

Hoe Leong Corporation Ltd.

(the “Company”)

(Company registration number: 199408433W)

(Incorporated in the Republic of Singapore)

EMPHASIS OF MATTER BY THE INDEPENDENT AUDITORS ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”), the Board of Directors (“**Board**”) of the Company, and together with its subsidiaries (the “**Group**”), wishes to announce that its independent auditors, KPMG LLP (the “**Auditors**”), has included an emphasis of matter in the Independent Auditors’ Report on the financial statements of the Group for the financial year ended 31 December 2020 (“**Audited Financial Statements FY2020**”). The emphasis of matter is in respect of the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Company to continue as a going concern. The audit opinion in the Independent Auditors’ Report however remains unqualified. Please refer to Appendix 1 of this announcement for the Independent Auditors’ Report.

The Board is of the view that the Group is able to continue as a going concern and that it is appropriate for Audited Financial Statements FY2020 to be prepared on a going concern basis, taking into account of the factors disclosed in Note 2 of Audited Financial Statements FY2020. Please refer to Appendix 2 of this announcement for Note 2 of Audited Financial Statements FY2020

The Independent Auditor’s Report, together with Audited Financial Statements FY2020, form part of the Company’s annual report for FY2020 (“**Annual Report 2020**”) which has been broadcast separately on SGXNet on 14 April 2021.

Shareholders of the Company (“Shareholders”) are advised to read this announcement in conjunction with Annual Report 2020. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. Shareholders and potential investors are advised to read this announcement and any further announcements by the Company carefully. Shareholders and potential investors should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers if they have any doubt about the actions they should take.

BY ORDER OF THE BOARD

Liew Yoke Pheng Joseph
Executive Chairman and Chief Executive Officer
14 April 2021

Independent auditors' report

Members of the Company
Hoe Leong Corporation Ltd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Hoe Leong Corporation Ltd. ('the Company') and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2020, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages FS1 to FS67.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ('the Act') and Singapore Financial Reporting Standards (International) ('SFRS(I)s') so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2020 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ('SSAs'). Our responsibilities under those standards are further described in the '*Auditors' responsibilities for the audit of the financial statements*' section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ('ACRA Code') together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 to the financial statements which indicates that the Group has outstanding current loan and borrowing obligations of \$11,694,000, of which \$4,295,000 can be called upon on demand basis due to breaches in certain loan covenants. As further described in Notes 2 and 23, the directors of the Company have put in place fund raising and debt conversion plans (the "restructuring plans") to improve the liquidity and financial position of the Group and Company. Such restructuring plans, however, are dependent on regulatory and shareholders' approval; and the continuing financial support from lenders is also dependent on the successful completion of these restructuring plans. Such conditions indicate that a material uncertainty exists that may cast significant doubt on the ability of the Group and the Company to continue as a going concern. The financial statements do not include any adjustments that would result from a failure to obtain the necessary approvals to complete the restructuring plans. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in Material Uncertainty Related to Going Concern section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report.

Valuation of trade receivables (\$8,324,000) (Refer to Note 9 to the financial statements)	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
Trade receivables represent 20% of the Group's total assets as at 31 December 2020. In accordance with SFRS(I) 9 <i>Financial Instruments</i> , the Group is required to recognise loss allowances for expected credit losses (ECL) on financial assets. In formulating the ECL model, the Group considers both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. Such an assessment involves judgement and use of estimates which are inherently subjective.	We reviewed the credit evaluation and monitoring process activities. We reviewed and assessed the appropriateness of the assumptions applied in the ECL model by comparing against the Group's ageing profile of receivables, historical default rates, debt collection patterns, and other information on creditworthiness of the Group's customers.
<i>Our findings</i>	
We found the ECL provision created as at 31 December 2020 to be supported with sufficient data and analysis, and adequately disclosed in the financial statements.	
Litigations and claims (Refer to Note 25 to the financial statements)	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
The Group has been involved in several on-going litigations and claims. As the outcome of these on-going litigations and claims is contingent on events that may be outside the control of the Group, there is risk of estimation uncertainties associating with the provision of loss liabilities created by the Group.	We assessed management's basis for the provisions made in relation to on-going litigations and claims. We held discussions with management and reviewed relevant correspondence and/or agreements between the parties involved in the on-going litigations and claims. We obtained confirmation letters from the external legal counsel, and evaluated the legal view sought from this exercise.
<i>Our findings</i>	
We found the provision for loss liabilities created, together with the accompanying disclosure of facts and circumstances surrounding the on-going litigations and the related estimation risk to be relevant.	

