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## RESPONSE TO SGX QUERIES RECEIVED ON 9 MARCH 2023

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The Board of Directors (the “**Board**”) of Hor Kew Corporation Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to provide the following information in response to SGX’s queries received on 9 March 2023 relating to the Group’s unaudited financial results for the full year ended 31 December 2022 (“**FY2022**”) released on 1 March 2023 via SGXNET:-

### SGX query 1:

It is disclosed in the financial statements that the Company reported an increase of 144% in current trade receivables to \$32.2 million, constituting about 42% of the Group’s revenue of \$76.2 million and 36% of its total current assets in FY2022. Please disclose: It is disclosed in the financial statements that the Company reported an increase of 144% in current trade receivables to \$32.2 million, constituting about 42% of the Group’s revenue of \$76.2 million and 36% of its total current assets in FY2022. Please disclose:

- (a) the breakdown of the Group’s trade receivables and disclose details to explain the sudden increase in trade receivables;
- (b) the ageing profile of the Group’s trade receivables in bands of 3 months (with the upper limit disclosed);
- (c) whether these debtors are related to any directors, key executives, substantial shareholders or their respective associates;
- (d) the general credit term extended to customers; and
- (e) the Board’s assessment on the recoverability of the Group’s trade receivables, and the basis for such an assessment.

### Company’s response:

- (a) Below shows the breakdown of the Group’s trade receivables as at 31 December 2022:

|                                      | <b>\$’000</b>        |
|--------------------------------------|----------------------|
| Third party receivables              | 50,356               |
| Related party receivables            | 3,482                |
|                                      | <u>53,838</u>        |
| Impairment loss on trade receivables | (18,471)             |
| <b>Net trade receivables</b>         | <b><u>35,367</u></b> |
| Represented by:                      |                      |
| - Non-current                        | 3,127                |
| - Current                            | 32,240               |
|                                      | <b><u>35,367</u></b> |

As can be seen from the Group's consolidated statement of profit or loss and other comprehensive income under Note A of the Company's results announcement, for the 6 months ended 31 December 2022 ("2H2022"), there was a huge variance in revenue of \$17.3 million compared to the 6 months ended 31 December 2021 ("2H2021"). This was explained in Note E17 of the Company's results announcement as mainly due to higher deliveries of prefabricated building components from increased order books. This huge variance of \$17.3 million revenue in 2H2022 over 2H2021 was the first main reason for the huge increase in current trade receivables of \$19.0 million from \$13.2 million in 31 December 2021 to \$32.3 million in 31 December 2022.

The second main reason for the increase in current trade receivables was due to the long collection cycle. Ageing starts upon issuance of invoices at monthly progress claims from our customers. After receiving our monthly progress claims, customers will then take roughly around 30 days to certify our claims after which they may take up to 60 days to make payment. However there might be various short-certifications and disputes that might take a long time to be resolved and certified. Therefore, trade receivables without short-certifications and disputes may take around 90 days to be fully paid but those with disputes may take 120 to 180 days to be settled and paid, or even beyond 180 days. This long collection cycle caused the trade receivables as at 31 December 2022 to be more than that as at 31 December 2021 by roughly the same amount of revenue increase in 2H2022 over 1H2021.

- (b) Below shows the ageing profile of the Group's current trade receivables as at 31 December 2022, in bands of 3 months:

|                                      | <b>Not<br/>due<br/>\$'000</b> | <b>1 to 3<br/>months<br/>\$'000</b> | <b>4 to 6<br/>months<br/>\$'000</b> | <b>7 to 9<br/>months<br/>\$'000</b> | <b>10 to 12<br/>months<br/>\$'000</b> | <b>&gt;12<br/>months<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|--------------------------------------|-------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|---------------------------------------|-------------------------------------|-------------------------|
| Trade receivables                    | 19,863                        | 11,847                              | 363                                 | 993                                 | 1,557                                 | 16,088                              | 50,711                  |
| Impairment loss on trade receivables | (505)                         | (749)                               | (89)                                | (644)                               | (1,408)                               | (15,076)                            | (18,471)                |
|                                      | <b>19,358</b>                 | <b>11,098</b>                       | <b>274</b>                          | <b>349</b>                          | <b>149</b>                            | <b>1,012</b>                        | <b>32,240</b>           |

- (c) As mentioned in our response to query 1 point (a) above, there was an amount of \$3.5 million under related party receivables, being amount receivable (including retention sum) from Triton Metal Supplies Pte Ltd ("**Triton**") arising from a Mandai depot project. The sole owner and director of Triton was Mr Aw Zhixian, Benson whom was the brother of both the Chairman and CEO of the Company Mr Aw Chi-Ken, Benjamin and Executive Director of the Company Ms Aw Ying Ying, Elicia. The Group's Interested Person Transactions for this Mandai depot project with Triton were declared in the Company's various results announcements for the financial years ended 31 December 2017 to 31 December 2019. As there was an amount payable to Triton of \$2.2 million, the net receivable amount from Triton was \$1.3 million which was already fully impaired by the financial year ended 31 December 2021.

