
RESPONSES TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (SIAS) ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

The Board of Directors of PSL Holdings Limited (the “**Company**” or “**PSL**”) refers to the Company’s Annual Report for the financial year ended 31 December 2017. The Board would like to address the queries raised by Securities Investors Association (Singapore) (“**SIAS**”) as follows:

1. **In the Letter to Shareholders (pages 2 to 4 of the annual report), the company highlighted the progress made in the group’s three business segments namely, construction logistics, marine logistics and property.**

(i) **With the recent changes to the board and to the management team in the past two years, would the company help shareholders understand, in greater detail, the experience and track record of the management team especially in the core business segments of the group (as mentioned above)?**

While there are changes to our Board and Management, our existing Board and Management comprise various professionals who have diverse competencies, experience and skillsets in different areas of business. We are single-minded and focused on strengthening our three key businesses of construction logistics, marine logistics and property so that over the long term, each of them will eventually contribute sustainably to the Group.

(ii) **Are the business segments synergistic to one another?**

While our three key businesses do not appear to be directly synergistic with one another, what is important is that we are able to leverage our network and knowledge from doing business in Indonesia to bring to bear onto all the business segments of the Group. Our Construction Logistics’ business activity is concentrated mainly in Indonesia. At the same time, we are seeking to build up our Marine Logistics business via the chartering out of our tugs and barges to commodity firms in Indonesia. Our Property business is focused on seeking acquisitions that fit into its mandate in ASEAN including Indonesia.

(iii) **The vision of the group, as shown in the annual report, is as follows:**



Would the board further clarify the group's core competencies and help shareholders understand the strategic direction of the group?

We are making active progress with the building of our businesses in Construction Logistics and Marine Logistics. For FY2018, the Construction and Marine Logistics will be the key contributors to the Group. In this respect, our aim is to develop a strong and steady earnings base.

2. **In the section titled "Review of key developments", the company has provided an overview of the dispute with Sudirman Kurniawan ("Sudirman"), Angelo Fernandus ("Angelo") and PT Momentum Indonesia Investama ("PTMII") (page 7).**

Assuming shareholders' approval is obtained and the completion of the full and final settlement, the group will receive US\$4.5 million in cash and vessels valued at S\$17.95 million.

- (i) **Since the investment into PTMII in 2015, what were the lessons learnt from this "investment" into PTMII?**

The investment made by the former management was supported by volumes of Agreements that were reviewed by the then Solicitors in Indonesia and Singapore. We are of the view that the management then must ensure the following before disbursing substantial funds of the Company to invest in PTMII:

- i) Ensure that the vessels were leased out after the management have obtained 3 quotations before finally entering into the lease commitment. This provides that competitive terms and rates of return are in favour of the Company.
- ii) In so far as substantial loans are involved in future businesses, we must ensure that such loans are collateralized with specific repayment terms and subject to sound risk management assessment.

Where current management is concerned, we need to rely on form and substance before any involvement in businesses which entail substantial financial commitments by PSL.

- (ii) **What improvements have been made to the group's deal sourcing and deal structuring framework?**

In our deal sourcing and deal structuring, we must ensure that the Target Company has sound management in place apart from reliability to carry on profitable business which is sustainable over the next 3 to 5 years. The structure of the Target Company must entail PSL's active management participation. Consideration to acquire any Target Company must constitute an element of PSL's shares.

The company is still "looking to expand its operations through the acquisition of businesses in the ASEAN region to develop new revenue streams and improve its financial performance".

- (iii) **Can the board explain how it conducts its due diligence and how does it assess the potential partners?**

Depending on nature of the business that is being carried on by a Target Entity, PSL management needs to establish a comprehensive checklist on the areas for due diligence after consulting with professionals who are knowledgeable in the kind of business that the Target Company carries on. The Target Company must possess a management structure that has proven skills before consideration for acquisition by our PSL Board.

(iv) Would the board/company consider only making investments where it can gain control of the new business?

Companies with proven track records of sound management and delivered sustainable profits over the last 3 years with sound projections of performances over the next 3 to 5 years will be considered appropriate by the PSL Board to participate in investing. It will be good for PSL to be in control of the new business in so far as the PSL Board has the competence. Any investment must include a condition for PSL to derive annual dividend yield. Similarly, where PSL has no controlling interest, one of the criteria for investment must relate to the need for the investee entity to generate annual dividend to PSL.

3. On 14 May 2018, the company announced that there were material discrepancies between the audited financial statements and the unaudited financial statements for the financial year ended 31 December 2017.

Reasons given for the discrepancies include:

- **Reversal of over-accrued revenue for PT Indah Perkasa ("PT IPA")**
- **Reclassification of supply chain charges incurred by PT IPA to "general and administrative expenses" from finance costs**
- **Reclassification of PT IPA's income tax from "general and administrative expenses"**
- **The increase in currency translation differences was due to adjustments made to inventories, trade and other receivables, trade and other payables and finance lease liabilities arising from adjustments taken up in PT IPA's books subsequent to finalisation of the audit**
- **Reclassification of finance lease liabilities from non-current to current and foreign currency revaluation adjustment for balances denominated in IDR**

As a result, revenue dropped by 13% and gross profit dropped by 31%.

(i) As the directors have responsibilities to oversee the group's financial reporting process, can the directors, especially the directors in the audit committee, help shareholders understand their individual and collective efforts in the preparation of the group's financial statements to give a true and fair view in accordance with the provisions of the Act and FRSSs?

PT Indah Perkasa Abadi ("IPA") has the connections and capability to carry on the infrastructure earthwork projects secured from PT Waskita Karya, which is a subsidiary of an Indonesian listed entity Waskita Karya Persero Tbk, with a market capitalisation of approximately S\$3 billion¹. PSL considers its 75% investment in IPA as viable in view of IPA's accessibility to the management of Waskita to derive continuing profitable assignments. The projections by IPA were reviewed as feasible before PSL's investment in August 2017. Since PSL's participation, its finance team was monitoring preparation of IPA's 2017 Accounts by IPA's qualified Financial Controller in accordance with the standard that was practised by Indonesian entities. The profitability discrepancy was attributable to timing difference and reclassification adjustments as explained in our announcement dated 14 May 2018. The issues are rectified and will be monitored closely by PSL's finance team on a monthly basis to ensure that the financial statements are prepared in accordance with the relevant accounting standards and regulations. Our AC Chairman, Mr William Teo, BBM will be overseeing the IPA's quarterly income and expenditure statements to ensure accuracy of the data from the source accounting documents.

(ii) Has the 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?

AC has reviewed and is satisfied that the internal financial reporting/finance team has sufficient experience and qualified staff to ensure the integrity of the financial statements.

(iii) What changes has the AC made to the group's systems and processes to improve the quality and accuracy of the financial statements?

The changes mainly comprised the planning and monitoring mechanism as detailed in 3(i) above.

¹ <https://www.bloomberg.com/quote/WSKT:IJ>

**BY ORDER OF THE BOARD
PSL HOLDINGS LIMITED**

**Tan Cheang Shiong
Chief Executive Officer
28 May 2018**