

## Hoe Leong Corporation Ltd.

(Company registration number 199408433W)

(Incorporated in the Republic of Singapore)

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### RESPONSE TO QUERIES FROM SHAREHOLDER ON ANNUAL REPORT 2020

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The Board of Directors (the “**Board**”) of Hoe Leong Corporation Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that the Company had, as at 5.00 p.m. of 23 April 2021, received questions from a shareholder relating to the Company’s annual report for the financial year ended 31 December 2020 (“**FY2020**”) (“**Annual Report 2020**”). The shareholder’s queries are extracted in full below and the Company’s responses are set out below.

#### Question 1 from shareholder:

##### “**GoingConcern/Cash Flow**

**Under the current leadership team, NetCash flow from operating activities dropped from \$6.lm (2019) to only \$2.6m (2020) (pg 59). It appears that the company is not even capable of generating cash from operations to finance the current liabilities. Please provide an explanation to shareholders on the steps taken to increase cash generation from operations.”**

Company’s response:

For FY2020, the Group continued to register positive cash flows from operating activities in spite of Covid-19 which is adversely affecting the industries which our customers operate in and having to shoulder the burdens to cash flows inherited from the previous management, such as:

- a) the repayment of rental due to Hoe Leong Plastic Industry (China) Co., Ltd (associate of a controlling shareholder), accrued since December 2016, over the period from September 2020 to December 2021;
- b) costs associated with the storage of large quantity of inventories that are more than 5 years of age; and
- c) costs associated to settlement of ongoing material litigations.

Nevertheless, as disclosed in the Chairman’s Statement on Pg. 3 of Annual Report 2020, the Group is taking steps to increase cash generated from operations, such as:

- a) the disposal of slowing-moving and obsolete inventories; and
- b) the optimising and freeing-up of warehousing space and reduction of associated costs.

In view of the increased raw material costs which could impact cash generated from operations, the Group has implemented and/ or is negotiating with customers on increase in sale prices in line with market practices.

#### Question 2 from shareholder:

##### “**Revenue (Sales)**

**What were the steps taken in 2020 to increase revenue for the group?”**

Company’s response:

With most of our customers adversely affected by Covid-19 due to national lockdowns and the consequential slowdown in economic activities and demand for our products, it would be pleasing to imagine that revenue could increase in FY2020.

However, the enthusiasm of the management and staff were not dampened by unfavourable conditions. As disclosed in the Chairman's Statement of Annual Report 2020, during FY2020, our respective sales teams in Singapore and around the region continued to engage our customers in every possible way. These were done to keep us apprised of market developments and also to ensure that our customers stay with us during this difficult period and continue to support us when the going gets better.

Question 3 from shareholder:

**"The Chairman's statement stated that the revenue "decrease by \$10.0 million or 18.9% is mainly due to a slowdown in global economy as a result of lockdown measures to curb the spread of Covid-19." Before Covid-19, the group was already not performing well. Also, as early as Dec 2019, the world already knew a virus outbreak is taking place. Although Covid-19 caused some companies to perform poorly, but there are many other listed companies that did well by the end of 2020. Many countries are spending aggressively on public infrastructure and capital projects. Shouldn't that lead to increase of HL's sales? Therefore, can the Chairman explain in details why didn't HL anticipate the situation caused by Covid-19 and take steps to overcome it? If there is no Covid-19, does it mean that revenue would have stay flat or even increase?"**

Company's response:

During FY2020 and in the recent years, the Group serves customers which are mainly from the mining industry which has been adversely affected by Covid-19. As such, aggressive spending on public projects by governments, if any, would not benefit the Group significantly.

Since the Executive Chairman and CEO took over the position in November 2019, he has the responsibility of improving the liquidity and financial position and performance of the Group. The onset of Covid-19 did not help matter. However, during this period of time, he had:

- a) Introduced an investor to the Company who would invest up to S\$12 million in the Company over the next 3 to 4 years;
- b) Together with the management and corporate advisors, obtained the support of various vessel lenders to support a debt conversion plan; and
- c) Implemented initiatives to conserve cash of the Group.

The Executive Chairman and CEO, together with the Board, did everything they could to keep the Company afloat.

