
RESPONSE TO QUERIES FROM SGX

The Board of Directors (the “Board”) of Pavillon Holdings Ltd. (the “Company”) wishes to announce the following in response to the queries raised by the Singapore Exchange Securities Trading Limited (“SGX”) in respect to the unaudited financial results for the full financial year ended 31 December 2022 (“FY2022 Financial Statements”) released on 23 February 2023.

SGX Query (1)

According to the Company's Condensed Interim Consolidated Statement of Profit and Loss and Other Comprehensive Income, "other operating expenses" reduced by 2.3% from FY2021 to FY2022. Page 16 of the financial results however state that operating expenses increased by 2.6%. Please explain the discrepancy and disclose the change in operating expenses accurately. Please also explain the change in operating expenses for 2H2022 and FY2022 from their respective preceding periods.

Company's response

The correct explanation should be reduced by 2.3%.

We have explained the change in operating expenses for FY 2022 and FY 2021.

The changes in operating expenses for 2H2022 and 2H2021 is mainly due to the following :

Increase in F & B operating expenses of S\$256K mainly due to improvement of F & B business.
Increase in written off of fixed assets by S\$414K mainly due to discontinuation of car washing machine business.
Forfeited deposit of S\$195K for purchasing of importing Bentley into China as the selling price of Bentley reduced sustainably and it will cost the Company more to continue the transaction.
And offset by a reduction of S\$1.38 m from VAT expenses in the year 2H2022 as compared to 2H2021, resulting in a decrease in 23% as compared to 2H2021.

SGX Query (2)

Please elaborate on the factors that caused the loss of S\$15.4 million from associated companies in FY2021 to turn into a profit of S\$5.7 million in FY2022. Please also provide the following:

- a. details to substantiate the Company's statements on the improved capacity utilisation which led to an increase in the value of the Company's "investment in associated companies".
- b. details on the performance of the Tianjin Logistics hub, its current occupancy rates, how Fengchi IOT Management Co., Ltd. ("Fengchi IOT") managed to increase its occupancy rate of 15% for its office space, 6% occupancy rate for its exhibition area and 49% occupancy rate of its warehouse space, as disclosed in its shareholders' circular dated 21 July 2022.
- c. the financial performance of Fengchi IOT, including its profitability/loss and its business outlook.
- d. We note that the Company disclosed at page 17 of the financial results that "the Tianjin logistic hub has yet to generate a positive return". If this is the case, please elaborate with details and quantify how the associated company reported a profit of S\$5.7 million? Please also quantify what was its operating loss?

Company's response

a.

Utilisation capacity	FY 2021	FY 2022
Office tower	6.33%	27.23%
Warehouse	1%	57.84%
Exhibition	0	6.00%

b. Fengchi IOT Management Co., Ltd ("Fengchi IOT") has managed to sign a few more business partners during FY 2022, and with their help, we have managed to improve the occupancy rate when compared to FY 2021. Its current occupancy rates are as follows:

Utilisation capacity	2023 Feb
Office tower	28.71%
Warehouse	41.9%
Exhibition	6.00%

c.

Fengchi IOT	
Financial performance	
	RMB
Sales	26.5 million
Net Loss for FY 2022	38.9 million

The outlook of Fengchi IOT depends on how fast China's economy recovers from Covid 19 pandemic and the extent of easing of their policy for parallel import car business.

d.

The Company has recorded a fair value adjustment of S\$8.4 million. The working for Fengchi IOT gain is as follows:

	<u>SGD(000)</u>
Opening Net Assets as at 1.1.2022	7,818
Current P&L	(3,870)
Reversal: FY 22 land depreciation	1,183
Adjusted current P&L	(2,687)
Fair Value gain – Fair Value adjustment	8,424
Profit after revaluation	5,737
Currency different (gain/(loss))	(592)
Closing Net Assets value as at 31.12.22	12,963

SGX Query (3)

Please disclose a breakdown of trade and other payables amounting to S\$3.6 million as at 31 December 2022. For other payables, please disclose the aging and nature of these other payables and whether the counterparties are related parties.

