



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

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CO REG. NO: 198101305R
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CLARIFICATION ON THE ANNOUNCEMENT OF ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The Board of Directors (“**Board**”) of Sin Heng Heavy Machinery Limited (“**Company**” and together with its subsidiaries, “**Group**”) refers to the announcement released by the Company of its Annual Report for the financial year ended 31 December 2019 (“**AR 2019**”) to the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 15 April 2020 (Announcement Reference: SG200415OTHRJLE1).

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

Query 1:

If there are material discrepancies between the issuer's interim full year results and its audited full year results, the issuer is required under Listing Rule 704(6), to disclose and explain the material discrepancies via an SGXNET announcement.

Please explain the material discrepancy in the values for the net cash used in investing activities in: (a) the Company's Consolidated Statement of Cash Flows found on page 64 of the Annual Report; (b) the Company's full year financial statements for FY2019 which was issued on 28 February 2020. Please also explain how the Company has complied with Listing Rule 704(6).

Company’s Response to Query 1:

Extract of the Company’s Consolidated Statement of Cash Flows (page 64 of the Annual Report)

	Per Annual Report S\$’000	Per Announcement issued on 28 February 2020 S\$’000	Variance S\$’000
<u>Investing Activities</u>			
Interest received	711	711	-
Purchase of property, plant and equipment	(2,160)	(2,160)	-
Proceeds from disposal of property, plant and equipment	1,234	821	413
Net cash used in investing activities	<u>(215)</u>	<u>(628)</u>	

The difference of S\$413,000 relates to an audit reclassification for the sale of an equipment previously classified under “movement in inventories”, now being reclassified under “Proceeds from disposal of property, plant and equipment”.

Query 2:

Under Listing Rule 1207(10), the Company is required to provide in its annual report, the Board's comment on the adequacy and effectiveness of the issuer's internal controls (including financial, operational, compliance and information technology controls) and risk management systems. A statement on whether the audit committee concurs with the board's comments must also be provided. Where material weaknesses are identified by the board or audit committee, they must be disclosed with the steps taken to address them.

Please explain how the Company has complied with Listing Rule 1207(10). If not, please do so accordingly.

Company's Response to Query 2:

Based on the internal controls established and maintained by the Group and the statutory audit conducted by the external auditor and reviews performed by management and the Audit and Risk Committee ("ARC"), the Board, with the concurrence of the ARC, is of the opinion that the system of internal controls, including financial, operational, compliance and information technology controls and risk management, were adequate and effective as at 31 December 2019 to meet the needs of the Group's existing business objectives, having addressed the risks which the Group considers relevant and material to its operations. While acknowledging their responsibility for the system of internal controls, the Directors are aware that such a system is designed to manage, rather than eliminate risks, and therefore cannot provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors or mis-statements, poor judgement in decision-making, human errors, losses, fraud or other irregularities.

Query 3:

Under Listing Rule 719(1), the board is required to comment on the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems.

Please explain how the Company has complied with Listing Rule 719(1) and if not, please do so accordingly.

Company's Response to Query 3:

To ensure adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems, the following controls and procedures are in place:-

- Company policies and procedures are reviewed quarterly;
- Internal audit functions are outsourced to a professional accounting firm. The annual internal audit plan is duly approved by ARC;
- Check and balance with segregation of duties and responsibilities;
- Department reports are reviewed at Management level;
- Approval matrix established are reviewed periodically;
- Budgetary control and review

Query 4:

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the “Code”), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provision 2.4 of the Code as you have not disclosed your board diversity policy and progress made towards implementing the board diversity policy, including objectives, and there were no explanations were provided for in your FY2019 annual report on how it is consistent with the intent of Principle 2 of the Code.

Please clarify how the practices the Company had adopted are consistent with the intent of Principle 2 of the Code, which requires the Board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interest of the Company.

Company’s Response to Query 4:

The Company does not have a Board diversity policy. Although there is no diversity policy in place, the Board is constantly committed to ensuring diversity on the Board including but not limited to appropriate balance and mix of skills, knowledge, experience, gender, age and the core competencies of accounting, finance, industry knowledge, strategic planning, business judgement and general management.

Query 5:

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the “Code”), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provisions 8.1 of the Code with regards to the disclosure of remuneration.

Please clarify how the practices the Company had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company’s remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.

Company’s Response to Query 5:

The remuneration of each individual director and Chief Executive Officer as well as key management personnel are set out in incremental bands of S\$250,000. The Company has not disclosed exact details of the remuneration of each individual director and Chief Executive Officer as well as key management personnel as maintaining confidentiality on such matters is important in the overall interest of the business. Any further disclosure could be detrimental to the Group’s interests, as it may lead to poaching of key personnel at the expense of our competitive edge, or the revelation of the Group’s trade practices or tactics to competitors, in a highly competitive industry.

BY ORDER OF THE BOARD

Tan Ah Lye
Executive Director and Chief Executive Officer
4 May 2020