新興重型機械有限公司
SIN HENG HEAVY MACHINERY LIMITED

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CLARIFICATION ON THE ANNOUNCEMENT OF ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Board of Directors ("**Board**") of Sin Heng Heavy Machinery Limited ("**Company**" and together with its subsidiaries, "**Group**") refers to the announcement released by the Company of its Annual Report for the financial year ended 31 December 2020 ("**AR 2020**") to the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 8 April 2021 (Announcement Reference: SG210408OTHRAIPE).

The Board wishes to provide the additional information in response to the SGX-ST's queries as follows: -

Query 1:

Listing Rule 704 provides, inter alia, that an issuer must announce any material adjustments to its preliminary full-year results made subsequently by auditors.

We note that there are material variances in the values for: (a) total current liabilities; and (b) total non-current liabilities, in the Company's full-year financial statements announced on 26 February 2021 and the Annual Report. Please explain the reason for the material variances and why the Company has not made an announcement in this regard.

Company's Response to Query 1:

The table below summarised the variances between the full year financial statements announced on 26 February 2021 and the AR 2020:

	Per AR 2020	**Per Announcement**	**Variance**
	S$'000	S$'000	S$'000
Lease liabilities - current	3,014	3,998	(984)
Total current liabilities	6,606	7,590	(984)
Lease liabilities – non-current	2,233	1,249	984
Total non-current liabilities	8,370	7,386	984
Total liabilities	14,976	14,976	-

The nature of the variances relates to reclassification of the current portion of lease liabilities to non-current amounting to S$984,000. The Company did not make announcement for the variances as there is no effect to the statement of profit or loss, statement of cash flows and the total liabilities remains the same.

Query 2:

Listing Rule 1207(10C) requires the Audit Committee's comments on whether the internal audit function is independent, effective and adequately resourced. Please provide the Audit Committee's comments accordingly and where the internal audit function is outsourced, please provide information on the relevant experience of accounting firm and the engagement team.

Company's Response to Query 2:

For FY2020, the Group has outsourced the internal audit function to MS Risk Management Pte. Ltd. ("**MSRM**").

MSRM is an affiliated firm of Moore Stephens LLP, a leading accounting and consulting firm that has been established in Singapore for more than 30 years. MSRM is a member of the Institute of Internal Auditors Singapore ("**IIA**") and staffed with persons with the relevant qualifications and experience to perform the review and testing of controls of the Group's processes consistent with the International Standards for the Professional Practice of Internal Auditing laid down in the International Professional Practices Framework issued by the Institute of Internal Auditors.

The MSRM team is headed by Ms Lao Mei Leng, a Director of MSRM and also an Audit Partner of Moore Stephens LLP. Ms Lao is a practising member of the Institute of Singapore Chartered Accountants ("**ISCA**") and a member of IIA and Singapore Institute of Directors ("**SID**"). She has more than 20 years of audit experience and provides audit services, documentation of policies and procedures, sustainability reporting, SOX compliance and corporate governance review to a number of public-listed companies, MAS-regulated entities and government agencies. Ms Lao is assisted by a Manager who directly oversees the engagement team and has over 13 years of experience in providing risk management services.

The Audit and Risk Committee (the "**ARC**") is of the view that MSRM is adequately staffed with persons with relevant qualifications and experience and adheres to professional standards including those promulgated by IIA.

The ARC had conducted a review of the internal audit function and based on its review, it has concluded that the internal audit function is adequately resourced, effective and independent.

Query 3:

*Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "**Code**"), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provision 2.2 of the Code as independent directors do not make up a majority of the Board where your Chairman is not independent, and there were no explanations were provided for in your FY2020 annual report on how it is consistent with the intent of Principle 2 of the Code. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 2 of the Code, which requires the Board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interest of the Company.*

Company's Response to Query 3:

In relation to the Provision 2.2 of the Code recommends that Independent Directors make up a majority of the Board where the Chairman is not independent. In the instance of the Company, the Chairman is not independent and the Independent Director only make up one-third of the Board. Nonetheless, the Chairman and majority of members of the Board

Committees are Independent Directors. The NC is of the view that the Independent Directors are able to perform their duties effectively and the Board has consistently demonstrated it is able to exercise independent decision making. Matters requiring the Board's approval are discussed and deliberated with participation from each member of the Board and all major decisions are made collectively in the best interest of the Company.

As disclosed in pages 20 of the AR 2020, the NC and the Board is in the midst of identifying suitable candidate to onboard as Independent Director, where appropriate. This is to enhance the standard of corporate governance. The Company will inform the shareholders when there is a suitable candidate has been selected and appointed as Independent Director.

