

INDEPENDENT AUDITOR'S REPORT

To the members of KLV Holdings Limited

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of KLV Holdings Limited (the "Company") and its subsidiaries (the "Group"), as set out on pages 38 to 102, which comprise the balance sheets of the Group and of the Company as at 31 March 2017 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and 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.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements of the Group and balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial positions of the Group and of the Company as at 31 March 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for Qualified Opinion

Corresponding figures

Our independent auditor's report dated 12 July 2016 on the financial statements of the Group and the balance sheet of the Company for the financial year ended 31 March 2016 contained a qualified opinion, among others, on the following matters related to opening balances of the previous financial year.

We, together with the component auditors, were appointed as auditors of the Company and its subsidiaries subsequent to the balance sheet date of the previous financial year. We and certain component auditors were not given access to the audit work papers of the predecessor auditors, and were unable to satisfy ourselves by alternative means concerning:

- (i) the quantities of work-in-progress and finished goods amounting to \$2,907,724 in aggregate that were held by a subsidiary as at 31 March 2015; and
- (ii) the validity, completeness and accuracy of contract work-in-progress, including recognised profits and/or recognised losses on uncompleted contract work, that entered into the determination of amounts due from and to customers for contract work amounting to \$3,333,528 and \$250,720 respectively of a subsidiary as at 31 March 2015.

Since these opening balances as at 1 April 2015 entered into the determination of the financial performance and cash flows for the financial year ended 31 March 2016, we were unable to determine whether adjustments might have been necessary in respect of the revenue, cost of sales, tax expense and profit for the year reported in the consolidated statement of comprehensive income and the cash flows from operating activities reported in the consolidated statement of cash flows for the financial year ended 31 March 2016.

In addition, our opinion on the previous financial year's financial statements of the Group was also qualified because of the matter related to loans written off during the previous financial year as detailed below.

As disclosed in Note 5 to the financial statements, the Group had written off loans due from its former subsidiaries, Teeni Enterprise Pte Ltd and Teeni Universal Pte Ltd totalling \$876,013 during the financial year ended 31 March 2016. These loans were waived in the financial year ended 31 March 2015 by the then Managing Director of the Company. However, the waivers were not recorded in the financial statements for the financial year ended 31 March 2015 as the waiver letters signed by the then Managing Director only came to the attention of the management during the financial year ended 31 March 2016. The Board of Directors had ratified the decision to write off the loans in the financial year ended 31 March 2016. Accordingly, the management recorded the write-off of the loans in the profit or loss for the financial year ended 31 March 2016. Had the Group recorded such write-off in 2015, the profit for the financial year ended 31 March 2016 would have increased by \$876,013.

INDEPENDENT AUDITOR'S REPORT

To the members of K LW Holdings Limited

Report on the Audit of the Financial Statements (cont'd)

Basis for Qualified Opinion (cont'd)

Our opinion on the current year's financial statements of the Group is modified because of the possible effects of the above matters related to the opening balances of the previous financial year and loans written off during the previous financial year on the comparability of the current year's figures and corresponding figures.

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 qualified opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report 2017, 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. As described in the *Basis for Qualified Opinion* section of our report, our opinion is qualified in respect of the possible effects on the comparability of the current year's figures and corresponding figures. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Emphasis of Matters

We draw your attention to Note 33 to the financial statements which describes the uncertainty in relation to ongoing legal claims and counterclaims. In respect of the counterclaims filed against the Company, the directors of the Company, based on legal advice obtained, are of the view that, there are no liabilities required to be recognised in the accompanying financial statements for the financial year ended 31 March 2017.

We further draw your attention to Note 34 to the financial statements which discloses the ongoing investigation by the Commercial Affairs Department of Singapore Police Force. The directors of the Company are of the view that, the investigation should not have material financial impact on the accompanying financial statements for the financial year ended 31 March 2017.

Our opinion is not further modified in respect of these matters.

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 *Basis for Qualified Opinion* section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT

To the members of KLV Holdings Limited

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

Revenue Recognition

(Refer to Notes 2(j), 2(r), 3 and 4 to the financial statements)

The Group recognised revenue of \$45,648,033 for the financial year. We considered revenue recognition to be a key audit matter as it requires our significant attention in audit, taking into account that this is a key significant risk of audit. Sales of goods are recognised when the risks and rewards of ownership of the goods have been passed to the customers. Sales contracts for the Group's certain projects in the door business segment comprise a combination of delivery of goods and rendering of installation services. Such contracts involve separately identifiable components that are recognised separately based on the relative selling prices as determined by management. In addition, the Group recognises contract revenue relating to installation services by reference to the stage of completion of the contract activities at the balance sheet date. Significant assumptions are required to estimate the total contract costs and the recoverable variation work.

