MANHATTAN RESOURCES LIMITED

(Company Registration No. 199006289K)

FURTHER INFORMATION ON THE COMPANY'S UNAUDITED FINANCIAL STATEMENT ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (*ANNOUNCEMENT*)

The Directors of Manhattan Resources Limited ***(Manhattan or the Company)*** refer to the Announcement made on 1 March 2021 and the further information requested by the Singapore Exchange Securities Trading Limited ***(SGX-ST)*** on 11 March 2021 relating to the Announcement.

SGX-ST's questions and Manhattan's corresponding responses are listed below to enable investors to understand the matters raised by SGX-ST:

SGX-ST's Question

1. It was disclosed that the Group recorded impairment loss on property plant and equipment of $8,923,000 and impairment loss on goodwill and intangible assets of $2,776,000. Please disclose the following information:

i. the nature of intangible assets;

ii. how the amount of impairment was determined;

iii. whether any valuation was conducted, the value placed on the assets, the basis and the date of such valuation;

iv. the Board's confirmation as to whether it is satisfied with the reasonableness of the methodologies used to determine amount of impairment; and

v. the reasons for the impairment loss.

Manhattan's Response

i. The nature of the intangible assets relates to the business licence for the rights to supply electricity exclusively within the Kawasan Industri Kariangau ("KIK"), which arose from the acquisition of PT Kariangau Power ("***PT KP***") in 2016. Customer contracts and customer relationships have also been included in the value of the business licence as these contracts are not separable from the business licence.

ii. Intangible assets acquired through the business combinations have been allocated to the power plant cash generating unit ("***CGU***") for impairment testing. The recoverable amount of the CGU has been determined based on value in use calculation using cashflow projections from financial budgets on our power plant operations in Indonesia. The discount rate applied to the cash flow projections is 12.0% per annum.

The calculations of value in use for the CGU are most sensitive to the following assumptions:

Budgeted revenues – Revenue forecast is based on historical power generation capacity and taking into consideration current and future customer demands.

Budgeted gross margins – Gross margins used in the value in use calculations were based on budgeted gross margins derived from past performance and management's expectations of market developments.

Discount rates – The discount rate reflects the current market assessment of the risks specific to the CGU.

iii. No professional valuer was engaged to perform an independent valuation and we used internally developed discounted cash flow for our impairment testing.

iv. The Board confirmed that it is satisfied with the reasonableness of the methodologies used to determine the amount of impairment.

v. The reasons for the impairment loss are mainly due to the following:
   a. Lower budgeted revenues taking into consideration of current and the next 12 months estimated customer demands as a result of COVID-19. The Group expects the business would recover in 2024; and

   b. Increased costs mainly due to the increase in coal prices to operate the power plant.

<u>SGX-ST's Question</u>

2. Please disclose why interest income amounted to only $259,000 when the Company has significant cash and bank deposits amounting to $24,355,000.

<u>Manhattan's Response</u>

The cash and bank deposits, interest income on cash and bank deposits and the effective interest rates for the Group is as follows:

	31-Dec-20	**31-Dec-19**
Cash and bank deposits	$24,355,000	$27,868,000
Interest income on cash and bank deposits	$259,000	$173,000
Effective interest rates	0.99%	0.37%

The Group places short term deposits to earn interest income from time to time. Short term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at respective short term deposit rates.

The Group has paid the development expenditure of $15.4 million and $3.5 million for the property under development and investment property under construction during the year. During the year, Manhattan Resources (Ningbo) Property Limited ("***MRN***") received a capital investment of US$6,958,000 (approximately S$9,496,670) from its other shareholder, Kaiyi Investment Pte. Ltd. ("***Kaiyi***") via MPDPL in two tranches for US$3,430,000 (approximately S$4,778,676) in July 2020 and US$3,528,000 (approximately S$4,717,994) in November 2020. As the amount was received in the later part of the year, the interest income is generally lower due to proration as compared to a full year interest income.

<u>SGX-ST's Question</u>

3. It is noted that the Company has a net cash flows used in operating activities of $8,118,000 and a net profit of $5,414,000 for FY2020. Please explain why the Company is unable to generate net cash inflow from its operating activities, despite the Company's net profit position for FY2020.

