Hoe Leong Corporation Ltd.

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

RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”) ON THE COMPANY’S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (“AR2021”)

The Board of Directors (the “**Board**”) of Hoe Leong Corporation Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to questions raised by SIAS in relation to the Company’s AR2021. SIAS’ questions and the Company’s responses are set out below:

<u>Question 1:</u>

Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

(i) **Kunshan: How is the group’s operation at Kunshan City affected during the latest wave of COVID-19 infection in China? Are there significant manpower and supply chain disruptions? In addition, what is the floor space/manufacturing capacity of the new facility in Bachen Town?**

(ii) **South Korea: Can management also provide shareholders with a better understanding (including technical capacity, capacity, utilisation rate) of the KCT manufacturing facility in Gyeongnam, South Korea?**

(iii) **Profitability:** Gross profit margin fell from 18.7% to 15.5% in 2021 due to increases in raw material prices. Similarly, distribution expenses increased significantly from $3.1 million to $4.3 million due to increases in freight costs. **Is the group able to pass on cost increases to its customers? What are the pricing strategies for new contracts that the group enters into?**

(iv) **Revenue: For the benefit of shareholders, can the board provide shareholders with a breakdown of revenue by products and by brands? What was the reason for the significant increase in orders by customers from North America?**

(v) **Economic recovery: How will the re-opening of economies and the high commodity prices benefit the group?**

(vi) **Competitive advantage: Can management elaborate further on the group’s business model, including the value proposition of its in-house brands such as KBJ and MIZU?**

Company’s responses:

(i) The Group’s manufacturing facility at Kunshan (China) was relocated to new premise at No. 88 Bachen Town, Zhonghua Road, Kunshan City in December 2021 and manufacturing capabilities are being set up at the new premise. Our manufacturing facility at Kunshan specialises in the production of rollers and has a floor space of 39,536 square feet. Given this period of transition, the Group is working closely with other third-party suppliers in China to fulfil its customers’ orders and mitigate any potential disruption.

The latest wave of Covid-19 infection in China resulted in lockdowns in some cities in China, including Kunshan, and delivery of our China purchases are delayed. The Group will continue to monitor the situation and find ways to reduce disruptions to our customers.

(ii) Our wholly owned manufacturing facility at South Korea, Korea Crawler Track Ltd ("KCT"), specialises in the production of undercarriage parts for heavy mining equipment and machinery under our KBJ brand. KBJ undercarriage components are designed to meet stringent quality standards and industry specifications. Core product like the lubricated track chains can be fitted onto a 100-tonne heavy equipment such as a Caterpillar D11 bulldozer. The manufacturing facility has the capacity to scale up production volume to meet immediate and future business demands.

(iii) The Group is able to partially pass on raw materials cost increases to customers and has been progressively increasing the selling prices of products to secure reasonable margins. Increase in freight costs are either priced into our sales price or recharged back to customers. For new contracts, the Group is adopting various pricing strategies (e.g. competitive, cost-plus, value-based, bundle, geographical) in order to maximise profits and shareholder value.

(iv) Sales of rollers and track links and chains made up about 80% of total sales.

The increase in sales in the North America market is mainly due to increase in selling prices to cover increase in raw material costs.

(v) The re-opening of economies would augur well for the Group, especially for our Australia subsidiary which also rebuild and repair heavy equipment parts. In addition to the higher utilisation rates for heavy equipment, the re-opening of economies and borders would enable our sales teams to engage more closely with our existing and prospective customers and give us better chance of securing more sales orders.

The current high commodity prices, for example steel price, is not likely to benefit the Group and our customers. The Group continues to explore ways to enhance production efficiency and save costs to price our products competitively and secure market growth and customer sales.

(vi) Our in-house brands offer quality parts for heavy equipment. MIZU's range of undercarriage parts is designed for lighter applications, catering for excavators and bulldozers weighing 30 tonnes and below while KBJ targets the heavier equipment range. Depending on applications, our proposition to our customers is that the brands offer quality and standard but without the heavy price tags of OEM products.

