KEONG HONG HOLDINGS LIMITED

Incorporated in the Republic of Singapore
(Company Registration Number: 200807303W)

RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED (THE "SGX-ST") ON THE GROUP'S UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS AND FULL YEAR ENDED 30 SEPTEMBER 2021 ("FY2021 RESULTS")

The Board of Directors of Keong Hong Holdings Limited (the "Company" and together with its subsidiaries, the "Group") refers to the queries raised by the SGX-ST on 6 December 2021 in relation to the Group's unaudited condensed financial statements for the six month and full year ended 30 September 2021 ("FY2021") announced on 29 November 2021, wishes to provide its response as follows:

1) **Please provide reasons and details of the significant increase in contract assets from S$17 million in FY2020 to S$41.9 million in FY2021 and elaborate on the status of these contracts**.

The Group's construction contract revenue is recognised over time by reference to the Group's progress towards completion of the contract. The measure of progress is determined based on the proportion of contract costs incurred to date to the estimated total contract costs ("input method").

Contract assets primarily relate to the Group's right to completion for work completed but not yet billed at reporting date.

In the previous corresponding period, i.e. FY2020, Group's construction activities were forced to stop between 7 April 2020 to 1 June 2020, and were only able to resume progressively in August 2020. Arising from it, the level of construction productivity is much lower as compared to FY2021. With the progressive resumption of productivity in construction activities and our efforts in increasing productivities at site, we recorded a significant increase in contract assets in FY2021 as compared to FY2020.

The status of ongoing contracts is commercially sensitive in nature.

2) **The Company reported trade and other receivables amounting to a total of S$81.2 million which represented 95% of the Group's revenue of S$85.3 million for the financial year ended 30 September 2021.**

Please disclose:

(a) The breakdown of the Group's trade and other receivables and explain significant items;

Breakdown of Group's trade and other receivables

	The Group			
	FY2021	FY2020	Variance	Remarks
	S$'000	S$'000		
Non-current assets				
Non-trade receivables				
- joint venture	36,814	34,562	6.5%	Note (i)
Current assets				
Trade receivables				
- third parties	4,769	2,365	101.6%	Note (ii)
- associates	4,273	4,297	-0.6%	
- joint ventures	2,288	2,700	-15.3%	Note (iii)
Loss allowance on trade receviables from third parties	(810)	(690)	17.4%	Note (ix)
	10,520	8,672		
Retention sum				
- third parties	3,669	3,413	7.5%	Note (iv)
- associates	3,079	3,096	-0.5%	
- joint ventures	5,376	11,736	-54.2%	Note (iv)
Loss allowance on retention sum from third parties	(925)	(769)	20.3%	Note (ix)
Security deposits	993	1,408	-29.5%	Note (v)
Non-trade receivables				
- third parties	2,228	2,393	-6.9%	Note (vi)
- associates	21,376	21,328	0.2%	
- joint ventures	1,256	66,879	-98.1%	Note (vi)
Loss allowance				
- third parties	(1,447)	(1,447)	0.0%	
- associates	(1,665)	(3,458)	-51.9%	Note (x)
- joint ventures	(1,254)	-	n.m.	Note (x)
Goods and services tax recoverable	797	33	2315.2%	Note (vii)
Advance payments	345	719	-52.0%	Note (viii)
Government grant receivable	12	997	-98.8%	Note (viii)
	44,360	115,000		
Total	81,174	149,562		

n.m. denotes not meaningful

Notes

Group's trade and other receivables were incurred in the ordinary course of business of the Group.

(i) Non-current non-trade receivables relates to amount due from a joint venture that is unsecure and interest bearing. The increase was attributed to additional loan of S$1.6 million and interest charged of S$700,000 during FY2021.

(ii) Trade receivables due from third parties increase to S$4.8 million. It was attributed to higher billing in the month of September 2021 as compared to the previous corresponding period of September 2020.

(iii) Trade receivables due from joint ventures decrease by S$400,000, due to lower billing in the month of September 2021 as compared to the previous corresponding period.

(iv) Retention sum relates to amount held by customers for contract work completed. The decrease in retention sum was mainly attributed to release of retention sum by a joint venture for the completion of The Seaside Residence project.

(v) Security deposits relate to deposits for utilities, rental of plant and equipment as well as deposits placed for purchase of plant and equipment. In FY2021, the Group received refund of certain deposits and reclassified S$300,000 to plant and equipment arising from the completion of purchase of certain plant and equipment.

(vi) Non-trade receivables due from third parties, associates and joint ventures relate to loan made by the Group. The decrease in FY2021 was mainly attributed to repayment of S$66.7 million by a joint venture during the year.

(vii) Goods and service tax recoverable relates to the portion recoverable from IRAS for the quarter ended 30 September 2021.

(viii) Advance payments are related to advance payment to subcontractors arising from COVID-19 pandemic. With the resumption of activities in FY2021, the Group has partially recovered advance payment of S$374,000, leading to lower advance payment of S$345,000 recorded in FY2021.

(ix) The government grant receivable of S$997,000 in FY2020 relates to Jobs Support Scheme ("JSS"). With the tampering down of JSS in FY2021, the Group recognised a lower grant receivable of S$12,000.

(x) Loss allowance on trade and other receivables

Trade receivables and retention sum from third parties

Expected credit loss model is initially based on the Group's historical observed default rates. At each reporting period, the Group will calibrate the model to adjust historical credit loss experience with industry future outlook. These have resulted in higher loss allowance on trade receivables from third party and higher loss allowance on retention sum.

Non-trade receivables from associates and joint ventures

At each reporting period, the Group assesses the financial performances of associates and joint ventures to meet the contractual cash flows obligations. Accordingly, the Group recorded a loss allowance of S$2.9 million in FY2021.

