

PAVILLON HOLDINGS LTD.

(Company Registration No. 199905141N)
(Incorporated in the Republic of Singapore)

RESPONSE TO FURTHER QUERY FROM SGX

The Board of Directors (the "Board") of Pavillon Holdings Ltd. (the "Company") refers to the Company's response released on 5 March 2023 relating to the queries raised by SGX in respect to the unaudited financial results for the full financial year ended 31 December 2022 ("FY2022 Financial Statements") released on 23 February 2023.

The Company would like to provide information to further query raised by SGX on 20 March 2023.

The Company's reply is as follow:

SGX Query (1)

With reference to the Company's response to question 2(d), please explain in detail the methodology applied and factors taken into consideration to arrive at the fair value gain of S\$8.4 million, which is 108% of the value of the Group's investment in associate companies as at 31 December 2021. If the Company has engaged an independent valuer for this fair value assessment, please disclose the identity of the valuer, the date of valuation and explain the valuation methodology that was applied.

Company's response

The company has appointed Robert Khan & Co Pte Ltd as the independent valuer.

The valuer has used the income approach to determine the fair value of the property. The income approach is defined in (40.1) in IVS 105 Valuation Approaches and Methods, International Valuation Standards 2022 as follows :

The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow, or cost savings generated by the asset.

Date of Valuation: 31 December 2022

SGX Query (2)

With reference to the Company's responses to questions 5(a) and 5(c),

- a. please disclose the identities of the "new management", their respective roles and the date of commencement.
- b. please provide robust explanations and supporting evidence, including any cash flow forecast, on why the car washing business was assessed to be not viable.
- c. please provide further details of the Board's considerations for the decision to cease and write off the car washing business. Please also disclose whether the Board had obtained any professional or financial advice to arrive at its decision. If so, please disclose the identity of the adviser(s) and the advice provided.

Company's response

- a. The new management are:
 - 1) Calvin Loh who become the General manager and the legal representative of Pavillon China operation since June 2022. Calvin is also the financial controller of Pavillon Holdings Ltd; and

- 2) Feng Chun Long who is the China financial controller. He is employed from 1 November 2022.
- b. The Company commenced the car washing business in May 2021, and from May 2021 to September 2022, market response to the car washing services has been poor. The assumptions made by the former management has been too optimistic. The business generated revenue of RMB 319K with an operating cost of RMB 5 million. Out of RMB 5 million, the fixed cost is RMB 4.7 million. In order to be viable, the revenue needs to increase by at least 10 times. Alternatively, the company needs to invest in a lot more car washing machines. And therefore, having considered the options, the company decided not to continue with the car washing business.
- c. The company didn't engage any external advice. However, based on the above, it makes sense for the company to cut loss and discontinue the business asap. It is a commercial decision.

SGX Query (3)

With reference to the Company's response to question 5(b),

- a. the Company stated that the Net Asset Value of Tianjin Yixing Intelligent Washing Technology Co., Ltd. ("Tianjin Yixing") is S\$321,770 in FY2021. Please explain and reconcile the discrepancy with its net asset value of S\$8,232,000 presented at Note 18 of the Company's 2021 Annual Report and elaborate where the remaining \$7.9 million balance in the NAV of Tianjin Yixing has been adjusted to.
- b. please explain in detail the items resulting in the significant increase in net loss before tax from S\$165,160 in FY2021 to S\$1.83 million in FY2022.
- c. please disclose the total amount of investment made by the Company in Tianjin Yixing to-date and disclose the summarised financial statements for Tianjin Yixing for FY2021 and FY2022, providing further detailed breakdown of the assets and liabilities as well as expenses, and elaborate on the factors that affected the performance of Tianjin Yixing and the factors that affected the significant reduction in its NAV from \$8.2 million as at 31 December 2021 to only \$11,430 as at 31 December 2022.

Company's response

- a. We refer to the Company's response to question 5(b) previously, the Non-current asset value was inadvertently given as the Net Asset Value. The rectified numbers are as follows:

	FY2022	FY2021
	S\$ '000	S\$ '000
Revenue	59	12
Net loss before tax	1,833	165
Non-current asset value	11	313
Net Asset value	5,720	8,232

- b. The significant increase in net loss before tax from \$165,160 in FY2021 to \$1.83 million in FY2022, is mainly due to the following:

Increase in FY2022		S\$'000
Employee compensation		581
Depreciation		90
Fixed assets write off		406
Compensation fee		79
Deposit forfeited		192
Hiring/Rental Car		31
Professional fee		32
Rental		66
Traveling Expenses		14
Upkeep of motor vehicle		26
Other operating expense		75
Total		1,592

- c. To-date, investment in Tianjin Yixing Intelligent Washing Technology Co., Ltd by the Group is USD 6 million.