Please provide a breakdown of the depreciation and amortization of property, plant and equipment, intangible assets, prepayment and right-of-use assets of $5,729,000 and $6,191,000 as at 31 Dec 2020 and 31 Dec 2019 respectively.

Manhattan's Response

i. The net cash flows used in operating activities and investment activities were mainly for the project development costs capitalized during the year. The Group has capitalized the development expenditure of $15.4 million and $3.5 million for the property under development and investment property under construction during the year. There is no revenue generated from the property development project as the Group expects the presale permit to be granted by the local authority in 1H 2023.

The net profit of $5,414,000 for FY2020 arose mainly due to the following non-cash one off income:

	2020 **$'000**	**Note**
Gain on debt to equity conversion	19,992	(a)
Write-back of creditors	1,007	
Fair value gain on investment properties	161	(b)
Income tax credit	3,746	(c)
	24,906	

(a) On 21 June 2019, the Group entered into a debt conversion agreement with SLM Holding Pte Ltd ("***SLM***"), Kaiyi Investment Pte Ltd ("***Kaiyi***") and Energy Resource Investment Pte Ltd ("***ERI***") to convert the debts of US$27,212,855 into the Company's shares. Pursuant to the Proposed Debt Conversion, an aggregate of 1,849,521,700 Conversion Shares were allotted and issued to Kaiyi and ERI at the conversion price of S$0.02 per share on 13 May 2020. For the purpose of the financial statements, the Conversion Shares had been accounted for based on the market value of the conversion shares issued on 13 May 2020, being $0.01 per share amounting to S$38,487,000. Following the completion of the debt conversion, the Company recognized a gain of S$19,992,000 and foreign exchange loss of S$1,826,000.

(b) The investment property under construction is stated at fair value, which has been determined based on valuations performed as at 31 December 2020. The Group recognized a fair value uplift of investment property under construction of $0.2 million for the Ningbo project.

(c) The tax credit relates to the decrease in deferred tax liabilities due to (i) the reduction in Indonesian's corporate income tax rate from 25% in 2019 to 22% in 2020 and (ii) impairment loss of goodwill and intangible assets, and property, plant and equipment.

Additionally, the net profit and cashflow of the Group were affected since the outbreak of COVID-19. The revenue for the Group has decreased from $13,543,000 in FY2019 to $9,182,000 in FY2020.

ii. The breakdown of the depreciation and amortization of property, plant and equipment, intangible assets, prepayment and right-of-use assets is as follows:

	31-Dec-20 **$'000**	**31-Dec-19** **$'000**
Property, plant and equipment	2,525	2,839
Intangible assets	1,813	1,950
Prepayments	63	64
Right-of-use assets	1,328	1,338
	5,729	6,191

SGX-ST's Question

4. **It is disclosed that the Company reported trade and other receivables (current and non-current) amounting to $6,995,000, which represented 76.2% of the Group's revenue of $9,182,000 for FY2020. In this regard, please disclose the following:**

i. The breakdown of trade and other receivables for both current and non-current periods as at 31 December 2020 and 31 December 2019;

ii. Nature of the non-current receivables;

iii. For other receivables:- The underlying transactions, terms of the transactions, terms of payment, and whether these transactions were incurred in the ordinary course of business;

iv. The aging profile of the Group's trade and other receivables in bands of 3 months;

v. Whether the outstanding amounts are owing to related parties and if yes, to provide details and quantify;

vi. Whether these debtors are related to any employees, directors, key executives, shareholders or their respective associates;

vii. Whether these customers are still in operation;

viii. The Board's assessment on the recoverability of the Group's trade and other receivables (current & non-current) and the bases for such an assessment.

