



HOE LEONG CORPORATION LTD.

(Registration No. 199408433W)

Second quarter financial statements and related announcement for the financial period ended 30 June 2020

The Board of Directors of Hoe Leong Corporation Ltd. (the “Company”) is pleased to announce the consolidated results for the financial period ended 30 June 2020. The figures presented below have not been audited or reviewed by the auditors of the Company.

UNAUDITED FINANCIAL STATEMENTS

1(a)(i) Statement of comprehensive income (the Group)

	Note	Second Quarter			Half Year		
		1 Apr 2020 to 30 Jun 2020	1 Apr 2019 to 30 Jun 2019	Increase / (decrease)	1 Jan 2020 to 30 Jun 2020	1 Jan 2019 to 30 Jun 2019	Increase / (decrease)
		\$'000	\$'000	%	\$'000	\$'000	%
Revenue		10,530	15,324	(31.3)%	21,140	32,538	(35.0)%
Cost of sales		(8,613)	(12,306)	(30.0)%	(17,703)	(26,258)	(32.6)%
Gross profit		1,917	3,018	(36.5)%	3,437	6,280	(45.3)%
Other income		1,237	78	N.M.	1,436	154	N.M.
Distribution expenses		(745)	(1,002)	(25.6)%	(1,535)	(1,922)	(20.1)%
Administrative expenses		(1,132)	(1,520)	(25.5)%	(2,750)	(3,160)	(13.0)%
Other expenses		(1,039)	(596)	74.3 %	(121)	(1,748)	(93.1)%
Results from operating activities		238	(22)	N.M.	467	(396)	N.M.
Finance costs	1	(217)	(244)	(11.1)%	(556)	(526)	5.7 %
Profit/(loss) before income tax	2	21	(266)	N.M.	(89)	(922)	(90.3)%
Income tax expense		(107)	(35)	N.M.	(43)	(138)	(68.8)%
Loss for the year		(86)	(301)	(71.4)%	(132)	(1,060)	(87.5)%
Loss attributable to:							
Owners of the Company		(86)	(301)	(71.4)%	(132)	(1,060)	N.M.
Loss for the period		(86)	(301)	(71.4)%	(132)	(1,060)	N.M.

N.M. - Not meaningful

1(a)(i) Statement of comprehensive income (the Group)

	Second Quarter			Half Year		
	1 Apr 2020 to 30 Jun 2020	1 Apr 2019 to 30 Jun 2019	Increase / (decrease)	1 Jan 2020 to 30 Jun 2020	1 Jan 2019 to 30 Jun 2019	Increase / (decrease)
	<u>\$'000</u>	<u>\$'000</u>	<u>%</u>	<u>\$'000</u>	<u>\$'000</u>	<u>%</u>
Loss for the period	(86)	(301)	N.M	(132)	(1,060)	N.M
Other comprehensive income						
Foreign currency translation differences arising from foreign operations	968	211	N.M	709	(71)	N.M
Other comprehensive income/(loss), net of tax	968	211	N.M	709	(71)	N.M
Total comprehensive income/(loss) for the period	882	(90)	N.M	577	(1,131)	N.M
Total comprehensive income /(loss) attributable to:						
Owners of the Company	882	(133)	N.M	577	(1,152)	N.M
Non-controlling interests	-	43	N.M	-	21	N.M
Total comprehensive income/(loss) for the period	882	(90)	N.M	577	(1,131)	N.M

1(a)(ii) Breakdown and explanatory notes to the statement of comprehensive income

Note 1

	Second Quarter			Half Year		
	1 Apr 2020 to 30 Jun 2020	1 Apr 2019 to 30 Jun 2019	Increase / (decrease)	1 Jan 2020 to 30 Jun 2020	1 Jan 2019 to 30 Jun 2019	Increase / (decrease)
	<u>\$'000</u>	<u>\$'000</u>	<u>%</u>	<u>\$'000</u>	<u>\$'000</u>	<u>%</u>
Finance costs:						
Interest paid and payable on:-						
- Loans and borrowings	(184)	(237)	(22.4)%	(504)	(511)	(1.4)%
- Finance leases	(33)	(7)	N.M	(52)	(15)	N.M
Total	(217)	(244)		(556)	(526)	

Note 2 Profit/(loss) before income tax is stated after (charging) / crediting the following:

