



**Securities Investors Association (Singapore)**

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UEN No: S99SS0111B

GST Reg No: M90367530Y

**Issuer:** Hong Lai Huat Group Limited

**Security:** Hong Lai Huat Group Limited

**Meeting details:**

Date: 30 April 2019

Time: 2.00 p.m.

Venue: Genting Hotel Jurong, 2 Town Hall Link, Level 1, Singapore 068516

**Company Description**

Hong Lai Huat Group Limited, formerly HLH Group Limited, is an investment holding company. The Company operates through three segments: Agriculture Division, Property Development and Real Estate Division, and Others. The Agriculture Division carries on the business of agricultural development, cultivation, branding and merchandising, and distribution of cassava. It also includes the co-operation agreements with third parties to operate the agriculture land and the agriculture-related resort business. The Agriculture Division is also focused on agricultural investment and development, as well as the cultivation of sugarcane. The Property Development and Real Estate Division is engaged in the business of investment and development of commercial and residential properties. The Others segment includes the Company's business of investment holding and management services provided to related companies.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=CTO](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=CTO))

**Q1.** Would the board/management provide shareholders with better clarity of the following operational matters? Specifically:

- (i) 10-storey boutique hotel @ D'Seaview: What are management's plans for the hotel following the termination of the sale and purchase agreement?**
- (ii) D'Seaview: What is the progress of the construction works? What are the major milestones before the handover of units?**
- (iii) Royal Platinum: Under the joint cooperation agreement, what will be the total investment made by the group to develop the mixed development? Can management also elaborate further on profit sharing agreement?**
- (iv) Cassava plantations: How much of the 10,000 ha of farm land has been planted with cassava? Can management help shareholders understand the plans to improve the profitability of the agriculture division? The division has recognised \$(18.6) million in segment losses in the last 2 years.**

**Q2.** In the Corporate Governance report, under Principle 13: Internal audit, the company had not stated the clearly that the company has an internal audit function.

Principle 13 of the 2012 Code of Corporate Governance recommends that a listed company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

- (i) Can the audit committee (AC) clarify if the company has an internal audit function (in-house or outsourced)? If outsourced, please identify the professional firm providing the internal audit services.**
- (ii) Will the AC confirm that the internal audit function (if any) is adequately resourced and independent of the activities it audits?**
- (iii) Would the AC share the internal audit plan and the key findings of the internal audit?**

**Q3.** On 12 April 2019, the company announced that there are material differences between the unaudited results (first announced by the company on 28 February 2019) and the audited financial statements for FY2018 after the finalisation of audit.

The audit adjustments and reclassifications included:

- Overstatement of revenue
- Overstatement of cost of sales
- Increase due to commission fee recognised on property sales
- Impairment losses recognised on change in fair value of biological assets and investment properties, and written-off of plant and equipment

- Overstatement of unbilled receivables (contract assets)
- Understatement of development cost
- Understatement of commission fee payable on property sales
- Understatement of deposits received

The variance was as large as \$10.5 million.

The company had on 20 April 2018 also announced discrepancies between unaudited and audited accounts for the financial year ended 31 December 2017.

The audit committee (AC) comprises five independent directors, namely Dr. Wang Kai Yuen (as chairman), Dr. Chen Seow Phun, John, Dr. Lee Kuo Chuen, David, Mr Lien We King and Ms Kohe Hasan.

- (i)** How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?
- (ii)** Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?
- (iii)** Would the members of the AC help shareholders understand their personal recent and relevant accounting or related financial management expertise or experience that would make them appropriately qualified to discharge their responsibilities?
- (iv)** Would the AC help shareholders understand the extent of its review (if any) following the changes after the finalisation of audit for the financial year ended 31 December 2017?
- (v)** Can the AC update shareholders on the improvement made/to be made to the group's financial reporting systems and processes?