



HGH HOLDINGS LTD.

Company Registration No. : 200412064D
(Incorporated in the Republic of Singapore)

**RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION
(SINGAPORE) ON ANNUAL REPORT 2021**

*Unless otherwise defined, all terms and references used herein shall bear the same meanings ascribed to them in the annual report issued to shareholders on 12 April 2022 (the "**Annual Report**").*

The Board of Directors (the "**Board**") of HGH Holdings Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the questions raised by the Securities Investors Association (Singapore) ("**SIAS**") relating to the Company's Annual Report for the financial year ended 31 December 2021 and appends the replies as follows:

Question 1:

As noted in the chairman's statement, the group benefitted from an improved operating environment in all business segments although, going forward, it expects a slow recovery in its business activities as the outlook remains uncertain against the backdrop of labour shortage and sub-optimal operational efficiency.

- (i) **For the benefit of new and long-outstanding shareholders, can management help shareholders understand the competitive advantage of the group in the supply of ready-mix concrete? What are the profiles of the customers that drove the increase in revenue in the ready-mix concrete segment? How sustainable is the increase?**

Company's responses:

Our competitive advantage is the niche focus on building construction sector with selected A1 and A2 contractors as well as some private developers. A1 contractors are companies with paid up capital of S\$15 million while A2 with paid up capital of S\$6.5 million. The grades accorded by the contractors will determine the size of the public sector construction project which they can tender for. Thus, contractors under A1 or A2 will have a wider range of tendering of projects in the public or private sectors. The increase in revenue in Premium Concrete Pte. Ltd. ("**PC**") in FY2021 is due to low base in FY2020. In FY2020, the Singapore lockdown restriction imposed to curb the spread of COVID-19, had resulted in workers not being able to work on our production work from April 2020 to October 2020.

In 2022, the Singapore government has approved the inflow of foreign workers from South Asia. With the increased manpower, we are able to increase production of ready-mix concrete to meet the rising demands from the industry to complete the backlog projects. This is expected to continue over the following 12 months.

- (ii) **Similarly, what is the competitive advantage of PHH in the provision of underground cable installation and road reinstatement? Is the group able to pass on cost increases to the end-customers? Based on Note 29 (Segment information), the segment recognised \$2.97 million in (external) revenue and made a loss of \$(3.25) million. The company has already impaired the goodwill for PHH amounting in \$2.51 million in the previous year. What are management's (operational and financial) priorities for 2022 to turn around the segment?**

Company's responses:

Poh Huat Heng Corporation Pte. Ltd. ("PHH") is long established since 1989 and has gained well market recognition in the industry.

We have factored in any foreseeable cost increase into our project tender. Notwithstanding the Group endeavor to mitigate every possible factor causes the price hike for raw materials, the Group is aware that there are macroenvironmental and macroeconomic factors that are beyond our control.

In FY2021, on top of the Singapore's border control measures where we were unable to bring in more foreign workers to commence our projects, movement restriction was imposed on our workers dormitory from time to time due to sudden surge of COVID-19 cases, leading to further delay and disruptions in projects. With the recent government's approval to bring in foreign workers, our priority in FY2022 is to recruit foreign workers to execute all the projects on hand and to complete as soon as possible.

Question 2:

The group recognised higher net impairment loss on financial assets of \$0.46 million mainly due to the impairment of receivables in EMS. The provision matrix on outstanding trade receivables is shown in Note 30(iii)(a).

- (i) **Can management help shareholders understand the profiles of the customers with long outstanding debt in the leasing and service income segment?**

Company's responses:

The customers with long outstanding debt in the leasing and service income segment are mainly SMEs who are our long-term customers.

- (ii) **What are management's efforts to collect the long outstanding trade receivables? Does the group hold any deposits/prepayment in the leasing and service income segment?**

Company's responses:

Statements of Accounts and reminders are sent to our customers on a monthly basis, and repayment plans are worked out with certain customers. We have also received postdated cheques from a customer and hold 2 to 3 months' rental equivalent deposit from all the customers.

Meanwhile, a total of \$113,000 out of the \$460,000 long outstanding trade receivables was subsequently received from January to March 2022. We are actively following up with our customers to collect the balance according to the agreed scheme of repayment.

In addition, the group disclosed that a single customer has outstanding trade receivables past due amounting to \$980,000 in the underground cable installation/road reinstatement segment. This customer accounts for over 90% of the trade receivables in the segment.

(iii) Can the board/management elaborate further on the group's risk management framework and credit policy (including concentration risks)? How does management work with its customers to ensure that the group collects its receivables in a timely manner to reduce the group's credit risk?

Company's responses:

The following steps are being taken:

- Conduct due diligence searches, eg. ACRA bizfile etc, on new customers
- Collect upfront 2 to 3 months' deposit from new customers
- Review customers' past years financial statement for assessment
- Send monthly Statement of Account and reminder to customers
- Work out repayment scheme with overdue customers

Moratorium for a period of 6 months during COVID-19 has resulted in long overdue customers.

