



HOE LEONG CORPORATION LTD.

和隆集团有限公司

Company Registration No.: 199408433W

Registered Address: 6 Clementi Loop, EAC Building, Singapore 129814

Unaudited Financial Statements and Dividend Announcement For the 3rd Quarter (“3Q 2020”) and 9 Months (“9M 2020”) Ended 30 September 2020

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Part I Information Required for Quarterly (Q1, Q2 & Q3), Half-Year and Full Year Announcements

1(a)(i) Statement of comprehensive income, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year

GROUP	Unaudited 3Q 2020 S\$'000	Unaudited 3Q 2019 S\$'000	Increase/ (Decrease) %	Unaudited 9M 2020 S\$'000	Unaudited 9M 2019 S\$'000	Increase/ (Decrease) %
Revenue	11,441	15,511	(26.2)	32,581	48,049	(32.2)
Cost of sales	(9,117)	(12,336)	(26.1)	(26,820)	(38,594)	(30.5)
Gross profit	2,324	3,175	(26.8)	5,761	9,455	(39.1)
Other income	794	52	N.M	2,230	206	N.M
Distribution expenses	(823)	(985)	(16.4)	(2,358)	(2,907)	(18.9)
Administrative expenses	(1,062)	(1,679)	(36.7)	(3,812)	(4,840)	(21.2)
Other expenses	(337)	(10,639)	N.M	(458)	(12,386)	N.M
Results from operating activities	896	(10,076)	N.M	1,363	(10,472)	N.M
Finance costs	(178)	(262)	(32.1)	(734)	(788)	(6.9)
Profit/ (Loss) before income tax	718	(10,338)	N.M	629	(11,260)	N.M
Income tax expense	(80)	(20)	300.0	(123)	(158)	(22.2)
Profit/ (Loss), net of income tax	638	(10,358)	N.M	506	(11,418)	N.M
Profit/ (Loss), net of tax attributable to:						
Owners of the Company	638	(10,358)	N.M	506	(11,418)	N.M
Profit/ (Loss), net of income tax	638	(10,358)	N.M	506	(11,418)	N.M
Items that are or may be reclassified subsequently to profit or loss:						
Foreign currency translation differences arising from foreign operations	(944)	(1,062)	N.M	(235)	(1,131)	N.M
Other comprehensive loss, net of income tax	(944)	(1,062)	N.M	(235)	(1,131)	N.M
Total comprehensive income / (loss)	(306)	(11,420)	N.M	271	(12,549)	N.M
Total comprehensive loss attributable to:						
Owners of the Company	(306)	(11,397)	N.M	271	(12,547)	N.M
Non-controlling interest	-	(23)	N.M	-	(2)	N.M
Total comprehensive income / (loss)	(306)	(11,420)	N.M	271	(12,549)	N.M

3Q 2019 – 3rd quarter ended 30 September 2019
9M 2019 – 9 months ended 30 September 2019
N.M – Not meaningful

1(a)(ii) (Loss)/ Profit, net of income tax and total comprehensive income is arrived after crediting/ (charging) the following:

GROUP	Unaudited 3Q 2020 S\$'000	Unaudited 3Q 2019 S\$'000	Increase/ (Decrease) %	Unaudited 9M 2020 S\$'000	Unaudited 9M 2019 S\$'000	Increase/ (Decrease) %
Finance costs:						
Interest cost on bank loans	(165)	(249)	(33.7)	(681)	(745)	(8.6)
Interest cost on finance leases	(2)	(5)	(60.0)	(10)	(15)	(33.3)
Interest cost on lease liabilities	(11)	(8)	37.5	(43)	(28)	53.6
	(178)	(262)	(32.1)	(734)	(788)	(6.9)
Included in 'Other income':						
Rental income	22	37	(40.5)	57	74	(23.0)
Government grant income	335	-	N.M	713	-	N.M
Gains on disposal of plant and equipment	348	1	N.M	1,287	1	N.M
Included in 'Other expenses':						
Depreciation of property, plant and equipment (also included in 'Cost of sales')	(263)	(730)	(64.0)	(834)	(2,170)	(61.6)
Depreciation of right-of-use assets	(217)	(210)	3.3	(653)	(279)	134.1
Allowance for impairment of trade receivables	(198)	(4,723)	N.M	(198)	(4,723)	N.M
Allowance for impairment of trade receivables (reversal)	181	-	N.M	281	-	N.M
Bad debts written off - Trade receivables	(2)	-	N.M	(26)	-	N.M
Allowance for impairment of inventories (reversal)	90	147	(38.8)	904	592	52.7
Impairment loss on vessels	-	(6,247)	N.M	-	(6,247)	N.M
Foreign currency exchange gain	296	841	(64.8)	517	232	122.8