Manhattan's Response

i. The breakdown of trade and other receivables for both current and non-current periods is as follows:

	31-Dec-20 $'000	31-Dec-19 $'000
Current		
Trade receivables	1,163	1,553
Other receivables		
GST receivable	23	23
Deposits	63	–
Other receivables	1,850	1,693
Trade and other receivables (current)	**3,099**	**3,296**
Trade and other receivables (non-current):		
Other receivables	3,896	5,321
Total trade and other receivables	**6,995**	**8,590**

ii. Included in the non-current receivables are:

a. An amount of $3,603,000 (2019: $3,437,000) placed with local government authorities in Ningbo for the development of a property. These deposits are refundable to the Group based on milestones achieved.

b. In 2012, the Group entered into a sale and purchase agreement (“SPA”) with a shipbuilder for the purchase of vessels. The Group subsequently sold the vessels to a third party buyer in 2013. The Group retains an unpaid seller’s lien on the vessels until the consideration has been fully paid.

Included in the current and non-current other receivables is the outstanding consideration arising from the sale of the vessels of US$6,533,000 (approximately $8,627,000) (2019: U$7,631,000 approximately S$10,279,000), which is to be paid in equal monthly instalments over a period of 120 months. Any outstanding consideration bears interest at 1 month SIBOR + 3.4% per annum. Due to the barge incidents in prior years, the Group and third party buyer entered into a Second Amendment to the SPA, whereby the monthly instalments were deferred and interest waived commencing from 1 January 2014.

Management had performed an impairment review and had made an allowance of $7,085,000 (2019: $7,226,000) on the other receivables due from the third party buyer in 2015.

iii. Included in the other receivables (current) are mainly due to the outstanding consideration arising from the sale of the vessels (refer to part (ii)(b) above for more details) and an estimated claim for tax refund arising from the sale of electricity in Indonesia.

iv. The aging profile of the Group’s trade receivables in bands of 3 months is as follows:

Ageing	**31-Dec-20 $'000**	**31-Dec-19 $'000**
Current	693	1,032
≤ 30 days	62	188
31 – 60 days	139	–
61 – 90 days	–	192
91 – 120 days	129	–
> 120 days	140	141
	1,163	**1,553**

For details on the Group’s other receivables, please refer to part (ii) and (iii) above.

v. Included in the trade receivables (current) is an amount of approximately $413,000 due from a related party, PT Dermaga Perkasapratama in relation to the sale of electricity.

PT Dermaga Perkasapratama is a subsidiary of PT Bayan Resources Tbk., Dato’ Dr. Low Tuck Kwong, a substantial shareholder of the Company, owns 53.96% of Bayan Resources, while Low Yi Ngo, the CEO/MD, owns 0.17% of Bayan Resources. Dato Dr Low Tuck Kwong and Low Yi Ngo are on the board of directors of Bayan Resources. Please refer to pg 12 of the unaudited financial statement announcement for FY 2020 for the IPT transactions during the year.

vi. Yes, all customers are in operation.

vii. The customers have been making regular payments. As at this date, The Group has received approximately S$1m from the customers, representing 88% of the total trade receivables. Hence, the Group is of the view that no additional allowance for impairment is required.

SGX-ST's Question

5. Please provide a breakdown of Investment property under construction of $21,390,000 and $16,832,000 as at 31 Dec 2020 and 31 Dec 2019 respectively, and an explanation for the increase in investment property under construction. Please also provide details on the material investment properties under construction.

6. Please provide a breakdown of Property under development of $77,003,000 and $58,482,000 as at 31 Dec 2020 and 31 Dec 2019 respectively, and an explanation for the increase in property under development. Please also provide details on the material properties under development.

Manhattan's Response

The breakdown of Investment property under construction is as follows:

	31-Dec-20	**31-Dec-19**
	$'000	**$'000**
At 1 January	16,832	14,759
Development costs capitalised	3,505	2,528
Gain on fair value adjustment recognised in profit or loss	161	–
Exchange differences	892	(455)
At 31 December	21,390	16,832

The breakdown of Property under development is as follows:

	31-Dec-20	**31-Dec-19**
	$'000	**$'000**
At 1 January	58,482	48,980
Development costs capitalised	15,359	11,081
Exchange differences	3,162	(1,579)
At 31 December	77,003	58,482

The Ningbo Project will be a 56-storey building, which sits on a land area of approximately 23,381 sqm and will have a built-up area of approximately 160,000 sqm offering office, retail and SOHO components. The Ningbo Project is located in the South Commercial Park of Yinzhou District in Ningbo City, which has been planned as one of Ningbo City's major new business centres, and is currently expected to be completed in 2025. The total estimated cost of development for the Ningbo project is approximately S$413 million.

