Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Hoe Leong Corporation Ltd.

Stock code: H20

Meeting details:
Date: 24 June 2020
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. As disclosed in the corporate profile (page 2 of the annual report), the group trades and distributes an extensive range of equipment parts for both heavy equipment and industrial machinery. It also designs and manufactures equipment parts for both heavy equipment and industrial machinery at its subsidiaries in the People's Republic of China ("PRC) since 2004, and South Korea since 2012, under its own in-house brand names – KBJ, OEM and ROSSI.

The end-users of the group's products are generally operators of heavy equipment and industrial machinery in the building and infrastructure construction, forestry, marine, mining and plantation industries.

The group's equipment segment (consisting of "Design and manufacture" and "Trading and distribution") contributed over $53.2 million in revenue, decreasing 12% from $60.6 million. As seen in Note 22 (page 78 – Operating segments), Australia is the largest contributor with over $18 million in revenue.

(i) **Can management help shareholders understand the value proposition of its equipment business?**

(ii) **What are management's pro-active plans to further improve the profitability in the equipment segment, especially in "Design and manufacture" where the segment loss was $(697,000) in FY2019?**

(iii) **With the cessation of the executive directors and the resignation of the Regional Director (Eastern Australia), does the group have the necessary expertise to drive the equipment business forward?**

(iv) **With regard to the group's plan disposal of the vessels, when can the vessel disposals be completed?**

(v) **In addition, what is the rationale of continuing the charter of one of its vessels to the major customer when the customer has not been paying its long overdue debts?**

Q2. On 3 December 2019, the company's wholly-owned subsidiaries announced that Can Marine Systems Pte. Ltd. is claiming the sum of US$32,791.06, US$12,234.43 and US$10,558.39, together with interest and costs in relation to invoices for airtime services.

On 18 December 2019, the company's subsidiary, Polaris Ship Management Pte. Ltd. was also served with a Writ of Summons filed by Travelcue Management Pte. Ltd. claiming the sum of SGD 44,364.82, together with interest and costs, for plane tickets which were purchased by Polaris between 15 April 2019 and 2 August 2019.

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(i) **Can management clarify if the airtime services and plane tickets were properly authorised and approved by the management teams in the subsidiaries?**

(ii) **How did the audit committee ("AC") review the adequacy and effectiveness of the group's risk management systems and internal controls (including financial, operational, compliance and information technology controls)?**

(iii) **Would the AC disclose the main findings of its internal audit report prepared by Baker Tilly Consulting (as the group's internal auditor)? Were there any material non-compliance and internal control weaknesses identified in the course of audit?**

Q3. On 15 April 2020, the company announced that there are material variances between the unaudited results (first announced by the company on 28 February 2020) and the audited financial statements for FY2019 after the finalisation of audit.

The announcement of material variances came 6 weeks after the company announced its unaudited results.

As disclosed, the reasons for the material variances included:

- Reclassification of impairment loss on vessels from other expenses to cost of sales amounting to $7.7 million
- Reclassification of impairment loss on trade receivables from other expenses to impairment loss on trade receivables amounting to $5.7 million
- Reclassification of loss of deconsolidation from other income to other expenses amounting to S$1.2 million
- Duplication of recognition of lease asset and lease liability amounting to $1.9 million

For the financial years ended 31 December 2016 and 31 December 2015, the company had also reported material variances after the finalisation of audit.

In the past 5 years, the company has had to report discrepancies between the unaudited and audited accounts 3 times.

(i) **How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**

(ii) **Has the audit committee (AC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

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(iii) **Is the company (and its officers) familiar with Singapore Financial Reporting Standards (International)?** The reasons for the material discrepancies included duplication of recognition of lease asset and lease liability.

(iv) **Specifically, what was the level of involvement by the AC chairman and each of the AC members in the preparation of the financial statements? Has the AC been effective in the discharge of its responsibilities?**

(v) **Can the AC update shareholders on the improvement made/to be made to the group's financial reporting systems and processes?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)