	Second Quarter			Half Year		
	1 Apr 2020 to 30 Jun 2020	1 Apr 2019 to 30 Jun 2019	Increase / (decrease)	1 Jan 2020 to 30 Jun 2020	1 Jan 2019 to 30 Jun 2019	Increase / (decrease)
	\$'000	\$'000	%	\$'000	\$'000	%
Allowance written back for slow-moving inventories, included in other expenses	84	333	(74.8)%	813	445	82.7 %
Allowance for doubtful debt written back, included in other expenses	87	-	N.M.	101	-	N.M.
Bad debts written off, included in other expenses	(19)	-	N.M.	(24)	-	N.M.
Gain on disposal of property, plant and equipment, net, included in other income	798	-	N.M.	939	-	N.M.
Depreciation of property, plant and equipment and right of use assets, net, included in other expenses	(506)	(794)	(36.3)%	(1,006)	(1,508)	(33.3)%
Foreign exchange (loss)/gain, net, included in other expenses	(641)	(198)	N.M.	221	(609)	N.M.
Expenses relating to short-term leases, included in other expenses	(54)	(255)	(78.8)%	(167)	(555)	(69.9)%
Rental income, included in other Income	11	21	(47.6)%	35	37	(5.4)%

1(b)(i) Statement of financial position (the Group and the Company)

	Group		Company	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	\$'000	\$'000	\$'000	\$'000
Assets				
Property, plant and equipment	11,154	12,016	3,418	3,846
Investments in subsidiaries	-	-	10,298	10,298
Deferred tax assets	689	701	-	-
Non-current assets	11,843	12,717	13,716	14,144
Inventories	17,374	18,993	-	-
Trade and other receivables	10,802	11,542	3,164	3,046
Cash and cash equivalents	2,287	2,499	108	73
	30,463	33,034	3,272	3,119
Assets held for sale	629	6,909	-	-
Current assets	31,092	39,943	3,272	3,119
Total assets	42,935	52,660	16,988	17,263
Equity				
Share capital	114,461	114,461	114,461	114,461
Treasury shares	(55)	(55)	(55)	(55)
Currency translation reserve	(170)	(879)	-	-
Accumulated losses	(106,520)	(106,388)	(107,267)	(106,988)
Equity attributable to owners of the Company	7,716	7,139	7,139	7,418
Total equity	7,716	7,139	7,139	7,418
Liabilities				
Loans and borrowings	1,151	1,588	749	1,189
Deferred tax liabilities	38	38	19	19
Non-current liabilities	1,189	1,626	768	1,208
Trade and other payables	14,745	14,341	4,684	4,312
Loans and borrowings	15,668	25,922	809	737
Loans from non-controlling shareholders of subsidiaries	3,588	3,588	3,588	3,588
Current tax payable	29	44	-	-
Current liabilities	34,030	43,895	9,081	8,637
Total liabilities	35,219	45,521	9,849	9,845
Total equity and liabilities	42,935	52,660	16,988	17,263

1(b)(ii) Aggregate amount of group's borrowings and debt securities

Non-current

As at 30 Jun 2020		As at 31 Dec 2019		As at 30 Jun 2020	As at 31 Dec 2019
Secured	Unsecured	Secured	Unsecured	Non-current	Non-current
<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
345	806	399	1,189	1,151	1,588

Current

As at 30 Jun 2020		As at 31 Dec 2019		As at 30 Jun 2020	As at 31 Dec 2019
Secured	Unsecured	Secured	Unsecured	Current	Current
<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
8,228	7,440	19,475	6,447	15,668	25,922

Total

As at 30 Jun 2020		As at 31 Dec 2019		As at 30 Jun 2020	As at 31 Dec 2019
Secured	Unsecured	Secured	Unsecured	Total	Total
<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
8,573	8,246	19,874	7,636	16,819	27,510

Loan and borrowings as at 30 June 2020 is S\$16,819,000 (31 December 2019: S\$27,510,000) which includes lease liabilities of S\$1,925,000 (31 December 2019: S\$2,326,000).

Details of any collateral:-

- (a) Legal mortgages over vessels, freehold land and buildings and certain plant and equipment;
- (b) Personal guarantees provided by the subsidiary's directors for certain banking facilities; and
- (c) Corporate guarantees provided by the Company.