The management is not able to give a view of whether revenue would increase, decrease or remain the same compared to FY2019 had the spread of Covid-19 not occurred during FY2020.

Question 4 from shareholder:

**"Please explain the actions taken in 2020 to grow the customer base and reduce dependency on a single external customer: "Revenue of approximately \$3,455,000 (2019: \$6,384,000) are derived from a single external customer who individually contributed approximately 8% (2019: 10%) of the Group's revenue" - pg 106."**

Company's response:

During FY2020, the Group continued to engage our customers regularly in order to retain them. Our respective sales teams in Singapore and other countries where we have presence have also been prospecting for new customers from new territories, such as those in Australia, Indonesia, certain countries in Europe, etc.

Question 5 from shareholder:

**“The Chairman's statement stated that *“looking ahead, the Group will remain vigilant to market developments and for opportunities to grow our business locally and regionally. 11 Since it is already end of April 2021 at date of AGM, please describe the steps taken to grow the business and the impact to performance for 2021.”***

Company's response:

Given that the financial situation of the Group (i.e. Group registering accumulated losses since FY2014) and material uncertainty related to going concern highlighted in the Independent Auditors' Report since FY2019, the immediate concern of the Company is to shore up its liquidity and financial position.

As disclosed in Notes 2 and 23 of the Directors' Statement and Financial Statements for FY2020 included in Annual Report 2020, the directors of the Company have put in place fund raising and debt conversion plans to improve the liquidity and financial position of the Group. The Company had on 21 December 2020 entered into definitive agreements with:

- An investor, Shing Heng Holding Pte Ltd, for the subscription of a S\$3 million convertible loan note of the Company by the investor; the subscription of new ordinary shares in the Company for S\$9 million, as an option made available to the investor; and the granting of an 18-month bridging loan of S\$1 million by the investor; and
- Various lenders for the conversion of vessel-related loans amounting to S\$1.9 million into ordinary shares and/ or convertible bonds issued by the Company.

The above proposed transactions are subject to, amongst others, the fulfilment of the conditions precedent under the definitive agreements entered into. Please refer to the Company's SGXNet announcement dated 21 December 2020.

Question 6 from shareholder:

**“Besides the vague motherhood statement listed above, the Chairman's statement did not provide a clear indication on the strategy and direction of the company in the short and medium term. Now that vessel chartering business is divested and cost management measures implemented, the Chairman should be presenting his plan to grow the company at the AGM. Based on the Chairman statement itself, it appears there isn't any initiative taken to grow the company and the management team is only concern with divestment, cost cutting & converting debts to equity. Can the Chairman present at the AGM the specific strategy to grow the business?”**

Company's response:

As explained in the Company's response to question 5 above, the immediate concern of the management is to improve the Company's liquidity and financial position. Success in our fund raising and debt conversion plans would then enable the Company to enter the next phase of growth, focusing on the equipment parts business.

In addition to growing organically, the Company may consider expanding our business through acquisitions, joint ventures or strategic alliances with parties who create synergistic values with our existing business. Through such acquisitions, joint ventures or strategic alliances, the Company will look to strengthen its market position, expand its network, as well as expand into new businesses complementary to the existing business. As at date of this response, the Company has not been engaged in any form of discussion with any potential party to acquire its business or form joint ventures or engage in strategic alliances. Should such opportunities arise, we will seek approval, where necessary, from our shareholders and/ or the relevant authorities in accordance with the requirements of the applicable laws and regulations.

Question 7 from shareholder:

**“Expenses**

**Please explain the increase in legal and professional fees for FY2020 (pg 9). Since the group experienced sharp drop in revenue and suffered losses in 2020, why did management choose instead to spend more on such fees? Please explain the selection criteria for choosing these vendors.”**

Company’s response:

As disclosed in the Company’s SGXNet announcement in relation to FY2020 financial results (‘Unaudited Financial Statements and Dividend Announcement for the 4<sup>th</sup> Quarter and Full Year Ended 31 December 2020’) dated 26 February 2021, legal and professional fees for FY2020 are mainly in relation to the sale of vessels and the proposed transactions, as described in the Company’s response to question 5 above, the necessary corporate actions to improve liquidity and financial position of the Company.

