HOE LEONG CORPORATION LTD.
(the "**Company**")
(Company registration number 199408433W)
(Incorporated in the Republic of Singapore)

INDEPENDENT AUDITORS REPORT ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

In compliance with Rule 704(5) of the Listing Manual, the Board of Directors of Hoe Leong Corporation Limited (the "**Company",** and together with its subsidiaries, the **"Group**") hereby announce that its independent auditors, KPMG LLP (the "**Auditors**"), have included a disclaimer of opinion with respect to the use of the going concern basis of accounting in their report (the "Independent Auditor's Report") on the financial statements of the Group for the financial year ended 31 December 2019 (the "**Financial Statements**").

A copy of the Independent Auditors' Report and Note 2 to the financial statement are attached to this announcement as "Appendix I & II".

BY ORDER OF THE BOARD

Liew Yoke Pheng, Joseph
Chairman and Chief Executive Officer
15 April 2020

APPENDIX I

INDEPENDENT AUDITORS REPORT

Report on the audit of the financial statements

Disclaimer of Opinion

We were engaged to audit 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 2019, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the ‘Basis for disclaimer of opinion’ section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

(i) Going concern

a) As disclosed in note 2 to the financial statements, the Group has incurred a net loss of $16,881,000 for the year ended 31 December 2019 and, as of that date, the Group’s current liabilities exceeded its current assets by $3,952,000. Included in the current liabilities are loans and borrowings of $7,528,000 that were reclassified from non-current liabilities as a result of defaults and breaches of certain loan covenants as at 31 December 2019.

During the year, a subsidiary received a letter of statutory demand for repayment of a secured bank loan of $5,630,000 within 21 days from the receipt of the letter. Given the circumstances, while no other letters of statutory demand have been received to date, we are unable to ascertain that such letters will not be received within the next twelve months for bank loans and borrowings of $19,571,000 included in current liabilities.

b) As disclosed in note 2 to the financial statements, the Group’s positive cash flow forecast for the next 12 months is dependent on (i) the design and manufacture, and trading and distribution segments’ ability to generate adequate cash flows to meet its debt obligations as and when they fall due in a challenging economic environment made even more challenging by the COVID-19 pandemic; (ii) the successful outcome of the divestment plan for the Group's vessels; (iii) the conversion by the lenders of outstanding (or "unpaid") vessel-related bank loans into equity after the disposal of the vessels in question; and (iv) the continuing availability of bank facilities from the Group’s lenders.

Although the Group is in negotiations with various parties to realise the above assumptions, we have not been able to obtain sufficient documentary evidence to satisfy ourselves that any of these assumptions will indeed be realised.

(ii) Litigations and claims

The Group was involved in several on-going litigations and claims. Total claims made against the Group to date amounted to $496,000. Accruals relating to legal and related expenses as at 31 December 2019 amounted to $323,000. We have not been able to obtain sufficient documentary evidence to satisfy ourselves that such provisions for litigations and claims are adequate.

It is the intention of the Group to continue to operate as a going concern. However, due to the above matters, there is significant doubt on the Group's and the Company's ability to continue as a going concern.

The existence of the above multiple uncertainties cast doubt over the Group's and the Company's ability to continue as a going concern and are significant to the financial statements as a whole. The financial statements do not include any adjustments that may be necessary as a result of these uncertainties or if the going concern assumption is inappropriate.

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 Companies Act, Chapter 50 ('the Act') and Singapore Financial Reporting Standards (International) ('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 responsibility is to conduct an audit of the Company's financial statements in accordance with Singapore Standards on Auditing and to issue an auditors' report. However, because of the matters described in the 'Basis for disclaimer of opinion' section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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.

Report on other legal and regulatory requirements

In our opinion, because of the significance of the matters described in the 'Basis for Disclaimer of Opinion' section of our report, we do not express an opinion on whether 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
15 April 2020

APPENDIX II

NOTE 2 TO THE FINANCIAL STATEMENT

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations as and when they fall due.

The Group incurred a net loss of $16,881,000 for the year ended 31 December 2019, and as of that date, the Group's current liabilities are in excess of its current assets by $3,952,000. As at 31 December 2019, the Group had 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 $7,528,000 have been reclassified from non-current liabilities to current liabilities.