As at 30 June 2020, 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 S\$7,180,000 (31 Dec 2019: S\$7,528,000) have been reclassified from non-current liabilities to current liabilities.

1(c) Statement of cash flows (the Group)

	Group		Group	
	Second Quarter		Half Year	
	1 Apr 2020 to 30 Jun 2020	1 Apr 2019 to 30 Jun 2019	1 Jan 2020 to 30 Jun 2020	1 Jan 2019 to 30 Jun 2019
	\$'000	\$'000	\$'000	\$'000
Operating activities				
Profit/(loss) before income tax	21	(266)	(89)	(922)
Adjustments for:				
Depreciation of property, plant and equipment	506	794	1,006	1,508
Finance costs	217	244	556	526
Gain on disposal of property, plant and equipment, net	(798)	-	(939)	-
Write-back of slow moving inventories	(84)	(333)	(813)	(445)
Write-back of allowance of doubtful debt	(68)	-	(77)	-
	(206)	439	(356)	667
Change in working capital:				
Inventories	(72)	583	2,332	867
Trade and other receivables	4	59	917	901
Trade and other payables	1,248	1,569	466	(185)
Cash flows from operations	974	2,650	3,359	2,250
Income taxes paid	(17)	-	(50)	-
Cash flows from operating activities	957	2,650	3,309	2,250
Investing activities				
Purchase of property, plant and equipment	(107)	(1,229)	(228)	(1,722)
Proceeds from disposal of property, plant and equipment	5,151	-	7,510	-
Net cash outflow on deconsolidation of subsidiary	-	-	-	(5)
Cash flows from/(used in) investing activities	5,044	(1,229)	7,282	(1,727)
Financing activities				
Finance costs paid	(105)	(187)	(244)	(469)
Proceeds from bills payable and trust receipts	824	-	979	-
Repayment of bills payable and trust receipts	(498)	(841)	(1,965)	(552)
Payment of lease liabilities	(279)	(84)	(463)	(126)
Proceeds from interest-bearing borrowings	-	-	-	1,225
Repayment of interest-bearing borrowings	(5,471)	(840)	(9,286)	(2,274)
Cash flows used in financing activities	(5,529)	(1,952)	(10,979)	(2,196)
Net increase/(decrease) in cash and cash equivalents	472	(531)	(388)	(1,673)
Cash and cash equivalents at beginning of the period	1,441	2,125	2,499	3,264
Effect of exchange rates fluctuations	374	(38)	176	(35)
Cash and cash equivalents at end of the period	2,287	1,556	2,287	1,556

1(d)(i) Statement of changes in equity (the Group and the Company)

	Share capital \$'000	Treasury shares \$'000	Currency translation reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Group					
2020					
At 1 January 2020	114,461	(55)	(879)	(106,388)	7,139
Total comprehensive income for the period					
Loss for the period	-	-	-	(46)	(46)
Foreign currency translation differences arising from foreign operations	-	-	(259)	-	(259)
Total comprehensive income for the period	-	-	(259)	(46)	(305)
At 31 March 2020	114,461	(55)	(1,138)	(106,434)	6,834
Total comprehensive income for the period					
Loss for the period	-	-	-	(86)	(86)
Foreign currency translation differences arising from foreign operations	-	-	968	-	968
Total comprehensive income for the period	-	-	968	(86)	882
At 30 June 2020	114,461	(55)	(170)	(106,520)	7,716

	Share capital \$'000	Treasury shares \$'000	Currency translation reserve \$'000	Accumulative Losses \$'000	Equity attributable to owners of the Company \$'000	Non- controlling interests \$'000	Total equity \$'000
2019							
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 ^(NOTE 5)	-	-	-	(4)	(4)	-	(4)
At 1 January 2019 restated	114,461	(55)	(836)	(89,507)	24,063	(1,187)	22,876
Total comprehensive income for the period							
Loss for the period	-	-	-	(759)	(759)	-	(759)
Foreign currency translation differences arising from foreign operations	-	-	(260)	-	(260)	(22)	(282)
Total comprehensive income 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 income for the period							
Loss for the period	-	-	-	(301)	(301)	-	(301)
Foreign currency translation differences arising from foreign operations	-	-	168	-	168	43	211
Total comprehensive income for the period	-	-	168	(301)	(133)	43	(90)
At 30 June 2019	114,461	(55)	(928)	(90,567)	22,911	(1,166)	21,745