In the selection of professional parties to engage, factors considered include: Level of expertise and experience, adequacy of resources to perform their duties and value-for-money.

Question 8 from shareholder:

**“Given the poor financial performance, why was \$101k spend on Computer Assets in 2020? (pg 80). (Representing 11% of loss from continuing operations@ (\$950k)).”**

Company’s response:

The addition of computers amounting to S\$101,000 during FY2020 mainly relates to the replacement of servers installed in the corporate headquarters of the Company. The previous servers were purchased in 2012 and most of the parts and software are aged or outdated, exposing the Company to security and operational risks.

The Group’s computers (including servers) are depreciated over 3 years.

Question 9 from shareholder:

**“Please explain the addition of \$166k in motor vehicles. Shouldn’t such expenses be deferred until the company returns to profitability? (pg 80). (Representing 17% of loss from continuing operations@ (\$950k)).”**

The addition of motor vehicles amounting to S\$166,000 during FY2020 mainly relates to the purchases of 3 motor vehicles to replace old ones which were not roadworthy and/ or had reached the end of their useful life.

The above motor vehicles are depreciated over 5 years.

Question 10 from shareholder:

**“What were amount of expenses incurred for outsourcing the internal audit function to Baker Tilly Consultancy? Given the poor financial performance, has management considered other costeffective vendors? Please explain the selection criteria.”**

Company’s response:

The management reviews the internal audit fee annually and may request for quotation from various internal audit firms, if necessary. The internal audit fee paid to Baker Tilly Consultancy is in line with market rates and not excessive to the extent that their independence would be affected.

In the selection of internal auditors to engage, the Audit Committee considered factors such as: independence, level of expertise and adequacy of their resources to perform internal audit functions.

Question 11 from shareholder:

**“Administrative expenses dropped only \$26Sk {5%} in 2020 where in the same period, Gross Profit dropped \$2.4m (24%) . (pg 8). Can management explain why administrative expenses only dropped 5%?”**

Company's response:

Administrative expenses comprise mainly of fixed costs and may not fluctuate in tandem with the level of operations. During FY2020, there had been a reduction in salaries and related costs as a result of reduction in headcount in the equipment segment and reduction in directors' remuneration following the resignation of certain executive directors of the Company in October 2019. However, the above decreases were partially offset by an increase in legal and professional fees in relation to corporate actions undertaken by the Group during FY2020, resulting in only a slight decrease in administrative expenses.

Question 12 from shareholder:

**“Given that the company financial performance is weak and had embarked on cost cutting measures and that even the auditors have raised questions on going concern, why is the company still providing a car to the Executive Chairman and CEO? (The Executive Chairman and CEO is entitled to other benefits, such as medical, dental and car- pg 37)”**

Company's response:

The inclusion of car benefits in the remuneration package of corporate executives is a common practice in Singapore. Car benefits granted to the Executive Chairman and CEO include the provision of a car at rental fee from S\$2,000 to S\$3,000 per month. A Honda HR-V 1.5 DX is rented for the Executive Chairman and CEO.

In comparison, the previous Executive Chairman and CEO (the “**ex-CEO**”) was provided with the Company's Mercedes Benz S350L prior to April 2018. According to an addendum to contract/ letter of appointment (of 4 January 2016) dated 11 January 2018, the ex-CEO was “entitled to an annual transport allowance of S\$36,000.00 payable over 12 months and, a Company Car which make will maintain of or equivalent to Mercedes S Series, of which the Company will bear expenses of Required Maintenance, Car Insurance, Petrol and any other expenses incurred for business which includes and not limited to ERP and Carpark Charges.” The Company's records show that a Porsche Panarama G2 PDK E6 Saloon-P10 was purchased in April 2018 and registered under the name of the ex-CEO, on trust for the Company.

The car benefits of the current Executive Chairman and CEO are therefore modest.

The Remuneration Committee had reviewed and proposed the overall compensation package for Executive Chairman and CEO in view of past remuneration practices. The Board had accepted the Remuneration Committee's proposal and is of the view that it is in alignment with current cost management measures, even though the overall compensation package is below market rates.

