(Company Registration No. 200201764D)
(Incorporated in the Republic of Singapore)

QUALIFIED OPINION BY INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

In compliance with Rule 704(5) of the Listing Manual, the Board of Directors of M Development Ltd ("**Company**") would like to announce that the Company's Auditors, Ernst & Young LLP has issued their report on the financial statements of the Company and its subsidiaries (the "**Group**") for the financial year ended 31 December 2016 (the "**Financial Statements**") containing a qualified opinion.

A copy of the Independent Auditors' Report together with the extract of the relevant notes to the Financial Statements are annexed to this announcement.

BY ORDER OF THE BOARD
M DEVELOPMENT LIMITED

Huang Wen-Lai
Executive Chairman and Director
5 April 2017

Independent Auditor's Report

For the financial year ended 31 December 2016
To the Members of M Development Ltd.

Report on the audit of the financial statements

Qualified Opinion

We have audited the financial statements of M Development Ltd. (the Company) and its subsidiaries (collectively, the Group), which comprise the balance sheets of the Group and the Company as at 31 December 2016, the statements of changes in equity of the Group and the Company and the 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, except for the possible effects on the corresponding figures of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements of the Group, the balance sheet and 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 Financial Reporting Standards in Singapore (FRSs) 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 2016 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 Qualified Opinion

The 2015 comparative consolidated cash flow statement of the Group presented in these financial statements included the cash flows of Winsta Holding Pte. Ltd. and its subsidiaries from 1 January 2015 to 3 or 4 August 2015, being the dates of liquidation of subsidiaries of Winsta Holding Pte. Ltd. ("Winsta's subsidiaries"). In the prior year's audit, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the cash flows of the Winsta's subsidiaries from 1 January 2015 to 3 or 4 August 2015 were appropriate and proper for inclusion in the consolidated cash flow statement of the Group for that financial year. In addition, certain notes to the 2015 financial statements (discontinued operations, property, plant and equipment, trade receivables, provisions and advances, related party transactions and segment reporting, collectively, the "2015 Winsta Affected Notes") included amounts attributed to the Winsta's subsidiaries from 1 January 2015 to 3 or 4 August 2015, which were presented as "Amounts arising from liquidated subsidiaries". We were unable to determine if these amounts were appropriate and proper for the preparation of the 2015 Winsta Affected Notes. Accordingly, we did not express an opinion on the Group's consolidated cash flow statement for the year ended 31 December 2015 and 2015 Winsta Affected Notes. Our audit opinion on the Group's consolidated balance sheet, statement of comprehensive income and statement of changes in equity for the year ended 31 December 2015 was not modified. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures in the Group's 2015 consolidated cash flow statement and 2015 Winsta Affected Notes.

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 audit opinion.

Independent Auditor's Report

For the financial year ended 31 December 2016
To the Members of M Development Ltd.

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, we have determined the matter described below as the key audit matter 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.

Effects of on-going litigation

The Group is involved in litigation as disclosed in Note 20(b) to the financial statements.

Management has appointed an external legal counsel in connection with the litigation, and concluded in their assessment that no provision for any potential liability is required as at 31 December 2016. As the assessment process involved significant management judgement and subject to future developments relating to the litigation, we have identified this as a key audit matter.

Our audit procedures included, amongst others, reviewing board minutes and legal correspondences, meetings with directors, management and their external advisors to understand the developments of the legal proceeding and management's assessment of the possible outcome. In evaluating the reasonableness of management's assessment, we obtained updates and sought the opinion of the group's external legal counsel.

Other Information

Management is responsible for the other information. The other information comprises Director's Statements and 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.

Independent Auditor's Report

For the financial year ended 31 December 2016
To the Members of M Development Ltd.

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.

Auditors' 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 auditors' 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

For the financial year ended 31 December 2016
To the Members of M Development Ltd.

Auditor's responsibilities for the audit of the financial statements (cont'd)

- 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 auditors' report is Nelson Chen.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

5 April 2017

Consolidated Cash Flow Statement

For the financial year ended 31 December 2016

	Note	2016	2015
		$'000	$'000
Operating activities			
Loss from continuing operations, before tax		(1,062)	(915)
Loss from discontinued operations, before tax		–	(2,269)
Loss before tax, total		(1,062)	(3,184)
Adjustments for:			
Depreciation of property, plant and equipment		2	377
Property, plant and equipment written off		–	13
Gain arising from liquidated subsidiaries		–	(1,808)
Interest expense		–	28
Interest income		(527)	(700)
Realised currency translation gain		–	(1)
Provision for reinstatement costs		–	112
Total adjustments		(525)	(1,979)
Operating cash flows before changes in working capital		(1,587)	(5,163)
Changes in working capital			
Decrease in trade receivables		–	5,546
Decrease in other receivables and deposits		163	122
(Increase)/decrease in prepayments		(6)	37
Decrease in amounts due from related companies		–	7,504
Decrease in trade payables		(334)	(6,639)
Increase/(decrease) in other payables and accruals		237	(3,013)
Decrease in provisions and advances		–	(112)
Cash flows used in operations		(1,527)	(1,718)
Interest paid		–	(28)
Interest received		527	677
Tax refund/(paid)		10	(101)
Net cash flows used in operating activities		(990)	(1,170)
Investing activities			
Purchase of property, plant and equipment		(1)	(11)
Receipt of loan receivable's principal amount		7,000	–
Net cash outflow arising from liquidated subsidiaries	12	–	(259)
Net cash flows generated from/(used in) investing activities		6,999	(270)
Financing activities			
Proceeds from loans and borrowings		–	665
Repayment of loans and borrowings			(1,119)
Interest paid		–	–
Net cash flows used in financing activities		–	(454)
Net increase/(decrease) in cash and cash equivalents		6,009	(1,894)
Effect of exchange rate changes		37	83
Cash and cash equivalents at beginning of the year		3,735	5,546
Cash and cash equivalents at end of the year	15	9,781	3,735

