



HONG LAI HUAT GROUP LIMITED

(Incorporated in the Republic of Singapore)

Reg. No. 199905292D

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RESPONSE TO SGX-ST'S QUERIES IN RELATED TO THE UNAUDITED FULL YEAR FINANCIAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

The board of directors (the “**Board**”) of Hong Lai Huat Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to inform shareholders that it had received queries from the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) (the “**Queries**”) in relation to Company’s announcement dated 28 February 2024 in respect of the Company’s unaudited full year financial results for the financial year ended 31 December 2023. The Board wishes to respond to the Queries as follows:

Query 1

Please provide the following in relation to the Proposed disposal of HLH Agriculture (Cambodia) Co Ltd (“**HLHA**”) for a consideration of S\$48.2 million and HLHI (Cambodia) Company Limited (“**HLHI**”) for a consideration of S\$2.0 million:

- (i) Whether the independent valuation on both entities have been completed and if so, to quantify the final valuation as well as the major assumptions used in arriving at resulting value; and
- (ii) The recoverable amount and the fair value gains or loss recorded in the financial statements based on the latest valuation;
- (iii) To show the computation in arriving at the impairment losses of S\$0.4 million and S\$13.3 million reported for property, plant and equipment’s carrying amount and right-of-use assets’ carrying amount.

Company’s Response

- (i) The Company has appointed Navi Corporate Advisory Pte. Ltd (“**Independent Valuer**”) to carry out an independent valuation of the 100% equity interests in the capital of HLHI and HLHA. The Independent Valuer has completed majority of its fieldwork and is in the midst of finalising the independent valuation report setting out, inter alia, the valuation of the HLHI Sale Shares and HLHA Sale Shares and the key assumptions used in the valuation exercise for the proposed disposals.

The Company is in the midst of preparing the circular to Shareholders to seek Shareholders’ approval for the Proposed Disposals (“**Circular**”) and will be submitting a draft of the Circular along with a draft of the independent valuation report to the Singapore Exchange Regulation for review and clearance in the coming weeks.



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- (ii) The net carrying value of the Group's property, plant and equipment ("PPE") and right-of-use assets ("ROU assets") as at 31 December 2023 as stated in the FY2023 Unaudited Financial Results is S\$5,1 million and S\$46,5 million respectively. Such values were arrived at, inter alia, after taking into consideration the impairment losses recorded of approximately S\$0.4 million and S\$13.3 million for PPE and ROU assets respectively.

The Group's PPE and ROU assets have historically been valued at cost and under the applicable accounting standards, there will not be any fair value gain or loss recorded in the financial statements so long as the latest available valuation of such assets is at or above the Group's cost of investment. However, in view of the Proposed Disposals, and the net sale proceeds expected to be realized from the Proposed Disposals, the Group is required, under the applicable accounting standards, to recognize impairment losses for the PPE and ROU assets which are the subject of the Proposed Disposals, the computation of which is further set out in the response to Query 1(iii) below

- (iii) Impairment losses of Right-of-use asset ("ROU") and property, plant and equipment ("PPE")

Proposed disposal	Group FY2023 S\$'million	Note
50-year leasehold land	59.6	ROU
Building and land infrastructures	1.6	PPE
Net assets before impairment	61.2	
Proposed cash consideration (HLHA)	(47.5)	(a)
Impairment losses	13.7	

Impairment losses comprise the following:

Description	Net book value (Before impairment) as at 31 Dec 2023 S\$'million	Adjustment for impairment S\$'million	Net book value (After impairment) as at 31 Dec 2023 S\$'million
50-year leasehold land	59.6	(13.3)	46.3
Building and land infrastructures	1.6	(0.4)	1.2
	61.2	(13.7)	47.5

Note:

(a) Disposal consideration US\$36M based on 31 Decembder 2023 exchange rate US\$1 : S\$1.31917



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Query 2

Please explain the reason for the significant 124% increase in total current and non-current bank loans from S\$4.6 million in FY2022 to S\$10.3 million in FY2023, on top of the loan from controlling shareholder of S\$0.56 million extended in FY2023 noting the minimal operating activities of the group based on its revenue generated.

