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 11 May 2021 on its unaudited financial statements for the first quarter ended 31 March 2021 ("**1Q 2021**") and wishes to provide its responses to the following queries raised by the SGX-ST.

<u>Query (a):</u>

It is noted that the Group's trade and other receivables amounts to S$9,978,000 as at 31 March 2021. Please disclose:

a. the nature and breakdown of the Group's receivables
b. aging of the Group's receivables
c. details of the Group's underlying transactions of its other receivables and the terms of the transactions (including the contract sum) and payment terms of the underlying contracts;
d. the Company's plans to recover the 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 the sales were reported; and
g. What were the actions taken to recover the trade and other receivables.

Responses:

a/c. Nature and breakdown of trade and other receivables

GROUP	31 March 2021 S$'000	Details of underlying transactions
Trade receivables (gross)	9,686	Sales of goods
Less: Allowance for impairment	(1,874)	Impairment of trade receivables
Total trade receivables	**7,812**	
Advances to suppliers	364	Advance payments for purchase of goods and services
Deposits	1,002	Comprised mainly of: - Rental deposits - Funds set aside for employees' retirement pension for a Korea subsidiary
Tax recoverable	83	Income tax recoverable
Sundry receivables	580	Comprised mainly of value-added tax refundable
Prepayments	137	Prepayment for expenses
Total other receivables	**2,166**	
Total trade and other receivables	**9,978**	

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

GROUP	31 March 2021 S$'000
Not past due	6,133
Past due 0 – 30 days	862
Past due 31 – 60 days	400
Past due 61 – 90 days	134
Past due 91 – 150 days	437
Past due more than 150 days	1,720
Total	**9,686**

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$1,720,000 were mainly pertaining to sales reported during year 2020. Of this outstanding balance, the management has made specific allowance for impairment of S$1,153,000. For the rest of the balance, the management is of the view that they are collectible.

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

The management reviews the trade receivables ledgers monthly and follows up with the respective sales managers and/ or customers on collection matters. 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 28% of total trade receivables of S$7,812,000 as at 31 March 2021. Considering the payment track record of these major customers, no allowance for impairment was made for the amount due as at 31 March 2021 and 30 June 2021 and the Group continues to trade with them.

<u>Query (b):</u>

Please provide information on the Group's inventory turnover days.

Response:

The Group's inventory turnover days as at 31 March 2021 is 183.

<u>Query (c):</u>

Please disclose a breakdown of trade and other payables amounting to S$9,844,000 as at 31 March 2021. For other payables, please disclose the aging and nature of these other payables and whether the counterparties are related parties.

Response:

GROUP	31 March 2021 S$'000
Trade payables	3,891
Accrued expenses	5,429
Total trade payables	**9,320**
Other payables due to affiliated corporation (Note 1)	511
Deposits received	13
Total other payables	**524**
Total trade and other payables	**9,844**

Note 1:

Affiliated corporation refers to Hoe Leong Plastic Industry Co., Ltd, an associate of a controlling shareholder of the Group. The balance is pertaining to rental expenses for the Group's production premise in China that is accrued since December 2016. The Group and the affiliated corporation have agreed for the rent due to be paid via monthly instalments from September 2020 to December 2021. Please refer to the Company's SGXNet announcement dated 17 September 2020.

Query (d):

With regard to the current loans and borrowings of S$11,906,000 and non-current loans and borrowings of S$5,539,000, please disclose:

a. **details of the loan, including the terms of the loan, interest on loans and maturity dates;**
b. **a breakdown of the lenders and their identities (and its ultimate beneficial shareholders and directors if this is not a bank);**
c. **when were the loans obtained and approved by the Board including the Audit Committee; and**
d. **the use of proceeds from the loan.**

Response:

GROUP	**31 March 2021 S$'000**	**Name of lender**	**Date of inception**	**Terms of loan; interest rate; and maturity dates**
Non-current:				
Unsecured term loan A*	4,210	UOB	16/5/2016	- Repayable via monthly instalment of S$5,000 (April and May 2021); between S$30,000 and S$60,000 (June 2021 to May 2023; and between S$155,000 and S$165,000 (June 2023 to May 2025). - Interest rate of 3% per annum.
Secured bank loan C	32	IBK	28/8/2020	Tenure of 36 months and interest rate of 3.7% per annum.
Other borrowings (Bridging loan)	1,000	Shing Heng Holding Pte. Ltd. (Note 1)	30/12/2020	- Repayable in full within 18 months of drawdown date (by 30 June 2022). - Interest free for first 12 months of drawdown; Interest rate of 3.5% per annum for the 6 months following.
Hire purchase liabilities	143	Various financial institutions	Between July 2017 and October 2020	For various tenures between 36 and 60 months, and interest rates of between 4.7% and 6.2% per annum
Other lease liabilities	154	Various landlords that lease property to the Group	-	-
Total non-current portion of loans and borrowings	**5,539**			

