



TIONG WOON CORPORATION HOLDING LTD
(Company Registration No. 199705837C)
Incorporated in Singapore

RESPONSES TO QUESTIONS RECEIVED FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) AND SHAREHOLDER FOR ANNUAL GENERAL MEETING TO BE HELD ON 27 OCTOBER 2022

The Board of Directors (the “Board”) of Tiong Woon Corporation Holding Ltd (the “Company” or together with its subsidiaries, the “Group”) refers to the announcement dated 12 October 2022 on the Annual General Meeting to be held on 27 October 2022 (the “Announcement”).

Further to the Announcement, the Board and Management received questions from Securities Investors Association (Singapore) (“SIAS”) (please refer to Appendix 1) and one shareholder (please refer to Appendix 2).

The Company sets out below the responses to all substantial and relevant questions. The responses have been grouped according to topics to facilitate reading. In principle, the Company does not elaborate on matters that are deemed commercially sensitive.

OUR BUSINESS AND OPERATIONS AS A GROUP INCLUDING SINGAPORE AND BRUNEI

[Appendix 1 – Q1(i) and Appendix 1 – Q1(ii)]

Company’s Response:

Group utilisation rates have been stable on a year-on-year basis at between 48% to 49%.

Recovery has been slower in some of our Southeast Asia markets, amid the differing pace of economic recovery and emergence from COVID-19 lockdowns across markets. Some markets such as Sri Lanka were further adversely impacted by domestic political issues. Singapore was a bright spot, with a relatively strong recovery, leading to an increase of S\$7.3 million in revenue or 8% from S\$88.4 million to S\$95.7 million (page 120 of Annual Report).

In some instances, supply chain disruptions also contributed to shortage of parts and components, which hampered work progress and caused extended downtimes. The Group has intensified its efforts to diversify its supply chain to mitigate disruptions to operations caused by supply chain disruptions.

In relation to the Brunei market, after the completion of Phase 1 of a key project, there has been some delay to the commencement of the tendering process of Phase 2 of that project. The delay is not within the Group’s control. The Group did not secure any new projects in FY2022, mainly because the Group does not have any permanent fleet stationed in Brunei and is

presently operating in Brunei on a project demand basis. Although there were some tail-end activities in Brunei in FY2022, as the revenue derived from Brunei in FY2022 was not material, it was classified under “Other countries” in Note 34 (b) (Segment information: Geographical information).

OUR BUSINESS AND OPERATIONS IN INDIA

[Appendix 1 – Q1(iii), Appendix 2 – Q1 and Appendix 2 - Q2]

Company’s Response:

In India, the Group is active in the Heavy Lift segment of the market. This segment typically requires equipment of higher lifting capacities. As the projects are technically demanding, given the Group’s respectable track record in this segment, the Group believes that it is well positioned to be competitive in the Indian market for the foreseeable future.

A typical project may last anywhere from a few months to a year, depending on the complexity and location. The Group has a number of secured and potential projects lined up for the next 12-24 months and expects India to remain a positive market for the Group. The contract values of heavy lift projects in India vary depending on contract specifications and can exceed S\$1 million in some instances.

The Group is optimistic of growth prospects of the India market, particularly in heavy lift demand in the chemical and petrochemical industries, from which we have secured a number of contracts recently. We expect TWC India to continue to achieve steady growth in revenue and contribute meaningfully to group performance in the next few years.

As the project requirements are typically more complex and often call for higher tonnage equipment, we are mainly competing with international heavy lift players. Our strength lies in our unique combination of international experience, a comprehensive fleet, robust local knowledge and close on-the-ground technical support from our local India team established since 2009.

BUSINESS OUTLOOK AND STRATEGY

[Appendix 2 - Q3, Appendix 2 - Q5, Appendix 2 - Q6 and Appendix 2 - Q7]

Company’s Response:

In addition to India, the Group sees Saudi Arabia and Thailand as markets with good growth potential, among others.

Amid the challenging and uncertain global economic outlook, the Group remains cautiously optimistic that heavy lift demand in our key markets will be sustained by underlying needs for infrastructure, oil and gas investments, amid a heightened focus on energy transition and security, and the gradual resumption of construction projects interrupted by COVID-19.

The Group has achieved growth in profitability and margin expansion in the past 5 years. We aim to continue to work to deliver satisfactory financial performance, maintain a strong balance sheet and create value for shareholders, through strategic fleet renewal, and leveraging our extensive geographical footprint and ability to provide integrated, one-stop solutions to our customers in their home countries and across jurisdictions.