Company's Response

Pursuant to the joint venture agreement of Royal Hong Lai Huat One Company Limited ("RHLH1"), the Group is committed to contribute construction costs and expenses amounting to US\$20.6 million for the development of RHLH1's mixed-use real estate project in Phnom Penh, Cambodia, which is equivalent to the fair value of the land contributed by the joint venture partner.

The new bank loans raised in FY2023 were used mainly to invest in RHLH1. As at 31 December 2023, the Group has fully contributed its commitment of US\$20.6 million for the construction costs and expenses of the mixed-use real estate project.

Query 3

In relation to the bank loans of S\$10.3 million and loan from controlling shareholder of S\$0.56 million respectively, to provide:

- (i) details of the loans, including the terms of the loans, interest on loans and maturity dates;
- (ii) when were the loans obtained and approved by the Board including the Audit Committee; and
- (iii) a breakdown of how the proceeds have been used to-date.

Company's Response

(i) Bank loans details:

- a. A bank loan of S\$1.0 million. The loan was raised on July 2020. The loan bears interest at a rate of 3.0% per annum. It is repayable in 60 equal instalments and will be fully repaid in June 2025, in accordance with the terms of the loan agreement.
- b. A bank loan of S\$1.5 million. The loan was raised on July 2020. The loan bears interest at a rate of 3.0% per annum. It is repayable in 60 equal instalments and will be fully repaid in June 2025, in accordance with the terms of the loan agreement.
- c. A bank loan of S\$2.5 million. The loan was raised on August 2020. The loan bears interest at a rate of 3.0% per annum. It is repayable in 60 equal instalments and will be fully repaid in July 2025, in accordance with the terms of the loan agreement.



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- d. A bank overdraft facility of US\$2.0 million (S\$2.6 million*), The overdraft facility was raised on June 2022. The overdraft facility bears interest at a rate of 10.0% per annum. There is no fixed repayment schedule, in accordance with the terms of the overdraft facility agreement.
- e. A bank overdraft facility of US\$0.5 million (S\$0.7 million*). The overdraft facility was raised on March 2023. The overdraft facility bears interest at a rate of 7.5% per annum. There is no fixed repayment schedule, in accordance with the terms of the overdraft facility agreement.
- f. A bank loan of US\$5.0 million (S\$6.6 million*). The loan was raised on March 2023. The loan bears interest at a rate of 8.5% per annum. It is repayable in 120 equal instalments and will be fully repaid in April 2033, in accordance with the terms of the loan agreement.

* Based on 31 December 2023 exchange rate US\$1: S\$1.31917

- (ii) The bank loans and overdraft facilities were approved by the Board including the Audit Committee.

The loan of S\$0.56 million from the controlling shareholder arose from advance(s) made to and/or or payment(s) made by the controlling shareholder for and on behalf of the Group, and there was no single date on which such loan was obtained and/or for which approval for the same was given by the Board, including the Audit Committee. The review of interested person transactions falls under the purview of the Audit Committee, and in this case, the Audit Committee has noted that as the amount at risk to the Group is nil since the loan from the controlling shareholder is non-interest-bearing, with no stated maturity or repayment date

- (iii) The bank loan and overdraft proceeds are mainly used for investment in joint venture RHLH1, funding the construction costs and expenses for the development of mixed-use real estate project.



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Query 4

Please explain the reasons for the 66% decrease in cash and bank balance from S\$11.6 million in FY2022 to S\$3.9 million in FY2023 despite the minimal operating activities of the group.

