HWA HONG CORPORATION LIMITED
66th Annual General Meeting – 24 April 2019
Summary of Questions & Answers

Question 1	**:**	**I refer to the Cash Flow Statement on page 67 of the Annual Report. Cash balance is stated at S$11.5m, however, in the Balance Sheet it indicates an amount of S$32.3m, please explain this.**
YL	:	On page 68 of the Annual Report, the balance sheet figure for cash and bank balances was S$32.3m, removing the pledge deposits of S$19.3m, bank overdraft of S$100K and restricted cash of S$1.4m, you will derive at the cash and cash equivalent of S$11.5m.
Question 2	**:**	**Therefore, actual cash available for use is S$11.5m and S$32.3m is the balance?**
YL	:	Yes, that is correct.
Question 3	**:**	**If the Company pays the current dividend declaration from this S$11.5m it will have very little cash left?**
YL	:	No, we will be announcing our 1Q2019 results soon which will include recent transaction undertaken in 1Q 2019. We are managing our cash flow.
Question 4	**:**	**On page 60 of the Annual Report with regard to the Balance Sheet. Trade receivables of S$1.86m is an increase of about S$1.4m from last year? How did this S$1.4m come about and what is the increase in receivables?**
YL	:	The increase of about half a million is due to (i) S$700K due from tenants; and (ii) S$1.0m of GST refundable from IRAS (due to the purchase of 253 JB freehold land). We also de-consolidated trade receivables arising from disposal of entity holding Herbal Hill. As such, the net increase was approximately S$1.4m.
Question 5	**:**	**On page 121 of the Annual Report, what is the S$0.5m of impairment?**
YL	:	That is under "Other Receivables", the provision was made many years ago, the entity has been "closed off" and therefore impairment written off.
Question 6	**:**	**My first question pertains to the absence of extraordinary gains for FY2018 compared to prior year. In the absence of such extraordinary gains, it would appear that the recurring income from the rental is not sufficient to provide the Company with good profits this year. Has Management or the Board looked into reducing costs and wastage of the Company's resources? I would like to cite an example, Hwa Hong is a small company in terms of number of employees, occupying 2 offices, of which, one of the office is 11,000 sqf for less than 20 employees or headcount. Is this really necessary?**
OCE	:	We have 2 offices, 1 in South Bridge Road ("**SBR**") and 1 in Orchard Towers. When the SBR office was first occupied, the Group had many more employees. The conference room at SBR takes up an entire floor, the other 3 floors are occupied by employees. When SBR ran out of space, we purchased Orchard Towers (at a very low price) and some employees moved to a 1,000 sqf Orchard Towers.

The Company previously used Paya Lebar building for archival storage, however as the building is now fully leased, the Group's archival records have been moved to SBR. Part of the SBR office space is being used as an archive storage space (if we do not have archive space at SBR, we will need to pay rental to store our records which is not ideal). That is why I do not think there is any wastage at all.

OEY : I would like to add that the space at SBR have been used to house some team members for our new business and they will be able to utilise our meeting rooms etc as well.

Question 7 : Could you give shareholders an indication on when your assets will become yield accretive.

For example, Kilmuir House which was bought in 2016, that is almost 3 years now. Do we know when it will start earning some rental income for the Company?

In addition, Allen House and Jalan Besar, when are these expected to TOP (Temporary Occupation Permit). This will provide shareholders with a clearer indication as to when the Company is going to receive returns on its investments.

OEY : I would like to clarify that Kilmuir House and Allen House were not bought for rental income, they were bought as development sites. These 2 sites are subject to approvals from the planning authorities in the UK, which generally takes longer than in Singapore. The planning framework in the UK is very different from Singapore, it is less prescriptive and more dependent on negotiations. The reason why the UK authorities are taking so long may be because of planning, market conditions and perhaps Brexit.

Allen House is managed by a new partner that we partnered with 3 years ago.

For Kilmuir House we partnered with Native Land Limited, we are very happy with the progress of the project which has derived some yields. Kilmuir House has relatively low yields but the cash flow covers our bank interest and other costs.

For Jalan Besar, we should obtain full Written Permit this month, subject to Land & Transport Authority's approval. It has taken a couple months longer due to the building of the MRT line. This will be a one year build and we are expecting the property to bring in revenue by next year. Depending on the lettings, if we pre-let it, it could become accretive by end of 2020 or early 2021.

Question 8 : **I have been attending Hwa Hong's AGMs over the years, I find Mr Ong Eng Yaw's confidence level had diminished this year. Is there any concerns with what you have presented on the Group's business? Are these slides available on the SGX website?**

To understand how the book values of the Company is derived, may I know what percentage consists of properties in the UK and what percentage of properties or assets are in Singapore or elsewhere? A better view of where the assets are located geographically.

