

HOE LEONG CORPORATION LTD.
(the "**Company**")
(Company registration number 199408433W)
(Incorporated in the Republic of Singapore)

**RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)
ON THE COMPANY'S ANNUAL REPORT FOR FINANCIAL YEAR ENDED 31 DECEMBER 2019**

The Board of Directors (the "**Board**") of Hoe Leong Corporation Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to questions raised by Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's annual report for the financial year ended 31 December 2019 ("**Annual Report 2019**"). The questions raised by SIAS and the Company's corresponding responses are set out below:

Q1. As disclosed in the corporate profile (page 2 of the annual report), the group trades and distributes an extensive range of equipment parts for both heavy equipment and industrial machinery. It also designs and manufactures equipment parts for both heavy equipment and industrial machinery at its subsidiaries in the People's Republic of China ("PRC") since 2004, and South Korea since 2012, under its own in-house brand names – KBJ, OEM and ROSSI.

The end-users of the group's products are generally operators of heavy equipment and industrial machinery in the building and infrastructure construction, forestry, marine, mining and plantation industries.

The group's equipment segment (consisting of "Design and manufacture" and "Trading and distribution") contributed over \$53.2 million in revenue, decreasing 12% from \$60.6 million. As seen in Note 22 (page 78 – Operating segments), Australia is the largest contributor with over \$18 million in revenue.

(i) Can management help shareholders understand the value proposition of its equipment business?

Company's response to Q1(i)

The Equipment business manufactures, trades and refurbishes an extensive range of equipment parts especially undercarriages. The Group has customers around the world in the mining, forestry and construction industries. This business has a proven track-record of experience, innovation and competitive edge, offering cost savings and genuine alternative solutions, without compromising on the quality.

By selling best-of-breed equipment parts from established brands and its own in-house manufactured products, and (in certain branches) also provide repair and maintenance services, the Group offers a complete solution to its customers.

(ii) What are management's pro-active plans to further improve the profitability in the equipment segment, especially in "Design and manufacture" where the segment loss was \$(697,000) in FY2019?

Company's response to Q1(ii)

The Group has reduced operating costs by re-organising manpower to reduce headcount costs and improve production efficiency.

(iii) With the cessation of the executive directors and the resignation of the Regional Director (Eastern Australia), does the group have the necessary expertise to drive the equipment business forward?

Company's response to Q1(iii)

Currently, the Group is relying on the existing staff to drive the equipment business in Eastern Australia while in the process of recruiting replacement staff. It is the intention for some of the equipment business executives from the Group's Singapore operations to support them until such time that suitable replacements are found.

(iv) With regard to the group's plan disposal of the vessels, when can the vessel disposals be completed?

Company's response to Q1(iv)

The Group has completed disposal of all the vessels except one which is currently still under a contractual agreement with the charterer expiring in July 2020. The Group has been actively speaking to Ship Brokers, Vessel owners and seeking other potential buyers to close a sale.

(v) In addition, what is the rationale of continuing the charter of one of its vessels to the major customer when the customer has not been paying its long overdue debts?

Company's response to Q1(v)

The vessel still has a contractual agreement with the charterer expiring July 2020. Despite not paying the long overdue charter fees, the charterer has paid the day to day operating costs directly to crews and for vessel supplies. Nevertheless, the Group had engaged solicitors to issue a number of demand letters to this customer to recover these trade receivables since September 2019. In addition, the management also visited the customer's office in Saudi Arabia to demand for repayment. Whilst there was a proposal by the customer to repay the outstanding receivables by instalments, the customer did not fulfill its obligations under this proposal. The Company is now working with its Corporate Advisor for its next course of action on the recovery of these trade receivables.

Q2. On 3 December 2019, the company's wholly-owned subsidiaries announced that Can Marine Systems Pte. Ltd. is claiming the sum of US\$32,791.06, US\$12,234.43 and US\$10,558.39, together with interest and costs in relation to invoices for airtime services.

On 18 December 2019, the company's subsidiary, Polaris Ship Management Pte. Ltd. was also served with a Writ of Summons filed by Travelcue Management Pte. Ltd. claiming the sum of SGD 44,364.82, together with interest and costs, for plane tickets which were purchased by Polaris between 15 April 2019 and 2 August 2019.

(i) Can management clarify if the airtime services and plane tickets were properly authorised and approved by the management teams in the subsidiaries?

Company's response to Q2(i):

The airtime services purchased were for satellite telecommunication airtime used by the vessels owned by the Group's Vessel business segment.

The plane tickets purchased were used to enable the officers and crew working on the vessels owned by the Group's vessel business segment to transfer to and from their home locations, or for other business operation purposes.

The Company confirms that the airtime services and plane tickets were properly authorised and approved by the management teams in the subsidiaries.

(ii) How did the audit committee (“AC”) review the adequacy and effectiveness of the group’s risk management systems and internal controls (including financial, operational, compliance and information technology controls)?

Company’s response to Q2(ii):

In reviewing the adequacy and effectiveness of the Group’s risk management systems and internal controls, the AC (which was reconstituted on 1 November 2019) had taken into consideration the following:-

- (i) Assessment of the Group’s risk environment based on the Enterprise Risk Management (“ERM”) system and framework set up with the help of an external consultant in 2013. The ERM system and framework is reviewed regularly (last done just prior to the release of the Company’s FY2019 unaudited financial results in February 2020) and presented to the AC for consideration and for follow-up actions by the Management;
- (ii) Results of the Group’s internal audit programme conducted by its external independent internal audit firm, Baker Tilly Consulting who reported their findings in February 2020;
- (iii) Discussions with the Company’s external auditors, KPMG LLP; and
- (iv) Written assurances from the Chairman cum CEO, and the Group Financial Controller (“GFC”) that the financial records have been properly maintained and the financial statements give a true and fair view of the Company’s operations and finances and the Company risk management and internal control systems in place are effective.