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

12. Discontinued operations

In FY2015, the Group ceased its operation of hostel accommodation and other real estate activities. The subsidiaries involved in these activities were placed under creditors' voluntary liquidation on 3 August and 4 August 2015. As such, the results of the subsidiaries have been reclassified as discontinued operations.

The results of discontinued operations from 1 January 2015 to 3 August and 4 August 2015 are as follows:

	2015 $'000
Revenue	9,373
Cost of sales	(8,944)
Other operating income	774
General and admin expenses	(1,761)
Other operating expenses	(3,491)
Interest expense	(28)
Gain arising from liquidated subsidiaries	1,808
Loss before tax from discontinued operations	**(2,269)**
Income tax credit	3
Loss from discontinued operation, net of tax	**(2,266)**

12. Discontinued operations (cont'd)

The major classes of assets and liabilities discontinued operations as at liquidation dates of 3 August and 4 August 2015 are as follows:

	Note	2015
		$'000
Assets		
Property, plant and equipment	10	2,748
Trade receivables		842
Other receivables and deposits	13	2,120
Prepayments		106
Income tax recoverable		3
Amounts due from related parties		774
Cash and cash equivalents		297
Total Assets		**6,890**
Liabilities		
Trade payables	16	(4,026)
Other payables and accruals	16	(4,351)
Amount due to related parties		(37)
Income tax payable		(14)
Provisions and advances		(270)
Total liabilities		**(8,698)**
Net liabilities derecognised, representing gain arising from liquidated subsidiaries		(1,808)
Less: Attributable to non–controlling interests		886
Net liabilities derecognised representing gain arising from liquidated subsidiaries, attributable to owners of the Company		**(922)**

12. Discontinued operations (cont'd)

The cash flows attributable to discontinued operations are as follows:

	2015
	$'000
Operating activities	
Loss from discontinued activities, before tax	(2,269)
Adjustments for:	
Depreciation of property, plant and equipment	367
Interest expense	28
Interest income	(11)
Gain arising from liquidated subsidiaries	(1,808)
Total adjustments	(1,424)
Operating cash flows before changes in working capital	(3,693)
Changes in working capital	
Increase in trade receivables	559
Increase in other receivables and deposits	109
Increase in prepayments	32
Decrease in amounts due from related companies	(128)
Increase in trade payables	3,519
Decrease in other payables and accruals	(1,901)
Increase in amounts due to related companies	434
Cash flows used in operations	(1,069)
Interest paid	(28)
Interest received	11
Tax refund	53
Net cash flows used in operating activities	(1,033)
Investing activity	
Purchase of property, plant and equipment, representing net cash flows used in investing activity	(6)
Financing activities	
Proceeds from loans and borrowings	665
Repayment of loans and borrowings	(1,118)
Advances from holding company	556
Net cash flows generated from financing activities	103
Net decrease in cash and cash equivalents	(936)
Cash and cash equivalents at beginning of the year	1,195
Cash and cash equivalents at end of the year	259

10. Property, plant and equipment

Group	Electrical and office equipment $'000	Furniture and fittings $'000	Renovations $'000	Electrical installations $'000	Computers $'000	Air conditioners $'000	Linens and consumables $'000	Motor vehicles $'000	Total $'000
Cost									
At 1 January 2015	599	1,748	3,930	382	129	352	200	225	7,565
Currency translation differences	–	–	1	–	–	–	–	–	1
Additions	–	–	–	–	5	–	–	–	5
Additions arising from liquidated subsidiaries	–	–	2	4	–	–	–	–	6
Attributable to discontinued operations arising from liquidated subsidiaries (Note 12)	(599)	(1,748)	(3,914)	(386)	(125)	(352)	(200)	(225)	(7,549)
Written off	–	–	(19)	–	–	–	–	–	(19)
At 31 December 2015 and 1 January 2016	–	–	–	–	9	–	–	–	9
Additions	–	–	–	–	1	–	–	–	1
At 31 December 2016	–	–	–	–	10	–	–	–	10
Accumulated depreciation and impairment losses									
At 1 January 2015	518	1,406	1,990	3	127	190	192	11	4,437
Charge for the year	19	76	172	40	6	18	33	13	377
Written off	–	–	(6)	–	–	–	–	–	(6)
Attributable to discontinued operations arising from liquidated subsidiaries (Note 12)	(537)	(1,482)	(2,156)	(43)	(126)	(208)	(225)	(24)	(4,801)
At 31 December 2015 and 1 January 2016	–	–	–	–	7	–	–	–	7
Charge for the year	–	–	–	–	2	–	–	–	2
At 31 December 2016	–	–	–	–	9	–	–	–	9
Net carrying amount									
At 31 December 2016	–	–	–	–	1	–	–	–	1
At 31 December 2015	–	–	–	–	2	–	–	–	2