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Teo Han Jo.

KPMG LLP
*Public Accountants and
Chartered Accountants*

Singapore
12 April 2021

Note 2 of Audited Financial Statements FY2020:**Use of going concern assumption**

As at 31 December 2020, the Group has outstanding current loan and borrowing obligations of \$11,694,000; and of which, \$4,295,000 is due for immediate repayment when called upon as caused by certain breaches of loan covenants (refer to details in Note 14). Yet, the financial statements for the year ended 31 December 2020 have been prepared on a going concern basis. In assessing the validity of the continuing use of the going concern assumption, the directors of the Company have considered the proposed fund raising and debt restructuring plans being put in place, together with an assessment of the Group's cash flow forecast, and other asset divestment plan:

(i) Proposed fund raising transactions with Shing Heng Holding Pte Ltd (the "Investor")

On 21 December 2020, the Company signed definitive agreements with the Investor in relation to the following funds raising transactions:

- the subscription of convertible loan note of the Company amounting to \$3,000,000 by the Investor; and
- the subscription of new ordinary shares in the Company for \$9,000,000, as an option made available to the Investor (collectively, the "fund raising").

The fund raising is however conditional upon the fulfilment of conditions, including but not limited to, the receipt of approval-in-principle from the Securities Industry Council of Singapore (the "SIC") in relation to the Whitewash Waiver, and the approval of shareholders being obtained for, inter alia, the issuance of convertible loan note, and the grant of options of new shares issuance, and the Whitewash Waiver in compliance with Listing Manual of the SGX-ST.

(ii) Completion of debt conversion scheme

On 21 December 2020, the Company signed definitive debt settlement agreements with the Group's vessel lenders to convert the unsettled debt obligation of \$1,858,000 via issuance of new shares in the Company and/or issuance of convertible bonds, following the divestment of the Group's vessels whose proceeds raised were used to settle the debt obligation (Refer to details in Note 11).

The implementation of the debt conversion scheme is conditional upon the fulfilment of conditions, including but not limited to, the receipt of approval-in-principle from the SGX-ST in relation to the new ordinary shares and/or convertible bonds to be issued to the vessel lenders, and the approval of shareholders being obtained for, inter alia, the fund raising with the Investors as described above.

(iii) Cash flows to be generated from the Group's operating and financing activities

The Group expects to continue to generate positive cash flows from its continuing operations, at least, for the next 12 months from the date of authorisation of the financial statements. The Group has also assumed that the existing credit facilities will be made available to the Group, although such continuing financial support from lenders, including any revision in loan covenants, is dependent on the successful completion of the fund raising and debt conversion scheme as stated in the preceding paragraphs.

(iv) Divestment of non-core asset

The Group intends to sell a property situated in Johor Bahru, Malaysia and utilise the sale proceeds to repay the Group's external bank loans. The timing and the sale value of the property amid the Covid-19 pandemic, however, cannot be reliably established as at the date of this report.

In considering the fund raising, debt conversion scheme and other asset divestment plans being put in place together with an expectation of the sufficiency of operating cash flows for working capital needs, the directors of the Company believe both the Group and the Company are able to meet its debt obligations as and when they fall due, at least for the next 12 months from the balance sheet date.

The directors acknowledge that both the fund raising and debt conversion plans, whose success is key in securing the continuing financial support from lenders, are subject to regulatory and shareholders' approval after the finalisation of the financial statements, but also consider such approvals are not likely to be withheld. If, however, the Company is unsuccessful in obtaining the relevant approvals to meet its debt obligations, these conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and the Company's ability to continue as a going concern.

If for any reason the Group and the Company are unable to continue as a going concern, it could have an impact on the Group's and Company's classification of assets and liabilities and the ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the financial statements.