SOON LIAN HOLDINGS LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number: 200416295G)

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RESPECT OF THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 ("FY2021")

The Board of Directors (the "**Board**" or "**Directors**") of Soon Lian Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the queries raised by the Securities Investors Association (Singapore) ("**SIAS**") in respect of the Company's annual report for the financial year ended 31 December 2021, and wishes to provide its responses to the queries from SIAS below:

<u>SIAS Query 1</u>

*For the financial year ended 31 December 2021 ("**FY2021**"), the Group's segment revenue from Precision Engineering ("**PE**") increased by $16.2 million or 87.1% from $18.6 million in FY2020 to $34.8 million in FY2021. Segment EBITDA increased from $4.69 million to $10.12 million or 116% in FY2021. This was attributed to the strong demand from customers in the semiconductor industry.*

(i) ***Would management help shareholders better understand the group's business model and competitive advantage in the semiconductor manufacturing equipment space?***

<u>Company's response</u>

The Group has an established reputation as a trusted partner in providing quality aluminium alloy solutions, catering to different customers' needs across various industries.

The Group's competitive advantage lies with being a one-stop solution with advanced machineries and a well-stocked inventory comprising of a wide range of aluminium alloy products. The Group has also established positive long-term relationships with suppliers to ensure supply continuity and allowing us to provide comprehensive services and products to both local and overseas markets at competitive prices.

(ii) ***In particular, what are the main products and/or product classes sold to semiconductor equipment clients?***

<u>Company's response</u>

The Group mainly supplies Aluminium Alloy 6061 to customers in the semiconductor value chain.

(iii) ***How sustainable is the demand in the semiconductor equipment space in the near/mid-term, i.e. 3-5 years?***

<u>Company's response</u>

Outlook for the future of the global semiconductor industry remains upbeat. The demand for products powered by semiconductors is continuous and driven by multiple end applications, and is expected to remain sustainable for the next few years. According to the Semiconductor Industry Association, the global semiconductor sales hit US$555.9 billion in 2021, an increase over 2020 by 26.2%, and is projected to grow 8.8% in 2022 to reach US$601.5 billion[1].

[1] https://www.reuters.com/technology/global-chip-sales-hit-record-2021-will-grow-88-2022-sia-2022-02-14/

(iv) ***What are the other industries served by the Group in the PE segment other than semiconductor equipment companies?***

Company's response

The Group's PE segment includes the supply of aluminium alloy products for precision parts for electronic equipment, precision instruments, medical instruments, semiconductor equipment, automated assembly lines, pharmaceutical machinery, aerospace components and robotics.

The major customer for the Group contributed $6.33 million in revenue in FY2021. This accounted for over 18% of the PE segment revenue and nearly 12% of the overall revenue.

(v) ***What is the profile of this major customer?***

Company's response

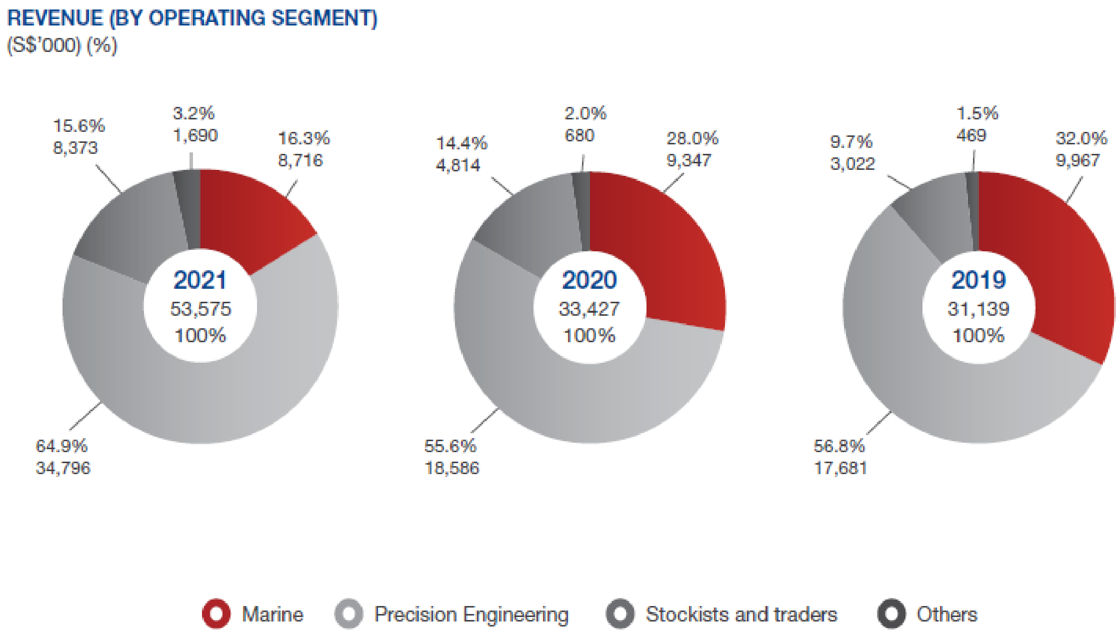
The major customer is one of the leading manufacturers for precision parts based in Malaysia.

(vi) ***What are the efforts made by management to acquire new customers and increase/broaden its customer base?***

Company's response

The Group is adopting a proactive approach to expand our customer base. We continue to create our brand awareness to new customers by participating in key exhibitions around the region. We strive to grow our market share through continuous enhancement of our machine capabilities and excellent products and services delivery to our customers.

