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RESPONSE TO QUESTIONS FROM SHAREHOLDERS AND SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO THE ANNUAL REPORT FY2024

The Board of Directors (the "**Board**") of Sin Heng Heavy Machinery Limited (the "**Company**") refers to the announcement dated 7 April 2025 in relation to the Annual General Meeting to be held on 29 April 2025 (the "**Announcement**").

Further to the Announcement, the Board and Management had received questions from Securities Investors Association (Singapore) ("**SIAS**") and shareholders ("**Questions**"). The Company and the Board wishes to provide its responses to questions that are substantial and relevant as set out in the Appendix A and Appendix B respectively.

The Company would like to thank all shareholders and SIAS for questions submitted in advance.

BY ORDER OF THE BOARD

Tan Ah Lye
Executive Director and Chief Executive Officer
24 April 2025

Appendix A – Questions Received from SIAS

1. On 14 March 2025, the company announced that it has received a privatisation offer from TAL United Pte. Ltd., a new entity incorporated on 15 August 2024 by the current controlling shareholders of the company.

The offer price is $0.58 per share in cash and has been declared final unless a competitive situation arises.

<u>Question 1 (i)</u>

What is the process and criteria for appointing the independent financial adviser (IFA)?

<u>Response 1 (i)</u>

In appointing the independent financial adviser (the "IFA"), the directors who are independent of the Offer and who are deemed to be independent for the purpose of making a recommendation to Shareholders in respect of the Offer (the "Independent Directors") followed a process that began with defining the scope of required advisory services. The selection criteria focused on the IFA's independence, relevant experience and professional qualification, as well as the adviser's availability to complete the assignment within the required timeframe.

The directors who are acting in concert with TAL United Pte. Ltd. (the "Offeror") were not involved in the IFA selection process, and have abstained from voting on all resolutions regarding the appointment of the IFA.

<u>Questions 1 (ii)</u>

What has been the involvement of the independent directors (IDs) in overseeing the IFA process and safeguarding minority shareholder interests? Given that management input may influence the IFA's assessment, how do the IDs ensure that all views considered are objective and conflict-free?

<u>Response 1 (ii)</u>

The Independent Directors played an active role in overseeing the appointment and engagement of the IFA to ensure that the process was conducted in an objective and independent manner. They were involved in evaluating the shortlisted IFAs and contributing to selecting an IFA with a strong track record of independence and credibility.

The scope and terms of reference for the IFA are determined pursuant to the Singapore Code on Take-overs and Mergers (the "Code"), and the IFA was granted access to all relevant information and was able to form an independent opinion free from undue influence. The Independent Directors also maintained continuous oversight throughout the engagement, including discussions and reviews of the approach undertaken by the IFA in their assessment and evaluation of the financial terms of the Offer, which were taken into consideration by the IFA in the IFA letter issued on 16 April 2025.

<u>Questions 1 (iii)</u>

Has there been any change in business operations, management behaviour, or decision-making cadence since the incorporation of the offeror in August 2024? Could the pending privatisation have affected strategic initiatives or resource allocation?

<u>Response 1 (iii)</u>

There have been no changes in the Company's business operations, management behaviour, or decision-making cadence since the incorporation of the Offeror in August 2024. The pending privatisation has not had impact on the Company's strategic initiatives or resource allocation. Business continues to be conducted in the ordinary course, with the Board and management remaining focused on delivering long-term value to all stakeholders.

<u>Questions 1 (iv)</u>

Did the IDs actively negotiate for more favourable terms, including a higher offer price? With the IFA opinion pending and a hard deadline of 30 April 2025, do the IDs think that shareholders should be given more time to properly evaluate the offer?

<u>Response 1 (iv)</u>

The Offeror has stated that the offer price is final and has no intention of increasing it, as set out in the offer document dated 2 April 2025, save that the Offeror reserves the right to review the terms of the Offer in accordance with the Code if a competitive situation arises.

The Company despatched to shareholders a circular the ("Offeree Circular") on 16 April containing, inter alia, the advice of the IFA to the Independent Directors, the recommendation of the Independent Directors in respect of the Offer, and other relevant information pertaining to the Offer for the consideration of shareholders, in compliance with Rules 22 and 24 of the Code relating to the timing of the despatch and disclosure requirements of the Offeree Circular.

2. On 5 November 2024, the company announced its acquisition of an HDB shophouse at Ghim Moh Road, with 52 years of lease remaining, for a consideration of $2.775 million. The property comes with an existing tenancy that expires on 30 November 2026. The rationale provided was simply for “investment purposes”. However, the group’s core business involves the rental and trading of cranes and aerial lifts.