1(b)(i) Statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	Group		Company	
	Unaudited As at 30 September 2020 S\$'000	Audited As at 31 December 2019 S\$'000	Unaudited As at 30 September 2020 S\$'000	Audited As at 31 December 2019 S\$'000
ASSETS				
Non-current assets				
Property, plant and equipment	10,956	12,016	3,204	3,846
Investments in subsidiaries	-	-	10,298	10,298
Deferred tax assets	712	701	-	-
Total non-current assets	11,668	12,717	13,502	14,144
Current assets				
Inventories	17,054	18,993	-	-
Trade and other receivables	11,885	11,542	3,124	3,046
Cash and cash equivalents	1,430	2,499	126	73
	30,369	33,034	3,250	3,119
Assets held for sale	617	6,909	-	-
Total current assets	30,986	39,943	3,250	3,119
Total assets	42,654	52,660	16,752	17,263
EQUITY				
Share capital	114,461	114,461	114,461	114,461
Treasury shares	(55)	(55)	(55)	(55)
Currency translation reserve	(1,114)	(879)	-	-
Accumulated losses	(105,882)	(106,388)	(107,539)	(106,988)
Total equity	7,410	7,139	6,867	7,418
LIABILITIES				
Non-current liabilities				
Other financial liabilities	404	399	-	-
Lease liabilities	643	1,189	602	1,189
Deferred tax liabilities	20	38	20	19
Total non-current liabilities	1,067	1,626	622	1,208
Current liabilities				
Trade and other payables	14,284	14,341	4,867	4,312
Other financial liabilities	15,349	25,045	-	-
Lease liabilities	865	877	808	737
Amount due to non-controlling shareholder of a former subsidiary	3,588	3,588	3,588	3,588
Income tax payable	91	44	-	-
Total current liabilities	34,177	43,895	9,263	8,637
Total liabilities	35,244	45,521	9,885	9,845
Total equity and liabilities	42,654	52,660	16,752	17,263

1(b)(ii) Aggregate amount of the group's borrowings and debt securities as at the end of the current financial period reported on with comparative figures as at the end of the immediately preceding financial year

Amount repayable in one year or less, or on demand:

GROUP	Unaudited As at 30 September 2020		Audited As at 31 December 2019	
	Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
Bank loans	10,005	5,250	19,388	5,570
Finance lease liabilities	94	-	87	-
	10,099	5,250	19,475	5,570

Amount repayable after one year:

GROUP	Unaudited As at 30 September 2020		Audited As at 31 December 2019	
	Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
Bank loans	222	-	226	-
Finance lease liabilities	182	-	173	-
	404	-	399	-

Details of collaterals relating to the above borrowing(s):

Bank loans

Bank loans are covered by:

- Legal mortgages over vessels, freehold land and buildings and certain plant and equipment;
- Corporate guarantees provided by the Company; and
- Personal guarantees provided by former directors for certain banking facilities.

Finance lease liabilities

The obligations under finance lease liabilities are secured by the lessors' charge over the leased assets.

Bank covenants

The Group breached certain covenants on consolidated tangible net worth and debt-to-equity ratio, as stipulated under the bank facilities agreements. Consequently, bank loans aggregating to S\$7,817,000 (31 December 2019: S\$7,528,000) have been reclassified from non-current liabilities to current liabilities.