1(d)(i) Statement of changes in equity (the Group and the Company) (continued)

Company	Share capital \$'000	Treasury Shares \$'000	Accumulated losses \$'000	Total equity \$'000
2020				
At 1 January 2020	114,461	(55)	(106,988)	7,418
Total comprehensive income for the period				
Profit for the period	-	-	18	18
Total comprehensive income for the period	-	-	18	18
At 31 March 2020	<u>114,461</u>	<u>(55)</u>	<u>(106,970)</u>	<u>7,436</u>
Total comprehensive income for the period				
Loss for the period	-	-	(297)	(297)
Total comprehensive income for the period	-	-	(297)	(297)
At 30 June 2020	<u>114,461</u>	<u>(55)</u>	<u>(107,267)</u>	<u>7,139</u>
2019				
At 1 January 2019	114,461	(55)	(98,816)	15,590
Total comprehensive income for the period				
Loss for the period	-	-	(270)	(270)
Total comprehensive income for the period	-	-	(270)	(270)
At 31 March 2019	<u>114,461</u>	<u>(55)</u>	<u>(99,086)</u>	<u>15,320</u>
Total comprehensive income for the period				
Loss for the period	-	-	(212)	(212)
Total comprehensive income for the period	-	-	(212)	(212)
At 30 June 2019	<u>114,461</u>	<u>(55)</u>	<u>(99,298)</u>	<u>15,108</u>

- 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. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares 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**

Share Capital

There was no change in the Company's share capital during the financial period.

Share Options

There were no outstanding options as of 30 June 2020 and as of 31 December 2019.

Treasury shares

Treasury shares held as at 30 June 2020 is 470,000 shares (31 December 2019: 470,000 shares).

There were no transactions relating to sale, transfer, disposal, cancellation and/or use of treasury shares during the period ended 30 June 2020.

- 1(d)(iii) To show the 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.**

Number of Issued shares

	30-Jun-20	31-Dec-19
Issued and paid-up shares	5,619,902,579	5,619,902,579
Total number of shares held as treasury	(470,000)	(470,000)
Issued and paid-up shares net of treasury shares	5,619,432,579	5,619,432,579

- 1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Please refer to note 1 (d) (ii).

- 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 auditors of the Company.

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 have issued a disclaimer opinion on page 28 of the Company's annual report for the financial year ended 31 December 2019 due to multiple uncertainties cast doubt over the Group's and Company's ability to continue as a going concern. 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. In addition, the Company has been actively working to divest its non-core assets.

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

The Board confirms 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

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as compared with the Group's audited financial statements 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 2019 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 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			
	Second Quarter		Half Year	
	1 Apr 2020 to 30 Jun 2020	1 Apr 2019 to 30 Jun 2019	1 Jan 2020 to 30 Jun 2020	1 Jan 2019 to 30 Jun 2019
Loss per share of the Group:				
(a) Loss attributable to owners of the Company (S\$'000)	(86)	(301)	(132)	(1,060)
Weighted average number of ordinary shares ('000)	5,619,433	5,619,433	5,619,433	5,619,433
Basic loss per share (cents)	(0.00)	(0.01)	(0.00)	(0.02)
(b) Loss attributable to owners of the Company (S\$'000)	(86)	(301)	(132)	(1,060)
Adjusted weighted average number of ordinary shares ('000)	5,619,433	5,619,433	5,619,433	5,619,433
Diluted loss per share (cents)	(0.00)	(0.01)	(0.00)	(0.02)

7 Net asset value (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 (a) current financial period reported on and (b) immediately preceding financial year

	Group		Company	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Net assets (S\$'000)	7,716	7,139	7,139	7,418
Number of ordinary shares ('000)	5,619,433	5,619,433	5,619,433	5,619,433
Net assets value per ordinary share (cents)	0.1	0.1	0.1	0.1

- 8 **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any 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 factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on**

Statement of Comprehensive Income

Results for 1H 2020:

The Group reported loss after tax of S\$0.1 million for six months ended 30 June 2020 ("1H 2020") as compared to loss after tax of S\$1.1 million for the period ended 30 June 2019 ("1H 2019") due to the following factors:

Total revenue decreased by S\$11.4 million, or 35%, to S\$21.1 million in 1H 2020 as compared to S\$32.5 million in 1H 2019. The decrease in total revenue was due to decrease in revenue from both the Group's Equipment segment of S\$7.3 million and the Group's Vessel Chartering segment of S\$4.1 million.