Our procedures to address the key audit matter

With involvement of our component auditors, we assessed the appropriateness of Group's accounting policies over revenue recognition. In relation to the revenue from sales of goods, we evaluated the design of key internal controls over the sales cycle and tested the operating effectiveness of selected key internal controls. We also performed substantive procedures, which include tests of details on a sample basis, over the occurrence, accuracy and cut-off of the sales recorded.

Our audit procedures in relation to revenue recognition of contract work relating to installation services, among others, included:

- review of the contractual terms and the management's process in the allocation of revenue between the delivery of goods and rendering of installation services;
- review of the work status of the contract work, along with discussions with management and checking that contract work revenue was recognised according to the stage of completion of the contract activities by reference to the units of work performed at the balance sheet date (completion of a physical proportion of the contract work);
- discussion with management regarding their assessment of estimated total contract costs and potential exposures to liquidated damages or rectification claims, and whether there are significant recoverable variation works that have yet to be agreed;
- performance of analytical procedures to compare revenue and gross profit margin with those reported in prior periods for identifying significant fluctuations, and obtained explanations from management about such fluctuations; and
- site visits of certain project sites around the balance sheet date to compare the stage of completion by physical inspection.

INDEPENDENT AUDITOR'S REPORT

To the members of KLV Holdings Limited

Report on the Audit of the Financial Statements (cont'd)

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 FRSs, 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.

INDEPENDENT AUDITOR'S REPORT

To the members of KLV Holdings Limited

Report on the Audit of the Financial Statements (cont'd)

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

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 Khor Boon Hong.

Baker Tilly TFW LLP
Public Accountants and
Chartered Accountants
Singapore

6 July 2017

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 March 2017

5. Other income/expenses

	Group	
	2017	2016
	\$	\$
<u>Other income:</u>		
Interest income	260,117	423,546
Gain on disposal of property, plant and equipment	20,903	–
Sale of scraps	202,572	200,864
Foreign currency exchange gain, net	676,214	–
Fair value gain on investment property (Note 12)	8,848,240	612,967
Government grants	39,294	77,486
Write-back of long outstanding other payables	–	45,522
Others	75,792	190,921
	10,123,132	1,551,306

Government grants received arose from the Productivity and Innovation Credit Scheme by the government of Singapore.

	Group	
	2017	2016
	\$	\$
<u>Other expense:</u>		
Impairment loss on property, plant and equipment (Note 11)	–	416,263
Loans due from former subsidiaries written off (Note A)	–	876,013
Loss on disposal of property, plant and equipment	–	5,346
	–	1,297,622

Note A - Loans due from former subsidiaries written off

The Group had written off loans due from its former subsidiaries, Teeni Enterprise Pte Ltd and Teeni Universal Pte Ltd (collectively "Teeni Group") totalling \$876,013 during the financial year ended 31 March 2016. These loans were waived in the financial year ended 31 March 2015 by the then Managing Director of the Company. However, the waivers were not recorded in the financial statements for the financial year ended 31 March 2015 as the waiver letters signed by the then Managing Director only came to the attention of the management during the financial year ended 31 March 2016. The Board of Directors had ratified the decision to write off the loans in the financial year ended 31 March 2016, after performing the inquiries of the relevant personnel and considering the legal implications of the loan waivers.

6. Finance costs

	Group	
	2017	2016
	\$	\$
Finance leases	10,916	6,309
Bankers' acceptance and foreign currency loan against import	20,212	20,002
Term loans	767,093	718,729
Finance cost for shares with preference rights	442,680	459,680
Others	–	72,793
	1,240,901	1,277,513

Finance costs for shares with preference rights relate to dividend paid to the holder of Class A Shares of a subsidiary, which is classified as a financial liability (Note 21).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 March 2017

32. Capital management

The Group's policy is to maintain adequate capital based to ensure continuity as a going concern and maintain an optimal capital structure for expansion plan of the group. The Group funds its operations and growth through a mix of equity and debts by maintenance of adequate lines of credit and assessing the need to raise additional equity where required.

Management monitors capital based on gearing ratio to ensure compliance with all borrowing covenants.

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings plus trade and other payables less cash and cash equivalents. Total capital is calculated as equity plus net debt.