(iii) Would the AC disclose the main findings of its internal audit report prepared by Baker Tilly Consulting (as the group’s internal auditor)? Were there any material non-compliance and internal control weaknesses identified in the course of audit?

Company’s response to Q2(iii):

At the AC meeting held in February 2020, Baker Tilly Consulting presented their internal audit report which noted findings that are of low to medium risk with no material non-compliances found.

Q3. On 15 April 2020, the company announced that there are material variances between the unaudited results (first announced by the company on 28 February 2020) and the audited financial statements for FY2019 after the finalisation of audit.

The announcement of material variances came 6 weeks after the company announced its unaudited results.

As disclosed, the reasons for the material variances included:

- Reclassification of impairment loss on vessels from other expenses to cost of sales amounting to \$7.7 million
- Reclassification of impairment loss on trade receivables from other expenses to impairment loss on trade receivables amounting to \$5.7 million
- Reclassification of loss of deconsolidation from other income to other expenses amounting to S\$1.2 million
- Duplication of recognition of lease asset and lease liability amounting to \$1.9 million

For the financial years ended 31 December 2016 and 31 December 2015, the company had also reported material variances after the finalisation of audit.

In the past 5 years, the company has had to report discrepancies between the unaudited and audited accounts 3 time

(i) 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 response to Q3(i):

The Company notes that it had in prior years, treated impairment losses on vessels and trade receivables in its audited financial statements in the same manner as it did in the FY2019 unaudited financial results.

However, these expense items were reclassified subsequent to the release of the FY2019 unaudited financial results after further discussions between the external auditors and the Management for better presentational purposes. This is also the case for the reclassification of loss on deconsolidation. In any case, the Company notes that these reclassifications did not have an impact on the amount of losses recorded for the year.

The duplicate recording of lease asset and lease liability was a result of a book-keeping error which unfortunately occurred as a result of the Company's first time adoption of a new accounting standard, Singapore Financial Reporting Standards (International) (**SFRS(I)**) 16 in FY2019, when accounting for the property lease associated with the Company's premises at Clementi Loop in Singapore.

Nonetheless, the Company's published financial statements are required to be kept in accordance with SFRS and are audited by the external auditors, KPMG LLC. In the auditor's opinion, the accounting and other records required under the Companies Act, Chapter 50 (**Act**) to be kept by the Company and by its subsidiary corporations incorporated in Singapore have been properly kept in accordance with the provisions of the Act.

(ii) Has the audit committee (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?

Company's response to Q3(ii):

The AC has evaluated and is satisfied with the resourcing of the Group's finance team based on the following factors:-

- (i) The Group's finance reporting team is headed by the Group Financial Controller ("**GFC**"), who has more than 20 years of working experience in finance and accounting in various industries and who possess a Chartered Accountant qualification;
- (ii) The average number of years of working experience of the finance and accounting team is over 10 years;
- (iii) Some of the heads of finance and accounting in the Group's business units possess university accounting degree and/or professional accounting qualifications; and
- (iv) The Group's efforts in continuing to develop accounting and finance staff by providing relevant training to ensure that the team is well-equipped with the up-to-date knowledge to handle evolving financial reporting standards

In addition, the AC has also noted that the Group is in the midst of exiting the Vessel business segment with a sole vessel remaining unsold. When this is completed, the finance and accounting team will then be able to focus on its remaining Equipment business segment.

(iii) Is the company (and its officers) familiar with Singapore Financial Reporting Standards (International)? The reasons for the material discrepancies included duplication of recognition of lease asset and lease liability.

Company's response to Q3(iii):

See responses to Q3(i) and Q3(ii) above.

(iv) Specifically, what was the level of involvement by the AC chairman and each of the AC members in the preparation of the financial statements? Has the AC been effective in the discharge of its responsibilities?

Company's response to Q3(iv):

The AC is actively involved in the quarterly review and finalisation of financial statements, focusing in particular on changes in accounting policies and practices, major risk areas, compliance with accounting standards and compliance with the SGX-ST Listing Manual and any other relevant statutory or regulatory requirements.

The AC had met four times during FY2019 and these meetings were attended by the GFC and the external auditors. The AC also meets with the external auditors and internal auditors, without the presence of any executive director and Management personnel. The last private session between the reconstituted AC and the external auditors and internal auditors was held in February 2020.

In addition, the current AC Chairman also conducts pre meeting discussions with the GFC whenever possible to get a better understanding of the financial results and any other AC related issues, prior to the formal AC meeting. There have been two such meetings during the current AC Chairman's tenure.

(v) Can the AC update shareholders on the improvement made/to be made to the group's financial reporting systems and processes?

Company's response to Q3(v):

The AC and the Board notes that the Company's financial reporting work load will be reduced substantially with the divestment of its Vessel business segment. This will free up resources and time for the Group's finance and accounting team to receive more training to keep up to date with current developments in reporting standards and requirements.

Nonetheless, the AC and the Board will continue to closely monitor the effectiveness of the Group's financial reporting system and processes and take the necessary remedial action should it be necessary.

BY ORDER OF THE BOARD

Liew Yoke Pheng, Joseph
Chairman and Chief Executive Officer
23 June 2020