1(c) Statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

GROUP	Unaudited 3Q 2020 S\$'000	Unaudited 3Q 2019 S\$'000	Unaudited 9M 2020 S\$'000	Unaudited 9M 2019 S\$'000
Cash flows from operating activities				
Profit / (Loss) before income tax	718	(10,338)	629	(11,260)
Adjustments for:				
Depreciation of property, plant and equipment	263	730	834	2,170
Depreciation of right-of-use assets	217	210	653	279
Interest costs on other financial liabilities	167	254	691	760
Interest costs on lease liabilities	11	8	43	28
Gains on disposal of property, plant and equipment	(348)	(1)	(1,287)	(1)
Allowance for impairment of inventories (reversal)	(90)	(147)	(904)	(592)
Allowance for impairment of trade receivables (reversal)	(181)	-	(281)	-
Impairment loss on property, plant and equipment	-	6,247	-	6,247
Allowance for impairment of trade receivables	200	4,723	224	4,723
Operating cash flows before working capital changes	957	1,686	602	2,354
Changes in working capital:				
Inventories	511	2,396	2,843	3,262
Trade and other receivables	(1,202)	60	(285)	960
Trade and other payables	(590)	281	(446)	96
Cash flows from operations	(324)	4,423	2,714	6,672
Income taxes paid	(55)	(67)	(105)	(67)
Net cash (used in) / from operating activities	(379)	4,356	2,609	6,605
Cash flows from investing activities				
Purchase of plant and equipment	(106)	(41)	(334)	(1,762)
Proceeds from disposal of plant and equipment	49	30	7,812	30
Net cash outflow on deconsolidation of subsidiary	-	-	-	(5)
Net cash (used in) / from investing activities	(57)	(11)	7,478	(1,737)
Cash flows from financing activities				
Interest paid	(101)	(225)	(345)	(693)
Proceeds from bills payable and trust receipts	1,921	-	2,900	-
Repayment of bills payable and trust receipts	(1,438)	(1,201)	(3,403)	(1,753)
Payment of lease liabilities	(164)	(237)	(558)	(363)
Proceeds from bank borrowings	-	-	-	1,225
Repayment of bank borrowings	(26)	(809)	(9,312)	(3,083)
Net cash from / (used in) financing activities	192	(2,472)	(10,718)	(4,667)
Net (decrease) / increase in cash and cash equivalents	(244)	1,873	(631)	201
Cash and cash equivalents, beginning balance	2,287	1,556	2,499	3,264
Effect of exchange rates fluctuations	(612)	(726)	(437)	(762)
Cash and cash equivalents, ending balance	1,431	2,703	1,431	2,703

1(d)(i) Statement (for the issuer and group) showing all changes in equity, together with a comparative statement for the corresponding period of the immediately preceding financial year

GROUP	Share capital S\$'000	Treasury shares S\$'000	Currency translation reserve S\$'000	Accumulated losses S\$'000	Equity attributable to owners S\$'000	Non-controlling interests S\$'000	Total equity S\$'000
9M 2020 (Unaudited):							
At 1 January 2020	114,461	(55)	(879)	(106,388)	7,139	-	7,139
Total comprehensive loss for the period	-	-	(259)	(46)	(305)	-	(305)
At 31 March 2020	114,461	(55)	(1,138)	(106,434)	6,834	-	6,834
Total comprehensive income for the period	-	-	968	(86)	882	-	882
At 30 June 2020	114,461	(55)	(170)	(106,520)	7,716	-	7,716
Total comprehensive loss for the period	-	-	(944)	638	(306)	-	(306)
At 30 September 2020	114,461	(55)	(1,114)	(105,882)	7,410	-	7,410
9M 2019 (Unaudited):							
At 1 January 2019	114,461	(55)	(836)	(89,503)	24,067	(1,187)	22,880
Adjustment to accumulated losses on adoption of SFRS(I) 16	-	-	-	(4)	(4)	-	(4)
At 1 January 2019 (Restated)	114,461	(55)	(836)	(89,507)	24,063	(1,187)	22,876
Total comprehensive loss for the period	-	-	(260)	(759)	(1,019)	(22)	(1,041)
At 31 March 2019	114,461	(55)	(1,096)	(90,266)	23,044	(1,209)	21,835
Total comprehensive loss for the period	-	-	168	(301)	(133)	43	(90)
At 30 June 2019	114,461	(55)	(928)	(90,567)	22,911	(1,166)	21,745
Total comprehensive loss for the period	-	-	(1,039)	(10,358)	(11,397)	(23)	(11,420)
At 30 September 2019	114,461	(55)	(1,967)	(100,925)	11,514	(1,189)	10,325

COMPANY	Share capital S\$'000	Treasury shares S\$'000	Accumulated losses S\$'000	Total equity S\$'000
9M 2020 (Unaudited):				
At 1 January 2020	114,461	(55)	(106,988)	7,418
Total comprehensive income for the period	-	-	18	18
At 31 March 2020	114,461	(55)	(106,970)	7,436
Total comprehensive loss for the period	-	-	(297)	(297)
At 30 June 2020	114,461	(55)	(107,267)	7,139
Total comprehensive loss for the period	-	-	(272)	(272)
At 30 September 2020	114,461	(55)	(107,539)	6,867
9M 2019 (Unaudited):				
At 1 January 2019	114,461	(55)	(98,816)	15,590
Total comprehensive loss for the period	-	-	(270)	(270)
At 31 March 2019	114,461	(55)	(99,086)	15,320
Total comprehensive loss for the period	-	-	(212)	(212)
At 30 June 2019	114,461	(55)	(99,298)	15,108
Total comprehensive loss for the period	-	-	(3,698)	(3,698)
At 30 September 2019	114,461	(55)	(102,996)	11,410

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on

Number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year

Number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year

There is no change in the Company's issued share capital since 31 December 2019.

The Company has no outstanding share options, outstanding convertibles and subsidiary holdings as at 30 September 2020 and 30 September 2019.