On valuation, how conservative is the Company being, when I hear the CFO saying that book values vs market values is a difference of 10 cents per share? From the presentation, there is a drop of 4% but is it really 4% or is it more than that? Officially based on valuation, it seems to be that case but how what is the actual.

OEY : Yes, the presentation slides are available on the SGX website.

On the allocation of the book value, it is stated in the chart which can be found on page 4 of the presentation slides. Approximately 40% is in the UK (including residential properties).

To your comment regarding fire sales, there may be certain segments in residential sector where prices have dropped significantly. However, at the same time, if you look at the prime areas where our projects are located, prices have gone down but not to fire sales levels. Commercial property rents have gone up over the last two years and we are a bit concern about that. We expect rents to be flat for the next few years. Vacancy rates are still pretty high in commercial sector and we are definitely not seeing fire sales in the commercial sector. Your concerns about the fire sales would primarily be for the residential sector (but only certain locations).

We hold weekly dialogues and discussions with our residential partners in the UK. Our residential partners are still selling projects at £4,000/- psf or £3,500/- psf, i.e. prices are not at the stage of collapsing. Anecdotally, we have received enquiries and are in discussions with potential buyers for some of our units. Prices have come off but not more than 10%. As we are in the prime locations, we do see mostly foreign buyers rather than local buyers. To give shareholders some colour on the residential sector, we do see a lot of interested buyers in the prime areas. Being in the prime locations is our strength.

Question 9 : **Thank you for your answers, as a shareholder I am quite confident that we are doing ok. However, can we have more details on how the Company is hedging? When you say you are now doing a lot of hedging of currency, what is your hedging strategy?**

HHM : I would like to correct you on this point. Currently, we are only about 30% hedged and we are not hedging through derivatives. We are hedging through the capital structure transactions.

OEY : We cannot hedge the equity that's already been put in over the years because it is invested.

For new acquisitions, for example, we would take on on-shore GBP debt so it is 100% hedge in terms of the debt portion. In terms of bank lines in Singapore, for our recent transactions, we have drawn down our Singapore dollars bank lines and converted them into GBP loans so that the currency risk is passed on to the banks. We have also given cash to the bank to hold and they give us bank loans in GBP, and that GBP goes in as equity for investments. If there is a currency weakening, the currency risk will be borne by the bank.

20 Midtown does not have any bank loans against it, what we will do is to take a small bank loan and use that to repay our corporate lines.

Question 10 **Is the Company moving towards Australia?**

OEY : No, our properties are not in Australia. However, part of our new advisory business is for an Australian property. We are hoping to make some fee income rather than to put our capital at risk.

Question 11 : **Based on the earlier hedging discussions, you are using SGD as collateral to borrow GBP, is that correct? You are hedging GBP on the downside or on the upside?**

OEY : It is a downside hedge for the time being. We are taking a view that it is not going to strengthen due to the macro factors and Brexit, so we are trying to hedge on the downside. Having said that, we are taking on on-shore GBP debt for 20 Midtown which will reduce what you have just mentioned and it will be an upside and downside hedge.

HHM : We are not taking a speculative position on the GBP vs SGD. We are trying to reduce the amount of currency exposure we have in the capital structure. It is not the same as placing an upside or downside bet on the currency. We are just trying to reduce the amount of risk that we might have.

Question 12 **:** **Since the Company is collateralising the GBP with SGD and using the GBP to purchase the UK's assets, in the event that GBP goes up, you will make a profit which is very good. However, the revenue from the GBP the Company purchased, it will be generating GBP income right?**

OEY : We do not hedge on our income stream.

Question 13 **:** **Agreed but the income stream will be used to service the loan, so it is a natural hedge situation and the Company is on a win-win situation? I am not challenging the position taken by the Company, just want to get some clarity.**

OEY : Going forward, 20 Midtown has some debt capacity availability. The asset is already stabilised and we do not have any debt on this. We will therefore be drawing down on some GBP debt at on-shore level and we will use that to pay our Singapore's bank line to create an even better hedge, it is a 100% hedge on the upside and the downside.

Question 14	**:**	**In another scenario where GBP goes up and the Company pay off the loan without selling assets, the Company will need to use more SGD to pay off the GBP loan. The risk will actually on the upside if the Company does not sell its assets. In actuality, because of the GBP increase and you are using the SGD to collateralise it so you may have to top up in that event.**
OEY	:	You are right, which is why I have said the 20 Midtown loan can be used to reduce that effect.

Notes:

HHM = Hans Hugh Miller

OCE = Ong Choo Eng

OEY = Ong Eng Yaw

YL = Yvonne Lee