RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

Hwa Hong Corporation Limited (the "Company") refers to its Annual Report for the financial year ended 31 December 2016. The Company would like to respond to the following questions raised by Securities Investors Association (Singapore) ("SIAS") as follows:

Queries from SIAS:

Q1. The group has multiple projects being redeveloped in the United Kingdom, to complement the stable portfolio in Singapore. Shareholders would like to better understand the group's operations related to:

a) **Singapore**: In the Joint Letter to Shareholders (pages 4 to 7 of the annual report), the group acknowledged that it has been *"highly cautious in investing in all segments of the Singapore property market for a number of years"* but it added that the group is *"actively seeking investment opportunities which we could entertain when the market has stabilised".* **What are the indicators that the group uses to assess if the market has stabilised? Which sector (residential/commercial etc) would the group be most keen to explore?**

Company's reply :-

The Group looks at, inter alia, current market prices, historical price trends, supply and demand when assessing the state of the property market. The Group currently has residential, commercial and industrial in its portfolio and will consider opportunities in all 3 sectors.

b) **Sheffield**: **Should the development of the student accommodation facility get the go-ahead, what would be the expected development costs?**

Company's reply :-

The Group is unable to disclose the development cost as the information is sensitive and disclosure could be prejudicial to our commercial interests.

c) **Quoted equity investments: Can shareholders get an update on the performance of the group's quoted equity investments? Is the portfolio internally managed?** The group received no dividend income in 2016 and took an impairment loss of $1.9 million on quoted equity investments (current). The total value as at 31 December 2016 of the quote equity investments portfolio was $28.9 million.

Company's reply :-

The portfolio is internally managed. The dividend income was reflected on page 83, under Revenue line. The Group received $1,150,704 dividend in FY2016 from quoted equity and non-equity investments. These investments are mostly dividend yielding equities whereby the dividend yield was 3.53% for the Group.

Q2. Shareholders would also like to gain more clarity into the group's financial risk management approach. Specifically:

a) **Gearing**: The group's gearing ratio, as defined by total liabilities divided by total equity, has increased gradually from 11% in 2010 to 41% in 2016, as seen in the table below. Finance cost has also increased by 67.4% to S$1.4 million mainly due to higher average bank borrowings in FY2016. **What is the optimal capital structure for the group, and what are the plans to achieve it? Are there any constraints on borrowings set by the current lenders?**

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Gearing	11%00	14%	16%	22%	21%	24%	41%

Company's reply :-

The Group's gearing ratio, is defined as total liabilities divided by total equity. The gearing is lower than 41% if we take into account the fair market value increase of the properties as the investment properties are accounted using the cost model. We are comfortable with our gearing and current capital structure. The Group will look to maintain a strong balance sheet and use gearing effectively where we feel it is appropriate.

The Group needs to fulfil typical bank covenants, which include, inter alia, loan to value and interest coverage ratios.

b) **Currency risks:** In the Joint Letter to Shareholders (page 5), it was disclosed that the group has *"worked to limit our GBP/SGD foreign exchange risk, especially for our new investments in 2016".* Page 128 shows the significant impact of a 10% move in the Sterling/Singapore dollar FX rate. **How much natural hedging is there for the group's investments in the United Kingdom? Other than that, what are the other instruments that the group has used to manage its foreign currency risks?**

Company's reply :-

Certain UK associates and JVs have bank borrowings in the UK which create a natural hedge. The Group also uses its multi-currency bank lines which are secured against our cash deposits as a means to hedge currency fluctuations. With the sterling pound loans the Group put in place, approximately 40% to 50% of the investments in the UK are hedged. Other than that, the Group does not invest in derivatives to hedge its foreign currency risks.

Q3. In Note 17 (page 97 – Investment in associates), the group recognised a further charge of $0.345 million in allowance and wrote off $4.184 million in its investment in associates, as shown below.

Movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	2016	2015	2016	2015
	$	$	$	$
Balance at 1 January	(4,486,768)	(4,372,685)	–	–
Currency realignment	651,291	(114,083)	–	–
Charge for the year	(349,343)	–	–	–
Written off	4,184,820	–	–	–
Balance at 31 December	–	(4,486,768)	–	–

a) Can shareholders get more visibility into the $4.184 million write-off of the group's investments in associates? What were the write-offs related too? What were the developments or events that led the group to fully utilise the allowance in 2016? What is the current carrying value of those associates which allowance was made?

<u>Company's reply :-</u>

The write-off of $4.184 million had no impact on the profit and loss accounts. The provision accounts relates to the provisions previously made on loans and non-trade amounts provided to our investment in an associate, Capital Willenhall Limited. This associate was in net tangible liability positions for the past few years.

Capital Willenhall was set up in 2007 to hold a property, West Midlands House. Subsequent to acquisition, the market value of this property declined progressively over the years. Provisions were made on these amounts. In FY2016, the property was sold and the proceeds were applied for payment of outstanding liabilities. Additional provision of $0.349m was made for the non-recoverable amount as mentioned in our Q1 2016 financial announcement.

Subsequent to disposal, Capital Willenhall has no further business operations and the Group disposed of this entity. Accounting entries were accordingly made to reverse the provisions that were previously made. Effectively, the Group has no carrying values of this associate as at 31 Dec 2016.

Submitted by

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27 April 2017