<u>Question 2 (i)</u>

Can the independent directors clarify if they unanimously approved this acquisition? Was this deemed strategically aligned with the group’s core business, or is it considered a non-core investment?

<u>Response 2 (i)</u>

The Board, including the independent directors had discussed and evaluated the approved acquisition. While the shophouse is considered a non-core asset, it presents an opportunity to generate recurring rental income and potential capital appreciation, thereby contributing to overall shareholder value.

<u>Question 2 (ii)</u>

What hurdle rate or IRR (Internal Rate of Return) was applied in the board’s capital allocation framework when approving this purchase?

<u>Response 2 (ii)</u>

The Board evaluated the investment based on the expected return in comparison to relevant market benchmarks, taking into account the projected rental yields and potential capital appreciation.

<u>Questions 2 (iii)</u>

With an offer still outstanding, what governance safeguards have the independent directors implemented to ensure that the company resources are not deployed in ways that could prejudice minority shareholder interests or alter the value of the group?

<u>Response 2 (iii)</u>

The acquisition has been reviewed and approved in accordance with the Group’s internal governance policies. Independent directors have ensured that the transaction is conducted at arm’s length and based on a fair market valuation. The acquisition is not expected to prejudice the interests of minority shareholders, as the property is anticipated to generate stable rental income and enhance the Group’s asset base without detracting from its core operations.

Question 2 (iv)

Was a formal risk assessment conducted for this transaction and if so, what were the key risk factors identified?

Response 2 (iv)

The management conducted a risk assessment prior to accepting the offer. The assessment identified potential risks including market risk (fluctuation in property value due to market condition), occupancy risk, liquidity risk, and regulatory and compliance risk.

Based on the assessment, these risks are deemed minimal in the context of the profile of the property. The Board is satisfied that the investment presents a low-risk profile with stable return and potential capital appreciation.

3. The five-year financial highlights are presented on pages 8 & 9 of the annual report and extracts are reproduced below.

FINANCIAL PERFORMANCE SUMMARY

(S$'000)	FY2020	FY2021	FY2022	FY2023	FY2024
Statement of Profit or Loss					
Total revenue	53,357	53,730	51,570	66,230	50,281
– Trading	32,019	25,908	24,269	35,518	19,970
– Equipment rental	21,338	27,822	27,301	30,712	30,311
Gross profit	6,563	13,390	12,839	18,432	16,719
– Trading	4,159	5,393	4,993	8,469	5,461
– Equipment rental	2,404	7,997	7,846	9,963	11,258
Depreciation of property, plant and equipment	8,093	7,535	6,825	6,452	6,016
Profit/(loss) before income tax	756	4,818	4,395	9,774	7,492
Profit/(loss) attributable to owners of the Company	1,196	3,766	3,651	7,995	6,267

	FY2020	FY2021	FY2022	FY2023	FY2024
Equipment Rental Fleet					
Aggregate crane lifting capacity (tons)	12,444	11,399	11,624	9,369	8,034
Average crane lifting capacity (tons)	101	99	99	119	128
Cranes (units)	123	115	117	79	63
Lifts (units)	175	192	256	386	389

<u>Question 3 (i)</u>

Has management deliberately rationalised the crane fleet to focus on larger capacity cranes while increasing the fleet of aerial lifts? Was this a strategic reconfiguration or a by-product of the Malaysia restructuring exercise?

<u>Response 3 (i)</u>

The rationalisation of the crane and aerial lift fleet was driven by market demand. While the crane fleet data may suggest a shift towards larger capacity cranes, the apparent trend was largely due to the recent completion of a restructuring exercise in the Malaysia entity, which previously owned a number of smaller tonnage cranes.

<u>Question 3 (ii)</u>

What was the average utilisation rate of the crane and aerial lift fleets in FY2024? How has it evolved over the past three years?

<u>Response 3 (ii)</u>

The utilisation rate of equipment has always been a key focus of the Group's operations. The utilisation rate has remained relatively healthy for the past 3 years, and barring any unforeseen circumstances, we expect the utilisation rate to maintain at such levels in the current financial year. However, we regret that we are unable to share more information on the rate as it is commercially sensitive.

<u>Question 3 (iii)</u>

Does the board see sector consolidation or bolt-on acquisitions as a viable growth path? Or is the group a target after streamlining its Malaysian operations?

<u>Response 3 (iii)</u>

The Board does not currently view sector consolidation or bolt-on acquisitions as the preferred growth strategy. Instead, the Group remains focused on pursuing organic growth by strengthening its core operations, enhancing operational efficiency, and capitalising on internal capabilities and market opportunities.