Sales revenue from the Equipment segment decreased by S\$7.3 million, or 25.9%, to S\$20.8 million in 1H 2020 as compared to S\$28.1 million in 1H 2019 mainly due to uncertainty caused by the trade war, slowdown in global economic conditions, and lockdown of manufacturing facilities due to Covid-19.

Charter revenue from the Vessel Chartering segment decreased by S\$4.1 million, or 93.0%, to S\$0.3 million in 1H 2020 as compared to S\$4.4 million in 1H 2019 as the Group now has a smaller fleet. Revenue from charter hire contracts which are experiencing collection issues has also been de-recognised in the Group's financial statements. Three vessels were sold 1H 2020 in tandem with Group's corporate restructuring exercise.

Total cost of sales decreased by S\$8.6 million, or 32.6%, to S\$17.7 million in 1H 2020 as compared to S\$26.3 million in 1H 2019 mainly due to decrease in cost of sales of equipment parts by S\$5.2 million, or 23.1%, to S\$17.2 million and also decrease in vessel chartering cost of S\$3.4 million, or 86.8% to S\$0.5 million mainly due to the Group operating a much smaller fleet of vessels in 1H 2020.

Overall gross profit margin decreased to 16.3% in 1H 2020 as compared to 19.3% in 1H 2019. Gross profit for Equipment segment decreased by S\$2.1 million while Vessel Chartering segment suffered a gross loss of S\$0.2 million.

Other income increase by S\$1.3 million, to S\$1.4 million in 1H 2020 as we recorded government grants of S\$0.3 million from the job support payout from both Singapore and Australian governments, and gain on disposal of property, plant and equipment of S\$0.9 million, both in 1H 2020 but was absent in 1H 2019.

Distribution expenses decreased by S\$0.4 million, or 20.1%, to S\$1.5 million in 1H 2020 mainly due to a decrease in packing and delivery costs resulting from the decrease in sales of equipment parts. The travelling costs also experienced a decrease because of the travel restrictions due to Covid-19. There is a decrease in manpower costs due to a reduction in sales and warehouse personnel.

Administrative expenses decreased by S\$0.4 million, or 13.0%, to S\$2.7 million in 1H 2020 mainly due to a decrease in manpower costs of S\$0.9 million because of closing down of administration office of Vessel Chartering Segment and reduction of the headcount of Equipment segment. This has offset by an increase in legal and other professional fees of S\$0.5 million.

Other expenses decreased by S\$1.6 million, in 1H 2020 mainly due to reduction in rental payment of S\$0.4 million, an increase of obsolete stock sold of S\$0.4 million and foreign exchange gain of S\$0.2 million as compared to a foreign exchange loss of S\$0.6 million in 1H 2019.

Net finance costs were S\$0.6 million in 1H 2020 as compared to net finance costs of S\$0.5 million in 1H 2019. The increase in bank borrowing cost is due to an increase in leases interest from adoption to FRS 116.

Results for Q2 FY2020:

The Group reported loss after tax of S\$0.1 million for the period ended 30 June 2020 ("Q2 2020") as compared to loss after tax of S\$0.3 million for the period ended 30 June 2019 ("Q2 2019") due to the following factors:

Total revenue decreased by S\$4.8 million, or 31.3%, to S\$10.5 million in Q2 2020 as compared to S\$15.3 million in Q2 2019. The decrease in total revenue was due to decrease in revenue of S\$2.7 million from the Group's Equipment segment and S\$2.1 million from the Group's Vessel Chartering segment.

Sales revenue from the Equipment segment decreased by S\$2.7 million, or 20.4%, to S\$10.2 million in Q2 2020 as compared to S\$13.0 million in Q2 2019 mainly due to uncertainty caused by the trade war and slowdown in global economic conditions.

Charter revenue from the Vessel Chartering segment decreased by S\$2.1 million, or 92.1%, to S\$0.2 million in Q2 2020 as compared to S\$2.3 million in Q2 2019 as the Group now has a smaller fleet. Revenue from charter hire contracts which are experiencing collection issues has also been de-recognised in the Group's financial statements. On 7 August 2020, the Group entered into a conditional Memorandum of Agreement to dispose of its last remaining vessel.