The Group will actively pursue growth opportunities in our key markets, particularly in the oil and gas, petrochemical and infrastructure market segments. Internally, we will continue to digitalise to enhance productivity and customer experience and intensify talent development efforts.

RISK MANAGEMENT FRAMEWORK, INCLUDING THOSE RELATING TO CREDIT RISK MANAGEMENT

[Appendix 1 – Q2(i), Appendix 1 – Q2(ii), Appendix 1 – Q2(vi) and Appendix 1 – Q2(vii)]

Company’s Response:

The Enterprise Risk Management Committee (“ERMC”) has duly evaluated and reported to the Audit Committee (“AC”) and Board of Directors (“BOD” or the “Board”) with regard to its risk management framework, including but not limited to those relating to credit risk management. The AC will deliberate on the risk factors, including likelihood of occurrence and magnitude of impact, the effectiveness of internal controls and mitigating factors, and report to the Board for further consideration and approval.

Overall, the AC and the Board are satisfied with the historical extent of impairment of trade receivables, even as the Board has reminded management to remain vigilant in monitoring and assessing the creditworthiness of counterparties.

The Board actively tracks and monitors receivables, and regularly reviews the suitability of the credit risk framework. Ensuring that credit risk remains manageable while remaining competitive is a delicate balancing exercise but one which the Board exercises close supervision over. Measures to manage credit risk include conducting credit assessments on new customers, active review of existing credit terms and limits, constant monitoring of outstanding balances, and active follow up actions, including commencement of legal proceedings for long outstanding debts. The Board recognises that there is still room to do more and affirms that active and prudent risk management remains a core priority.

Where practicable, security deposits, advance payments, post-dated cheques, or banker’s guarantees are obtained from customers to mitigate credit risk. In cases where security cannot be obtained, generally, the Board will only deal with the customer if there are good grounds to consider the customer to be a low credit risk, for instance, if the customer is a government-linked company or a state-owned enterprise or has had a longstanding relationship with the Group with no antecedent credit risk.

Based on the Group's historical credit loss experience, trade receivables exhibit different loss patterns depending on the type of trade receivables. Accordingly, management has determined expected loss rates for each of the trade receivables. Notwithstanding the above, the Group evaluates the expected credit loss on customers in financial difficulties separately.

In the case of Marine Transportation, the expected credit loss on the current trade receivables was in relation to a specific customer with a longstanding relationship with the Group. As the customer had been making regular payments in FY2022, the Group continued to charter its vessel to the customer up till the month of June 2022, prior to being made aware that the customer had been served a winding up order in July 2022.

The business environment remains challenging, amid geopolitical uncertainties, inflationary pressures, supply chain disruptions and rising interest rates. As it has always done, the Board will continue to manage and mitigate the Group's credit risk robustly and, where necessary and practicable, take concrete steps including commencing legal proceedings to recover outstanding receivables.

LONG OUTSTANDING TRADE RECEIVABLES FROM A SINGLE DEBTOR

[Appendix 1 – Q2(iii), Appendix 1 – Q2(iv) and Appendix 1 – Q2(v)]

Company's Response:

This long-outstanding trade receivables of S\$12.0 million pertains to an amount of SAR 32.3 million due from PAN Environmental Services Company Limited ("PAN") to TWC Arabia Company Ltd ("TWCA"), a wholly-owned subsidiary of the Company.

The amount has increased from S\$11.6 million as of 30 June 2021 to S\$12.0 million as at 30 June 2022 due to the revaluation of the outstanding trade receivables of SAR 32.3 million.

This was an engineering services project executed from FY2012 to FY2014 and TWCA has not traded with PAN since the project was completed in FY2014. PAN, a well-established contractor in Saudi Arabia, was the main contractor engaged by Presidency of Meteorology and Environment ("PME") to perform coastal remediation and restoration works in Saudi Arabia. PME was the government agency and owner of this project which was funded by United Nations Compensation Commission ("UNCC").

When TWCA took on this project, nothing had come to TWCA's attention with respect to concerns regarding PAN's and PME's credit standing, and TWCA was paid progressively until May 2014. As PME was a government agency in Saudi Arabia, TWCA continued to complete the project with PAN on time. Otherwise, TWCA would be subject to penalty charges if the project was delayed. The progress claims and balance were respectively certified and confirmed by PAN. However, payment was held back by PME to PAN, which resulted in PAN withholding payment to TWCA. As the Group understands, the reasons behind PME withholding payment to PAN are unrelated to TWCA and could not have been foreseen, in any event, as a credit risk event.