Question 2:

Trading of the company's shares on SGX mainboard resumed on 25 June 2021. This came nearly 2 years after the trading of the company's shares were suspended on 2 September 2019.

On 25 March 2022, Shing Heng Holding Pte. Ltd. ("SHHPL") converted its $3 million convertible loan note and exercised $7.2 million of the option. On the same day, a $0.8 million convertible bond was converted by United Overseas Bank Limited into shares.

(i) **Can management provide an update of the group's financial position to shareholders at the AGM following the conversions by SHHPL and UOB?**

(ii) **Specifically, what is the level of cash and the debt-to-equity ratio following the conversions?**

In Note 23 (page 106 - Financial instruments: Liquidity risk), it is shown that the group has contractual maturities 1 year or less amounting to almost $20 million.

The following are the remaining contractual maturities of non-derivative financial liabilities. The amounts are gross and undiscounted, and include contractual interest payments and excluding the impact of netting agreements:

	Carrying amount $'000	Contractual cash flows $'000	1 year or less $'000	1 to 2 years $'000	2 to 5 years $'000	More than 5 years $'000
Group						
31 December 2021						
Secured loans	11,613	(12,270)	(6,578)	(3,390)	(1,158)	(1,144)
Unsecured bank loan	4,970	(5,271)	(857)	(1,563)	(2,851)	–
Invoice financing	3,106	(3,106)	(3,106)	–	–	–
Lease liabilities	660	(664)	(477)	(187)	–	–
Trade and other payables	8,668	(8,668)	(8,668)	–	–	–
	29,017	(29,979)	(19,686)	(5,140)	(4,009)	(1,144)

(Source: company annual report; emphasis added)

(iii) **Can management elaborate further on the liquidity position in view of the contractual maturities 1 year or less amounting to $19.7 million?**

Company's responses:

(i)-(ii) Had the conversion of convertibles and exercise of options been completed at 31 December 2021, the balances of certain items in the consolidated statement of financial position would be as follow:

GROUP	As at 31 December 2021 (Audited)	Conversion of convertible loan (Note 1)	Conversion of convertible bond (Note 2)	Exercise of options (Note 3)	As at 31 December 2021 (Pro forma)
	S$'000	S$'000	S$'000	S$'000	S$'000
Cash	3,044	-	-	3,154	6,198
Total equity (**A**)	14,041	2,458	-	7,154	23,653
Loans and borrowings (Current)	10,148	-	-	- 1,000	9,148
Loans and borrowings (Non-current)	10,201	-	-	- 3,000	7,201
Total loans and borrowings (**B**)	20,349	-	-	- 4,000	16,349
Convertible loan (Non-current)	2,458	- 2,458	-	-	-
Debt-to-equity ratio (**B/A**)	1.4				0.7

Note 1:
Equity component of the S$3 million convertible loan amounting to S$638,000 was classified in equity as at 31 December 2021.

Note 2:
The UOB convertible bond was classified in equity as at 31 December 2021 as there is no contractual obligation to deliver cash to the holder (i.e. UOB).

Note 3:
In relation to the exercise of option by SHHPL, the exercise consideration of S$7.2 million was partially set off by S$4 million of bridging loans owed by the Company to SHHPL as at 31 December 2021.

(iii) The net current asset position of the Group has improved significantly from S$4.9 million as at 31 December 2020 to S$17.3 million as at 31 December 2021.

