

QUESTIONS FROM SHAREHOLDERS AND SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO THE ANNUAL REPORT 2019

The Board of Directors (the “**Board**”) of Pavillon Holdings Limited (the “**Company**”) refers to the announcement dated 5 May 2020 on the Live Webcast of Annual General Meeting on 28 May 2020 (the “**Announcement**”).

Further to the Announcement, the Company had received several questions from Securities Investors Association Singapore (“**SIAS**”) posted on 18 May 2020 (“**Questions**”). The Company and the Board wishes to provide its responses to the Questions as follows:

Question 1

In the chairman and managing director’s message to shareholders, management stated that the group attained a revenue of \$13.0 million, a slight decrease from \$14.4 million in the financial year ended 31 December 2019 (page 2 of the annual report). This was attributed mainly to decreased revenue from Singapore restaurant operations as well as a decrease in revenue from operations in China due to a decline in financial leasing business during the year.

The slight decrease mention above was actually a 9.7% drop in revenue while the “decline in financial leasing business” was a drop in leasing revenue from \$1.5 million to just \$0.1 million in FY2019.

Management had also added that the group received unquoted shares valued at \$3.9 million and that the group is satisfied with the valuation of unquoted shares which was deemed sufficient to “substantially cover the amount due from the debtor” (page 3). As a result, the group reversed an \$3.86 million in impairment loss on the finance lease receivables out of the total amount of \$4.83 million recognised in FY2018. However, as noted in the key audit matter which was highlighted by the independent auditor, in FY2019, the group recognised additional loss allowance of \$5.92 million due from a major debtor (page 18). This was not mentioned in the message the shareholders.

- (i) **Would the independent directors help shareholders understand their level of involvement in preparing the annual report?**

The independent directors vetted and approved the annual report.

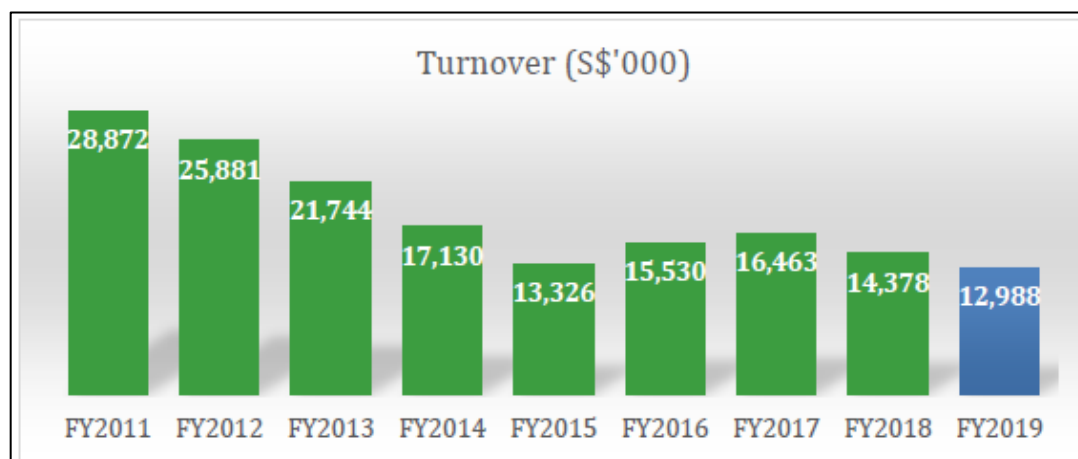
- (ii) **What guidance would the board (especially the independent directors) give to management to ensure that the annual report, including the message to shareholders, gives shareholders a true, fair and holistic view of the group’s performance in the year, including the achievements and the challenges faced by the group?**

The board held detailed discussions with management on the group’s financial results and challenges at board meetings during which appropriate disclosures in both the half yearly financial statements and the Annual Report were decided with the objective of giving shareholders a true, fair and holistic view of the group’s performance.

Question 2

Can management provide shareholders with better clarity on the following operational and strategic matters? Specifically:

- (i) **Strategic direction:** The group's revenue has dropped from \$28.87 million in FY2011 to \$12.99 million in FY2019. The group has made substantial losses in the last decade (see Q3 for the losses), especially in China. The group experienced year-on-year revenue decreases in 6 of the last 8 years (see chart below). **Would the independent directors be driving a strategic review to safeguard the interests of all shareholders, especially minority shareholders?**



(Source: data from company annual reports; graphics by SIAS)

Sales turnover of our Thai Village Restaurants in China has been declining since 2011. High-end restaurant businesses were affected by the austerity policies of the Chinese Government which also resulted in less business spending. Revenue was further reduced when the group divested its 2 restaurants in Shanghai in 2016.

