

Hoe Leong Corporation Ltd.
(Incorporated in the Republic of Singapore)
(Company Registration Number 199408433W)

**RESPONSES TO QUERIES
FROM SINGAPORE EXCHANGE TRADING LIMITED (THE “SGX-ST”)**

The Board of Directors (the “**Board**”) of Hoe Leong Corporation Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the SGXNet announcement dated 14 August 2021 on its unaudited financial statements for the period ended 30 June 2021 (“**1H 2021**”) and wishes to provide its responses to the following queries raised by the SGX-ST.

Query 1:

In regard to the Company’s Trade and other receivables of S\$12.2mil as at 30 June 2021, please disclose the following:-

- a) Breakdown of the Group’s trade and other receivables
- b) Aging of the Group’s trade and other receivables
- c) Nature of the Group’s other receivables;
- d) The Company’s plans to recover its trade and other receivables;
- e) Whether they are major customer(s) and whether the Company continues to transact with these customer(s);
- f) How long are the debts outstanding and in which period were the sales reported;
- g) What actions were taken to recover the trade and other receivables;
- h) the Board’s opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade and other receivables;
- i) The Board’s assessment of the recoverability of the remaining trade and other receivables;
- j) The underlying transactions and the terms of the transactions (including the contract sum) and payment terms of the underlying contracts.

Responses:

a/c/j) Nature and breakdown of trade and other receivables

GROUP	30 June 2021 S\$'000	Details of underlying transactions
Trade receivables (gross)	11,510	Sales of goods
Less: Allowance for impairment	(1,832)	Impairment of trade receivables
Total trade receivables	9,678	
Advances to suppliers	669	Advance payments for purchase of goods and services
Deposits	925	Comprised mainly of: - Rental deposits - Funds set aside for employees’ retirement pension for a Korea subsidiary
Tax recoverable	84	Income tax recoverable
Sundry receivables	702	Comprised mainly of value-added tax refundable
Prepayments	180	Prepayment for expenses
Total other receivables	2,560	
Total trade and other receivables	12,238	

b/f) Aging of the Group's gross trade receivables

GROUP	30 June 2021 S\$'000
Not past due	6,908
Past due 0 – 30 days	1,098
Past due 31 – 60 days	862
Past due 61 – 90 days	915
Past due 91 – 150 days	67
Past due more than 150 days	1,660
Total	11,510

Credit term of up to 150 days is granted to customers. Trade receivables which were past due for more than 150 days amounting to S\$1,660,000 were mainly pertaining to sales reported during year 2020. Of the total allowance for impairment of trade receivables amounting to S\$1,832,000, specific allowance for impairment of S\$1,096,000 relates to trade receivables which are past due for more than 150 days.

d/g) Company's plans/ actions taken to recover trade and other receivables

The management reviews the trade receivables ledgers monthly with the respective sales managers with close monitoring and regular follows up with customers on resolution of any disputes and repayment dates. If overdue debts remain unpaid, the Group may stop processing new orders from the customers until the old debts are settled. The management may also take legal actions to recover debts, if necessary.

e) Trade receivables from major customers

Five of the Group's major customers accounted for about 32% of total trade receivables of S\$9,678,000 as at 30 June 2021. Considering the payment track record of these major customers, no allowance for impairment was made for the amount due as at 30 June 2021 and the Group continues to trade with them.

h) Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade and other receivables

The management estimated the impairment loss allowance on credit-impaired receivables based on the age of the trade receivables, their future collectability, credit-worthiness of customers, the historical default rate and various other factors.

The Board is of the opinion that the methodologies used to determine the value of impairment of trade and other receivables is reasonable.

i) Board's assessment of the recoverability of the remaining trade and other receivables;

In assessing of the recoverability of the remaining trade and other receivables of the Group, the management considers reasonable and supportable information without undue cost or effort. This includes both qualitative and quantitative information such as payment history and trends, financial conditions and/ or credit-worthiness of counterparties and the age of trade debts.

Based on the above management assessments, including determining adequacy of impairment of receivables, the Board is of the view that the carrying value of the net trade and other receivables represents the recoverable amount as at 30 June 2021.

Query 2:

Please provide reasons as to the significant amount of accrued expenses of S\$5.1mil as at 30 June 2021.

Response:

Accrued expenses of S\$5.1 million comprised mainly of legal and professional fees relating to concluded litigations and restructuring exercise, provision for retirement benefits (pertaining to a Korea subsidiary), provision for warranty and unbilled purchases and other operating expenses. The Board notes that accrued expenses have been declining from S\$7.1 million as at 31 December 2019 to S\$5.5 million as at 31 December 2020, to S\$5.1 million as at 30 June 2021.

Query 3:

As at 30 June 2021, it is noted that the Company has a net cash outflow from operating activities of S\$3.0mil and a net profit of S\$0.7mil. Please explain why the Company is unable to generate net cash inflow from its operating activities despite the Company's net profit position for the financial period.

Response:

For the quarter ended 30 June 2021, the net profit of S\$0.7 million includes profit from discontinued operation (i.e. vessel chartering business) amounting to S\$1.0 million, arising from the de-recognition of net liabilities of certain vessel chartering entities following the commencement of liquidation of these entities. The profit from discontinued operation is a non-cash item which has been adjusted out and does not contribute to cash flow from operating activities.

There were also net cash outflow from operating activities of S\$3.0 million mainly due to: (i) increase in inventories in view of the higher cost of raw materials and more finished goods not delivered to customers (compared to corresponding period of the preceding financial year) primarily due to shipment delays arising from the covid situation; and (ii) an increase in trade receivables as the Group secured more bulk orders where customers require longer repayment terms.

Query 4:

Given the Group's significant liabilities of S\$32.7mil and cash and cash equivalents of only S\$3.4mil and noting that the Company recorded net cash used in operating activities of S\$3.0mil, please disclose the Board's assessment:

(i) whether the Company's current assets are adequate to meet the Company's short term liabilities of S\$10.3mil, including its bases of assessment; and

(ii) how the Company intends to fulfil its significant payment obligations in the next 12 months.

Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

Response:

The net current asset position of the Group has improved significantly from S\$4.9 million as at 31 December 2020 to S\$12.3 million as at 30 June 2021. Considering current business conditions and barring unforeseen circumstances, the Board is of the opinion that the Group's current assets are adequate to meet its short term liabilities

The Group has established debt repayment plans for a number of its creditors and it has currently been able to fulfil its obligations to these creditors. The Group continues to be in discussion with other parties to finalise repayment plans in due course.

With the improvement in net current asset position, the significant payment obligations of the Group in the next 12 months would be fulfilled by internal resources of the Group and proceeds from issuance of the convertible loan note. The Board will also explore additional funding means to shore up liquidity when necessary.

By Order of the Board

Liew Yoke Pheng Joseph
Executive Chairman and CEO
22 September 2021