Despite the Group's effort to progress the development of the Ningbo Project, the Group has experienced various delays as a result of:

(a) MRN's dispute with MCC TianGong Group Corporation Limited (中冶天工集团有限公司) ("MCC") in 2017. MCC, the then-contractor of the Ningbo Project, had initiated legal proceedings against MRN for claims relating to (i) additional design and construction works allegedly performed by MCC amounting to RMB 19,130,074.20; and (ii) damages amounting to RMB 26,169,978.00. Operations at the Ningbo Project site experienced disruptions at the same time. MCC's claims have since been dismissed by the Ningbo City Yinzhou District Court – please refer to the Company's announcements dated 20 April 2017, 6 July 2018 and 6 August 2018 in relation to this matter.

(b) Delays to the construction works including the commencement of the excavation works are also due to external factors outside the Company's control, namely, (i) a shortage of cement and concrete in the region arising from a crackdown by national environment authorities in the PRC on sandstone and cement processing factories which fail to comply with the environment regulations; (ii) delay by the terminals serving the transportation of mud and other waste from construction sites; and (iii) temporary stop work instructions by local authorities as a result of the hosting of certain public events and extreme weather conditions. Please refer to the Company's circular dated 17 April 2020 in relation to this matter.

(c) The construction has been delayed due to the outbreak of COVID-19.

In view of the various delays, the Ningbo Project is now expected to be completed by end of 1H 2025.

The pile foundation works have been completed. The team has also completed the installation of four tower cranes and the first level basement supporting beam. Currently, the construction of the basement is in process, the basement excavation work is expected to complete in 2021. In addition, the Company has also invited qualified and high creditworthiness party to participate for the steel structure optimization tender process.

SGX-ST's Question

7. Please provide a breakdown of Trade and Other Payables (current and non-current) of $36,935,000 and $67,626,000 for the period ended 31 Dec 2020 and 31 Dec 2019 respectively, and an explanation, on a line item basis, for the significant decrease in trade and other payables.

Manhattan's Response

	31-Dec-20 $'000	**31-Dec-19 $'000**	**Variance $'000**	**Note**
Trade payables (current):			(Increase) / Decrease	
Trade payables	(14,234)	(7,591)	(6,643)	**(a)**
Accrued expenses	(3,885)	(3,911)	26	
Other payables	(5,847)	(5,823)	(24)	
Amounts due to related parties	(2,156)	(42,088)	39,932	**(b),(d)**
Trade and other payables (current)	(26,122)	(59,413)	33,291	
Trade and other payables (non-current):				
Other payables	(8,659)	(8,213)	(446)	**(c)**
Amounts due to related parties	(2,154)	–	(2,154)	**(d)**
	(10,813)	(8,213)	(2,600)	
Total trade and other payables	**(36,935)**	**(67,626)**	**30,691**	

(a) The increase in trade payables is attributable to the progressive construction arising from property development project.

(b) During the year, a debt of approximately US$27.2 million (2020: $38,487,000, 2019: S$36,661,000) of amounts due to related parties, were converted into new shares of the Company subsequent to the completion of the debt conversion.

(c) Included in other payables (non-current) are government grants received in advance amounting to $8,659,000 (2019: $8,213,000) for the construction of infrastructure in connection with the land use rights acquired by Manhattan Resources (Ningbo) Property Limited in 2011. These payments may be applied to offset the construction costs of the relevant infrastructure, subject to the applicable development regulations and conditions.

(d) The Company and Kaiyi entered into a loan agreement on 5 December 2019 whereby a loan of US$1,630,000 was granted to the Company. The loan was due for payment by 31 December 2020. The Company and Kaiyi further entered into a supplemental agreement on 4 December 2020 for which Kaiyi agreed to extend the loan to 30 June 2022. These amounts were classified as part of non-current liability in FY2020.

BY ORDER OF THE BOARD

Low Yi Ngo
Chief Executive Officer and Managing Director
15 March 2021