HENGYANG PETROCHEMICAL LOGISTICS LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 200807923K)
(the "**Company**", and together with its subsidiaries, the "**Group**")

EMPHASIS OF MATTER IN THE AUDITOR'S REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

Pursuant to Rule 704(4) of Section B of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual ("**Catalist Rules**"), the board of directors (the "**Board**") of the Company wishes to announce that the Company's independent auditor, BDO LLP, has reported an emphasis of matter in respect of contingent liabilities in relation to the Group's audited financial statements for the financial year ended 31 December 2020 (the "**Audited Financial Statements**"). The auditor's opinion is not modified.

A copy of the Independent Auditor's Report and an extract of Note 4 and Note 24 to the Audited Financial Statements are attached to this announcement as Appendix for information.

The Board confirms that all material disclosures have been provided for trading of the Company's shares to continue.

Shareholders of the Company are advised to read the Audited Financial Statements contained in the Company's annual report for the financial year ended 31 December 2020 which will be released on the SGXNET in due course.

By Order of the Board

Mr Gu Wen Long
Executive Chairman and Chief Executive Officer
12 April 2021

This announcement has been reviewed by the Company's Sponsor, CIMB Bank Berhad, Singapore Branch ("Sponsor") in accordance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Manual Section B: Rules of Catalist. This announcement has not been examined or approved by 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. The contact person for the Sponsor is Ms Tan Cher Ting, Director, Investment Banking, CIMB Bank Berhad, Singapore Branch at 50 Raffles Place, #09-01 Singapore Land Tower, Singapore 048623, Telephone: (65) 6337 5115.

INDEPENDENT AUDITOR'S REPORT

To the Members of Hengyang Petrochemical Logistics Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hengyang Petrochemical Logistics Limited (the "Company") and its subsidiaries (the "Group") as set out in pages 59 to 96 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 comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows of the Group for the financial year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

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 its consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial 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 *Auditor's 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 ("ACRA") 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.

Emphasis of Matter

We draw attention to Note 24 to the financial statements, which states that the Group and its joint venture partner provide guarantees to certain lenders for the borrowings of its joint venture, whose current liabilities exceeded its current assets by RMB994,058,000 as at 31 December 2020. 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.

Impairment assessment of Investment in a Joint Venture

As at 31 December 2020, the Group's carrying amount of investment in a joint venture was approximately RMB533,422,000 which comprised 92% of the total assets of the Group. There are indications of impairment as certain subsidiaries of Jiangyin Foreversun Chemical Logistics Co., Ltd. have been incurring losses for the prior and current financial years.

For the purpose of impairment testing, management has determined the recoverable amount using the value-in-use ("VIU") method. The VIU calculations require the Group to estimate the future cash flows using suitable revenue growth rates, earnings before interest and tax ("EBIT") margins and discount rate in order to calculate the present value of the cash-generating unit.

We focused on this area as a key audit matter owing to the significant judgement and key assumptions applied by management in the determination of the recoverable amount of investment in a joint venture.

Related Disclosures

Refer to Notes 3.2 and 7 to the financial statements for the disclosures in relation to impairment assessment of investment in a joint venture.

Audit Response

Our procedures included, amongst others:

- We evaluated management's impairment assessment, their basis for recoverable amount and key assumptions used in the VIU calculations approved by Board of Directors;
- We compared underlying data used in the VIU calculations against historical actual performance for reasonableness;
- We engaged our internal valuation specialist to evaluate the appropriateness of the VIU calculation model and reasonableness of the discount rate used by management;
- We performed sensitivity analysis on the key assumptions used in management's computation; and
- We assessed the adequacy of the related disclosures in the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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.

Auditor's 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 auditor's 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 control.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Obtain an understanding of internal control 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 control.

- 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 auditor's 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 auditor's 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 control 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 to 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 auditor's report unless law or regulation precludes 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 the subsidiary corporation 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 auditor's report is Ng Kian Hui.

BDO LLP
Public Accountants and
Chartered Accountants

Singapore
12 April 2021

Extracted from Note 4 and Note 24 to the Audited Financial Statements of Hengyang Petrochemical Logistics Limited and its subsidiaries for the financial year ended 31 December 2020

4. Going concern

During the current financial year, the Group incurred loss after tax of RMB2,735,000 and the Company's current liabilities exceeded its current asset by RMB12,108,000 as at 31 December 2020. Furthermore, the Group and its joint venture partner provide guarantees to certain lenders for the borrowings of its joint venture, Jiangyin Foreversun and its subsidiaries (the "Jiangyin Group"). The details of the guarantees are set out in Note 24 to the financial statements. The directors are of the view that there is no material uncertainty that may cast a significant doubt on the Group's and the Company's ability to continue as a going concern.

24. Contingent liabilities

The Group and its joint venture partners had given guarantees amounting up to RMB890,026,500 (2019: RMB890,026,500) to certain lenders in respect of borrowings of the joint venture, Jiangyin Group.

At 31 December 2020, the total amount of borrowings covered by the guarantees is RMB675,138,000 (2019: RMB547,556,400). Such financial guarantees require the Group to reimburse the lenders if Jiangyin Group fails to make principal or interest repayments when due in accordance with the terms of the respective borrowings. As at 31 December 2020, the current liabilities of the Jiangyin Group exceeded its current assets by RMB994,058,000. The Jiangyin Group has RMB1,004,600,000 of borrowings which are due for repayment within the next 12 months from the reporting date, of which RMB512,346,000 were guaranteed by the Group.

There was no default or non-repayment since the inception of these borrowings. The Directors are confident that the outcome of negotiations with the lenders to refinance the borrowings will be favourable and will be completed before these borrowings become due for repayment. Furthermore, Jiangyin Group's borrowings are secured over mortgages against fixed assets of Jiangyin Group. As at 31 December 2020, the carrying amount of Jiangyin Group's fixed assets are substantially larger than the carrying amount of the outstanding borrowings. Based on Group's consideration and assessment, the Group does not expect significant credit losses arising from these guarantees.