Company's response

(in thousands)

Trade payables	688
Sundry creditors	333
GST Payable	1,815
Accrued personnel expenses	520
Other accrued operating expenses	242
Amount owing to Directors	41
	<u>3,638</u>

(in thousands)

Other payables:Non Related parties

	Other payables- Non related parties	Deposit Received	GST Payable	Amount due to Director fee	Accruals for operating expenses	Total
Current	138	19	129	41	757	1,083
1 to 30 Days	-	4	-	-	-	4
31 to 60 Days	-	-	-	-	5	5
61 to 90 Days	-	-	-	-	-	-
Over 90 days	172	-	1,686	-	-	1,858
Total	310	22	1,815	41	762	2,950

SGX Query (4)

As indicated in the Company's EGM Circular announced on 21 July 2022, "100.0% of the RMB Subscription Amount will be disbursed to Fengchi IOT through the Fengchi IOT Loan and the Fengchi IOT Loan shall be used to (a) pay for the principal amounts of the Shareholders' Fengchi IOT Bridging Loans amounting to RMB 16.0 million (equivalent to approximately S\$3.4 million); (b) pay for the final outstanding payments under the Construction Financing of approximately RMB 166.9 million (equivalent to approximately S\$35.8 million; and (c) finance the remaining instalment amounts and interest payments under the Bank Loan for FY2022 of approximately RMB 23.5 million (equivalent to approximately S\$5.0 million)." Please disclose the status on the use of proceeds by Fengchi IOT from the share placement in 2022. Where the proceeds have been used for working capital purposes, please provide a breakdown with specific details on how the proceeds have been applied.

Company's response

Fund usage	RMB(Million)	
	Plan	Actual
As at 31/12/2022		
Repayment of the main contractor	166.90	152.93
Repayment of shareholder loan	16.00	-
Interest and bank loan	23.50	22.69
	206.40	175.61

The proceeds have been used in accordance with the stated use as disclosed in the Circular dated 21 July 2022. The Company has no intention to use the RMB 200 million raised for working capital purposes.

SGX Query (5)

With reference to page 16 of the Company's FY2022 financial statements, the Company disclosed a "one time write-off cost of S\$747K to cease China automated car washing business" and "professional fee incurred for "discontinu[ing] of the car washing business".

- a. It was also disclosed in the Company's response to SGX's query on 4 March 2022 that the Company had ordered "35 AI car washing machines. The total cost of these washing machines are S\$900K, out of which, the Company has prepaid S\$560K". Please describe the activities of the Company's China automated car washing business, its primary location of business, the Company's subsidiary or subsidiaries that engages in this business ("Relevant Subsidiary"), and the reason why the Company is writing off and discontinuing this business shortly after it had invested heavily in this sector recently. Please also disclose the operating segment under which it is reported in the Company's audited financial statements.
- b. Please provide the revenue, net profit before tax and net asset value of the Company's automated car washing business and Relevant Subsidiary in FY2021 and FY2022.
- c. We note that the Company had stated in its 2021 Annual Report that it "is planning to expand [its] automated car washing business in China". The Company also stated at Note 11 of its FY2022 financial statements (pg 16) that "during the year ended 31 December 2022, the Group has increased the value of the assets by 630K due to acquisition of car washing machines". Please provide the bases of the Board's decision for the change in business strategy and their decision to cease the automated car washing business. To also disclose detailed explanations of why the Company purchased S\$630,000 of car washing machines when it will be ceasing its automated car washing business.
- d. Please also disclose what the write off cost of S\$747K is attributed to and provide detailed explanation of the bases of the Board's decision how it determined that value of the write-off of its assets and whether the Company intends to dispose these and to whom. Please also explain how the Company intends to deal with the new assets and equipment that were recently acquired by the Company.

Company's response

- a) The car washing business was operated by Tianjin Yixing intelligent washing Technology Co Ltd. The businesses are located in both Tianjin and Shandong. The Company changed the China management team in June 2022 because it performed badly. The new management re-assessed the businesses and found it to be not viable. The new Pavillon Board agreed and approved the writing off of the investment and the discontinuing of the business. The car washing machines business is under "other" of the operating segment.

b)

	<u>FY2022</u>	<u>FY2021</u>
	S\$	S\$
	(000)	(000)
Revenue	59.48	12.72
Net loss before tax	1,833.06	165.16
Net Asset Value	11.43	312.77

c) The Company had planned and budgeted RMB6m for the car washing business. It ordered the machines in FY2021 and took delivery in FY2022. As stated in a) above, the new management re-assessed the business viability and concluded that it is better to cease the business and cut loss. The Board agreed and approved the writing off of the investment and the discontinuing of the business.

d)

Breakdown for Car business write off cost :

	<u>S\$(000)</u>
FA write off	406.05
Compensation fee	78.60
Deposit forfeited	192.24
Retrenchment benefit	59.96
Exchange	<u>9.55</u>
Total cost for write off	<u><u>746.41</u></u>

The value of the car washing machines once installed drops significantly. We managed to have other operators take over the machines to save us from the obligations to re-instate the sites.

By Order of the Board

Dr John Chen Seow Phun
Executive Chairman

5 March 2023