470,000 treasury shares were held as at 30 September 2020 and 30 September 2019.

1(d)(iii) Total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year

COMPANY	
Unaudited 30 September 2020	Audited 31 December 2019
5,619,432,579	5,619,432,579

1(d)(iv) Statement showing all sales, transfers, cancellation and/or use of treasury shares as at the end of the current financial period reported on

There is no sale, transfer, cancellation and/ or use of treasury shares during 9M 2020.

1(d)(v) Statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on

There are no subsidiary holdings as at 30 September 2020 and there is no sale, transfer, cancellation and/ or use of subsidiary holdings during 9M 2020.

2 Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice

The figures have not been audited or reviewed by the Company's auditors.

3 Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter)

Not applicable.

3A Where the latest financial statements are subject to an adverse opinion, qualified opinion or disclaimer of opinion:—

(a) Updates on the efforts taken to resolve each outstanding audit issue

The auditors did not express an opinion on the audited financial statements of the Group for the financial year ended 31 December 2019 (“FY2019”). The disclaimer of opinion was due to multiple uncertainties which cast significant doubt over the Group’s and Company’s ability to continue as a going concern. Please refer to page 28 of the Company’s annual report for FY2019.

The efforts taken to resolve the multiple uncertainties are as follow:

1. Sufficiency of cash flows to be generated from operating activities

Since their appointment in November 2019, RSM Corporate Advisory Pte Ltd has been assisting the Group in the strategic review of the Group’s businesses and in the formulation of plans to improve the financial position and/ or performance of the Group.

Several cost-cutting measures including the termination of lease of under-utilised premise and sale of slow-moving inventories are implemented.

2. Divestment plan

The Group has been actively working to divest its vessel chartering business segment. The sale of mud processing barge, Arkstar Energy, was completed during the financial year ended 31 December 2019. The sale of all supply vessels from the vessel chartering segment, namely Arkstar Eagle 1, Arkstar Eagle 3, Arkstar Voyager and Arkstar Unicorn, were completed between March and October 2020.

3. Litigation and claims

There are ongoing litigations and claims. Please refer to item 8 of this announcement for the background and updates of ongoing material litigation.

(b) Confirmation from the Board that the impact of all outstanding audit issues on the financial statements have been adequately disclosed.

The Board of Directors of the Company (the “Board”) confirm that the impact of all outstanding audit issues on the financial statements have been adequately disclosed.

4 Whether the same accounting policies and methods of computation as in the issuer’s most recently audited annual financial statements have been applied

Save as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation as presented in the audited financial statements of the Group for the financial year ended 31 December 2019.

5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

A number of new standards, interpretations and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards and interpretations in preparing these financial statements.

The following new SFRS(I)s, interpretations and amendments to SFRS(I)s are not expected to have a significant impact on the Group's financial statements:

- Amendments to References to Conceptual Framework in SFRS(I) Standards
- Definition of a Business (Amendments to SFRS(I) 3)
- Definition of Material (Amendments to SFRS(I) 1-1 and SFRS(I) 1-8)
- SFRS(I) 17 Insurance Contracts

6 Earnings per ordinary share (“EPS”) of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends

GROUP	Unaudited 3Q 2020	Unaudited 3Q 2019	Unaudited 9M 2020	Unaudited 9M 2019
Profit/ (Loss) attributable to owners of the Company (S\$'000)	638	(10,358)	506	(11,418)
Weighted average number of ordinary shares ('000)	5,619,433	5,619,433	5,619,433	5,619,433
EPS (Basic and diluted) (cents)	0.01	(0.18)	0.01	(0.20)

Basic EPS ratio is calculated by dividing profit or loss, net of tax attributable to owners of the Company by the weighted average number of ordinary shares outstanding during each period.

Diluted EPS is the same as basic EPS as no potential dilutive ordinary shares exist during the respective reporting periods.

7 Net asset value (“NAV”) (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the current financial period reported on and the immediately preceding financial year

	GROUP		COMPANY	
	30 September 2020	31 December 2019	30 September 2020	31 December 2019
NAV attributable to owners of the Company (S\$'000)	7,410	7,139	6,867	7,418
Total number of issued shares excluding treasury shares ('000)	5,619,433	5,619,433	5,619,433	5,619,433
NAV per ordinary share (cents)	0.13	0.13	0.12	0.13

8 Review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business

(a) Significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factor

Revenue

For 3Q 2020, the Group registered revenue of S\$11.4 million compared to S\$15.5 million during 3Q 2019. For 9M 2020, the Group registered revenue of S\$32.6 million compared to S\$48.0 million during 9M 2019.

