HWA HONG CORPORATION LIMITED (Company Registration No. 195200130C)

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 2020. The Company would like to respond to the following questions raised by Securities Investors Association (Singapore) ("SIAS") as follows:

Queries from SIAS:

Q1. Can the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

(i) **110 Paya Lebar:** As noted in the performance review, BDX Corporation has replaced Telstra Group as the tenant at the data center following the sale of the business by Telstra to BDX. **Can management confirm that there were no material changes to the lease terms? What is the remaining lease on the 15-year lease?**

Company's reply: There were no changes to the lease terms. As announced on SGXNet on 20 February 2013, the lease agreement was executed on that day with a 15-year lease till 2028 with an option to extend the lease.

(ii) **253 Jalan Besar:** Despite the delays caused by COVID-19, the group expects to receive the temporary occupation permit for freehold boutique office development in 2021. **Can management elaborate further on the market positioning of the asset? Has the group received any leasing commitment for 253 Jalan Besar?**

Company's reply: The Group made an announcement on 26 June 2018 relating to the acquisition of these 2 freehold sites. The rationale and benefits of the acquisition was explained in the announcement and the market positioning remains the same as what we had announced earlier. The Acquisition will allow the Group to invest in the Sites and thereby expand our commercial property portfolio in Singapore. The Acquisition is also in line with the Group's strategy to seek development opportunities in Singapore to strengthen its recurrent future rental income and for capital appreciation.

Also, as mentioned in last year's AGM - The targeted completion date will be 2021, barring delays arising from the Covid-19 pandemic. While the original business plan for this property is to hold the property for long-term rental income, Hwa Hong retains the flexibility to re-assess the plans. The decision to exit or hold on to the investment will depend on, inter alia, market conditions, the Group's capital requirements and potential investment opportunities closer to the point of completion/Temporary Occupation Permit. Given the uncertainties brought about by the Covid-19 pandemic, the focus will be to ensure that the project is completed as soon as possible and with minimal/no cost overruns.

The property is presently under development and has not been marketed yet.

(iii) Deferred rental receivables: The group recognised an impairment of $1.9 million on the deferred rental receivables of a tenant at 20 Midtown in London. The group has stated that the tenant has gone into administration due, inter alia, to the current COVID-19 pandemic and the government-imposed lockdown in the UK. **Can management clarify if the tenant had been timely with its payments before the lockdown? How did the deferred rental receivables increase to $1.9 million?**

Company's reply:

Can management clarify if the tenant had been timely with its payments before the lockdown?

The tenant had been timely in its payment prior to 25 December 2019. The UK's first lockdown was in March 2020 and the tenant was late in the last quarter payment of approximately GBP115k for the period from 25 December 2019 to 18 March 2020. The tenant paid up the amount for January 2020 and was granted rental credits for the two months till 18 March 2020.

How did the deferred rental receivables increase to $1.9 million?

The deferred rental receivables arose due to rent-free periods provided to tenants and under the accounting standards, the lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor. Under the accounting standard, there is a requirement to recognise rental income on a straight-line basis over the lease term, which includes the rent free period even though there are no cash inflows. The rental income recognised was not represented by cashflow collected but recognised as deferred rental receivables. Essentially, it represents the difference between the cashflow and accrual accounting for rental income.

The tenancy agreement for this tenant was for a period of 10 years from Sept 2017 to Sept 2027 during which a 8 months' rent free period with 24 months half rent was provided. This tenant was expected to generate a total rental income of GBP7.6 million over the 10 years period. The table below explained how the $1.9 million (GBP1.04 million) was recognised over the 4 year period:

	FY2017	FY2018	FY2019	FY2020
Rental income recognised	GBP225k	GBP764k	GBP764k	GBP78k
Cash received	Nil	GBP288k	GBP459m	GBP38k
Deferred rental receivables	GBP225k	GBP701k	GBP1.0m	GBP1.04m (equivalent to S$1.9m)

$1.9 million relates to the deferred rental receivables that would not be recovered as the tenant went into administration and this was recognised as impairment.

Q2. The group had set up Shorea Capital Pte. Ltd. ("Shorea Capital") in 2018/2019 to provide real estate investment management and advisory services. The group owns 50% of Shorea Capital and recognises it as an associate. As noted in the letter to shareholders, the group intends to grow Shorea Capital through various private capital raising initiatives.

Shorea Capital has advised on the development of a mixed-use site in Melbourne and is actively looking to expand its advisory activities to include London.

(i) Can the board/management help shareholders understand the value proposition of Shorea Capital? Before establishing a good track record, how does it demonstrate its expertise and credibility when it enters a new market?

Company's reply:

Shorea Capital was set up to spearhead the growth of the Group's real estate assets under management business, from which the Group intends to earn management fee income from management of capital from capital partners.

Shorea Capital's 2 key market currently are Australia and the UK. In both markets, Shorea has management teams to carry out on the ground activities. These management teams provide the requisite expertise and credibility in these markets.

(ii) What is the depth of its management bench and the real estate expertise and experience in Shorea?