TWCA initiated the lawsuit against PAN in Saudi Arabia in or around May 2018 and full impairment has been made as of 30 June 2020. In September 2021, the Saudi Arabian Court gave final judgement requiring PAN to pay TWCA SAR 31.7 million, thus vindicating TWCA's position that they were entitled to payment. TWCA is presently taking steps to enforce the Court's judgment. Nevertheless, the Group notes that the latest information available to the Group suggests that the financial position of PAN has deteriorated. Accordingly, while the Group believes that it is still in TWCA's interest to pursue enforcement of the judgment against PAN, the debt remains fully impaired as of 30 June 2022.

BOARD MATTERS

[Appendix 1 – Q1(iv), Appendix 1 – Q3(i), Appendix 1 – Q3(ii) and Appendix 1 – Q3(iii)]

Company's Response:

All directors (which includes independent directors) participated in the review of the draft Annual Report, including financial information and data, operations and strategy, and provided inputs on the draft.

While there are currently 5 out of 7 directors who have served more than 9 years (page 35 of Annual Report), it is in the interest of the Group to retain them for their wealth of useful and relevant experience which would enable them to continue being effective directors and assets to the Group, their long tenure notwithstanding.

The Directors bring with them a broad range of expertise and experience in areas such as accounting or finance, law, business and management, industry knowledge, strategic planning and customer-based experience and knowledge. The length and diversity of the Directors' experience has provided stability to the Group and will remain critical as the Group navigates ongoing challenges and uncertainties.

Nonetheless, the Group continues to roll-out its succession and progressive renewal plan for the Board. In FY2021, we appointed Mr Ang Guan Hwa as our Chief Executive Officer on 1 September 2020. We have also appointed three new directors to the Board on 1 January 2021, namely Mr Poon Guokun, Nicholas as an Independent Director, and Mr Teo Yew Boon, Mr Ang Boon Chang as Executive Directors.

The Board has proposed the re-election of Mr Wong King Kheng as an independent director as the Board seeks to strike an appropriate balance between tenure of service, continuity of experience and refreshment of the Board, as the COVID-19 pandemic has greatly impacted the industry in which the Company is operating. The refreshment process of the Board will take some time and would not happen overnight in order to maintain stability to the Board during this challenging period.

The Board is mindful of the need for continuity and, to that end, will continue to monitor potential Board and management candidates whose qualities are compatible with the long-term direction of the Group.

SHAREHOLDERS MATTERS

[Appendix 2 - Q8 and Appendix 2 - Q9]

Company's Response:

Our unique positioning as a SGX Mainboard-listed, Singapore-headquartered, one-stop integrated heavy lift and haulage solutions provider operating one of the largest crane fleets in Southeast Asia, with a strong regional presence across 13 countries, allows the Group to serve customers in a broad range of industries, including but not limited to the oil and gas, petrochemical, infrastructure, and construction. With our presence across a diverse range of industries and geographical markets, coupled with a healthy balance sheet, TWC is well-positioned to and confident that it can deliver long-term shareholder value, despite volatile and challenging market conditions.

The Company's dividend policy seeks to balance return to shareholders with the need for long-term sustainable growth whilst aiming for an efficient capital structure. The form, frequency and amount of dividends declared will take into consideration, at the relevant time, the Group's financial performance, cash position, cash flow generated from operations, projected capital requirements for business growth, general economic conditions, and other factors that the Board considers are important to the long-term prospects of the Company.

The Company is of the view that conserving cash and ensuring a healthy balance sheet is especially important in the current climate, given the unprecedented level of geopolitical and economic uncertainty globally. In seeking to balance the aforementioned with the need to reward shareholders for their continued trust and support, a special dividend of 0.15 Singapore cent per share has been proposed by the Board for the financial year ended 30 June 2022 ("FY2022"), over and above the final tax-exempt dividend of 0.35 Singapore cent per share. If approved by shareholders at the Annual General Meeting on 27 October 2022, the combined dividend payout represents a significant year-on-year increase in total dividend pay-out.