Referring to the table in SIAS' question 2 above - Of the S$19.7 million contractual maturities of non-derivative financial liabilities:

- S$8.7 million are trade and other payables and S$ 3.1 million are invoice financing liabilities – both of which are trade in nature and forms part of the operational working capital of the Group;

- S$6.6 million of secured loans comprising of: (i) S$4.9 million of short-term secured loans that are subject to review and/or renewal annually. These short-term secured loans have tenures of between 1 and 4 years from their respective drawdown dates, and are expected to be refinanced at maturity date; (ii) S$1.0 million relates to the bridging loan extended by SHHPL which has been repaid following the conversion of the convertible loan note and options (referred to in SIAS's question above); and (iii) the current portion of certain term loans which the Group has been servicing in accordance with the terms of these loans;

- The balance relate to unsecured term loans, and finance lease obligations for which the Group has been servicing in accordance with the terms of these borrowings.

Question 3:

At the annual general meeting scheduled to be held on 29 April 2022, Mr Liew Yoke Pheng Joseph will be retiring pursuant to regulation 98(2) of the constitution of the company and will be seeking his re-election. The profile of Mr Liew Yoke Pheng Joseph can be seen on page 4. Additional information on directors seeking re-election can be found on pages 122 to 126.

Mr Liew Yoke Pheng Joseph was appointed as executive director on 23 October 2019 and was appointed as chief executive officer ("CEO") and executive chairman on 25 October 2019 and 1 November 2019 respectively. His appointments were ratified in an extraordinary general meeting on 4 September 2020.

Mr Liew Yoke Pheng has also disclosed the following as his directorships in other listed companies and other principal commitments:

- Grand Venture Technology Limited
- Tianjin Zhong Xin Pharmaceutical Group Corporation Limited
- Independent Director, Lew Foundation
- Treasurer, Char Yong (Dabu) Foundation

(i) **Can the board/director help shareholders understand if Mr Liew Yoke Pheng Joseph is committing 100% of his (working) time to the group as the executive chairman and CEO? What are the time commitments from his other appointments? How much (working) time does he spend away from matters of the company?**

(ii) It is noted that Mr Liew Yoke Pheng Joseph also sits on the board of Grand Venture Technology Limited (as lead independent director) and Tianjin Zhong Xin Pharmaceutical Group Corporation Limited**. As the executive chairman and CEO, how relevant are his directorships on other listed boards? Does the current arrangement benefit the group by having its executive chairman and CEO sit on other listed companies as an ID?**

Company's responses:

(i) Mr Liew is the executive chairman and CEO of the Group. He is in charge of the day-to-day affairs of the business of the Group as well as providing strategic direction and spearheading the Group's growth and restructuring. He is also responsible for the Group's key relationships with its customers and suppliers as the Group markets its products directly to end-users in the construction, forestry, agriculture and mining industries as well as through distributors in Singapore and overseas markets including Malaysia, Indonesia, Australia, United States of America and countries in Europe and the Middle East.

Mr Liew has committed 100% of his (working) time to the group as the executive chairman and CEO.

Amongst his other commitments outside of the Group, he also sits on other boards of Singapore listed companies. He utilizes his annual leave entitlement to attend to obligations on the boards of the other listed companies that he serves on.

(ii) Mr Liew is a seasoned business and strategic management leader, passionate in the fields of information technology, corporate governance, finance and accounting. He held various senior management positions of multinational companies based in Singapore and China. He had turned around businesses, managed growth and business transformation for companies in the Asia Pacific region and beyond. As such he is able to provide valuable expertise and experience to companies.

Mr Liew was brought into the Group in October 2019 to assist on this multi-year restructuring strategy and execution which is currently still on-going considering this unprecedent pandemic and volatile global markets arising from regional conflicts and continues to do so as the Executive Chairman and CEO of the Group.

Mr Liew's directorships on the boards of the other publicly listed companies that he sits on allows him to gain a broader perspective of business operations and strategy. It also gives him exposure to, and allows him introduce relevant corporate best practices to the Group. In addition, his involvement in these companies and the not-for-profit foundations referred to above helps enlarge his business network which may be beneficial to the Company.

By Order of the Board

Liew Yoke Pheng Joseph
Executive Chairman and CEO

23 April 2022