Summarised Financial statement of Tianjin Yixing

	FY2022 S\$'000	FY2021 S\$'000	Increase/(decrease)
<u>Current</u>			
Asset	5,712	8,162	(2,450)
Liabilities	<u>(3)</u>	<u>(97)</u>	94
	5,709	8,065	
<u>Non-current</u>			
Asset	11	313	(302)
Liabilities	<u>-</u>	<u>(146)</u>	146
	11	167	
Net Assets	<u>5,720</u>	<u>8,232</u>	(2,512)

Detailed breakdown of assets and liabilities:

	FY2022 S\$'000	FY2021 S\$'000
<u>Current assets</u>		
Cash and cash equivalents	464	3,494
Trade and other receivables:		
Prepayments	4	624
Deposits	5	41
Loans to employees/Adv to staff	1	3
Amount due from fellow subsidiaries	5,238	4,000
	<u>5,712</u>	<u>8,162</u>
<u>Current liabilities</u>		
Trade and other payables:		
Sundry creditor	(18)	(11)
GST payables	32	22
Accrual	(17)	(24)
Finance lease liabilities - current	0	(84)
	<u>(3)</u>	<u>(97)</u>
<u>Non-current assets</u>		
Fixed Assets	11	101
Right of Use	0	212
	<u>11</u>	<u>313</u>
<u>Non-current liabilities</u>		
Finance lease liabilities - non-current	0	(146)

SGX Query (4)

With reference to the Company's response to question 5(d),

- please provide a breakdown of FA write off amounting to S\$406,050, detailing the assets that are written off and how much of the S\$630,000 of car washing machines received in FY2022 were written off.
- please explain what "compensation fee" is and who this is made to. Please also explain what "deposit forfeited" refers to and the identity of the counterparty.
- In response to questions 5(a) and (c), the Company disclosed that it had previously made a prepayment of \$560,000 but recorded that it had increased the value of the assets by \$630,000 due to acquisition of car washing machines. If the acquisition was higher than the prepayments made, please elaborate to whom and for what the "deposit forfeited" relates to and the reason for their forfeiture and whether these are related parties.
- please provide detailed financial calculations to support the Company's decision to let "other operators take over the [car washing] machines" instead of selling them, including specific amounts relating to the residual value of the car washing machines and the cost of re-instating the sites.
- please disclose the identities of these "other operators", the amount paid by these "other operators" and the terms of payment.
- please disclose whether these "other operators" are related to the former management or if these are associates of the Company's past or present directors, CEO and key management.
- please provide a breakdown of the assets and liabilities of Tianjin Yixing after the write off.

Company's response

a. Fixed assets write off details based on net asset value:

	S\$ '000
Office renovation	38
Plant & machinery	367
Construction in progress	5
Computer	5
	<u>415</u>
Exchange	<u>(9)</u>
	<u>406</u>

<u>Fixed Assets acquired in FY2022</u>	S\$ '000	Asset write off based on cost S\$ '000
Singapore subsidiaries	210	0
Car washing Business Co. mainly for car washing machines	420	418
	<u>630</u>	<u>418</u>

b. Compensation fee and deposit forfeited:

Deposit forfeited

天津欧捷通国际贸易有限公司 (non-related supplier) S\$192K

This is for purchasing of two imported Bentley cars into China. As the market selling price of Bentley came down significantly due to oversupply in the market, it will cost the company more to continue the transaction.

<u>Compensation fee</u>	S\$ '000	<u>Reason</u>
周大福房租保证金及物业保证金 (Landlord)	30	The deposit was not refunded due to early termination.
金碧物业有限公司淄博分公司-外观恢复工 程款(Landlord)	2	Reinstatement cost
淄博分公司-科技苑小区翡翠园提前退租押 金无法收回(Landlord)	1	The deposit was not refunded due to early termination.
德州分公司-提前退租押金无法退回 (Landlord)	1	The deposit was not refunded due to early termination
太仓麦迪斯自动化设备有限公司- 预付麦 迪定金无法收回 (Supplier)	20	The deposit was not refunded due to non-fulfillment of the contract
预付上海浩绩公司定金无法收回(Supplier)	25	The deposit was not refunded due to non-fulfillment of the contract
	<u>79</u>	

All the companies above are not related parties.

- c. Out of the S\$560K prepayment for car washing machines, the company has utilised S\$420K. Please refer to the breakdown of S\$630K in 4a.
- d. The company's primary objective is to recover as much as possible from the disposal. Our first option has always been to "sell" the whole site with the car washing machines and the fitting and fixtures on the site to other operators. However, there have been no takers. Furthermore, the car washing machines are generally not well maintained.

The next option is to forgo the machines in exchange for the others to take over at zero cost as it will save us money to reinstate the site back to its original conditions. It will also allow the company to discontinue the lease. Most of the leases are on a 5-year tenure. However, if there is no taker even for the above, then we will have to sell the machines as scrap and re-instate the sites.

Out of the 9 sites, 7 sites have been resolved, 1 is still under negotiation and 1 in legal dispute.

As the car washing machines are installed in various sites, the cost of re-instating the sites varies from RMB 20K to RMB 60K.

As we are unable to sell the used car washing machines, the residual value is the scrap value upon negotiation. So far, we have managed to sell 2 car washing machines for RMB 10K to 天津金涌工程有限公司 as scrap.

- e. The following are the other operators that took over the sites at zero cost in return for us to discontinue the lease with the current landlord and not re-instating the sites:

北京坦康致远科技发展有限公司
山东福司特环保检测有限公司
中润物业管理集团有限公司淄博分公司
中国石油天然气股份有限公司山东淄博销售分公司
中国石油天然气股份有限公司山东德州销售分公司

- f. These other operators are not related to the former management and associates of the Company's past or present directors, CEO and key management.
- g. Please refer to 3c.

By Order of the Board

Dr John Chen Seow Phun
Executive Chairman

23 March 2023