SUSTAINABILITY MATTERS

[Appendix 2 - Q4 and Appendix 2 - Q10]

Company's Response:

The Group serves the heavy lifting needs of the renewable energy market, including offshore wind farming. At this juncture, it is not a significant contributor to group revenue. We will continue to explore further opportunities in this fast-growing market segment.

Please refer to our Sustainability Report that was released via SGXNet on 29 November 2021 for more information.

By Order of the Board

TIONG WOON CORPORATION HOLDING LTD

Ang Kah Hong
Executive Chairman

25 October 2022

QUESTIONS FROM SIAS

Q1. In the chairman’s message, it was noted that the group leveraged its capabilities and solid track and benefitted from the “*strong demand for its heavy lift and haulage services to the oil and gas, petrochemical, infrastructure and construction sectors, particularly in Singapore.*” The group also experienced an increase in demand in India, offset by lower demand in Brunei. However, despite the narrative of strong demand, the average utilisation rate for the group’s heavy lift assets decreased from 49% in FY2021 to 48% in FY2022.

(i) Can management elaborate further on the low utilisation rate of 48% despite the “strong demand” in FY2022? What challenges did the group face in improving the utilisation rate (and profitability) of the heavy lift and haulage services segment?

In addition, the chairman disclosed that “activities in Brunei were *more muted* and there was no new project secured in FY2022” [emphasis added]. In the business review, the company further stated that “*lower revenue [was] derived from Brunei*” [emphasis added] (page 7). This gives shareholders the impression there were some tail-end activities in Brunei in FY2022.

However, based on Note 34 (b) (Segment information: Geographical information), it would appear that (revenue-generating) activities ceased in Brunei and no revenue was derived from Brunei in FY2022.

(ii) What were the reasons that the group was unable to secure new projects in Brunei?

(iii) What is the nature of the project(s) carried out in India? Does the group have any competitive advantage in India? How long-lived will the Indian projects be?

(iv) Separately, given the observations above, can the directors, especially the independent directors, help shareholders better understand their level of involvement in the preparation of the annual report? Principle 11 of the Code of Corporate Governance 2018 requires the company to give shareholders a balanced and understandable assessment of its performance, position and prospects.

Q2. The “recoverability of trade receivables” is a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As at 30 June 2022, the group’s net trade receivables amounting to \$37.1 million, comprising gross trade receivables of \$65.9 million and a corresponding allowance for impairment of \$28.8 million, accounted for 7.8% of the group’s total assets (page 59).

Further in Note 32 (b) (page 111 – Financial risk management: Credit risk), it was shown that the group recognised (gross) impairment of receivables of \$2.58 million (FY2021: \$1.97 million), offset by a reversal amount of \$355,000 (FY2021: \$392,000).

(i) **Has the board reviewed the group’s credit risk framework? Is the board satisfied with the historical impairment of trade receivables?**

(ii) **In addition, what is the oversight by the board/audit committee (AC) to ensure that the group obtains sufficient security from customers when appropriate to mitigate credit risk?**

As at 30 June 2022, the impairment loss allowance for trade receivables was \$28.8 million (2021: \$26.3 million). The group’s trade receivables included one debtor, whose debt amounted to \$12.0 million (2021: \$11.6 million) which is aged more than 365 days. Allowance for impairment of \$12.0 million has been made for this debt (2021: \$11.6 million).

(iii) **Is the group still trading with the customer who has long-outstanding trade receivables of \$11.6 million from the previous financial year?**

(iv) **What are the reasons that the group has allowed a single debtor to have outstanding trade receivables of \$11.6-\$12.0 million? How robust was the credit risk approval process (including credit approval, credit evaluation and review, setting credit limits and monitoring)?**

(v) **What are management’s plans to recover the outstanding debt?**

In the heavy lift & haulage segment, the expected loss rate is 75% with loss allowances hitting \$24.5 million whereas in the marine transportation segment, the group has applied relatively high expected loss rate of 34% even for trade receivables that are current (see below):

	← Past due →					Total \$'000
	Current \$'000	Within 30 days \$'000	30 to 60 days \$'000	60 to 90 days \$'000	More than 90 days \$'000	
2022						
Heavy Lift & Haulage						
Expected loss rate	-	-	-	0%	75%	
Contract assets	1,784	-	-	-	-	1,784
Trade receivables	12,195	9,030	4,791	2,669	32,425	61,110
Loss allowances	-	-	-	2	24,465	24,467
2021						
Heavy Lift & Haulage						
Expected loss rate	-	1%	-	-	76%	
Contract assets	1,003	-	-	-	-	1,003
Trade receivables	10,845	11,990	5,194	1,988	30,853	60,870
Loss allowances	-	100	-	-	23,524	23,624