Other than the above related party receivables, there were no other receivables whereby the debtors are related to any directors, key executives, substantial shareholders or their respective associates.

- (d) The general credit term extended to customers was in the range of 30 to 90 days but refer to our response to query 1 point (a) above on explanation for the long collection cycle.

- (e) In accordance with Financial Reporting Standards, the Group used a provision matrix to estimate the expected credit loss (“ECL”) allowance required for its trade receivables as at 31 December 2022. Based on the matrix, the Group estimated the ECL rates based on historical observed default rates, and then adjusted these rates based on forward-looking factors specific to the debtors and economic environment. Using this methodology, the Group was required to top up its ECL allowance as at 31 December 2022 by \$3.3 million, so it had provided for impairment loss on trade receivables of \$3.3 million for FY2022.

The Board had assessed this impairment loss on trade receivables of \$3.3 million to be adequate, and that the total net current and non-current trade receivables of \$35.3 million after impairment as at 31 December 2022 to be recoverable.

**SGX query 2:**

As at 31 December 2022, the Group has a negative working capital (net current liabilities) of \$8.7 million with cash and cash equivalents of \$22.4 million.

- (a) Please assess the Company’s ability to meet its short-term obligations as and when they fall due;
- (b) Please assess the Company’s ability to operate as a going concern and provide the basis for the Board’s view; and
- (c) Please provide the Board’s confirmation that all material information has been fully disclosed via SGXNET to enable trading to continue on an informed basis.

**Company’s response:**

- (a) The Group had a term loan of \$25 million due for repayment on 31 October 2023, and as such was classified under current liabilities as at 31 December 2022. This same term loan was classified under non-current liabilities as at 31 December 2021. The Group has a negative working capital (net current liabilities) of \$8.7 million as at 31 December 2022 mainly due to the difference in classification for this term loan between these two financial years leading to a huge increase in current liabilities of \$25 million. This change in classification was explained in Note E17 of the results announcement.

The existing bank financing this \$25 million term loan has agreed to refinance this term loan when it falls due on 31 October 2023 so it is therefore not payable at this date. Hence, if this term loan amount of \$25 million was to be excluded from current liabilities, the Group would have a positive working capital (net current assets) of \$16.3 million.

The Board has assessed the Company’s financial position considering above loan refinancing and is confident of the Company’s ability to meet its short-term obligations as and when they fall due.

- (b) As explained under query 1 point (a) above, with the planned refinancing with our existing bank for the \$25 million term loan, the Group would have a positive working capital (net current assets) of \$16.3 million. The Board therefore assessed that the Company is able to meet its liabilities as and when they fall due, and is able to operate as a going concern; and
- (c) The Board confirms that all material information has been fully disclosed via SGXNET to enable trading to continue on an informed basis.

**SGX query 3:**

In relation to Note E8 (Dividend), we note that the Company stated that no dividend has been declared or recommended for the financial year ended 31 December 2022. Pursuant to paragraph 12 of Appendix 7.2 of the Listing Manual, the Company is required to elaborate why the Company has not declared any dividends. Please disclose accordingly.

**Company's response:**

As can be seen from the statements of financial position under Note B of the Company's results announcement, as at 31 December 2022 although the Group had accumulated profits of \$4.5 million, the Company had accumulated losses of \$24.3 million. The Board considered this, and is of the view that while the Group was profitable for the financial year ended 31 December 2022, the Group's earnings and cash flow position were not strong enough to declare dividends at this point of time. This is prudent given that the Group is facing inflationary cost pressures for staff and raw materials as mentioned in Note E19 of the Company's results announcement.

The Board always seeks to increase shareholders' returns, and it plans to declare dividends in future at an appropriate time when the Group's earnings and cash flow position are more stable, and the accumulated losses at Company level turn to accumulated profits.

**SGX query 4:**

In relation to Note E22 (Disclosure of persons occupying managerial positions who are related to a director, CEO or substantial shareholder), please disclose the date on which these appointments were made and whether the Company has complied with the requirements under Listing Rules 704(9) and/or 704(10). If not, please comply accordingly.

**Company's response:**

The appointments of Ms Aw Lay Sim and Mr Aw Hong Hwee were announced on SGXNET on 21 February 2011. Mr Aw Soon Hwee is a substantial shareholder of the Company and is not required to be disclosed under Note E22 but we had disclosed that he is the uncle of both the Chairman and CEO of the Company Mr Aw Chi-Ken, Benjamin and Executive Director of the Company Ms Aw Ying Ying, Elicia for additional transparency purpose.

The Company has announced the appointment of Ms Aw Yue Ying, Elise as Internal Audit Manager on 1 January 2021 and her promotion to Executive Manager on 1 January 2022 in two earlier announcements on SGXNET dated 13 March 2023.

**BY ORDER OF THE BOARD**

MS KOH EE KOON  
COMPANY SECRETARY  
13 March 2023