Revenue is mainly generated from the following business segments:

Equipment segment

For 3 months ended, revenue from the equipment segment (which focuses on the design, manufacturing and sale and; trading and distribution of heavy equipment and industrial machinery) decreased by S\$1.2 million or 9.1% from S\$12.6 million during 3Q 2019 to S\$11.4 million during 3Q 2020.

For 9 months ended, revenue from the equipment segment decreased by S\$8.4 million or 20.7% from S\$40.7 million during 9M 2019 to S\$32.3 million during 9M 2020.

The decrease in revenue is mainly due to a slowdown in global economic activities (including for construction, forestry and mining industries which our customers and end-users of our products and services operate in) as a result of lockdown measures to curb the spread of Covid-19.

Vessel chartering segment

All supply vessels from the vessel chartering segment were in various stages of sales and mostly off-hire during 9M 2020, resulting in a decrease in revenue. Revenue from vessel chartering services provided to certain hiree for certain periods of 9M 2020 were not recognised as the collection of sale proceeds is not probable.

As a result, vessel chartering revenue of only S\$0.3 million was registered during 9M 2020. No vessel chartering revenue was registered during 3Q 2020.

Cost of sales

For 3 months ended, cost of sales decreased by S\$3.2 million or 26.1% from S\$12.3 million during 3Q 2019 to S\$9.1 million during 3Q 2020. For 9 months ended, cost of sales decreased by S\$11.8 million or 30.5% from S\$38.6 million during 9M 2019 to S\$26.8 million during 9M 2020.

Vast majority of the gross profits were derived from the equipment segment. The reduced level of operations in the equipment segment during 3Q 2020 and 9M 2020, as compared to corresponding periods of the immediately preceding financial year, had adversely impacted gross profit.

Gross profit margin for 3Q 2020 and 9M 2020 remain comparable to that of 3Q 2019 and 9M 2019, even though operations in the less profitable vessel chartering segment were significantly reduced during 3Q 2020 and 9M 2020, due to increase in material costs.

Other income

For 3 months ended, other income increased by S\$0.7 million from S\$0.1 million during 3Q 2019 to S\$0.8 million during 3Q 2020. The increase was mainly due to gain on sale of a supply vessel (Arkstar Voyager) amounting to S\$0.3 million arising from a reclassification of relating legal and professional costs. Government grant income (relating to Covid-19 relief measures by governments) amounting to S\$0.4 million was also received during 3Q 2020.

For 9 months ended, other income increased by S\$2.0 million from S\$0.2 million during 9M 2019 to S\$2.2 million during 9M 2020. This is mainly due to gain on sale of supply vessels during 9M 2020 amounting to S\$1.3 million and receiving of government grant income (relating to Covid-19 relief measures by governments) amounting to S\$0.7 million.

Distribution expenses

For 3 months ended, distribution expenses decreased by S\$0.2 million or 16.4% from S\$1.0 million during 3Q 2019 to S\$0.8 million during 3Q 2020. For 9 months ended, distribution expenses decreased by S\$0.5 million or 18.9% from S\$2.9 million during 9M 2019 to S\$2.4 million during 9M 2020.

The above decreases were mainly due to decrease in sales commission, travelling and packing and delivery expenses in view of decreased operations.

Administrative expenses

For 3 months ended, administrative expenses decreased by S\$0.6 million or 36.8% from S\$1.7 million during 3Q 2019 to S\$1.1 million during 3Q 2020. For 9 months ended, administrative expenses decreased by S\$1.0 million or 21.2% from S\$4.8 million during 9M 2019 to S\$3.8 million during 9M 2020.

The above decreases were mainly due to reduction in salaries and related costs following the closure of administration office of the vessel chartering segment and reduction in headcount in the equipment segment. There is also reduction in directors' remuneration following the resignation of certain executive directors of the Company in October 2019. The above decreases were partially offset by an increase in legal and professional fee which was mainly in relation to the sale of supply vessels.

Other expenses

For 3 months ended, other expenses decreased by S\$10.3 million from S\$10.6 million during 3Q 2019 to S\$0.3 million during 3Q 2020. For 9 months ended, other expenses decreased by S\$11.9 million from S\$12.4 million during 9M 2019 to S\$0.5 million during 9M 2020.

During 3Q 2019 and 9M 2019, impairment loss on supply vessels amounting to S\$6.2 million and allowance for impairment of trade receivables (mainly pertaining to vessel chartering segment) amounting to S\$4.7 million were recognised. None of the above items were recognised for 3Q 2020 and 9M 2020, resulting to the large decrease in other expenses.