Query 4:

*Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "**Code**"), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provision 2.4 of the Code as you have not disclosed your board diversity policy and progress made towards implementing the board diversity policy, including objectives, and there were no explanations were provided for in your FY2020 annual report on how it is consistent with the intent of Principle 2 of the Code. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 2 of the Code, which requires the Board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interest of the Company.*

Company's Response to Query 4:

As disclosed in page 21 of the AR 2020, the Board, taking into account the NC's views, considers that the current Board provides an appropriate balance and diversity of skills, experiences and knowledge to the Company that will provide effective governance and stewardship for the Group, which is consistent with the intent of Principle 2 of the Code. In addition, the Board comprises individuals who possess diverse expertise and experience in the areas of accounting, finance, industry knowledge, strategic planning, business judgement and general management. Each Director has been appointed based on the strength of their own calibre, experience and stature and is expected to bring a valuable range of experience and expertise which contribute to the development of the Group strategy and the performance of its business. The Directors' profile is presented on "Board of Directors" section in pages 14 to 16 of the AR 2020.

Query 5:

*Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "**Code**"), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provisions 8.1 of the Code with regards to the disclosure of remuneration for each individual director and the CEO. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company's remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.*

Company's Response to Query 5:

The remuneration of each individual director, CEO and key management personnel has been disclosed in pages 28 to 29 of the AR 2020 and is set out in incremental bands of S$250,000 with further analysis showing the composition between salary, bonus and profit sharing, other benefits, and fees. The Company is of the view that our disclosure in good faith supports both the spirit of the Code and Principle 8 of the Code, and that disclosure in incremental bands of the Directors, CEO and key management personnel are sufficient and adequate. Any further disclosure could be detrimental to the Group's interests, as it may lead to poaching of key executives, or revelation of the Group trade practices or tactics to competitors.

As disclosed in page 27 of the AR 2020, the Remuneration Committee also reviews and takes into consideration the remuneration packages, employment conditions within the industry and benchmarks against comparable companies. The Company links the remuneration paid to the Executive Directors and Key Management Personnel to the Company's and each individual's performance, based on an annual appraisal and using indicators such as core values, competencies, key result areas, performance rating and potential of the employees. In addition, the Directors' fees will be paid or payable to the Board in accordance with their contributions, taking into account factors such as effort and time spent, responsibilities of the Directors and the need to pay competitive fees to attract, retain and motivate the Directors.

Accordingly, the Board believes that there is sufficient transparency in its disclosure of remuneration which is consistent with the intent of Principle 8 of the Code.

Query 6:

*Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "**Code**"), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provisions 8.2 of the Code with regards to the disclosure of remuneration (and in particular, whether the disclosures pertaining to employees who are substantial shareholders or immediate family members of substantial shareholders), and there were no explanations were provided for in your FY2020 annual report on how it is consistent with the intent of Principle 8 of the Code. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company's remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.*

Company's Response to Query 6:

With reference to pages 28 and 29 of the AR 2020, the Company disclosed the employee who are substantial shareholders of the company, or are immediate family members of a director, the CEO or a substantial shareholder of the company, and whose remuneration exceeds S$100,000 for the financial year ended 31 December 2020 ("**FY2020**").

Save for Mr. Tan Cheng Soon, Don there is no other employees who are substantial shareholders of the Company or who are the immediate family members of any Director or the CEO of the Company, whose remuneration exceed S$100,000 for FY2020. Mr. Tan Cheng Soon, Don is an employee of the Group and the son of Executive Director and CEO, Mr. Tan Ah Lye and brother of Executive Directors, Mr. Tan Cheng Guan and Mr. Tan Cheng Kwong (Cheng Qingguang).

The Company is therefore of the view that the intent of Principle 8 of the Code is met as the remuneration policies, relationships between remuneration, performance and value creation and procedure for setting remuneration and the level and mix of remuneration have been disclosed in pages 28 and 29 of the AR 2020.

The Company wishes to provide additional disclosures in pursuant to the Principal 8.2 of the Code:-

Name of employees who are immediate family member of Directors or substantial shareholders	**Salary (%)**	**Bonus & profit sharing (%)**	**Shares Awards (%)**	**Other Benefits (%)**	**Fees (%)**	**Total (%)**
S$350,001 to S$450,000 Mr. Tan Cheng Soon, Don	79	12	-	9	-	100

BY ORDER OF THE BOARD

Tan Ah Lye
Executive Director and Chief Executive Officer
26 April 2021