GSH

RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

The Board of Directors (the "Board") of GSH Corporation Limited (the "Company") refers to the queries raised by the Singapore Exchange Securities Trading Limited ("SGX-ST") on 4 March 2021, in relation to the financial statements of the Company and its subsidiaries (the "Group"), for the financial year ended 31 December 2020 announced on 23 February 2021 (the "Announcement").

The Board sets out its responses as follows:

<u>Query 1</u>
Please explain the increase in cost of sales from $76,745,000 for the year ended 31 Dec 2019 ("FY2019") to $88,712,000 for the year ended 31 Dec 2020 ("FY2020"), despite a decrease in revenue from FY2019 to FY2020.

Company's Response:
The increase in cost of sales was due to the rise in revenue contribution from the Group's new trading business (which in the nature of trading businesses, has a significantly lower profit margin, when compared to the Group's other businesses), which increased from S$4.1 million in FY2019 to S$47.2 million in FY2020. As a percentage of total revenue, this segment's revenue contribution rose from 3% in FY2019 to 39% in FY2020.

Breakdown of revenue and cost of sales by business segments are as follows:

	12 Months Ended 31 December 2020				12 Months Ended 31 December 2019			
	Hospitality S$'000	Property S$'000	Trading S$'000	Total S$'000	Hospitality S$'000	Property S$'000	Trading S$'000	Total S$'000
Revenue	22,674	50,365	47,174	120,213	77,387	72,205	4,117	153,709
Cost of sales	(11,027)	(33,083)	(44,602)	(88,712)	(27,148)	(45,738)	(3,859)	(76,745)
Gross profit	11,647	17,282	2,572	31,501	50,239	26,467	258	76,964
Gross profit margin	51%	34%	5%	26%	65%	37%	6%	50%

<u>Query 2</u>
Please provide reasons for the following:-

(2.1) increase in other income from $4,066,000 in FY2019 to $5,227,000 in FY2020; (2.2) decrease in distribution and selling expenses from $3,209,000 in FY2019 to $1,959,000 in FY2020; and (2.3) increase in other expenses from $386,000 in FY2019 to $2,156,000 in FY2020.

Company's Response:
2.1 The increase in other income from $4,066,000 in FY2019 to $5,227,000 in FY2020 was due mainly to late payment interest charges made to customers.

2.2 The decrease in distribution and selling expenses from $3,209,000 in FY2019 to $1,959,000 in FY2020, was due to reduced revenue.

2.3 The increase in other expenses from $386,000 in FY2019 to $2,156,000 in FY2020, was due to the realised fair value loss of S$1,851,000, arising from disposal of debt investments in 1H2020, which was reclassified from fair value reserve under other comprehensive income.

Query 3
Please explain the increase in trade receivables from $21,583,000 as at 31 Dec 2019 to $23,990,000 as at 31 Dec 2020.

Company's Response:
The increase in trade receivables from $21,583,000 as at 31 December 2019 to $23,990,000 as at 31 December 2020, was due mainly to slower collection from customers of the Group's Malaysian property business, arising from movement control orders in Malaysia.

Query 4
Please explain the increase in other receivables, deposits and prepayments from $38,192,000 as at 31 Dec 2019 to $45,367,000 as at 31 Dec 2020, and provide a breakdown of other receivables, deposits and prepayments as at 31 Dec 2019 and 31 Dec 2020 respectively. Please explain the nature of other receivables of the Company.

Company's Response:
Breakdown of other receivables, deposits and prepayments are as follows:

	Group			
	2020	2019	Variance	
	S$'000	S$'000	S$'000	
Deposits	1,240	28,091	(26,851)	(a)
Other receivables	7,687	1,531	6,156	(b)
Prepayments	36,440	8,570	27,870	(a)
	45,367	38,192	7,175	

Note a - As of 31 December 2019, the Group placed $26.9 million of tender deposits for a land tender in Chongqing, China. Subsequently, the Group won the tender and whilst pending the issuance of some of the land titles, the deposits of S$32.6 million were classified under prepayments.

Note b - See below Company's response note b for Query 5.

Query 5
Please explain the increase in trade payables from $16,357,000 as at 31 Dec 2019 to $40,416,000 as at 31 Dec 2020.

Query 6
Please explain the decrease in other payables and accruals from $52,529,000 as at 31 Dec 2019 to $33,317,000 as at 31 Dec 2020, and provide a breakdown of other payables and accruals as at 31 Dec 2019 and 31 Dec 2020 respectively.

Company's Responses to Query 5 and 6:
Breakdown of trade and other payables and accruals are as follows:

	Group			
	2020	2019	Variance	
	S$'000	S$'000	S$'000	
Trade payables	40,416	16,357	24,059	(c)
Accruals				
- operating expenses	6,292	44,843	(38,551)	(c)
- provisions	5,383	-	5,383	(b)
Other payables	2,238	4,461	(2,223)	
Deferred income/advance from customers	19,803	3,598	16,205	(d)
	74,132	69,259	4,873	

Note b - Provisions of S$5.4 million were made for potential penalties for late commencement of construction, for one of the Group's projects. However, the Group obtained an indemnity from its joint venture partner for the project, against any such potential penalties, and accordingly a receivable of the same amount was recorded, in respect of the amount recoverable from the joint venture partner.

Note c - As of 31 December 2019, the Group's construction contractors billing was delayed, therefore the Group accrued a higher operating expenses, as compared to 31 Dec 2020. Overall trade payables and accrued operating expenses reduced, due to the reduced pace of construction of the Group's Malaysian property projects.

Note d – In 2020. The Group received government grants for one of its property projects, and such deferred grant income will be recognised upon utilization of the grant.

Query 7
Given the Group's significant liabilities of $573,085,000 and cash and bank balance of only $81,666,000 and noting that the Company incurred losses of $15,835,000 in FY2020, please disclose the Board's assessment (i) whether the Group's current assets are adequate to meet the Group's short term liabilities of $276,649,000, including its bases of assessment; and (ii) how the Group intends to fulfil its significant payment obligations in the next 12 months. Where the Group has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Group is on track to fulfilling these obligations.

Company's Response:
Barring unforeseen circumstances, the Board is of the opinion that the Group's current assets are adequate to meet the Group's short-term current liabilities and is able to fulfil its payment obligations in the next 12 months, due to the following reasons:

a. The Group current assets of $612,383,000, is significantly higher than the Group's current liabilities of $276,649,000.
b. The Group has unused credit facilities, of up to $150,000,000.
c. Based on the Group's current loans and borrowings of $160,027,000, the Group has an extension option to renew about $40,000,000 of such loans, if required.
d. The Group had worked out a revised repayment plan with one of its lenders for its Malaysian hospitality business. Barring unforeseen circumstances, the Group is on track to fulfil these obligations.

Apart from the above mentioned, there are no other revised debt repayment plan that the Group has worked out with any of its creditors.

By Order of the Board

Gilbert Ee Guan Hui
CEO / Executive Director

8 March 2021