Company's Response

The 66% decrease in cash and bank balance from S\$11.6 million in FY2022 to S\$3.9 million mainly due to the following:

	<u>FY2023</u> <u>S\$'million</u>
Cash and bank balance as at 31 Dec 2022	11.6
<i>Add:</i>	
New bank loans raised	6.6
Drawn down of bank overdraft facilities	0.8
Loan from controlling shareholder	0.6
<i>Less:</i>	
Investment in joint venture, RHLH1	(6.7)
Investment in associate, Jewel A Development Co., Ltd	(0.5)
Repayment of bank loans	(1.7)
Repayment of bank loans interest	(0.8)
Purchase of property, plant and equipment	(0.5)
Staff salaries	(2.0)
General working capital	(3.5)
Cash and bank balance as at 31 Dec 2023	<u><u>3.9</u></u>

Query 5

Given the Group's significant liabilities of S\$22.1 million and cash and bank balance of only S\$3.9 million and noting that the Company incurred losses of S\$18.3 million in FY2023, please disclose the Board's assessment:

- (i) whether and if so how the Company's current assets are adequate to meet the Company's short term liabilities of S\$11.0 million, including its bases of assessment; and
- (ii) substantiate with details and quantify how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose with details if the Company is on track to fulfilling these obligations.



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Query 5 (cont'd)

Company's Response

- (i) In assessing whether the Group's current assets are adequate to meet its current liabilities, the Board has taken into consideration, *inter alia*, that apart from the cash and cash equivalents of approximately S\$3.9 million as at 31 December 2023, the Group will have cash inflow from the progressive receipt of cash payments in settlement and satisfaction of the HLHI Disposal Consideration and the HLHA Disposal Consideration which are required to be made by the Purchaser in accordance with the terms of the HLHI SPA and the HLHA SPA respectively (including but not limited to the first tranche payment of US\$450,000 under the HLHI SPA and the first tranche payment of US\$100,000 under the HLHA SPA which the Seller has duly received as at the date of this announcement), and the Company is also in negotiations with certain financial institutions to obtain a new credit facility which the Group will be able to draw on to meet its short-term working capital requirements, if necessary, *inter alia*, in the event the Group is not able to generate revenue or sufficient revenue from sales of its condominium units and shop house units in a timely manner to meet its short-term and longer-term liabilities.
- (ii) The Board contemplates that barring unforeseen circumstances, the Group will be able to fulfill its significant payment obligations as they fall due over the next 12 months, *inter alia*, given that the estimated total net sale proceeds of approximately S\$44.3 million¹ to be received from the Proposed Disposals is more than the aggregate amount of the current and non-current liabilities of the Group amounting in aggregate to approximately S\$22.1 million as at 31 December 2023, and further, with the completion of the Proposed Disposals, the Group will no longer be incurring the expenses under the Agricultural Arm which contributed to the bulk of the loss of S\$18.3 million incurred by the Group in FY2023.

¹ Based on the difference between (i) the aggregate amount of approximately S\$49.5 million for the HLHA Disposal Consideration of US\$36 million and the HLHI Disposal Consideration of US\$1.5 million at the exchange rate of US\$1.00: S\$1.31917 as at 31 December 2023 and (ii) the estimated expenses of the Proposed Disposals of approximately S\$5.2 million



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Query 6

Please provide a commentary of the significant trends and competitive conditions of the industry in which the group operates, pursuant to Provision 10 of Appendix 7.2 Financial Statements and Dividend Announcement.

Company's Response

The Company generally feels confident of the Cambodian market's potential for growth in the long run, as Cambodia has experienced continuous economic growth for many years leading up to 2019.

While the past few years have been challenging for the property market in Cambodia, firstly with the outbreak of the global COVID-19 pandemic, which caused growth to contract by 4.9% in 2020, and subsequent to that, a general drop in customer demand in the overall property market, *inter alia*, following some negative media reports on the country, the Company believes that such demand will pick up again in due course as the country gradually returns to the economic growth trajectory it has historically enjoyed, and the Group will be well-placed to meet such demand when it occurs, *inter alia*, through the sales of its completed development units.

By Order of the Board

Dato Dr. Ong Bee Huat
Executive Deputy Chairman & Group Chief Executive Officer
8 March 2024