Total cost of sales decreased by S\$3.7 million, or 30.0%, to S\$8.6 million in Q2 2020 as compared to S\$12.3 million in Q2 2019 mainly due to decrease in cost of sales of equipment parts by S\$1.8 million, or 17.8%, to S\$8.3 million and also decrease in vessel chartering cost of S\$2.2 million, or 84.9% to S\$0.3 million mainly due to the Group operating a much smaller fleet of vessels in Q2 2020.

Overall gross profit margin decreased to 18.2% in Q2 2020 as compared to 19.7% in Q2 2019. Gross profit for Equipment segment decreased by S\$0.9 million while Vessel Chartering segment suffered a gross loss of S\$0.2 million.

Other income increase by S\$1.1 million, to S\$1.2 million in Q2 2020 as it included government grants of jobs support scheme of S\$0.3 million and gain on disposal of property, plant and equipment of S\$0.8 million, both in Q2 2020 but was absent in Q2 2019.

Distribution expenses decreased by S\$0.3 million, or 25.6%, to S\$0.7 million in Q2 2020 mainly due to a decrease in packing and delivery costs resulting from the decrease in sales of equipment parts. The travelling costs also experienced a decrease because of the travel restrictions due to Covid-19. There is a decrease in manpower costs due to a reduction in sales and warehouse personnel.

Administrative expenses decreased by S\$0.4 million, or 25.5%, to S\$1.1 million in Q2 2020 as compared to S\$1.5 million in Q2 2019 mainly due to a decrease in manpower costs of S\$0.4 million, as the administration office of Vessel Chartering Segment was closed and reduction of the headcount of Equipment segment.

Other expenses increased by S\$0.4 million, or 74.3% to S\$1.0 million in Q2 2020 mainly due to reduction in rental payment of S\$0.2 million, decrease in obsolete stock sold of S\$0.2 million and higher foreign exchange loss of S\$0.6 million in Q2 2020 as compared to a foreign exchange loss of S\$0.2 million in Q2 2019.

Net finance costs were S\$0.2 million, in Q2 2020, a decrease of 11.1% as compared to net finance costs in Q2 2019. The decrease is mainly due to the repayment of bank loan in Vessel Chartering Segment resulting in the Group being less indebted and therefore attracting lower interest expense and it partially offset by an increase in lease interest due to the adoption of FRS 116.

Statement of Financial Position

The Group's Property, plant and equipment decreased by S\$0.8 million, or 6.7%, to S\$11.1 million as at 30 June 2020 mainly due to depreciation expenses of S\$0.5 million of tangible assets and S\$0.5 million of Right-of-use assets and offset by an additional fixed asset of S\$0.2 million.

Assets held for sales decreased by S\$6.3 million, or 90.1%, to S\$0.6 million as at 30 June 2020 mainly due to disposal of three vessels during 1H FY 2020.

Inventories decreased by S\$1.6 million, or 8.4%, to S\$17.4 million as at 30 June 2020 due to clearance of old inventories and decrease in purchases made.

Trade and other receivables decreased by S\$0.7 million, or 6.1%, to S\$10.8 million as at 30 June 2020 mainly due to decrease in sales of equipment parts in the Equipment Segment.

Trade and other payables increase by S\$0.4 million, or 2.8%, to S\$14.7 million as at 30 June 2020 mainly due to increase in trade payable of Vessel Chartering Segment.

Loans and borrowing decreased by S\$10.7 million, or 38.9% to S\$16.8 million as at 30 June 2020 mainly due to the Group utilized the net proceeds from the disposal of vessels to repaid bank borrowing in Vessel Chartering Segment.

Statement of Cash Flows

For 1H 2020, the Group reported cash inflows of S\$0.4 million, mainly comprising cash inflows from operating activities of S\$0.9 million and cash inflows from investing activities of S\$5.0 million offset by net cash outflow from financing activities of S\$5.5 million.

As at 30 June 2020, the Group's cash and cash equivalents amounted to S\$2.3 million (31 December 2019: S\$2.5 million).