	← Past due →					Total \$'000
	Current \$'000	Within 30 days \$'000	30 to 60 days \$'000	60 to 90 days \$'000	More than 90 days \$'000	

2022

Marine Transportation

Expected loss rate	34%	40%	95%	69%	97%	
Trade receivables	370	134	57	78	4,078	4,717
Loss allowances	125	54	54	54	3,973	4,260

2021

Marine Transportation

Expected loss rate	-	-	-	-	64%	
Trade receivables	186	172	1	12	4,180	4,551
Loss allowances	-	-	-	-	2,658	2,658

(Source: company annual report)

(vi) **How does the group estimate its expected loss rate? How reasonable is it that the expected loss rate is 34% even when the trade receivables are current? Does it suggest that the group's credit evaluation process needs to be reviewed?**

(vii) **Would the AC be reviewing and furthering tightening the group's credit risk management framework to ensure that the group collects on its receivables? In addition, would the AC be recommending a more robust system to ensure that the group obtains sufficient security to mitigate credit risks?**

Q3. As noted in the corporate governance report, two of the independent directors, namely Mr Wong King Kheng and Mrs Carrie Cheong, have served on the board for more than nine years from the dates of their first appointments in 1999 and 2009 respectively.

In particular, Mr Wong King Kheng was first appointed to the board on 23 August 1999. Mr Wong King Kheng has served on the board for more than 23 years. Mr Wong is also the lead independent director, chairman of the audit committee and a member of the nominating committee and remuneration committee.

On 30 November 2021, Mr Tan Boon Gin, chief executive of Singapore Exchange Regulation (SGX RegCo), gave guidance that companies are expected to use the two-tier rule sparingly to promote renewal and succession planning¹. On 13 September 2022, SGX RegCo further announced that it will consult on hard-coding the 9-year limit for independent directors².

(i) **Would the proposed re-election of Mr Wong King Kheng be aligned with SGX RegCo's directive?**

(ii) Will the continued appointment of the long-tenured directors impede/delay the progressive renewal of the board? Are there any challenges faced by the board in identifying and onboarding of new board members?

(iii) Should Mr Wong King Kheng, the lead independent director lead by example by setting the tone with regard to capping the tenure of independent directors?

¹ <https://www.businesstimes.com.sg/companies-markets/answer-my-question-before-i-vote-sgx-regco-sets-new-timelines-for-companies-to>

² <https://www.sgxgroup.com/media-centre/20220913-sgx-regco-require-9-year-cap-id-tenure-disclosure-directors-and-ceo>

QUESTIONS FROM SHAREHOLDER

Q1. On page 5 of the annual report, India is mentioned as a country currently attracting investments in the chemical and petrochemical industries, please give us an idea of how significant are these developments in terms of (the size of) the opportunities and duration in terms of the number of years we expect can benefit Tiong Woon (TWC).

Q2. It is mentioned in the annual report that TWC has secured a number of new heavy lift projects in India and it is a significant step towards raising our heavy lift profile there. Kindly share with us the competitive landscape in India, who TWC compete with and how it is able to win these projects. Hopefully this will illustrate to us an idea of TWC competitive strengths and advantages in this arena.

Q3. Beside India, what are the other promising countries in the region that will benefit TWC in the next few years?

Q4. Does TWC participate in any green/renewable energy related projects? Are there any plans to partake in these growth areas?

Q5. What do you think are some key drivers or trends and outlook for the various TWC business divisions, non PPVC tower cranes, PPVC tower cranes, mobile/crawler crane rental, heavy engineered lifting (projects), marine tugs and barges?

Q6. Describe TWC's financial performance over the past few years. What strategies have you put in place to maintain or accelerate the growth trajectory?

Q7. What notable developments can shareholders expect from TWC in the coming year(s)?

Q8. What is TWC's value proposition to its shareholders and potential investors? What do you think investors may have overlooked about TWC's business?

Q9. We noted TWC has been increasing its dividends over the past few years, however the dividend payout ratio (as a percentage of earning per share) has been on the low side at around 10%. Can the company communicate to us why this is the case and whether there are situations/conditions in which we can expect a higher dividend payout ratio in the future?

Q10. Sustainability and ESG have increasingly been a key focus, how is TWC committed to sustainability?