Question 13 from shareholder:

**“Board of directors**

**Regarding the proposal to appoint MR WEE SUNG LENG as independent Director: There are 4 seats in the board of Directors, of which currently 2 of them are Chartered Accountants. Mr Wee graduated with an Accountancy Degree. If he is elected, there will be 3 (out of 4) directors from accounting background. Shouldn't the board nominate members with more diverse background to prevent group think? In addition, please explain if Mr Wee has experience in the undercarriage products or spare parts business as the CV provided in the annual report did not suggest he has such relevant experience & expertise.”**

Company's response:

The Company adopts measures to prevent group think at the Board. As disclosed in the Corporate Governance Report on Pg. 31 of Annual Report 2020:

“In reviewing the composition of the Board, the NC considers the benefits of Board diversity from a number of aspects, including but not limited to gender, age, educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

However, diversity is not merely limited to gender or any other personal attributes. The benefits of Board diversity could only be harnessed if directors adopt an independent mindset when carrying out their responsibilities. In order to gather and leverage on diverse perspectives, the Executive Chairman cultivates an inclusive environment where all directors are encouraged to speak up and participate in decision-making.”

All directors of the Company have individually more than 20 or 25 years of professional and/ or corporate experience, working with employers and clients spanning diverse industries.

Mr Wee Sung Leng (incoming independent director) has many years of experience as a seasoned investment banker advising both private and listed companies in corporate transactions (such as those relating to merger and acquisition) and corporate fundraising. His experience in dealing with companies from multiple industries as part of his work as an investment banker would enable him to provide fresh perspectives to board discussions and our business.

Question 14 from shareholder:

**“Can the board explain to shareholders the Key Performance Indicators for the Executive Chairman? What were the individual performance targets used for the calculation of discretionary bonuses? Since the company's financial performance performed so poorly in 2020, can shareholders assume that the Chairman will not be paid any bonus until the company's financials return to a healthy level? *Discretionary bonuses (if any) are determined based on individual performance-pg 37.*”**

Company's response:

As disclosed in the Corporate Governance Report on Pg. 32 of Annual Report 2020, the Executive Chairman and CEO takes an active role in the management of the Group and also bears the responsibility for the effectiveness of the Board.

As disclosed in the Corporate Governance Report on Pg. 37 of Annual Report 2020, the remuneration package of the Executive Chairman and CEO comprises a fixed monthly salary and incentive bonus based on the audited Group's profit before tax (before incentive bonus) for the financial year.

Performance of the Executive Chairman and CEO is assessed mainly based on Group's financial performance and how well he is carrying out his duties.

As disclosed in the Corporate Governance Report on Pg. 37 of Annual Report 2020, discretionary bonuses (if any) are determined based on, amongst other factors, individual performance. The evaluation of individual performance of the Executive Chairman and CEO takes into consideration of key areas such as leadership, strategy and people management.

Question 15 from shareholder:

**“Why the Chairman still has bonus of 17%, equivalent how much as stated in page 39?  
Why the Chairman has bonus despite have operation lost? Please explain in detail.  
How to justify this 17% bonus he had? Please explain in detail.  
Please announce the 17% bonus amount the Chairman had?”**

Company’s response:

In view of confidentiality of remuneration policies of the Group and competitive pressures in the talent market, the Board is of the view that it is in the best interest of the Company to disclose the remuneration of its directors and key management personnel in salary bands. Based on the remuneration band of S\$250,000 to S\$499,999, variable or performance-related bonus of the Executive Chairman and CEO would range from S\$43,000 to S\$85,000.

The RC proposed and the Board (excluding the Executive Chairman and CEO) approved the payment of a discretionary bonus equivalent to 2.5 months of monthly basic salary taking into consideration that:

- Non-management staff have been paid variable wages equivalent to a month salary;
- The Executive Chairman and CEO has accepted a monthly salary reduction that is equivalent to 10% of his monthly salary payable in cash;
- Effort and time spent by the Executive Chairman and CEO during FY2020 to bring in investors and deal with various issues of the Group; and
- The Executive Chairman and CEO’s monthly basic salary in cash is much less than the last drawn monthly salary of the previous Executive Chairman and CEO, who was also assisted by 2 executive directors during his tenure.