Foreseeing the decline of its restaurant business in China, the board undertook a strategic review of its business direction involving the independent directors in 2014, which resulted in its diversification into financial leasing and property businesses in addition to its F&B business.

The diversification process is being evaluated and reviewed regularly, and the independent directors have been actively taking part in the review.

- (ii) **Fengchi IOT Co., Ltd:** With the company's stake in Fengchi IOT Co., Ltd being diluted to 49%, what is management's level of influence and oversight of the development of the bonded warehouse in the DongJiang Economic Zone, Tianjin? What is the experience and track record of management in developing and operating logistic facilities in a Free-Trade Zone in China?

We have our board representation in Fengchi IOT Co Ltd. In addition, we are actively involved in decision making, be it in the construction process, HR matter or operations.

Our business partner and the IOT management have many years of experience in property development and logistics operations of parallel import of cars in China. Even with that, we are currently discussing with prospective partners who are market leaders in this field of business.

- (iii) **Unquoted shares:** The group received unquoted equity shares of RMB20 million as part of the partial settlement from the former executive director. **What was the valuation method used by the board/management? How easy would it be for the board to monetise the unquoted equity shares if needed?**

As explained in page 56, note 17 of the annual report, the company, Lingbao, whose unquoted equity shares the group received, is partially listed on the Stock Exchange of Hong Kong Ltd. The fair value of the unquoted equity shares is determined by a hybrid of the net asset value of Lingbao and the transaction price of its quoted shares. The fair value is within level 2 of the fair values hierarchy.

Depending on market conditions, the unquoted equity shares can be monetized by selling them to private investors.

- (iv) **Other receivables:** The group impaired \$7.0 million in other receivables in FY2018. **Please disclose the nature of the “Other receivables” and the profile/identity of the debtor. How is management going to recover this long-outstanding debt?**

The debts were from the financial leasing segment of the business. The company has started legal proceedings to recover the debts.

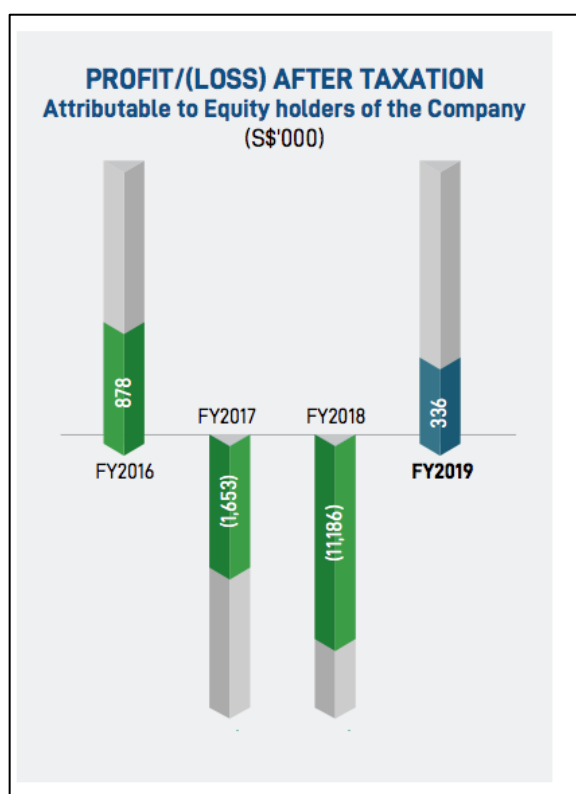
- (v) **Leasing:** Given the track record of the group in the leasing business, what are management’s plans for the leasing segment?

The group has greatly reduced the financial leasing business for the time being. It will scale up the leasing business in conjunction with the start of its operations of the logistics hub after construction completes.

Question 3

As seen on page 9 (Financial highlights; reproduced below), the group reported a profit attributable to equity holders of the company of \$336,000 in FY2019.

Since FY2014, the cumulative losses of the group attributable to shareholders amount to \$(14.97) million. The losses in FY2014 and FY2015 were \$(1.12) million and \$(2.23) million respectively.



