HOE LEONG CORPORATION LTD.

(the “Company”)
(Company Registration Number 199408433W)
(Incorporated in the Republic of Singapore)

RESPONSE TO SGX QUERIES REGARDING FULL YEAR RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The Board of Directors (the “**Board**”) of Hoe Leong Corporation Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) wish to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (the “SGX-ST”) on 9 March 2020 in connection with the Group’s full year financial statements and related announcement for the financial year ended 31 December 2019:-

SGX’s Query (a):

Please elaborate on the “certain covenants” the Group had breached and disclose whether the Company has announced all the breach/breaches on a timely basis, pursuant to Rule 703 of the Listing.

Company’s Response:

Based on the terms of the relevant loan agreements with its financial institutions, the Group’s compliance with these covenants are based on its results at the end of the financial year. These covenants include those relating to total net worth and leverage ratio of the Group, and were only known when the Company announced its full year financial results, which was released on 28 February 2020.

SGX’s Query (b):

Pursuant to paragraph 12, please provide a statement as to why no dividend had been declared or recommended.

Company’s Response:

In view of Group’s current year and accumulated losses, no dividend had been declared or recommended for the financial period ended 31 December 2019.

SGX’s Query (c):

It is disclosed on page 12 of the announced financial results that the Company has recognised a higher impairment loss on trade receivables of S$5.5m for the financial year ended 31 December 2019.

In relation to the trade receivables for which impairment loss has been provided, please advise:

i. The nature of these trade receivables that had been impaired;
ii. The Company’s plans to recover the trade receivables;
iii. Whether they are major customer(s) and whether the Company continues to transact with these customer(s);
iv. How the impairment loss was determined;
v. How long are the debts outstanding and when were the sales reported;
vi. What were the actions taken to recover the trade receivables;
vii. The reasons for the impairment loss;
viii. The Board’s opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade receivables; and
ix. The Board’s assessment of the recoverability of the remaining trade receivables

<u>Company's Response:</u>

i. The nature of these trade receivables that had been impaired;

The impairment loss were mainly in relation to contract services provided by the Group's vessel chartering business to a chartering contract customer in the Middle East.

ii. The Company's plans to recover the trade receivables;

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.

iii. Whether they are the major customer(s) and whether the Company continues to transact with these customer(s);

The customer is a major customer of the Group's vessel chartering business, situated in the Middle East. Currently, the Group has one vessel still on charter contract with this customer until the third quarter of this year.

iv. How the impairment loss was determined;

The Group performed a specific assessment on the recovery of these receivables. This assessment was made based on the Group's past experience in dealing with this customer and its payment track record, before arriving at the decision to make a provision for the recoverability of these amounts.

v. How long are the debts outstanding and when were the sales reported;

These debts arose from the customer's contractual commitments to the Group from financial year ended 31 December 2018 ("**FY2018**") to FY2019.

vi. What were the actions taken to recover the trade receivables;

Please see our response on note (ii) above.

vii. The reasons for the impairment loss;

The Group has issued several letters of demand, visited the customer's office and elicited a payment plan which they defaulted on. Based on these actions, the Company had determined that the debts are credit-impaired.

viii. The Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade receivables; and

Based on the actions and methodology undertaken by the management of the Company. The Board is of the opinion that the methodologies used to determine the value of the impairment is reasonable. The Board also noted that its external auditors have also carried out a review of the methodologies and did not have any objection to this approach.

ix. The Board's assessment of the recoverability of the remaining trade receivables

As set out in our response in para (c)(iii) above, the Group's vessel chartering business still has one vessel in a contract charter with this major customer, and will continue to pursue the timely recovery of amounts owned under the charter contract.

As for assessment of the recoverability of the remaining trade receivables of the Group (which mainly related to its equipment business), the management considers reasonable and supportable information without undue cost or effort. This includes both qualitative and quantitative information such as payment history, financial conditions of each customer and the age of trade debts. The Group also applies a expected credit losses ("**ECL**") model to determine the loss allowance for trade receivables bases on historical default rates adjusted for forward-looking estimates in accordance with SFRS(I)9. Based on the above factors, the Board is of the view no further allowances for impairment of trade receivable is the requirement for the remaining trade receivables as at 31 December 2019.

SGX's Query (d):

In relation to the impairment loss of the carrying value of the vessels of S$7.7m, please advise:

i. How the impairment loss was determined;
ii. The reasons for the impairment loss; and
iii. Whether an independent valuation has been commissioned to determine the fair value of the vessels.

Company's Response:

Based on the Company's accounting policy, impairment losses exist when an asset's fair value is less than its carrying value on the balance sheet date. This occurs due to a permanent reduction in the market value of assets held for sale as at 31 December 2019.

To determine the fair value of the vessel, the Group had commissioned independent valuers to conduct a valuation of the fair value of these vessels. These independent valuers had, inter alia, considered market comparables method in arriving at the fair value of these vessels.

Based on the methodology employed by these independent valuers, and the Company's accounting policy, the Company had determined the impairment loss on carrying value of the Group's vessels.

SGX's Query (e) :

In relation to the Material Litigation, please advise the claim amount.

Company's Response:

In relation to the litigation matter with Auspicious Journey, there is currently no order for the Company to pay any specific sum to Auspicious Journey. As advised by our lawyers, Auspicious Journey has not produced evidence to prove its alleged losses despite it's filing of a "Point of Claim" in the assessment of damages proceeding to claim for RM5.4 million (in relation to the Profit Shortfall Guarantee) and other damages. As for the litigation commenced by Sumatec and Tan Sri Halim Saad respectively, there were no amounts claimed.

BY ORDER OF THE BOARD

Liew Yoke Pheng, Joseph
Executive Chairman and Chief Executive Officer
11 March 2020