Appendix B – Questions Received from Shareholders

Question 1

In the "Message to Shareholders", it was stated that the Group remains 'cautiously optimistic of the market conditions in which the Group operates." In light of the recent US tariffs imposed by the USA on all countries, please explain whether there is any impact to Sin Heng's business network. If yes, please detail how the Board manages the new tariff risks. This is in accordance with Principle 9 of Singapore's Code of Corporate Governance.

Response 1

The Board is closely monitoring the recent US tariff development, noting that the implementation has been paused for 90 days. While the current environment remains fluid and the full impact is still uncertain, we wish to emphasis that the Company has had no significant direct trading activities with the USA in recent years. However, potential impacts that may arise from the trade war cannot be estimated at this stage, and the Board will continue to assess developments and adjust the business strategies accordingly.

Question 2

Could the Board explain why there is an increase in the Director's fees of $158,000 for FY2024 compared to $135,000 for FY2023?

Response 2

During the Covid-19 pandemic, the Board took the initiative to reduce the director fee structure in response to the virus outbreak, and the reduced fee remained until the current financial year where the Board concurred with the recommendation from the Remuneration Committee to revise the Board fee structure as the Group managed to achieve continuous profitable years since the pandemic. Furthermore, such periodic reviews to ensure the retention of qualified directors.

Question 3

With the NAV of Sin Heng at 98.89 cents per share as at 31 Dec 2024, the Offer by Controlling Shareholders to purchase shares at 58 cents per share is seen to be a low-ball attempt to privatise the Company. How would the Independent Chairman and the two independent directors help to ensure that the Board's decisions are in the best interests of the company and all its shareholders?

Response 3

Please refer to the Company's responses to questions 1(i), (ii) and (iv) raised by SIAS above.

Question 4

In light of the circular to shareholders in relation to the voluntary unconditional cash offer, it was stated that Independent Director Rai Satish intends to accept the Offer in respect of the 10,000 Shares directly held by him (and he did so based on the announcement on 14 Apr 25), despite the Recommendation by the Independent Directors that Shareholders should REJECT the Offer (page 30). I would like to question the Board and the Nominating Committee regarding his independence and re-appointment as an Independent director based on Provision 4.4 of the Singapore Code of Corporate Governance. Since it was concurred that the offer is not fair and not reasonable, Mr Rai Satish should not accept the offer. How can shareholders expect his actions to be truly independent in the best interest of the Company (Provision 2.1 of the Code)?

Response 4

The Nominating Committee and the Board (with Mr Rai abstaining) are of the view that Mr Rai has always conducted his duties professionally and in the best interest of the Group, and recommended Mr Rai for re-nomination as a Director of the Company. His shareholding in the Company did not, and does not, compromise the performance of his professional duties in relation to the Group.

As an Independent Director, in respect to the Offer, Mr Rai, together with other Independent Directors, having considered carefully the terms of the Offer and the advice given by the IFA, concurred with the advice of the IFA that the Offer is not fair and not reasonable, and accordingly, recommended that shareholders reject the Offer.

The Independent Directors recognise that as each shareholder would have different investment objectives and profiles, the Independent Directors therefore recommend that shareholder who may require specific advice in relation to his specific investment objective(s) or portfolio(s) should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional advisers. Accordingly, shareholders should note that the advice of the IFA and the recommendation of the Independent Directors should not be relied upon by any shareholder as the sole basis for deciding whether or not to accept the Offer.

In this regard, Mr Rai, as a shareholder, is entitled to make investment decisions based on his personal circumstances, investment objectives, and risk appetite. In making his decision to accept the Offer, he was acting in his personal capacity and not in his capacity as an Independent Director. In fact, it is a testament to Mr Rai's independence and professionalism that he is able to separate his personal interests from his professional judgement as an Independent Director.

<u>Question 5</u>

Does the Board agree that Sin Heng is overcapitalised (total liabilities/total net worth of 0.17X) and has excessive cash (44 cents per share against a share price of 58 cents)?

If so, will the Board consider returning cash back to ALL shareholders by way of a capital reduction? Can I suggest the Independent Directors bring this matter up at the next Board meeting and report back to shareholders on the outcome at the half year 2025 results announcement.

<u>Response 5</u>

Since 2020, the Group has been progressively reduced our rental fleet size in our overseas operations due to various reasons such as the impact of Covid-19 pandemic as well as Myanmar issues. Such rationalisation of our business operations has resulted in the reduction of our overall fleet size, and improved the Group financial position. As the Group is in a capital-intensive industry, a healthy financial position will allow the Group to adjust our business strategy in a timely manner when opportunities arise. Nevertheless, the Board also acknowledges the importance of rewarding the shareholder’s continuous support in us by declaring a first and final dividend of 5.0 cents for the current financial year.