Separately, revenue from the marine segment slipped to $8.7 million even as "projects were re-started" (page 13; Operations and financials review).



(vii) ***Can management help shareholders understand the Group's value proposition to its customers in the marine sector? How does the Group secure new orders/contracts, especially in this competitive environment?***

Company's response

The Group continues to leverage on the extensive network established over the years with partners, suppliers and business associates. Tapping on this, the Group creates value by offering a one-stop solution to customers in the marine sector. Apart from carrying a comprehensive range of aluminium alloy products, we also provide value added cutting and sourcing services to remain competitive.

SIAS Query 2

The Group recognised impairment loss on trade receivables of $1.11 million for FY2021 (FY2020: $0.16 million).

*"Expected credit losses on trade receivables" is also a key audit matter ("**KAM**") highlighted by the auditor in the report on the audit of financial statements (page 69). As noted in the KAM, as at 31 December 2021, the Group reported trade receivables with carrying amount of approximately $14,234,000 (2020: $11,532,000), net of allowance for expected credit losses of approximately $2,791,000 (2020: $1,667,000), representing 27.9% of the group's current assets.*

(i) ***How much of the trade receivables that were outstanding as at 31 December 2021 had been collected?***

Company's response

Up to 31 May 2022, the Group had recovered approximately 70% of the outstanding trade receivables as at 31 December 2021.

(ii) ***What are the reasons for the significant increase in impairment loss on trade receivables (from $0.16 million to $1.11 million)?***

Company's response

The Group uses a provision matrix to measure the expected credit losses ("**ECL**") for trade receivables. The ECL rates are based on the Group's historical loss experience of the various customer groups that are assessed by geographical locations, adjusted for forward looking factors, including their best estimate of the impact of COVID-19, specific to the debtors and the economic environment which could affect the ability of the debtors to settle the trade receivables.

The increase in impairment loss on trade receivables is mainly due to the higher ECL rates used during the year due to the on-going COVID-19 outbreak and the uncertainties that COVID-19 brings to the global economy.

The ageing of the trade receivables is shown in Note 28 (page 116; Financial instruments and financial risks: Credit risk) (reproduced below).

Group	Current	Past due for 1 to 30 days	Past due for 31 to 60 days	Past due more than 60 days	Total
31 December 2021					
Expected credit loss rates	3.2%	2.5%	5.2%	46.0%	
Trade receivables ($'000)	8,807	2,008	974	5,236	17,025
Impairment loss	(280)	(51)	(51)	(2,409)	(2,791)
31 December 2020					
Expected credit loss rates	6.2%	8.9%	12.9%	23.6%	
Trade receivables ($'000)	6,290	1,566	1,146	4,197	13,199
Impairment loss	(390)	(139)	(148)	(990)	(1,667)

As at 31 December 2021, the Group has $5.24 million in trade receivables that are past due by more than 60 days.

(iii) ***What are the profiles of the customers with long outstanding debt?***

Company's response

The customers with long outstanding debt are from various operating segments, i.e. precision engineering, stockists and traders segments and from a few countries that the Group has presence in.

(iv) ***Is the credit risk concentrated in certain countries or in certain segment(s) (i.e. marine, precision engineering or the stockists and traders segment)?***

Company's response

There was no significant concentration of credit risk in certain countries or in certain segments.

(v) ***Can management also provide the upper limit and a more meaningful breakdown of the aging of the trade receivables that are past due for more than 60 days? What percentage of these are expected to turn into bad debts/impairment loss?***

Company's response

The current disclosure on the Group's credit risk is consistent with the Group's current management reporting system and management is of the view that the current reporting system is sufficient to provide a good insight for management to monitor the credit risks effectively and efficiently.

Management will continue to review the presentation of the financial information on a regular basis to ensure efficient allocation of resources and assessment of performance.

(vi) ***Given the significant increase in impairment loss on trade receivables, would it be prudent for the audit committee to conduct a review of the Group's credit framework and practices (including the adherence to the credit risk policy of obtaining sufficient collateral)?***

Company's response

The Board has been conducting regular reviews of the Group's credit framework and practices and the Board will continue to do so to safeguard the Group's assets.

SIAS Query 3

At the annual general meeting scheduled to be held on 29 June 2022, the company is seeking shareholders' approval for the payment of directors' fees of up to $150,000 for the financial year ended 31 December 2021.

For FY2020, directors' fees were $77,000 although directors' fees were $85,000 in prior years.

As disclosed under Provision 7.2 in the corporate governance report, an agreed amount of directors' fees will be paid to the independent directors for their board services and appointment to board committees, taking into account factors such as effort, time spent and responsibilities.

(i) ***Can the board help shareholders better understand the reasons for the significant increase in directors' fees from $77,000 in FY2020 to $150,000?***

Company's response

FY2020 directors' fees of S$77,000 is exceptionally low compared to the previous years and this is due to the time gap between the appointment of new directors to fill the vacancy of retired/resigned directors in FY2020.

The proposed payment of directors' fees of up to S$150,000 for FY2021 are determined by taking into account amongst other factors, the effort and time spent by the independent directors, the performance of the Group and the average market range.

(ii) ***Did the independent directors spend considerably more time and effort and/or have their responsibilities increased during the year?***

Company's response

Yes, in line with the increase in the Group's activities, the independent directors spent more time and effort during the year compared to previous years.

By Order of the Board

Tan Yee Ho
Executive Chairman
24 June 2022

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*This announcement has been reviewed by the Company's sponsor, SAC Capital Private Limited (the "**Sponsor**"). This announcement has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.*

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