Finance costs

For 3 months ended, finance costs decreased by S\$0.1 million or 32.1% from S\$0.3 million during 3Q 2019 to S\$0.2 million during 3Q 2020. For 9 months ended, finance costs decreased by S\$0.1 million or 6.9% from S\$0.8 million during 9M 2019 to S\$0.7 million during 9M 2020.

The decrease in finance costs was mainly due to reduction in bank borrowings, following repayment of vessel loans upon completion of vessel sales.

Other items

Depreciation of property, plant and equipment decreased significantly during 3M 2020 and 9M 2020 mainly due to cessation of depreciation of supply vessels following the reclassification of supply vessels from 'Property, plant and equipment' to 'Assets held for sale' at the end of FY2019.

Foreign currency exchange gain during 9M 2020 mainly relates to certain monetary assets denominated in United States dollar ('USD') and was mainly as a result of a stronger USD as at the end of 9M 2020 compared to that at the end of FY2019.

Profit or loss before tax

For 3 months ended, profit before income tax for 3Q 2020 was S\$0.7 million, while loss before income tax of S\$10.3 million was registered for 3Q 2019. For 9 months ended, profit before income tax for 9M 2020 was S\$0.6 million, while loss before income tax of S\$11.3 million was registered for 9M 2019.

(b) Material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on

Financial Position Review

Non-current assets

Non-current assets decreased by S\$1.0 million or 8.2% from S\$12.7 million as at 31 December 2019 to S\$11.7 million as at 30 September 2020.

Property, plant and equipment decreased by S\$1.0 million or 8.8% from S\$12.0 million as at 31 December 2019 to S\$11.0 million as at 30 September 2020. The decrease was mainly due to depreciation during 9M 2020 amounting to S\$1.5 million which is partially offset by addition of plant and equipment amounting to S\$0.4 million and disposal of plant and equipment of net book value amounting to S\$0.1 million during 9M 2020.

Current assets

Current assets decreased by S\$8.9 million or 22.4% from S\$39.9 million as at 31 December 2019 to S\$31.0 million as at 30 September 2020. The decrease was mainly due to decrease in inventories, cash and cash equivalents and assets held for sale of S\$1.9 million, S\$1.0 million and S\$6.3 million respectively. These increases were partially offset by increase in trade and other receivables of S\$0.3 million.

The decrease in inventories was in tandem with the decreased level of operations. Inventories turnover days was 174 days as at 30 September 2020 compared to 180 days as at 31 December 2019

Trade receivables' turnover days was 145 days as at 30 September 2020 compared to 133 days as at 31 December 2019.

Assets held for sale amounting to S\$6.9 million as at 31 December 2019 pertains to book values of 4 supply vessels from the vessel chartering segment, namely Arkstar Voyager, Arkstar Unicorn, Arkstar Eagle 1 and Arkstar Eagle 3. The sales of 3 supply vessels were completed as at 30 September 2020. Assets held for sale amounting to S\$0.6 million as at 30 September 2020 pertains to book value of Arkstar Unicorn. The sale of Arkstar Unicorn was completed in October 2020.

Non-current liabilities

Non-current liabilities decreased by S\$0.5 million or 34.4% from S\$1.6 million as at 31 December 2019 to S\$1.1 million as at 30 September 2020. The decrease is mainly due to repayment of lease liabilities during 9M 2020.

Current liabilities

Current liabilities decreased by S\$9.7 million or 22.1% from S\$43.9 million as at 31 December 2019 to S\$34.2 million as at 30 September 2020. The decrease was mainly due to repayment of bank borrowings, mainly relating to vessel loans upon completion of vessel sales.

Trade payables' turnover days was 49 days as at 30 September 2020 compared to 59 days as at 31 December 2019.

Negative working capital

As at 30 September 2020, current liabilities exceeded current assets by S\$3.2 million. This is mainly due to non-current portion of certain bank borrowings, amounting to S\$7.8 million being classified in current portion due to non-compliance with bank covenants. The Company will be negotiating with the lenders to revise or waive these bank covenants.

Cash Flow Review

3Q 2020

During 3Q 2020, net cash used in operating activities was S\$0.3 million mainly due to increase in working capital by S\$1.3 million. This increase was partially offset by operating cash inflows S\$1.0 million. The increase in working capital was mainly due to increase in trade and other receivables and decrease in trade and other payables.

Net cash used in investing activities amounting to S\$0.1 million was mainly due to payment for purchase of plant and equipment.

Net cash from financing activities amounting to S\$0.2 million was mainly attributable to proceeds from bank borrowings exceeding repayment of bank borrowings by S\$0.5 million. This cash inflow was partially offset by interest payment of S\$0.1 million and lease payment of S\$0.1 million.