(b) The underlying transactions for other receivables, the terms of the transactions (including the contract sum), terms of payment, and whether these were incurred in the ordinary course of business;

Please refer to our response in para 2(a) and the accompanying explanatory notes.

(c) The ageing profile of the Group's trade and other receivables in bands of 3 months, all upper bands disclosed;

Ageing profile of the Group's trade receivable

	The Group				
	0 – 3 months S$'000	**4 – 6 months S$'000**	**7 – 9 months S$'000**	**10 – 12 months S$'000**	**Total S$'000**
Third parties	3,712	580	-	477	4,769
Associates	-	-	-	4,273	4,273
Joint venture	2,288	-	-	-	2,288
Total	6,000	580	-	4,750	11,330

<u>Ageing profile of Other receivables</u>

Retention sum is due for settlement for more than 12 months. They have been classified as current asset because they are expected to be realised in the normal operating cycle of the Group.

Non-trade receivables are repayable on demand, thus, ageing profile is not applicable.

(d) **Whether these outstanding amounts are owing to related parties. If yes, to provide details and quantify;**

The outstanding amounts are not owing to related parties. Owing from related parties are disclosed in our response in para 2(a).

(e) Whether these debtors are related to any directors, key executives, substantial shareholders or their respective associates;

These debtors are not related to any directors, key executives, substantial shareholders or their respective associates.

(f) Whether these customers are still in operation; and

The customers are still in operation.

(g) The Board's assessment on the recoverability of the Group's trade and other receivables, and the basis for such an assessment.

The Board has reviewed the Management's assessment on the recoverability of the trade and other receivables under SFRS(I) 9 *Financial Instruments* and is of the opinion that the impairment loss allowance for expected credit losses is in accordance with SFRS(I) 9 *Financial Instruments* and has been adequately provided for as at 30 September 2021. Arising from it, the Board concurred with the Management's view on the recoverability of the Group's trade and other receivables.

3) **Please disclose details on the provisions amounting to S$12.7 million recorded in the Group's current liabilities for FY2021. Please explain the reasons for the increase in provisions from S$4.5 million in FY2020 to S$12.7 million in FY2021 and elaborate on material item**s.

Details on the provisions are as follows:

	The Group			
	FY2021	**FY2020**	**Variance**	**Remarks**
	S$'000	**S$'000**		
Current liabilities				
Provision for onerous contracts	8,796	2,717	224%	Note 3.1.
Provision for warranty and defects	2,322	1,822	27%	Note 3.2.
	11,118	4,539	145%	
Corporate guarantee liability	1,616	2,922	-45%	Note 3.3.
	12,734	7,461	71%	

Notes

3.1. Provision for onerous contracts were the unavoidable costs of fulfilling certain construction contracts with customers that were in excess of the economic benefits expected to be received under the contract.

As previously announced on 16 November 2021 and 29 November 2021 respectively, the impact caused by COVID-19 disruption has resulted in a spike in cost of building materials and labour. As a consequence, the Group recorded a sharp increase in the provision for onerous contract.

3.2. Provision for warranty and defects is recognised based on the claims experienced in the past and the level of repairs and experienced for similar projects.

During the year, Group's completed projects included the Seaside Residence project. Accordingly, additional provision for warranty and defects of S$500,000 were provided.

A reversal of provision for warranty and defects will be made upon the expiration of the warranty.

3.3. Please refer to our response in para 4.

4) **It was disclosed on page 27 that the Group recorded a net reversal of allowance of S$1.1 million on its financial assets in FY2021 due to reversal of expected credit loss on its trade and other receivables of S$263,000 and reversal of impairment loss on financial guarantee contracts of S$1.3 million in FY2021. Please elaborate on the background relating to the impairment loss on financial guarantee contracts and the subsequent reversal of such impairment loss of S$1.3 million and explain how the amount was determined.**

The provision for financial guarantee contracts are related to the Company's corporate guarantees to bank borrowings of an associate where the Group is required to reimburse the banks in the event of breach of any repayment terms.

The financial guarantee contracts are initially recognised at fair value in FY2019 amounting to S$3.4 million. The fair value of the financial guarantee contract is calculated as the present value of the difference between the net contractual cash flows required under a debt instrument, and the net contractual cash flows that would have been without the guarantee using a risk free rate of interest.

At the end of each subsequent reporting period, the financial guarantee contracts are measure at the higher of

- The amount of the loss allowance, and
- The amount initially recognised less cumulative amortisation, where appropriate.

The amount of loss allowance at each subsequent reporting period equals the lifetime expected credit losses.

As the financial performance of the said associate improved in FY2020 and FY2021 as well as partial repayment of the bank borrowings, the Group recorded a partial reversal in the loss allowance of S$3.4 million that was initially recorded in FY2019. Thus, it has given rise to the reversal of S$817,000 in FY2020 and S$1.3 million in FY2021.

5) It was disclosed on page 28 that the Group reclassified certain property, plant and equipment ("PPE") as assets held for sale. Please disclose details of what are the PPE reclassified to assets held for sale and the reasons for the disposal of these PPE.

The Group reclassified certain leasehold properties of a subsidiary, measured at the lower of carrying amount and fair value less costs to sell, amounting to S$1.9 million to assets held for sale.

The intended disposal is part of the Group's efforts in addressing the cash flows position as well as financial performance of the subsidiary. It is expected that the sale of the leasehold properties would be completed within the next 12 months from 30 September 2021 and the intended disposal would result in costs savings as well as generating a positive cash flow for the subsidiary.

The intended disposal is not expected to have a material impact on the net tangible assets and earnings per share of the Company for the financial year ending 30 September 2022.

BY ORDER OF THE BOARD

Lo Swee Oi
Company Secretary

7 December 2021