



HONG LAI HUAT GROUP LIMITED

(Incorporated in the Republic of Singapore)
Reg. No. 199905292D

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Query 1 (cont'd)

Company's Response

Factors which caused the 90% year-on-year decline in revenue to S\$1.6 million are mainly due to the followings:

- a. Sale of our D'Seaview hotel in Sihanoukville, Kingdom of Cambodia in FY2021. Settlement agreement entered between our subsidiary, PH One Development (Cambodia) Limited ('PH One') and the previous buyers of its hotel in FY2021 to complete the sale.

The original sale and purchase agreement ("SPA") was entered in FY2018, however, PH One has terminated the SPA due to the buyer has failed to make the requisite payments for the purchase of the hotel in FY2018 (Termination of SPA for the sale of D'Seaview Hotel announcement dated 11 December 2018).

- b. Negative sentiment of kidnapping, human trafficking and industrial-scale scam centers in Cambodia has affected our sales significantly in FY2022.

Query 2

The Company disclosed that its gross profit margin dropped by 20% from 61% in FY2021 to 41% in FY2022. Please elaborate on the reasons that resulted in the decline in gross profit margin.

Company's Response

Sale of D'Seaview hotel in FY2021 contributes to the higher gross profit margin in FY2021 as compared to FY2022.



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Query 3

Please elaborate on the factors which resulted in substantial fair value losses on biological assets in FY2022. Please disclose the biological assets which were revalued, quantify the revaluations, as well as explain any changes in the assumptions applied between FY2021 and FY2022.

Company's Response

Biological assets relate to immature cassava that have yet to be harvested.

The fair values of the Group's biological assets at 31 December 2022 and 31 December 2021 have been determined on the basis of valuations carried out at the respective year end dates by independent professional valuer having an appropriate recognised professional qualification and recent experience in the location and category of the assets being valued.

The fair value of biological assets is \$1,499,00 at 31 December 2022 and \$5,070,000 at 31 December 2021.

In FY2022, as a result of the ongoing conflict in Europe, there has been a market increase of 90% on the cost of grass chemicals and fertilizers required to nurtured the cassava growth on site and the similar situation have also been faced by other agricultural companies around the world. It is not feasible to incurred the cost as it will result in difficulty selling the crop at a profit.

As a result, the harvest yield had dropped significantly from 25.00 tons/hectare in FY2021 to 12.73 tons/hectares in FY2022 as there were no usage of grass chemicals and fertilizers and the lands were heavily cultivated over the years.

The fair value also decreases with higher contributory asset charges and discount rate used in FY2022.

There are no changes in the assumptions applied between FY2021 and FY2022.



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Query 4

Please elaborate on the factors which resulted in the significant impairment loss on property, plant and equipment, details of the PPE that was impaired, how the value of the significant impairment was arrived at and the residual value of the relevant asset(s) after impairment. Please also disclose the name and track record of the valuer engaged for the valuation exercise.

Company's Response

Description	Net book value	Adjustment for impairment	Net book value	
	(Before impairment) as at 31 Dec 2022		(After impairment) as at 31 Dec 2022	
	\$'000	\$'000	\$'000	
Drying tower machines	1,335	(677)	658	(a)
Water irrigation system	3,880	(1,967)	1,913	(a)
Buildings	1,637	(108)	1,529	(b)
Land infrastructures	1,034	(748)	286	(b)
	<u>7,886</u>	<u>(3,500)</u>	<u>4,386</u>	

The fair values of the Group's PPE at 31 December 2022 and 31 December 2021 have been determined on the basis of valuations carried out at the respective year end dates by independent professional valuer, Twin Pillars Holdings Pte. Ltd., having an appropriate recognised professional qualification and recent experience in the location and category of the assets being valued.

Factors contributing to the impairment loss on PPE are:

- Some of the drying tower machinery and water irrigation system are no longer in use and only simple maintenance were carried out during the financial year. The valuer has adjusted the estimated remaining useful live in accordance with the condition of the machinery and equipment. Based on the assessed fair value, the management has provided an impairment loss of \$677,000 (drying tower machines) and \$1,967,000 (water irrigation system) for individual assets which having carrying amount higher than their respective fair value as at 31 December 2022.
- The independent professional valuer has adopted the replacement cost approach to value these assets. The fair value of buildings and land infrastructures has decreased as compared to FY2021 due to minimal maintenance carried out during the financial year. Based on the assessed fair value, the management has provided an impairment loss of \$108,000 and \$748,000 for buildings and land infrastructures respectively as their fair values are lesser than their carrying amount as at 31 December 2022.



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Query 5

The Company reported a S\$695k profit from share of profit of a joint venture. Please identify the JV and its principal activities, elaborate on the performance of the JV which resulted in the higher profit, and the value of the dividends received from the JV to-date.

Company's Response

The principal activities of the group's JV, Royal Hong Lai Huat One Company Limited incorporated in the Kingdom of Cambodia are property development and real estate.

The JV develops and sells residential and commercial properties. Contracts with customers may include multiple distinct promises to customers and therefore accounted for as separate performance obligations. If the contract with the customer contains more than one performance obligation, when the stand-alone selling prices are not directly observable, they are estimated based on expected cost-plus margin approach.

Revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The progress towards complete satisfaction of a performance obligation is determined by the proportion of property development costs incurred for work performed to date bearing to the estimated total property development costs (an input method).

The higher profit is mainly due to higher proportion of property development costs incurred for work performed in FY2022 as compared to FY2021, resulting in higher revenue recognised in FY2022.

No dividends were declared from the JV to-date.

By Order of the Board

Dato Dr. Ong Bee Huat
Executive Deputy Chairman & CEO
29 March 2023