YONGNAM HOLDINGS LIMITED
(the "Company")
(Company Registration No. 199407612N)
(Incorporated in the Republic of Singapore on 19 October 1994)

EMPHASIS OF MATTER ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Board of Directors ("Board") of Yongnam Holdings Limited ("Company", and together with its subsidiaries, "Group") wishes to announce that the Company's auditors, Ernst & Young LLP ("EY"), had without modifying their opinion, included an Emphasis of Matter in their Independent Auditor's Report in respect of the Group's audited financial statements for year ended 31 December 2020 ("FY2020").

The opinion of the Independent Auditor remains unqualified.

Please refer to the Independent Auditor's Report annexed to this announcement.

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.

By Order of the Board

Seow Soon Yong
Chief Executive Officer

Date: 14 July 2021

Extracted from the Independent Auditor's Report to the Audited Financial Statements of Yongnam Holdings Limited for the financial year ended 31 December 2020

Independent Auditor's Report to the Members of Yongnam Holdings Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Yongnam Holdings Limited (the Company) and its subsidiaries (collectively, the Group), which comprise the balance sheets of the Group and the Company as at 31 December 2020, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the 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, the balance sheet and the statement of changes in equity 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)) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2020 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the financial statements. The Group reported a loss of S$77,826,000 for the financial year ended 31 December 2020 and as at that date, the Group's and the Company's net current liabilities are $129,484,000 and $12,613,000 respectively. In addition, the Group has also breached certain financial covenants in relation to its transferable term loan borrowings as of that date. The Group's operations are affected by work stoppages caused by COVID-19 pandemic. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as going concern.

As disclosed in Note 2 of the financial statements, the ability of the Group and the Company to continue as a going concern and meet its financial obligations depends on its ability to generate sufficient cash flows on a timely basis as planned through operations and scrapping idle steel beams and columns, and continued support from its lenders and bond holders. Such ability could be severely impaired should significant project delays occur as a result of events and circumstances not anticipated by management, or an adverse change in market demand for scrap steel which may limit the Group's ability to raise funds to meet working capital needs, as and when necessary, and satisfy its debt obligations.

If the Group is unable to generate timely and sufficient cash flows from its operations or scrapping idle steel beams and columns as planned, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, the Group and the Company may have to reclassify non-current assets and non-current liabilities as current assets and current liabilities. No such adjustments have been made to these financial statements. Our opinion is not qualified in respect of this matter.

Key Audit Matters

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

We have fulfilled our responsibilities described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Accounting for construction contracts

The Group is involved in construction projects for which it applies the input method in recognising revenue over time. The amount of revenue recognised in a year on these projects is dependent on the stage of completion of the projects, which is determined based on actual costs incurred to-date to the total expected costs for each project. This is determined to be a key audit matter due to the subjectivity involved in determining the stage of completion, which in turn may have a significant impact on the results of the Group.

As part of our audit, we evaluated the design and tested the effectiveness of internal controls with respect to the project costs estimation process and accounting for construction contracts. We performed audit procedures on individually significant projects relating to contractual terms and conditions, revenue and costs incurred. We also performed procedures with respect to project cost calculations and forecasts of project profitability, and management’s assessment thereof. In connection with this, we discussed a range of financial and operational risks, ongoing disputes and related estimation uncertainties with the Group’s various project directors and managers and management and reviewed correspondences with contractors in assessing whether these have been factored in the accounting for construction contracts. With the knowledge gained from those discussions and the results of our audit procedures, we assessed the appropriateness of variable consideration, including the estimation of claims and variation orders, as well as the appropriateness of provision for onerous contracts and carrying values of the related contract assets for significant projects and considered whether these estimates showed any evidence of management bias.

Our assessment was based on the historical accuracy of management’s estimation of claims and variation orders in previous periods, identification and analysis of changes in assumptions used in the estimation process from prior periods, and an assessment of the consistency of assumptions used across projects. We also assessed the mathematical accuracy of the revenue calculations based on the stage of completion and considered the implications of changes in estimates.

Furthermore, we assessed the adequacy of disclosures in Notes 2.20 *Revenue and other income (a) Construction revenue*, 3.2 *Key sources of estimation uncertainty (a) Revenue recognition on construction contracts*, 16 *Contract assets and liabilities*, 32 *Financial risk management objectives and policies (b) Liquidity risk* and *(d) Credit risk*.

Impairment of certain steel beams and columns

A history of low utilisation and recent losses gave rise to indication of impairment for certain of the Group's steel beams and columns. The impairment assessment was significant to our audit due to the carrying amounts of these certain steel beams and columns which represent 54% of the Group's total non-current assets as at 31 December 2020, and the significant judgment involved in making various assumptions in determining the underlying value-in-use computation in the impairment assessment. The assessment required management to make various assumptions such as the discount rate, the projected revenue growth rate, and the expected revenue and costs used in the cash flow forecast. As such, we considered the impairment assessment of these certain steel beams and columns to be a key audit matter.

Our audit procedures included, amongst others, evaluating and assessing the key assumptions and the valuation methodology used by management in the cash flow forecast. We assessed management's key assumptions used such as management's projection of the success rate in winning construction projects and tested the robustness of management's budgeting process. We also compared management's key assumptions such as discount rate and revenue growth rate used against external data. Our internal valuation specialist assisted us with the review of the valuation methodology used and the assessment of certain key assumptions such as the discount rate. We also performed sensitivity analysis on certain key assumptions. Management's conclusion on the impairment test and the related disclosures are included in Notes 3.2 *Key sources of estimation uncertainty (b) Impairment assessment of certain steel beams and columns* and 11 *Property, plant and equipment*. We also evaluated the adequacy of those disclosures in the financial statements.

Other Information

Management is responsible for 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), 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.

- 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 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 auditor's report is Lee Wei Hock.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

14 July 2021