As a result of the above, there was a net decrease of S\$0.2 million in cash and cash equivalents during 3Q2020. Cash and cash equivalents was S\$1.4 million as at 30 September 2020.

9M 2020

During 9M 2020, net cash from operating activities was S\$2.6 million mainly due to operating cash inflows of S\$0.6 million and decrease in working capital by S\$2.1 million. The above inflow was partially offset by income tax paid of S\$0.1 million. The increase in working capital was mainly due to decrease in inventories.

Net cash from investing activities amounting to S\$7.5 million was mainly due to proceeds received from disposal of plant and equipment (mainly comprising of supply vessels) of S\$7.8 million. This was partially offset by payment for purchase of plant and equipment of S\$0.3 million

Net cash used in financing activities amounting to S\$10.7 million was mainly due to repayment of bank borrowings (majority of them being vessel loans) of S\$12.7 million, interest payment of S\$0.3 million and lease payment of S\$0.6 million. These cash outflows were partially offset by proceeds from bank borrowings of S\$2.9 million.

As a result of the above, there was a net decrease of S\$0.6 million in cash and cash equivalents during 9M 2020. Cash and cash equivalents was S\$1.4 million as at 30 September 2020.

Material Litigation

(A) Kuala Lumpur High Court - Auspicious Journey Sdn Bhd vs Ebony Ritz Sdn Bhd

Auspicious Journey Sdn Bhd, a minority shareholder in Ebony Ritz Sdn Bhd ("**Ebony**"), had filed in the Malaysian High Court a suit against the Company, being the majority shareholder in Ebony, for conducting the affairs of Ebony in a manner that is oppressive to the Plaintiff. On 3 August 2016, the trial and hearing of the legal action have been concluded.

The Court issued an Order partially in favour of the Plaintiff and ordered:

- (a) A declaration that the Company has conducted the affairs of Ebony in a manner that is oppressive to the Plaintiff;
- (b) Ebony is to be wound up and the Official Receiver be appointed as the liquidator of Ebony;
- (c) the Company is to pay general damages with interest to the Plaintiff, to be assessed by the Court through an assessment process; and
- (d) the Company has to pay costs of RM300,000 (equivalent to S\$98,680) to the Plaintiff.

Both the Plaintiff and the Company appealed against the Order. The Appeals were heard on 21 November 2017 and 21 May 2018 in the Court of Appeal. Both Appeals were dismissed.

The Plaintiff filed an application for leave to appeal to the Federal Court against the dismissal of its appeal by the Court of Appeal. On 13 May 2019, the Federal Court made a decision to allow the Leave application in part, in particular only insofar as the Leave application relates to whether the directors of the Company can be attributed with the Company's liability in respect of its said oppression on Auspicious Journey. The said Federal Court Appeal was only heard in part on 21 January 2020 due to the Federal Court's time constraints. The Federal Court Appeal Hearing concluded on 04 August 2020. The Federal Court has not pronounced its decision nor has it provided with a date for its decision.

The assessment of damages proceeding in the High Court is fixed for case management on 30 November 2020 to update the Court on the outcome of the said Federal Court Appeal.

The Official Receiver of Ebony Ritz Sdn Bhd had previously filed an application for a private liquidator to be appointed to manage Ebony Ritz Sdn Bhd in place of the Official Receiver (the “**Private Liquidator Application**”). Before that Private Liquidator Application could be heard, Auspicious Journey had filed an Originating Summons to stay proceedings of the Private Liquidator Application pending the disposal of Auspicious Journey’s said to appeal to the Federal Court (“**Auspicious Journey’s Stay OS**”). A Case Management for this Private Liquidator Application has been adjourned to 15 January 2021 at the High Court.

The High Court had allowed Auspicious Journey’s Stay OS, which has the effect of staying the Private Liquidator Application pending the disposal of Auspicious Journey’s appeal to the Federal Court.

The Company filed an appeal against the said High Court order allowing Auspicious Journey’s Stay OS. The appeal has since been withdrawn with no order as to costs.

While the Court has issued an order in favour of the minority shareholder, the amount of damages has not been assessed. As the proceedings for the assessment of damages are still at an early stage and cannot be estimated reliably, no provision has been made in the financial statements. The loan of \$3,600,000 payable to the minority shareholder which is included in current liabilities is also subject to the outcome of the aforementioned proceedings for the assessment of damages.

(B) Kuala Lumpur High Court – Tan Sri Halim bin Saad v Hoe Leong Corporation Limited & 5 Ors

On 9 September 2019, the Company received a writ dated 20 June 2019 from Tan Sri Halim bin Saad claiming for, misrepresentation, fraud, and/or conspiracy alleged to have been committed by the Company and other defendants against Tan Sri Halim bin Saad.