Material Litigation

(A) Litigation with Sumatec Resources Bhd (“Sumatec”)

The Company and Ebony Ritz Sdn Bhd (“**Ebony**”, an 80%-owned subsidiary of the Company currently under liquidation, with the Official Receiver of Malaysia acting as liquidator) have, pursuant to mediation at the Singapore Mediation Centre on 19 March 2018, entered into a conditional Settlement Agreement with Sumatec and Mr Chan Yok Peng (“**Mr Chan**”) (“**Settlement Agreement**”) in relation to the full and final settlement of the following Litigation (as referred to below) by the completion of Sumatec’s corporate exercise which was expected no later than 30 October 2018 (“**Corporate Exercise Completion Date**”):

1. Singapore High Court Suit No. 534 of 2016;
 2. Singapore High Court Suit No. 808 of 2017; and
 3. Sumatec’s counterclaim in Suit No. WA-22NCC-52-02/2017 before the High Court of Malaya at Kuala Lumpur against the Company;
 4. Sumatec’s claim in Suit No. WA-22NCC-65-02/2019 before the High Court of Malaya at Kuala Lumpur against the Company;
- (collectively, the “**Litigation**”).

The Settlement Agreement is conditional upon the approval of the Official Receiver of Malaysia on behalf of Ebony, Sumatec’s Board of Directors and the Company’s Board of Directors (“**Approvals**”), to be provided by 3 May 2018 (“**Approval Date**”). The Approval Date was extended to 6 June 2018. On 6 June 2018, the Official Receiver did not approve the terms of the Settlement Agreement due to issues relating as to whether the Official Receiver could handle the issuance of the redeemable convertible preference shares (RCPS). The Settlement Agreement ceased to take effect and the legal suits were reinstated.

1. *Singapore High Court Suit No. 534 of 2016 (Ebony vs Sumatec)*

On 3 October 2018, the Court issued its Judgement that Sumatec shall pay Ebony the following sum in respect of the Guarantee Claim:

- (i) RM10,000,000;
- (ii) Re-judgment interest at the rate of 5.33% per annum on the judgement sum (ie RM10,000,000) from the date of accrual ranged from 31 March 2012 to 24 September 2012; and
- (iii) costs in the sum of S\$40,000

On 22 February 2019, the Singapore Court of Appeal dismissed Sumatec’s appeal against the above judgment with costs of S\$20,000.

Premised on the Singapore High Court and Court of Appeal judgments, it is calculated that hitherto, Sumatec is to pay the Company RM47,832,599 and S\$106,100 plus post-judgment interest.

This contingent asset has not been recognised as realisation is uncertain.

2. *Singapore High Court Suit No. 808 of 2017 (the Company vs (1) Sumatec (2) Mr Chan)*

The Company commenced the suit on 31 August 2017 before the Singapore High Court against Sumatec and Mr Chan for (among others) damages for conspiracy and causing loss by unlawful means to the Company in relation to their refusal and/or failure to extend funds to the Semua Group in breach of the Shareholders’ Agreement dated 5 May 2010 entered into between Sumatec, Ebony and SISB.

By an Order of Court dated 7 December 2018, the Company was granted leave to discontinue Suit 808 against Mr Chan on the basis of the same cause of action in Suit 808 in Singapore or any other jurisdiction.

3. *Counterclaim by Sumatec in Suit No. WA-22NCC-52-02/2017 before the High Court of Malaya at Kuala Lumpur*

Sumatec commenced a counterclaim in Suit No. WA-22NCC-52- 02/2017 before the High Court of Malaya at Kuala Lumpur against the Company and Setinggi Holdings Ltd (“**Setinggi**”) (“**KL Counterclaim**”) which relates to the same matters and seeks substantially the same reliefs as in Kuala Lumpur High Court Suit No. WA-22NCC-142-04/2017 commenced by Sumatec against the Company, Ebony, Setinggi, Mr Kuah Geok Lin, Mr Kuah Geok Khim and Mr Teh Teong Lay (has been struck out pursuant to an Order of Court granted by the Singapore High Court on 30 November 2017 restraining Sumatec from maintaining and/or continuing the prosecution Suit No. WA-22NCC-142-04/2017).

On 16 April 2018, the Court of Appeal struck out the KL Counterclaim.