GROUP	31 March 2021 S$'000	Name of lender	Date of inception	Terms of loan; interest rate; and maturity dates
Current:				
Unsecured term loan A*	1,010	UOB	6/5/2016	Please refer to remarks above.
Secured term loan A*	2,100	CIMB	10/5/2016	- Repayable over 180 monthly instalments until November 2031. - Interest rate of 4.1% per annum.
Secured term loan B*	887	NAB	December 2019 (Month of roll over)	- Loan is rolled over every 5 years. - Repayable via monthly instalment of S$12,000 and due for rollover in December 2024. - Interest rate of 3.9% per annum.
Secured bank loans (Term loans)	4,320	IBK Woori Bank Shinhan Bank	31/5/2018 22/10/2020 10/6/2020	- Loans are available for 1 to 4 years from drawdown date and to be repaid in lump sum at maturity date. - Loans are subject to renewal annually and expected to be repriced or refinanced at maturity date. - Interest rates of between 2.0% and 2.6% per annum.
Secured bank loans (Invoice financing loans)	926	IBK Kyungnam Bank KEB Hana Bank	Within 4 months from period end date	- Loans are repayable within 4 months of drawdown date. - Interest rates of between 2.9% and 3.8% per annum.
Secured loans secured by vessels*	1,859	UOB SIF RHB	16/5/2016 6/8/2015 20/7/2016	Pursuant to a debt conversion exercise, these loans were: - Interest free since January 2021; and - Converted to share capital and/ or convertible bond in the second quarter of 2021.
Hire purchase liabilities	93	Various financial institutions	Between July 2017 and October 2020	Please refer to remarks above.
Other lease liabilities	711	Various landlords that lease property to the Group	-	-
Total current portion of loans and borrowings	**11,906**			
Total loans and borrowings	**17,445**			

CIMB – CIMB Bank Berhad
IBK – Industrial Bank of Korea
NAB – National Australia Bank
RHB – RHB Bank Berhad
SIF – Sing Investments & Finance Limited
UOB – United Overseas Bank Limited

Note 1 – The directors and shareholders of Shing Heng Holding Pte. Ltd. are Lew Chee Beng, Lew Puay Ling and Yeo Puay Hin (who is also an Executive Director of the Company).

The above bank loans, except for secured bank loan C, are for working capital purposes. Hire purchase liabilities and secured bank loan C are in relation to purchase of plant and equipment. Other lease liabilities are mainly in relation to obligation to make payments to landlords for leases on properties that the Group occupies.

Corporate guarantee from the Company is provided for bank loans which are marked with asterisk (*) and approved by the Board of Directors before and/or on date of inception. Bridging loan of S$1 million was approved by the Board on 21 December 2020. Details of bank facilities and borrowings are tabled at Audit Committee meeting regularly.

Query (e):

Given the Group's significant current liabilities of S$25,451,000 and cash and cash equivalents of only S$1,960,000 and noting that the Company incurred losses of S$526,000 from continued operations in 1Q FY2021, please disclose the Board's assessment:

a. whether the Group's current assets are adequate to meet the Company's short term liabilities of S$25,451,000, including its bases of assessment; and

b. how the Group intends to fulfil its significant payment obligations in the next 12 months.

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

Response:

During 2Q 2021, several corporate transactions were completed and their impact on the Group's current liabilities / current asset position are set out below:

Item	Description of corporate transactions	Impact – Increase/ (Decrease) to current liabilities S$'000	Impact – Increase/ (Decrease) to current assets S$'000
a	Issuance of convertible loan note amounting to S$3,000,000 to Shing Heng Holding Pte. Ltd.	-	3,000
b	Conversion of vessel loans amounting to S$1,859,000 to equity.	(1,859)	-
c	With the completion of item b above, certain loan covenants were extinguished or revised and there is no violation of loan covenants as at the end of 2Q 2021. Had this been considered in the end of 1Q 2021, the non-current portion of loans amounting to S$2,697,000 would have been reclassified from current liabilities to non-current liabilities.	(2,697)	-
d	Derecognition of trade and other payables of several of the Group's vessel companies following the commencement of liquidation on these companies.	(1,336)	-
	TOTAL	**(5,892)**	**3,000**

Assuming that the above corporate transactions were completed as at 31 March 2021, the net current asset position of the Group would improve significantly from S$4.1 million to S$13.0 million. With the completion of the fund raising and debt conversion exercise (being part of the corporate transaction set out in the table above) in 2Q 2021, 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
13 August 2021