(iv) Given the stress in the market, has management tightened its credit policy?

Company's responses:

The Group is fully aware of the current market situation. As such, we scrutinize new customers closely before extending credit to them and being more proactive in collection process for all the existing and new customers.

Question 3:

The board comprises 5 directors, 3 of whom are deemed independent. The profiles of the directors can be found on pages 8 and 9 of the annual report.

Collectively, the independent directors have professional experience in finance and legal.

(i) Has the nominating committee (NC) reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?

Company's responses:

The size and composition of the Board and Board Committees are reviewed on an annual basis by the NC through annual evaluation process to ensure that there is an appropriate mix of skills, knowledge, expertise and experience, and collectively, possesses the relevant and necessary skills sets and core competencies for effective decision-making which the Group may tap on for assistance in furthering its business objectives and shaping its business strategies. The NC also strives to ensure that the size of the Board is conducive to discussions and facilitates decision-making.

The work of the NC and the details of the appraisal process are spelt out in the corporate governance report on page 20 to 24 in the FY2021 Annual Report.

- (ii) **Can the NC help shareholders understand if the independent directors have the appropriate balance and mix of skills, knowledge, experience, especially in construction, warehousing and logistics, manufacturing, civil engineering, to engage in effective and constructive debate with the executive directors?**

Company's responses:

The current board composition complies with the Code of Corporate Governance as well as the recommendations on board diversity. Whilst the Company is open to having an Independent Director with an engineering background, an individual with specific knowledge and experience in construction, warehousing and logistics, manufacturing, civil engineering who is willing and able to be an Independent Director of the Company may not be readily available.

On the executive side, the CEO, Mr. Tan Poh Guan, and the Chairman, Mr. Ng Chuan Heng, both of whom have extensive experience in project management.

In addition, on 12 April 2022, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 31 December 2021 following the finalisation of audit. The announcement on the unaudited financial results for the financial year ended 31 December 2021 was first released via SGXNet on 1 March 2022. The announcement of material variance came approximately 6 weeks after the company first announced the unaudited financial statements. The changes included:

- **reclassification of rental deposits from the group's other payables (current) to other liabilities (non-current) in EMS**
- **reclassification of tax refund**
- **reclassification of interest expenses from repayment of lease liabilities**

- (iii) **Is the group (including its officers) familiar with the Singapore Financial Reporting Standards (International)?**

Company's responses:

The Company confirms that its officers are familiar and comply with the Singapore Financial Reporting Standards (International) ("**SFRS(I)s**"), which the external auditors has also affirmed in its Independent Auditors' Report that the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act 1967 ("**the Act**") and SFRS(I)s so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2021 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

- (iv) **How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**

Company's responses:

The finance team is staffed by qualified professionals with the relevant experience and has adequate resources to prepare the financial statements in accordance with the relevant Acts and financial reporting standards.

Our Financial Controller (“**FC**”), Mr Lai Choong Hon, has vast experience in accounting and finance for over 20 years. The AC comprises of members with relevant qualification and financial management expertise. Please refer to pages 8 and 9 of the FY2021 Annual Report for more details on the experience of the AC members.

Also, the Company has engaged reputable external auditors, Crowe Horwath First Trust LLP to perform the statutory audit on its financial statements of the Group. The finance team has always been working closely with the external auditor on the applications of new standards.

The Sponsor provides guidance and/or reminders on the appropriate SGX Catalist rules in relation to the financial and reporting matters on an ongoing basis. The Sponsor also provides feedback to the Company’s management and board of directors on market and regulatory expectations in order to enhance the Company’s decision making and to ensure that the Company meets its continuing obligations. The Sponsor also offer recommendations where necessary to strengthen the Group’s internal controls and procedures on a timely basis.

(v) What role did the AC play in the preparation of the financial statements? Was it adequate?

Company’s responses:

The AC has direct access to the FC and the members meet with the management every six months to discuss on the Group’s financial results and other financial issues prior to recommending the relevant financial results announcement to the Board for release to shareholders. Should the FC or finance team have any queries or comments at any point in time or during the financial statements close process, the FC will seek clarification and discuss with the AC during the half yearly or annual AC meeting where amendments need to be made pursuant to the discussion during the AC meeting. The AC has also met with the external and internal auditors without the presence of management and provided guidance where necessary on maintaining the integrity of the Group’s financial statements.

The Company has also disclosed the key functions of AC in the Annual Report (page 30 to 31) which is regulated under its written term of reference.

The AC has discharged its duties objectively during FY2021 which is in line with the Principle 10 of the Code of Corporate Governance.

(vi) Has the audit committee evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?

Company’s responses:

The AC has evaluated and noted the experience and qualifications of the finance team and is of the opinion that the internal financial reporting / finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements.

In addition, the Board wishes to inform that the Company has not received any comments, queries and/or questions from the shareholders in relation to the Company's businesses, operations and in particular, the resolutions to be tabled for approval at the AGM.

By Order of the Board

Tan Poh Guan
Executive Director and Chief Executive Officer
22 April 2022