13. Other receivables and deposits

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Deposits	39	26	39	26
Other receivables	–	176	–	176
	39	202	39	202
Add:				
Loan receivable (Note 14)	–	7,000	–	7,000
Cash and cash equivalents (Note 15)	9,781	3,735	8,381	2,334
Total other loans and receivables	9,820	10,937	8,420	9,536

18. Related party disclosures

(a) ***Sale and purchase of goods and services***

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and the related party took place on terms agreed between the parties during the financial year.

	Group	
	2016	**2015**
	$'000	$'000
Related parties		
- Arising from liquidated subsidiaries:		
Commission paid	–	167
Administrative services paid	–	59
Rental expenses	–	870

(b) ***Compensation of key management personnel***

	Group	
	2016	**2015**
	$'000	$'000
Salaries and other short–term benefits	194	164
Central Provident Fund contributions	13	21
	207	185
Comprise amounts paid to:		
Directors of the Company	207	115
Directors of the subsidiaries	–	70
	207	185

24. Segment information

For management purposes, the Group is organised into business units based on their products and services, and has three reportable operating segments as follows:

(a) The services segment is in the business of providing accommodation and lodging services as well as related facilities and multi–services from lodging and leasing.

(b) The trading segment is in the business of sales and purchase of electronic products (integrated circuits) within Hong Kong and People's Republic of China.

(c) The investment segment is in the business of providing loans within Hong Kong.

The Group derives its revenue from business segment (c) for the financial year ended 31 December 2016.

In the previous financial year, the Group's continuing operations derives revenue from the business segments (b) and (c) as indicated above. However, this was discontinued in the previous financial year after the liquidation of the subsidiaries under Winsta Holding Pte. Ltd. on 3 August 2015 and 4 August 2015. No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

	Provision of accom–modations and lodging *	**Sales and purchase of electronic products**	**Loan receivable**	**Corporate**	**Eliminations (Note A)**	**Total**
	$'000	$'000	$'000	$'000	$'000	$'000
2015						
Total revenue	9,373	–	700	–	–	10,073
Results						
(Loss)/profit for year	(2,266)	10	(3,830)	(357)	3,213	(3,230)
Assets and liabilities						
Segment assets	–	1,270	9,695	145	(159)	10,951
Segment liabilities	–	9	194	1,755	(588)	1,370

* Discontinued operation in 2015 – (Note 12)

Note:
(A) Inter–segment sales, assets and liabilities are eliminated on consolidation.

24. Segment information (cont'd)

Geographical information

Revenue information based on the geographical location of customers is as follows:

	External sales	
	2016	**2015**
	$'000	$'000
Singapore	–	9,373
Hong Kong	527	700
Total	527	10,073

20. Contingent liabilities

(b) On-going litigation between the Company, the Sim Family and other third parties (collectively the "Defendants")

On 20 May 2015, the Group had commenced legal proceedings against the Defendants in the High Court in Singapore on the basis inter alia of a report from an independent internal auditor appointed by the Group (the "Suit"). Subsequently the Group removed the Sim Family from the management of Winsta Holding Pte. Ltd. ("Winsta") and its subsidiaries ("Subsidiaries" and together with Winsta the "Winsta Group") and appointed a professional firm to assist in the management of the Winsta Group. Based on the advice and reports from the appointed professional firm, the Board then decided not to continue with the Winsta Group's business and accordingly placed the Subsidiaries into liquidation pursuant to a creditors' voluntary liquidation on the 3 August 2015 and 4 August 2015. The liquidation process is expected to be completed by the middle of 2018.

On 21 August 2015, the Company received a letter from Mr Sim Poh Ping, a shareholder of the Company, alleging that the affairs of the Winsta Group had been conducted in a manner oppressive to and in disregard of his interest as a shareholder of the Company and Winsta, and stating that he intended to commence legal action against the Company and certain of its directors. To-date, the Company and its directors are not aware that any such action has been commenced against it or them in relation to this matter. For the avoidance of doubt, the Company and the Board of Directors categorically deny and refute any such allegation.

On 29 October 2015, the Company obtained from the liquidators of the Subsidiaries all the Subsidiaries' interest in the Suit. The Company was accordingly substituted as a party in the Suit as plaintiff in place of the Subsidiaries. The trial of the Suit is presently fixed to be heard in the High Court in the first quarter of 2018.

Based on advice from the Company's appointed legal counsel, the Company is confident the Suit will result in judgment in its favour. As the amount of claims to be awarded and/or recovered in the Suit is presently not certain, the Company has taken the prudent view not to recognise any award in these financial statements. Similarly no provision of liability is expected from the Suit.