(Source: company annual report)

The remuneration of the executive directors is shown on page 118 and reproduced below:

Directors					
	Salary	Fee	Bonus	Other benefits	Total
	%	%	%	%	%
Directors					
Between S\$500,000 and S\$749,000					
Chen Seow Phun, John	72.3	-	10.8	16.9	100
Between S\$250,000 and S\$449,000					
Lee Tong Soon	83.8	-	13	3.3	100
Kok Nyong Patt	78.6	-	12	9.3	100
Zheng Fengwen ⁽ⁱ⁾	85.8	-	6	8.2	100

(Source: company annual report)

All the directors received bonuses that were between 6-13% of their annual remuneration packages. In FY2018 when the company reported a loss of \$(11.2) million, the executive directors received 5-6% in bonus.

The remuneration of directors since FY2014 is shown in the table below:

	Total director remuneration (salaries, bonus and other benefit)	Bonus	Profit/(loss) attributable to shareholders
FY2014	\$3,085,000	4-6%	\$(1,115,000)
FY2015	\$2,802,000	4-6%	\$(2,225,000)
FY2016	\$2,504,000	5-6%	\$878,000
FY2017	\$2,256,000	5-6%	\$(1,653,000)
FY2018	\$1,778,000	5-6%	\$(11,186,000)
FY2019	\$1,840,000	6-13%	\$336,000
Total	\$14,265,000	-	\$(14,965,000)

(Source: company annual report)

Based on the fees approved by shareholders at the annual general meeting, it would appear that the company stopped the practice of paying the executive directors director's fees. Directors' fees dropped from \$378,000 in FY2018 to \$198,000 in FY2019. Prior to that, it is estimated that the four executive directors received fees of approximately \$180,000 while the independent directors received fees of \$198,000.

Nevertheless, from FY2014-FY2019, the directors received \$14.3 million in the 6 years while the total losses attributable to shareholders amounted to \$(14.97) million.

While executive remuneration has come down in FY18-FY19, the directors still received remuneration of approximately \$1.8 million a year when the company lost over \$10 million during that period. In FY2019, bonuses for directors increased probably due to the profit of \$336,000 achieved in the year.

The remuneration committee ("RC") comprises three members, namely Mr Foo Der Rong (chairman), Mr Hoon Tai Meng and Mr Ko Chuan Aun. The RC has stated that it has a remuneration policy to provide compensation packages at market rates which reward successful performance and attract, retain and motivate directors and key management personnel.

Provision 7.1 of the Code of Corporate Governance further states that a significant and appropriate proportion of executive directors' and key management personnel's remuneration is structured so as to link rewards to corporate and individual performance.

- (i) **Has the RC evaluated the performance of management in the past 5-8 Years?**

Yes, the RC evaluates management's performance every year.

- (ii) **Looking at the table above, has the RC evaluated the level and structure of executive remuneration and if the current remuneration practices achieve the goal of pay-for-performance?** Over a 6-year period, directors received \$14.3 million while shareholders suffered losses of \$(14.97) million.

The executive directors did not receive any performance bonus since 2014. They received a 13th month AWS as part of their service contract. Half of the FY2019 AWS which was supposed to be paid in Jan 2020 was paid in Dec 2019 because of early arrival of the Chinese New Year in 2020.

The company has stated that the executive chairman oversees the business direction, long term strategic planning and the overall management and operations of the group (page 102). However, as disclosed in the director's profile on pages 106 and 107, the executive chairman has directorships in multiple boards of other listed companies, such as:

- OKP Holdings Limited
- Hiap Seng Engineering Ltd
- Hanwell Holdings Ltd
- Matex International Limited
- Tat Seng Packaging Group Ltd
- Hong Lai Huat Group Limited
- Fu Yu Corporation Limited

Dr Chen is also the deputy chairman or lead independent director on some of these boards.

- (iii) **Would the nominating committee evaluate how the group might benefit from the leadership of an executive chairman who is primarily focused on matters of the group and chooses to fully devote his time and energy to turn around the group?**

The nominating committee regularly reviews the performance of the board and all the directors including the executive chairman.

Dr Chen has vast business experience from various trades. His business exposures and networks benefit the group greatly. In addition, the company has a full-time managing director running the day to day operations of the company.

BY ORDER OF THE BOARD

Lee Tong Soon
Managing Director

27 May 2020