

ACESIAN PARTNERS LIMITED

(Incorporated in the Republic of Singapore)

Company Registration No. 199505699D

INDEPENDENT AUDITOR'S REPORT

To the Members of Acesian Partners Limited

Report on the Financial Statements

Disclaimer of Opinion

We were engaged to audit the accompanying financial statements of Acesian Partners Limited ("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 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company 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. 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

1) Significant uncertainty

As disclosed in Note 2 to the financial statements, Acesian Star (S) Pte Ltd ("ASPL"), a wholly-owned subsidiary of the Group is in dispute with one of its major customers, Takenaka Corporation ("TC"). TC has terminated all its contracts with ASPL namely, Terminal 1 Extension at Changi Airport ("T1E Sub-contract") and the proposed development of Terminal 4 at Singapore Changi Airport ("T4 Sub-contract").

As a result, certain project and variation claims in relation to the work performed by ASPL up to the date of termination have been disputed by TC and remained unsettled as at the reporting date. In addition, TC has made a counterclaim in respect of backcharges and liquidated damages against ASPL of approximately \$10 million.

On 23 January 2017 and 3 February 2017, ASPL announced that it has served a letter informing TC that ASPL intends to refer the disputes arising from the T4 sub-contract to arbitration under the Singapore International Arbitration Centre Rules pursuant to clause 33 of the T4 sub-contract. The case is pending arbitration. Additionally on 23 January 2017, ASPL's application to be placed under Judicial Management was approved by the High Court.

The outcome of the intended arbitration as well as ASPL being placed under judicial management is uncertain. As a result, the recoverability of the assets and the completeness of liabilities of the Group as at reporting date cannot be reliably determined by the management.

Specifically, the account balances affected by the above-mentioned events are as follows:

a) *Contract work in progress*

Certain project and variation claims were not certified by the surveyor. As a result, the Group has not been able to determine the amount of revenue and cost of sales to be recognised. Furthermore, the Group has not been able to perform an impairment test on the contract work in progress of \$9,229,065 as at 31 December 2016 recorded in the books of ASPL. As a result, we are not able to assess whether the contract work in progress is impaired and if impaired, the amount of impairment to be recognised in the profit or loss.

b) *Trade and other receivables*

The Group has not been able to assess the recoverability of trade and other receivables due from TC of \$2,830,053 as recorded in the books of ASPL given the ongoing arbitration and judicial management process described above. As a result, we were not able to ascertain the extent of impairment on trade and other receivables and the impact this has on the profit or loss.

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Basis for Disclaimer of Opinion (continued)

1) Significant uncertainty (continued)

c) *Trade payables*

As disclosed in Note 2 to the financial statements, ASPL has not recognised the back charges and liquidated damages claimed by TC of approximately \$10 million in its books as at 31 December 2016. We were unable to satisfy ourselves by alternative means concerning the adequacy of the liabilities required to be recorded in the Group's consolidated financial statements.

d) *Investment in subsidiaries and Amount due from subsidiaries*

The Company has not been able to perform an impairment test on the investment in ASPL of \$7,414,358 as well as the amount due from ASPL of \$1,297,257 as recorded in its books. As a result, we were not able to assess whether the investment in ASPL as well as the amount due from ASPL are impaired and if impaired, the amount of impairment to be recognised in the profit or loss.

2) Going concern of a subsidiary

In relation to the matters described in item 1 above, the Group is presently waiting for the outcome of the intended arbitration and judicial management process before planning the next step forward.

In the event that the outcomes are unfavourable, ASPL may be unable to continue as a going concern. Additionally, adjustments may have to be made for any losses on realisation of its assets and further costs which may arise.

The financial statements do not include any adjustments relating to the recoverability and reclassification of recorded asset amounts or the amounts and reclassification of liabilities that might be necessary should ASPL be unable to continue as a going concern.

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 Singapore Financial Reporting Standards, 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.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with Singapore Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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.

Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred in the Basis for Disclaimer of Opinion section, 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 subsidiaries incorporated in Singapore, of which we are the auditor, have been properly kept in accordance with the provisions of the Act.

PKF-CAP LLP

Public Accountants and
Chartered Accountants

Singapore

7 April 2017

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Extracted from relevant part of Notes 2(i) and 2(ii) in the Annual Report 2016 of Acesian Partners Limited for the financial year ended 31 December 2016 (on page 39 and page 40 respectively).

2(i) Significant uncertainty in relation to termination of contracts

The Company made the following announcements in relation to matters concerning the Company's wholly-owned subsidiary – Acesian Star (S) Pte Ltd ("**ASPL**"):

On 25th August 2015, the Company announced that Takenaka Corporation ("**TC**") has awarded a contract to ASPL to provide air conditioning mechanical ventilation system ("**ACMV**") services for the proposed development at Terminal 1 Extension at Changi Airport ("**T1E Sub-Contract**") at an aggregate contract amount of \$14.7 million. In addition, on 24th October 2014, the Company announced that TC appointed ASPL as its sub-contractor for the project at Terminal 4 of the Singapore Changi airport ("**T4 Sub-Contract**") at an aggregate contract value of \$24.4 million.

During the current financial year, disputes arose between ASPL and TC over the specification and scope of the contract. As a result, certain project and variation claims were not certified and payments were delayed. The board made an announcement on 7 October 2016 stating that they foresee adverse financial impact or consequence on the Group's operations if the outcome of the dispute for T4 sub-contract was unfavourable.

TC has made counterclaims against ASPL of approximately \$10 million in relation to liquidated damages and back-charges. ASPL has not recorded these counterclaims in its books at 31 December 2016 as they are of the view that the counterclaims have no basis since the counterclaims occurred only after ASPL brought TC into adjudication and demanded payment.

Subsequently, TC terminated its contracts with ASPL, namely T1E Sub-Contract and T4 Sub-Contract on 9 November 2016 and 16 November 2016 respectively. ASPL made claims for prolongation costs arising from delays and damages due to termination of the T4 sub-contract.

On 23 January 2017 and 3 February 2017, ASPL announced that it has served a letter informing TC that ASPL intends to refer the disputes arising from the T4 sub-contract to arbitration under the Singapore International Arbitration Centre Rules pursuant to clause 33 of the T4 sub-contract. The case is pending arbitration.

On 23 January 2017, ASPL's judicial management application to the Court was heard and ASPL was placed under judicial management.

2(ii) Going concern of a subsidiary

Despite the significant uncertainties relating to events described above under section 2(i), the financial statements are prepared on a going concern basis. The financial statements do not include any adjustments relating to the recoverability and reclassification of recorded asset amounts or the amounts and reclassification of liabilities that might be necessary should ASPL be unable to continue as a going concern.