Question 16 from shareholder:

**“Regarding the Mr Chin Yon Fei joined Hoe Leong Cooperation Ltd as part time director for Hoe Leong Crawler Part Pte Ltd from November 2020 to February 2021, what is his contribution during this period of time?**

**Regrading announcement of appointed Director of Sales & Marketing Chin Yon Fei on 01-03-2021 for Hoe Leong Corporation Ltd by the Chairman is based on what criteria?**

**His background is totally from different trade and not in Hoe Leong Corporation Ltd Heavy Equipment Spare Part Business or any closely related trade similar to Hoe Leong Corporation Ltd business, so how can he contribute to grow in Hoe Leong Corporation Ltd Heavy Equipment Spare Parts Business?**

**He is more on accounting base and financial control than sales & marketing base, how can he qualify for the position of Director Sales & Marketing for Hoe Leong Corporation Ltd who deal with Heavy Equipment Spare Parts business?**

**Is there any probation period for his position? 6 months or what? Please explain.**

**Hear the Chairman and he are friend, please explain.**

**What is the Key Performance Index (KPI) used to measure him?**

**For the position for Director of Sales & Marketing, why the company no engage candidate with Strong sales & marketing background and with proven track record ?**

**Why engage Chin Yon Fei as Director of Sales & Marketing, please explain in detail for this matter.**

**Is the board approved or the Chairman preference to engaged Chin Yon Fei because his friend ? Please explain.”**

Company's response:

The joining of Mr Chin Yon Fei has injected new impetus to the sales and marketing function of the Group. Even during his part-time stint between November 2020 and February 2021, Mr Chin has:

- Provided market depth and business potential synopsis to the management of the Company with align strategies for sales growth and cost improvement initiatives;
- Implemented a lean organizational structure in building up sales and marketing team's capability to deliver best services to the customers; and
- Devised the strategic roadmap and milestones to further strengthen the company's go to market strategies with focus and target growth of undercarriage components and aligned brand position.

The above initiatives are aimed towards improving the Group's market position and building a sustainable business model for the Group's equipment parts business.

Mr Chin has more than 25 years of financial control, business strategy and operation management experience and was heavily involved in the formulation of business directions, strategies and major decision-making for his previous employers. For the last 15 years, he was mostly based in China and working for companies in the manufacturing industry. During his 11-year tenure with a global tire manufacturing company between August 2009 and June 2020, he had held the positions of Head of Sales Support and Analysis, Head of Strategic Planning and Marketing and Head of Business Control of the International Sales Division. Mr Chin's work experience is thus highly relevant to the Group which also has manufacturing facilities in China and Korea.

As the Director of Sales and Marketing, Mr Chin's performance would be assessed based on the Group's ability to retain customers, acquire new customers and achieve revenue growth, taking into consideration the circumstances that the Group operates under.

As disclosed in the Company's SGXNet announcement dated 1 March 2021 in relation to the appointment of Mr Chin as the Director of Sales and Marketing, the Board assessed and opined that Mr Chin has the relevant qualification, working experience and competencies to take on this position.

Question 17 from shareholder:

**"Hoe Leong Corporation Ltd had submitted to SGX to resume trading on 13-01-2021 but until now SGX still no approve, Why? What is the reason why SGX no approve for resume trading? So when can SGX approve the resumption plan? Please explain in detail."**

Company's response:

The Company's trading resumption application is being reviewed by the Singapore Exchange Securities Trading Limited (the "SGX-ST").

The Company will make further announcement(s), in compliance with the requirements of the Listing Manual of the SGX-ST, when there are material developments in respect of the Company's trade resumption application.

Subsequent to 5.00 p.m. of 23 April 2021 (i.e. deadline for submission of questions), the Company received 2 emails containing the same list of questions from a shareholder who claimed to have sent the questions to the Company before the submission deadline. The second email contains a forwarded email of similar content as the first but with an earlier time stamp. The shareholder did not respond to the management's request for clarification and has not produce the original notification of undelivered and returned email as requested.