The Company has engaged solicitors to enter its appearance in the civil suit and to defend against the same. The Company has filed its defence against the said civil suit on 4 November 2019. On 16 December 2019, the Company filed an application to strike out the said civil suit filed by Tan Sri Halim bin Saad. The hearing of the striking out application is fixed on 20 November 2020.

9 Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

Not applicable. No forecast or prospect statement had been previously disclosed to shareholders.

10 Commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

3Q 2020 and 9M 2020 were marked by weak business and trade sentiments given the current impact of global & regional economic duress arising from disruptions caused by the onset of COVID-19 since February 2020. This shall continue to persist and will cast uncertainty over the market outlook and business prospects of the Group’s equipment segment. The Group continues to pursue cost management measures and will also explore additional means to shore up liquidity as necessary.

Although the Group’s production facilities in China and South Korea had resumed production, the Group remains adversely affected by falling demand of track chains globally, and the Group is seeing some supply chain issues especially with respect to the procurement of raw materials. The Company is actively taking steps to streamline its cost structure with a view to improve the profitability of this business.

Entry into Binding Term Sheet

On 14 September 2020, the Company entered into a binding term sheet (the “Term Sheet”) with Shing Heng Holding Pte Ltd (the “Investor”) for the Proposed Transactions (as defined in the Company’s SGXNET announcement dated 14 September 2020).

The Company had granted the Investor an exclusive right for a period of six (6) weeks from 14 September 2020 (the “Exclusivity Period”) to negotiate the terms for the definitive agreements relating to the Proposed Transactions.

On 26 October 2020, the Exclusivity Period under the Term Sheet has been extended to 1 December 2020 or such other date as mutually agreed between the Company and the Investor.

Please refer to the Company’s SGXNET announcements dated 14 September 2020 and 26 October 2020.

Extension of Time to Submit Resumption Proposal

On 2 September 2019, pursuant to Rule 1303(3) of the Listing Manual of Singapore Exchange Securities Trading Limited (the “SGX-ST”), the Company requested for a voluntary suspension of trading of its shares with immediate effect. Pursuant to Rule 1304(1) of the Listing Manual of the SGX-ST, the Company is to submit a proposal to resume trading in its securities (the “Resumption Proposal”) within 12 months of the date of suspension.

On 4 September 2020, the Company submitted an application to the SGX-ST for the extension of time of three (3) months to 2 December 2020 to submit its Resumption Proposal (the “Waiver”) as the Company required more time to consider potential investment proposals, finalise discussions with the potential investor, negotiate and enter into transaction documents for the investment by the potential investor.

On 15 September 2020, the Company received a no objection letter from the SGX-ST in relation to the Company’s application for the Waiver.

The Company will make further announcements to update its shareholders when there are material updates as may be necessary or appropriate.

11 Dividend

(a) Dividend declared for the current financial period

No dividend has been declared for 3Q 2020.

(b) Dividend declared for the previous corresponding period of the immediately preceding financial year

No dividend was declared for 3Q 2019.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

(e) Record date - Date on which registrable transfers received by the Company (up to 5.00 pm) will be registered before entitlements to the dividend are determined

Not applicable.

12 If no dividend has been declared/ recommended, a statement to that effect and the reason(s) for the decision

No dividend has been declared/ recommended for 3Q 2020 in view of the Group's accumulated losses.

13 If the group has obtained a general mandate from shareholders for Interested Person Transactions ("IPTs"), the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

Name of interested person and nature of transactions	Nature of relationship	Aggregate value of all IPTs during 9M 2020 (excluding transactions less than S\$100,000)	
		Excluding IPTs conducted under shareholders' mandate pursuant to Rule 920 of the Listing Manual of the SGX-ST S\$'000	Conducted under shareholders' mandate pursuant to Rule 920 of the Listing Manual of the SGX-ST S\$'000
Hoe Leong Plastic Industry (China) Co., Ltd: Rental expense	Associate of controlling shareholder	233	-

No IPT mandate has been obtained by the Company.

14 Negative confirmation pursuant to Rule 705(5) of the Listing Manual

The Board confirm that, to the best of their knowledge, nothing has come to the attention of the Board which may render the interim financial statements for 3Q 2020 and 9M 2020 to be false or misleading in any material aspect.

15 Confirmation that the issuer has procured the undertakings from all its directors and executive officers in the format set out in Appendix 7.7 under Rule 720(1)

The Company confirms that it has procured undertakings from all its directors and executive officers in the format set out in Appendix 7.7 under Rule 720(1) of the Listing Manual of the SGX-ST.

BY ORDER OF THE BOARD

Liew Yoke Pheng Joseph
Executive Chairman and CEO

11 November 2020