The Group had received statutory demands and judicial management application from United Overseas Bank ("UOB") in respect of loans owed by companies in the Group. Following certain changes to the Board members of Hoe Leong Corporation Ltd. (the "Company"), on 5 November 2019, the judicial management application and statutory demands against the Company, and Notice of Event of Default against Hoe Leong Crawler Parts Pte Ltd. ("HLCP"), were withdrawn. As at the date of the financial statements, the letter of statutory demand from UOB to Arkstar Voyager Pte. Ltd. ("AVPL") for repayment of bank loan of $5,630,000 has not been withdrawn. In these circumstances, loans and borrowings included in current liabilities amounting to $19,571,000 could be called for repayment upon notification by the other lenders, although the other lenders have not issued any letter of statutory demand for repayment as at the date of this financial statement.

The Group was involved in several on-going litigations and claims, and accruals relating to legal and related expenses of $323,000 was made as at 31 December 2019. Total claims made against the Group to date amounted to $496,000.

The financial statements for the year ended 31 December 2019 are prepared on a going concern basis, the validity of which is premised on the sufficiency of cash flows to be generated from (i) the Group's operating activities, and (ii) divestment plans, and (iii) the outcome of the various on- going litigations and claims.

(i) Operating activities

On 1 November 2019, the Group has appointed RSM Corporate Advisory Pte Ltd ("RSM") to assist the Group in its strategic review of the Group's existing businesses and in the formulation of plans to improve the financial position and/or performance of the Group.

The Group continues to make improvements to reduce the operating costs of machinery parts segments (consist of both design and manufacture, and trading and distribution segments, collectively known as "Equipment Segment"). Cost cutting measures undertaken include terminating the leases of under-utilised office or warehouse space, sale of slow-moving or obsolete stocks, and re-organisation of manpower to reduce headcount costs.

Other than cost-cutting measures, the Group also plans to dispose under-performing assets and evaluate other alternatives to improve production capabilities, such as outsourcing all or part of the production manufacturing process.

The Group is also expecting that credit facilities will continue to be made available to the Group for its Equipment Segment.

Notwithstanding the above plans put in place, management acknowledges that there remains uncertainty over the ability of the Group to generate the necessary cash flows to meet its debt obligations due to the high level of uncertainty to the near-term global economic prospects and disruptions to businesses due to the spread of COVID-19 pandemic.

(ii) Divestment plan

Due to the continued downturn in the oil and gas exploration and production sector, the Group's vessel chartering segment is experiencing low charter rates for its vessels and certain vessels have not been chartered for extended periods. As a result, the Group's vessel chartering segment recorded losses as at 31 December 2019 and is likely to continue to record losses in the near future. Customers of the Group's vessel chartering segment are also delaying payment of the chartering fees, which has had an adverse impact on the cash flows of this segment.

As such, the Group has embarked on a plan to divest its vessel chartering segment through sale of vessels, which are substantially in the process of completion, and to refocus on its Equipment Segment to improve profitability and cash flow management. The proceeds from the sale will be used to reduce the Group's loans and borrowings including interest costs going forward. Any shortfall owing to the financial institutions will be crystallised and settled via the issuance of shares in the Company or by cash repayment, as agreed in the Scheme of Arrangement approved by the High Court of Singapore on 22 January 2018 and approved by shareholders at an extraordinary general meeting held on 27 April 2018. Although the final agreement by the financial institutions and the conversion of the remaining debt to equity are still subject to its due legal process, RSM has been in communication with and continues to engage the financial institutions regarding the conversion of the remaining debt to equity. The Company's shares are currently still under suspension and the actual conversion of debt to the Company's shares is still subject to the lifting of the trading halt. The Group is also in negotiations with the respective banks to obtain waivers for the breaches of the covenants.

The sale of the vessels are still ongoing at the date of this financial statements and the outcome of the above divestment plan remains uncertain.

(iii) Litigations and claims

The Group was involved in several on-going litigations and claims as disclosed in Note 25. Total claims made against the Group amounted to $496,000. There are uncertainties as to the possible outcome of these on-going litigations and claims as proceedings for most cases are still in an early stage and cannot be estimated reliably.

The divestment plans, together with the operating activities as described above, is expected to allow the Group to meet its current obligations as and when they fall due. Further, the proceedings for most on-going litigations and claims are still in an early stage and the possible cash flows arising within the next twelve months remains uncertain. As such, the Group believes that the continuing use of the going concern assumption in the preparation of the financial statements is appropriate.

However, the above-mentioned conditions in (i), (ii) and (iii) indicate the existence of multiple uncertainties which may cast significant doubt on the Group's 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.