The Company shall nevertheless publish his/ her questions and only respond to those which are related to the agenda of the Annual General Meeting and/ or Annual Report 2020 as follow.

Question 18 from shareholder:

**“With reference to announcement on 1st Nov 2019, Can you give an update on RSM’s role as a corporate advisor and the fees paid to them.”**

Company’s response:

In addition to assistance to the Company in its strategic review of the Company’s existing businesses and in the formulation of plans to improve the financial position and performance of the Group, the Corporate Advisor of the Company, amongst others, assisted in the sale of 2 vessels and expended efforts to facilitate recovery of debts from a customer from the vessel chartering segment and contributed in the negotiation with vessel lenders on debts conversion plans.

During the search for white knight to invest in the Company, the Corporate Advisor’s transaction support works include:

- Formulation of deal structure and provision of advice on issues relating to the deal;
- Participation in the negotiation of terms of investment with potential investors;
- Review of definitive agreements in relation to the Company’s fundraising and debt conversion plans;
- Review and/ or drafting of certain submission documents in relation to the Company’s fundraising and debt conversion plans and trading resumption application; and
- Attend to ad-hoc requests such as addressing potential investors’ queries.

Fees paid to the Corporate Advisor are reasonable and commensurate with the amount of advice, work and support rendered.

Question 19 from shareholder:

**“For greater transparency, can the company disclose all related transactions with RSM and its associate companies?”**

Company’s response:

Please refer to the Company’s response to question 18 above.

Question 20 from shareholder:

**“Can you explain the rationale behind the appointment of an Independent director (ID) Wee Sung Leng who is ID of another company(Y45) which has not being performing well in the past 3 years, including a 95% share drop? How can he help the company?**

**Reference:**

<https://finance.yahoo.com/news/singapore-myanmar-investco-sgx-y45-015100314.html>”

Company's response:

Please refer to the Company's response to question 13 above and 'Disclosure of Information on Directors Seeking Re-election and Appointment' in relation to Mr Wee's suitability for appointment as independent director of the Company.

Question 21 from shareholder:

**"The new company CFO was employed by RSM Corporate advisor from Sep 2005 to July 2011. Can you describe the hiring and selection process of CFO. Can you also disclose all company personnel with past relationship with the corporate advisor?"**

Company's response:

The hiring and selection of key management personnel, such as the Group Financial Controller, includes the sourcing of candidates from directors' and key management personnel's network of contacts and referrals and external sources such as talent acquisition firm. Suitable candidate(s) would be shortlisted and interviewed by the Executive Chairman and CEO and/ or relevant management personnel. The Executive Chairman and CEO would then present the suitable candidate(s) to the Board and/ or respective Board Committee for their assessment and approval for appointment.

Question 22 from shareholder:

**"During FY2020, the Group received government grants amounting to S\$935,000 (FY2019: NIL). These are mainly COVID-19 relief measures by governments, such as Jobs Credit Scheme in Singapore and JobKeeper in Australia."Without the Job support, the company current operation lost \$1,885,000 (\$935,000 +\$950,000). Can the board give us an outline for the plans to further cost cutting and increase profitability for 2021?"**

Company's response:

Please refer to the Company's response to question 1 above in relation to the cost management measures undertaken.

The Group has been prospecting for new customers from new territories, such as those in Australia, Indonesia, certain countries in Europe, etc.

Question 23 from shareholder:

**"Refer to Page 39 and the replacement of Independent director Mr. Ang. The recent departure of the Independent director Mr. Ang, General Managers and CFO, the company has no senior management with more than 1.5 years of experience running the company. Can the board explain what is being done to reassure shareholders about the future of the business."**

Company's response:

All directors of the Company have individually more than 20 or 25 years of professional and/ or corporate experience, working with employers and clients spanning diverse industries.

Referring to Pg. 6 of Annual Report 2020, most of the key executives have been with the Group for about 5 years or more than 10 years. Key executives who joined the Group in 2020 have more than 15 years of experience individually in their area of expertise.

BY ORDER OF THE BOARD

Liew Yoke Pheng Joseph  
Executive Chairman and CEO

28 April 2021