL subgroup**") reversal of impairment loss of \$21,981,000

HLHIPL subgroup's financial performance is mainly driven by PH One Development (Cambodia) Limited (the "**PH One**"), whose principal activities are to purchase, develop, and sell property in Cambodia. With its freehold mixed-use development property, D'Seaview, PH One has been generating revenue from the sale of its development properties and has been profitable since the financial year of 2017 till 31 December 2020.

HLHAI and its subsidiaries (the "**HLHAI subgroup**") reversal of impairment loss of \$988,000

HLHAI subgroup's financial performance is primarily contributed by HLH Agriculture (Cambodia) Co., Ltd. (the "**HLHA**") whose principal activities are to engage in agriculture plantation for cassava and starch processing in Cambodia. HLHA had been profitable for the financial years ended 31 December 2014 to 2016 and continues to generate significant revenue from the sale of cassava and tapioca starch till 31 December 2020.

The above improved financial performance of the subsidiaries has resulted in an increase in the recoverable amounts of the investments as compared to the period that the impairments were made. As the recoverable amounts are above their respective cost of investments, the previously recognised impairments were reversed accordingly.

By Order of the Board

Dato Dr. Ong Bee Huat
Executive Deputy Chairman & CEO
9 March 2021