

ANNOUNCEMENT

CLARIFICATION ON SETTLEMENT OF TRADE RECEIVABLES AND UPDATE ON AGRICULTURE DIVISION

HLH Group Limited (the “Company”) wishes to provide the following additional information in response to the queries raised by SGX-ST on 29 August 2017.

Question 1

How the trade receivables due from Zhong Fu were settled with the termination.

Response from the Company:

With reference to the quarterly results announcements made on :

- 24 February 2017 for 4Q 2016 result – The Company mentioned that “the group took over 2,400 hectare for direct cultivation”
- 8 May 2017 for 1Q 2017 result – “the remaining 5,100 hectare under the joint cooperation agreement were also taken over from 24 April 2017”
- 31 July 2017 for 2Q 2017 result – “Agriculture land in Cambodia was reclassified from investment properties to PPE for direct cultivation as we ended the joint cooperation with Zhong Fu”

As at 31 Dec 2016, trade receivables due from Zhong Fu was S\$7.545 million, no bad debt provision or write off were made. Based on an independent third party valuation report in Dec 2016, the value of cassava stalk seedlings was S\$1.2 million and fresh cassava on the ground that is yet to harvest was S\$10.4 million.

In 1Q 2017, as settlement of trade receivables, we received some payment of crop sales of S\$0.2 million and we took over the cassava stalk seedlings of S\$1.2 million and fresh cassava of S\$5.8 million. Some differences is due to foreign exchange in closing rate in Dec’16 and Mar’17. As we did not recognize joint cooperation income in 1Q 2017, no bad debt or write off was required.

It is important to highlight that the final amount harvested is subjected to weather conditions, flood, pests and disease. Any gain or loss will be considered upon the harvest of cassava crops.

Question 2

Provide an update from the announcement made by the Company on 19 April 2016 on the agriculture division. This is in view that the earlier target, production level and capacity have differed from expected.

Response from the Company:

Further to our press release announcement on 19 April 2016, we would like to update the progress on the agriculture division.

First of all, we continue to seek international investors for joint cooperation opportunities in our Cambodia agriculture park, which consists of a cassava starch production factory, 7500 hectares of farmable area for cassava and 2500 hectares of rocky surfaces that is suitable for husbandry or livestock investment and cultivation of fruit trees.

The company's first starch factory has the capacity to produce 120 tons to 150 tons of starch on a daily basis. However, we realized that it was difficult to achieve the full capacity mainly due to lack of manpower, lack of professional management staff and skilled technical workers. Despite our effort, new workers require much time to be trained. Also due to the fact that our trading division only started in early 2017, sales channel has not been well established yet. Hence, we are currently operating on a 8 hours shift per working day instead of three shifts. As such, the production capacity utilization rate is only 20-30%.

The target of 50,000 tons of cassava starch and chips was not achieved in 2016 primarily due to the inability to recruit of professional management staff. Furthermore, the inclement weather in 2016 decreased the yield of the crops. For the first half of 2017, Sales from cassava starch and fresh cassava were S\$782,905.

As we are making little progress and not fully utilizing the production capacity, we are postponing the plan for two additional production lines until we secure sufficient sales orders.

Also mentioned in our earlier plan to set up agriculture collection centre, we decided to hold back as after further due diligence, we realised that it will not be feasible but rather it will be much better if we buy the fresh crop from our neighboring farmers to produce starch.

By order of the Board
HLH GROUP LIMITED
Dr. Ong Bee Huat
Executive Director
5 September 2017