Company's reply: Both the Directors and the key management personnel at Shorea Capital have over 20 years of experience in banking and real estate industries. Their experiences brought along a wealth of knowledge and expertise, particularly concerning the real estate industries. The team is led by Mr Eugene Teo (veteran real estate banker with 20 years of experience). He is supported by a team of 10 investment, finance and project delivery professionals. The Shorea Capital team has a combined experience of more than 100 years in the real estate and banking sectors. Shorea Capital Pte Ltd has a website – http://www.shoreacapital.com.sg . The details of the management team can be found from the website.

(iii) Who owns the other 50% of Shorea Capital? What is the group's level of influence, control and oversight given that it is recognised as an associate?

Company's reply: As announced on the SGXnet on 12 Dec 2018, the other 50% interest in Shorea Capital is held by Zen Capital Pte Ltd, a company unrelated to Hwa Hong Group. Hwa Hong, by virtue of its right as stated in the shareholders' agreement to appoint one director to the Board of Directors of Shorea Capital, has the ability to assert significant influence such that it has the power to participate in the financial and operating policy decisions of Shorea Capital. The auditors had also reviewed the classification as investment in associated company during the audit of the Group.

(iv) During the year, the group extended an additional of S$0.5 million in loan to Shorea Capital. **Can management confirm that Loan 2 amounting to $1.51 million (Note 17 – Investment in associate; page 105) is due from Shorea Capital?**

Company's reply: Yes

In Note 17 (page 102), the group disclosed that it has not recognised losses relating to Shorea Capital where its share of losses exceeds the group's interest. In FY2020, the share of unrecognised losses was $792,987 (2019: $Nil), of which $91,028 (2019: $Nil) was the share of the current year's losses.

(v) What guidance has the board provided to Shorea to keep its overheads costs low and to operate efficiently?

Company's reply: The Board of Shorea is responsible for the management and supervision of Shorea's business. Hwa Hong, by virtue of having its appointed director on the Shorea board, is able to review the business and provide necessary guidance where necessary.

(vi) How much more capital has the group allocated to support Shorea?

Company's reply: The Group has not committed more capital investment to Shorea.

Q3. On 19 March 2021, one of the group's investments, Singapore Reinsurance Corporation Limited, announced that it has received a voluntary conditional cash offer to purchase all issued and paid-up ordinary shares in the company for 35.35 cents per share.

As shown in Note 19 (page 109 – Investment securities), the group has approximately 9.95 million shares in Singapore Reinsurance carried at $2.935 million (29.5 cents per share as at 31 December 2020).

(i) Has the board deliberated on the cash offer by Fairfax Asia?

Company's reply: The board is scheduled to meet to discuss this matter after the conclusion of the AGM. In accordance with the requirements of the Singapore Code on Take-overs and Mergers ("Code"), the board of Singapore Reinsurance Corporation Limited ("SingRe") has appointed PrimePartners Corporate Finance Pte. Ltd. (the "IFA") to advise it on the offer. The adviser is currently evaluating the merits of the offer and we as shareholders have been advised to wait for the outcome of the evaluation before taking any action. The options open to the Group are a) to accept b) to reject or c) to sell its shares in the market. The board of HHCL will await the outcome of the financial adviser's evaluation and recommendations before making a final decision.

(ii) As a long-time investor in Singapore Reinsurance, what is the strategic importance of this investment?

Company's reply: This is a non-core investment to the Group.

In addition, the company paid over $33.3 million in dividends to shareholders over the last 5 years. The directors have recommended a final dividend for FY2020 of 1.0 cent per share, totaling S$6.5 million for the financial year ended 31 December 2020. As at 31 December 2020, cash and cash equivalents have increased to $27.7 million. The group generated strong operating cash flow and its net gearing level has improved from FY2018 to FY2020.

(iii) What deliberations did the board have on the company's ability to increase the quantum of its dividends in a sustainable manner?

Company's reply:

The Group deliberates on the dividend payment on a yearly basis and strives to reward shareholders for their continued confidence in the Group after taking into account our balance sheet, cashflow requirements and profits for the year. The Group ensures that the dividend payment will not jeopardise the cash flows and operations of the Group.

The Group had paid approximately $429 million over 15 years (since FY2005 till FY2020).

The Group will continue to assess the capital requirements, balance sheet position, cash flows and operating results before recommending dividends to shareholders.

Separately, the group has stated on page 19 (Debt management) that it aims to sustain a strong reputation and a solid balance sheet with sufficient liquidity to meet its liabilities irrespective of market conditions.

(iv) What is the group's optimal capital structure, in view of the group's strategy, growth prospects and also considering the current low-interest rate environment?

Company's reply:

The Group strives to maintain an efficient and strong balance sheet in order to fund its business and growth prospect. The Group monitors the cash flow position, debt maturity profile, cost of debt and overall liquidity position on a regular basis. In managing its debt levels and interest rate risks, the Group takes into account the interest rate outlook, expected cash flow generated from operations, investment horizon for its investments and acquisition and divestment plans.