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
Total borrowings and payables	29,652,704	31,814,718	5,220,095	5,814,433
Cash and cash equivalents	(28,079,850)	(35,945,714)	(17,525,308)	(28,492,987)
Net debt/(surplus)	1,572,854	(4,130,996)	(12,305,213)	(22,678,554)
Total equity	89,330,999	78,987,634	73,523,580	74,376,598
Total capital	90,903,853	74,856,638	61,218,367	51,698,044
Gearing ratio	0.017	N.M	N.M	N.M

N.M - Not meaningful

The Board of Directors reviews the capital structure on the annual basis. As part of this review, the directors considers the cost of capital and the risk associated with each class of capital, and monitors the gearing ratio. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts or redemption of existing debts.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

33. Legal claims and contingent liabilities

On 7 September 2015, a writ of summons and statement of claim was issued against Mr Chan Ewe Teik ("Mr Chan") by the Company and filed in the High Court. The Company was claiming for the sum of \$7.0 million, paid as a refundable commitment fee to Straitsworld Advisory Limited ("Straitsworld") under a term sheet in respect of a property development project in Zhangye Gansu, the People's Republic of China, and due to the Company under a subsequent term sheet, Vietnam Term Sheet, under which, inter alia, Mr Chan undertook to fulfil the payment obligation of Straitsworld.

On 30 September 2015, Mr Chan had filed a defence and counterclaim. Mr Chan, inter alia, denied the claims of the Company and has counterclaimed for a total sum of \$3.45 million (including an alleged loan of \$0.75 million) which he has alleged are owing to him from the Company.

In response, the Company has filed a reply and defence to counterclaim on 9 October 2015, in which the Company has expressly denied all the allegations set out in Mr Chan's counterclaims and has put Mr Chan to strict proof of each of his counterclaims.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 March 2017

33. Legal claims and contingent liabilities (cont'd)

On 26 November 2015, the Company announced that it had withdrawn the action filed against Mr Chan for the repayment of \$7 million and that the Company filed a writ of summons and statement of claim against Straitsworld and Mr Chan in the High Court. The Company is claiming for the following:

- (a) the payment of \$7.0 million;
- (b) alternatively, damages to be assessed;
- (c) interests and costs; and
- (d) such further or other relief as the Court deems fit.

On 18 December 2015, Straitsworld and Mr Chan had filed a defence and counterclaim. They denied the claims of the Company and has sought for, inter alia, a declaration that the Project Happy Term sheet be rescinded against Mr Chan and damages.

On 6 April 2016, the Company had filed a reply and defence to counterclaim denying Straitsworld's and Mr Chan's Counterclaims.

On 25 April 2016, the Court dismissed Mr. Chan's application for summary judgement and granted the Company unconditional leave to defend Mr Chan's claim for the alleged loan of \$0.75 million.

On 3 May 2016, the Company had filed an application for summary judgement against Straitsworld and Mr Chan for the sum of \$7.0 million, interests and costs.

On 18 October 2016, the High Court has granted summary judgement in favour of the Company for the sum of \$7.0 million, interest on the sum of \$7.0 million at the rate of 5.33% per annum from 21 November 2015 and costs of \$10,000 excluding disbursements, which are to be agreed if not taxed.

Mr Chan and Straitsworld have lodged an appeal against the court's decision and the appeal is presently scheduled to be heard on a date between 25 September 2017 and 3 October 2017.

On 6 January 2017, Mr Chan discontinued part of his counterclaim amounting to \$2/\$2.2 million, with costs to be agreed if not taxed.

As at 31 March 2017, the amounts owing by Mr Chan and Straitsworld to the Company pursuant to the summary judgement amounted to \$7,527,510.81. The Company has commenced various enforcement proceedings against Mr Chan to recover the amounts owing.

The amount of \$7.0 million has been fully provided for in the financial statements of the Group and the Company during the financial year ended 31 March 2015. In the event that there is any recovery of the fees, adjustment may have to be made in the financial statements of the Group.

With respect to the counterclaims filed against the Company, the directors of the Company, based on legal advice obtained, are of the view that there are no liabilities required to be recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 March 2017

34. Investigation by the Commercial Affairs Department

On 19 November 2015, the Company received a notice from the Commercial Affairs Department ("CAD") of Singapore Police Force which states that CAD is investigating an offence under the Securities and Futures Act (Chapter 289 of Singapore) pursuant to the provisions of the Criminal Procedure Code 2012 (Chapter 68, 2012 Revised Edition). For the purpose of the investigation, CAD requested access to documents and information from the Company and its subsidiaries for the period from 1 January 2012 until the date when the notice was served.

The Company's then managing director and then Group Financial Controller were interviewed by CAD officers in relation to its investigation. Subsequently, the Group Finance Manager and Group Accountant of the Company were interviewed by the CAD.

The directors of the Company have advised that the CAD has not provided any details of its investigation, and that there had been no further updates from CAD since the serving of the notice, the submission of the documents and the aforementioned interviews of the consultant and employees of the Company. As at the date of these financial statements, the investigation is on-going. The business and day-to-day operations of the Group are not affected by the investigation and have continued as normal. The directors of the Company are of the view that the investigation should not have material financial impact on the Group's and the Company's financial statements.

35. Authorisation of financial statements

The consolidated financial statements of the Group and the balance sheet of the Company for the financial year ended 31 March 2017 were authorised for issue in accordance with a resolution of the directors dated 6 July 2017.