4. *Sumatec’s claim in Suit No. WA-22NCC-65-02/2019 before the High Court of Malaya at Kuala Lumpur against the Company*

On 14 April 2019, the Company received a writ dated 25 February 2019 issued from Malaysia High Court filed by Sumatec claiming for general and exemplary damages for fraud and conspiracy. The Company was one of the defendants who were alleged to be acting in concert with Mr Chan with the intention to defraud or deceive Sumatec in relation to the Settlement Agreement 2013 and 2015. The Company has engaged solicitors to defend against Sumatec’s claim.

Subsequently, Sumatec has filed an application to amend its claim to add a further cause of action of ‘equitable fraud’ (“**Sumatec’s Amendment Application**”). The Court allowed Sumatec’s amendment application.

On 22 August 2019, the Company filed an application to strike out Sumatec’s claim. The said striking out application was initially fixed for hearing on 20 November 2019. However, before the Company’s striking out application could be heard, Sumatec was wound up by a court order on 15 October 2019. An Official Receiver was appointed to be the liquidator of Sumatec. On 24 February 2020, Sumatec informed the Court that it was seeking to appoint a private liquidator, Mr Onn Kien Hoe from Messrs Crowe Malaysia PLT for Sumatec. The Court has fixed the matter for Case Management on 13 May 2020 for the Court to be updated whether the Official Receiver has given its approval for the said private liquidator to be appointed for Sumatec.

On 6 March 2020, the Company filed an application for security for costs against Sumatec. On 09 June 2020, the Court allowed security for costs of RM70,000.00 against Sumatec. If Sumatec fails to deposit the RM70,000.00 the Court will strike out its claim.

On 4 August 2020, Sumatec’s private liquidators wrote to the Court to inform that it does not have funds to pay the Security for Costs amounting to RM70,000.00, during the Case Management held on 11 August 2020, the Court then struck out Sumatec’s claim against Company and awarded with costs of RM10,000.00.

(B) 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 currently fixed for case management on 18 September 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 is fixed on 28 September 2020 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.

(C) 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 striking out of the application is currently fixed for hearing on 18 September 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.

10 A 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

Q2 & 1H 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. The Group continues to pursue cost management measures and will also explore additional means to shore up liquidity as necessary.

The Company has taken deliberate steps to address the challenging markets and operating conditions of the Vessel Chartering segment and has sold four vessels, as well as entered into a conditional sale agreement to dispose of the remaining vessel. As such the Company will completely exit from Vessel Chartering business.

As for the Equipment segment, the Group's China and Korean production facilities resume production as usual. However, we are 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 improving the profitability of this business.

The auditors have issued a disclaimer opinion on page 28 of the Company's annual report for the financial year ended 31 December 2019 due to multiple uncertainties cast doubt over the Group's and Company's ability to continue as a going concern. The Company has been working on the divestment on some of its assets. RSM Corporate Advisory Pte Ltd ("RSM") continues 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. To date, RSM and the Company has identified several potential investors to raise additional funds to finance the Group's operations.

11 Dividend

(a) Current Financial Period Reported On

Any dividend recommended for the current financial period reported on?

No.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

No.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12 If no dividend has been declared or recommended, a statement to that effect

In view of Group's current year and accumulated losses, no dividend had been declared or recommended for the financial period ended 30 June 2020.

13 Interested Person Transactions

		Period ended 30 June 2020	
		Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX Listing Manual)	Aggregate value of all interested person transactions conducted during the financial year under review under shareholders' mandate pursuant to Rule 920 of the SGX Listing Manual (excluding transactions less than \$100,000)
<u>Name of interested person</u>	<u>Nature of Relationship</u>	<u>\$'000</u>	<u>\$'000</u>
Hoe Leong Plastic Industry (China) - Rental expense	Substantial shareholder	159	-

The Company has not obtained a general mandate from shareholders for Interested Person Transactions.

14 Negative Assurance Confirmation

We, Liew Yoke Pheng, Joseph and Choy Bing Choong, being two of the Directors of the Company, do hereby confirm on behalf of the Directors of the Company that, to the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company that may render the unaudited financial results of the Group for the financial period ended 30 June 2020 to be materially false or misleading.

15 Undertaking from directors and executive officers

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

BY ORDER OF THE BOARD

Liew Yoke Pheng, Joseph
Executive Chairman and Chief Executive Officer
14 August 2020