

PAVILLON HOLDINGS LTD.

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

RESPONSE TO QUERIES FROM SGX

The Board of Directors (the “Board”) of Pavillon Holdings Ltd. (the “Company”) wishes to announce the following in response to the queries raised by the Singapore Exchange Securities Trading Limited (“SGX”) in respect to the unaudited financial results for the full financial year ended 31 December 2021 (“FY2021 Financial Statements”).

SGX Query (1)

Given that the share of loss of associated companies amounting to S\$15.4 million contributes 79% of the Group’s net loss of S\$19.5 million and there was a markdown in value of S\$15 million of the associated company developing the Tianjin Logistics Hub (“TLH”), please disclose the following:

- a. Identity of the TLH associated company, when was the associated company acquired and whether the Company had sought shareholders’ approval for the acquisition;
- b. Provide a review of the performance of the TLH associated company including the following:
 - i. the breakdown of the revenue and expenses and the losses incurred by the TLH associated company;
 - ii. elaborate on material items resulting in the losses incurred by TLH associated company.
- c. The full amount of investments made to-date and the advances extended to the associated company to-date and explain the factors which resulted in and basis of how the markdown value of investment of S\$15 million was determined;
- d. Any significant factors that affected the turnover, costs and earnings of the TLH associated company for FY2021 compared to FY2020 and disclose what were the material factors that affected the cashflow, working capital, assets and liabilities of the associated company;
- e. Who owns the balance interest in the TLH associated company;
- f. What efforts are being undertaken to address the trend and competitive condition faced by TLH and the associated company; and
- g. The factors that will affect the results of TLH and the associated company in the next reporting period and for the next 12 months.

Company’s response

- a. In October 2018, the Company’s subsidiary, Pavillon Financial Leasing Co Ltd, (“PFL”) has entered into a joint venture agreement (the “JVA”) with an unrelated third party - 上海津茂科技发展有限公司 (the “JV Partner”). Under the JVA, the JV Partner will inject a total sum of RMB121.77 million into the Company’s subsidiary, Fengchi IOT Management Co., Ltd. (丰驰物联网管理有限公司), (“JV Company”).

This cash contribution will increase the registered and paid-up share capital of the JV Company from RMB90.00 million to RMB183.67 million. Out of the total sum of RMB121.77 million, an amount of RMB28.10 million is contributed as share premium. Upon the cash contribution by the JV Partner, PFL will reduce its shareholding in the JV Company from the current 100% to 49% and the JV Partner will hold 51% of the JV Company.

The JV partner completed the cash injection in FY2019. Consequently, the Company has reclassified Fengchi IOT Management Co., Ltd. (丰驰物联网管理有限公司) from a subsidiary company to an associated company, on the basis that the equity interest in

Fengchi IOT Management Co., Ltd had been reduced to 49%, and the Company has significant influence through its voting power and representative on the Board of Fengchi IOT Management Co., Ltd..

Please also refer to our announcement dated 19 October 2018, 30 August 2017 and 3 April 2017.

b. i.

	TLH	Group's share of loss@ 49%
	S\$'000	S\$'000
Revenue	103	51
Fair value loss on the investment property	(25,781)	(12,633)
Finance expenses	(3,229)	(1,582)
Other operating expenses	(2,422)	(1,187)
Net loss	(31,329)	(15,351)

ii. The principal activities of TLH associated company are those relating to warehouse and logistic management. In FY2021, TLH associated company has completed the construction and received the title of the integrated logistic hub. The logistic hub is classified as an investment property as it is held to earn rentals and held for long-term in appreciation of value.

The investment property is measured initially at cost and subsequently carried at fair value, determined by an independent valuer on the highest and best use basis. Based on the valuation, the carrying amount of the investment property is higher than its fair value. Consequently, TLH associated company recognized fair value loss on the investment property.

Finance expenses are interest expenses from the construction loan.

c. The total investment of the associated company is S\$18.3 million. And there is no advances to the associated company.

Please refer to the above (1(b)(i)) for the markdown of the value of the investment in the associated company.

d. Prior to January 2021, TLH associated company was still at the construction stage.

TLH associated company started the marketing effort prior to the completion of the building, but response has been poor due to the uncertainty of China vehicle emission standards which resulted in a massive reduction in the volume of the parallel import car business.

Furthermore, the COVID-19 safety measurements imposed by the authority also have an adverse impact on TLH marketing efforts when human movement was restricted. This resulted in the slowing down of business activities.

e. Please refer to the above (1(a)).

f. Together with the JV partner, we are working with local partners and regional government bodies to improve the business of TLH. We are also in earnest discussions with a potential investor to raise funds for TLH and the associated company.

g. TLH business depends mainly on the recovery of the parallel import car business in China. The outbreak of COVID-19 together with the new vehicle emission standard has brought upon unprecedented challenges for the parallel import car business.

In November 2021, the China authority has further refined the China VI vehicle emission standard which paved the way for the recovery of parallel import car business in China.

However, the uncertainty of the Covid 19 situation in China and their zero-COVID policies continue to weigh down on the recovery of the parallel import car business.

SGX Query (2)

Please elaborate on the Company's statement in Note 10 in relation to Lingbao that "partially of its shares are listed on the Stock Exchange of Hong Kong Limited" and what are the unquoted equity securities that the Company acquired and why it acquired the unquoted equity securities and the purpose of the acquisition. Please disclose how the value of these unquoted equity securities is determined.

Company's response

In FY2019, the Company received unquoted shares ("Lingbao") valued at \$3.9 million for recovery of a bad debt which was impaired in FY2018.

The Company classified it as financial assets at FVOCI. The fair value is within level 2 of the fair values hierarchy. The Company has determined the fair value based on the latest available information. The movement arising from changes in fair value of the financial asset has been presented as fair value gains/(losses) in Other Comprehensive Income.

Please also refer to our announcement dated 12 March 2020.

SGX Query (3)

In relation to review of performance relating to other operating expenses, please elaborate why VAT receivables in China amounting to \$1.38 million was written off and when were these VAT receivables incurred.

Company's response

The VAT receivables arose from the Company's leasing segment. The Company had receivables which was impaired in FY2018 and FY2019 after the Company assessed the expected credit loss of the receivable amount due from the lessee. However, the VAT in relation to the transaction was not written off, as the Company continues to follow up with the lessee for the VAT invoices, so that the Company is able to claim the VAT amount from the authority. Nevertheless, despite the efforts made by the Company over the years, the Company didn't manage to obtain the VAT invoices from the lessee. As a result, the VAT input tax was recognised in profit or loss.

SGX Query (4)

The Company disclosed that the increase in current trade and other receivable was due mainly to the purchase of a car washing machine equipment. Please elaborate on the cost, the amount of prepayment, and the reasons for the purchase of the car washing equipment and provide details of the transaction.

Company's response

The Company has entered into Artificial Intelligence car washing machine business in FY 2021. The Company has ordered 35 AI car washing machines. The total cost of these washing machines are S\$900K, out of which, the Company has prepaid S\$560K.

By Order of the Board

Lee Tong Soon
Managing Director

4 March 2022