



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

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CO REG. NO: 198101305R
GST REG. NO: M2-0043237-1

CLARIFICATION ON THE ANNOUNCEMENT OF SECOND QUARTER RESULTS FOR THE PERIOD ENDED 30 JUNE 2019

The Board of Directors (“**Board**”) of Sin Heng Heavy Machinery Limited (“**Company**” and together with its subsidiaries, “**Group**”) refers to the announcement made by the Company of its Unaudited Second Quarter Financial Statements Announcement for the period ended 30 June 2019 (“**Results Announcement**”) released to the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 6 August 2019 (Announcement Reference: SG190806OTHLWJK).

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

Query 1:

With regard to page 1 of the Financial Statements, please:-

- (i) explain why the decrease in “cost of sales” does not correspond to the decrease in “revenue”; and
- (ii) explain the material variances in “other operating income”, “selling expenses”, “administrative expenses” and “finance costs”.

Company’s Response to Query 1:

| | Group | | | Group | | |
|----------------------------------|---------------------------------|---------------------------------|----------|---------------------------------|---------------------------------|----------|
| | 3 months | | % Change | Year to Date | | % Change |
| | 01/04/2019-30/06/2019 \$'000 | 01/04/2018-30/06/2018 \$'000 | | 01/01/2019-30/06/2019 \$'000 | 01/01/2018-30/06/2018 \$'000 | |
| Equipment rental business | | | | | | |
| Revenue | 7,676 | 10,798 | (28.9%) | 14,804 | 21,635 | (31.6%) |
| Cost of Sales | 6,673 | 7,339 | (9.1%) | 13,016 | 15,519 | (16.1%) |
| Gross Profit | 1,003 | 3,459 | (71.0%) | 1,788 | 6,116 | (70.8%) |
| Trading business | | | | | | |
| Revenue | 14,719 | 14,508 | 1.5% | 19,936 | 22,065 | (9.6%) |
| Cost of Sales | 13,664 | 13,287 | 2.8% | 18,304 | 20,062 | (8.8%) |
| Gross Profit | 1,055 | 1,221 | (13.6%) | 1,632 | 2,003 | (18.5%) |
| Overall | | | | | | |
| Revenue | 22,395 | 25,306 | (11.5%) | 34,740 | 43,700 | (20.5%) |
| Cost of Sales | 20,337 | 20,626 | (1.4%) | 31,320 | 35,581 | (12.0%) |
| Gross Profit | 2,058 | 4,680 | (56.0%) | 3,420 | 8,119 | (57.9%) |

The decrease in “cost of sales” does not correspond to the decrease in “revenue”. This was mainly due to the Equipment rental fixed costs in depreciation of the entire fleet of equipment rented out and not rented out.

Other operating income for 1H FY2019 was 9.5% higher than 1H FY2018. This was mainly due to the receipt of medical insurance claim realised in this period.

Selling expenses for 1H FY2019 was 37.3% lower than 1H FY2018 as a result of cost control measures undertaken and the decrease was also in line with decline in revenue.

Administrative expenses for 1H FY2019 was 11.8% lower than 1H FY2018 as a result of cost reduction efforts materialised.

Finance costs for 1H FY2019 was 47.1% lower than 1H FY2018 as a result of repayment of term loans and redemption of hire purchase loans for those machinery sold during the period.

Query 2:

Please provide the aging of the “trade receivables” on page 3 of the Financial Statements and set out the Company’s efforts to collect these “trade receivables”. In addition, please clarify if the Company has conducted impairment testing on these “trade receivables” and provide us the Board’s assessment of the recoverability of these “trade receivables” and the bases for their assessment.

Company’s Response to Query 2:

Trade receivables aging is as follows:-

| | as at 30/06/2019 | as at 31/12/2018 |
|--|---------------------|---------------------|
| | \$'000 | \$'000 |
| Not past due | 14,199 | 7,360 |
| < 3 months | 4,904 | 7,347 |
| > 3 months and < 12 months | 3,130 | 3,319 |
| > 12 months | 2,623 | 1,676 |
| Estimated total gross carrying amount at default | 24,856 | 19,702 |
| Lifetime ECL | (894) | (1,772) |
| | <u>23,962</u> | <u>17,930</u> |

The Audit and Risk Committee conducted detailed review of all major accounts in the trade receivables and management efforts to collect long outstanding debts, repayment schedule plans and progressive report on tracking subsequent payments. At the close of the period, no impairment is needed as subsequent payments tests of major accounts have been encouraging.

Query 3:

We note that the Company has stated on page 10 of the Financial Statements that the decrease in revenue from the Equipment Rental business is “mainly due to decrease in rental revenue and rental rates”. Please provide more information on the “decrease in rental revenue”.

Company’s Response to Query 3:

The decrease in revenue from the Equipment Rental business was mainly due to drop in number of units of machinery rented out, lower utilisation rates and drop in rental rates.

Query 4:

Please also explain the movements in the following financial statement line items:-

- (a) the inventories;
- (b) the bill payables; and
- (c) the other payables.

Company’s Response to Query 4:

Inventories as at 30 June 2019 was \$8.0 million as compared to \$3.8 million as at 31 December 2018. The increase of \$4.2 million was mainly due to the purchase of machinery for sale in next two quarters of FY2019.

Bills payable as at 30 June 2019 was \$7.9 million as compared to \$5.3 million as at 31 December 2018. The increase of \$2.6 million was mainly due to the purchase of machinery for sale in next two quarters of FY2019.

Other payables as at 30 June 2019 was \$2.8 million as compared to \$3.6 million as at 31 December 2018. The decrease of \$0.8 million was mainly due to payments made in 1H FY2019 for expenses accrued in FY2018.

BY ORDER OF THE BOARD

Tan Ah Lye
Executive Director and Chief Executive Officer
15 August 2019