GCCP Resources Limited and its subsidiaries

Independent auditor's report
For the financial year ended 31 December 2018

Independent auditor's report to the members of GCCP Resources Limited

Report on the audit of the financial statements

Disclaimer of Opinion

We were engaged to audit the financial statements of GCCP Resources Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2018, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated statement of cash flows of the Group 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 of the Group and the balance sheet and the statement of changes in equity of the Company. 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) Going concern

The Group incurred losses amounting to RM 8,490,184 for the financial year ended 31 December 2018. As at that date, the Group's current liabilities exceeded its current assets by RM 14,306,356 and the Group's cash and short-term deposits amounted to RM 268,155 as compared to RM 1,130,175 as at 31 December 2017. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group to continue as a going concern.

The directors have prepared the financial statements on a going concern basis based on the assumptions as disclosed in Note 2.1 to the financial statements. However, based on the information available to us, we have not been able to obtain sufficient audit evidence to satisfy ourselves as to the appropriateness of the use of the going concern assumption in the preparation of the financial statements.

If the Group is unable to continue in operational existence for the foreseeable future, 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 sheets. In addition, the Group may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.

(2) Impairment assessment of property, plant and equipment

As at 31 December 2018, the carrying value of property, plant and equipment attributable to the Group's mining operations was RM 86,602,473. During the year, management performed an impairment assessment on the Group's mining property, plant and equipment. The recoverable amounts of these assets were determined based on value-in-use (VIU) computations. Based on the outcome of management's assessments, no impairment charge was recorded as at 31 December 2018 against these assets. The key management assumptions used in the VIU computations are disclosed in Note 3.2 to the financial statements. Based on information available to us, we were unable to obtain sufficient appropriate audit evidence to assess the reasonableness of the key assumptions used in the determination of the recoverable amounts. Given the material uncertainties over the going concern of the Group, we were also unable to assess the reasonableness and appropriateness of the carrying value of the Group's property, plant and equipment as at 31 December 2018.

Independent auditor's report to the members of GCCP Resources Limited

Basis for Disclaimer of Opinion (cont'd)

(3) Impairment of investments in subsidiaries and amounts due from subsidiaries (Company's balance sheet)

As at 31 December 2018, the carrying value of the Company's investment in a subsidiary and amounts due from subsidiaries which are involved in the Group's mining operations was RM 500,000 and RM 92,328,872 respectively.

As explained in the paragraph (2) above, we were unable to obtain sufficient appropriate audit evidence regarding the key assumptions used in the determination of the recoverable amounts of the Group's mining operations. Given the material uncertainties over the going concern of the Group, we were also unable to assess the reasonableness and appropriateness of the carrying values of the cost of investments in subsidiaries and amounts due from subsidiaries in the Company's balance sheet as at 31 December 2018.

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 International Financial Reporting Standards ("IFRS"), 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 responsibility is to conduct the audit of the financial statements in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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 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.

GCCP Resources Limited and its subsidiaries

Independent auditor's report
For the financial year ended 31 December 2018

Independent auditor's report to the members of GCCP Resources Limited

The engagement partner on the audit resulting in this independent auditor's report is Adrian Koh Hian Yan.

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

30 August 2019

Notes:

2.1 ***Basis of preparation***

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below. The financial statements are presented in Malaysian Ringgit ("RM") except when otherwise stated.

Going concern assumption

The Group incurred a loss for the year of RM 8,490,184 during the financial year ended 31 December 2018. As at that date, the Group's current liabilities exceeded its current assets by RM 14,306,356. These factors indicate the existence of a material uncertainty which may affect the validity of the going concern assumption on which the accompanying financial statements are prepared.

The Directors have prepared the financial statements for the financial year ended 31 December 2018 on a going concern basis after taking into consideration the (i) continual support from the Group's lenders and stakeholders such as the creditors, vendors and suppliers who extended their credit terms to the Group and continue to provide uninterrupted supplies and services which will ease the cash outflow at this critical time face by the Group, and (ii) the existing stream of revenue generated from sales of the limestones at Gridland Quarry is able to provide for the costs of operations. Hence, the Board of Directors is of the opinion that the Group is able to operate as a going concern and able to meet its obligations as they fall due and the Group's working capital is sufficient to meet its present requirements for the next twelve months.

If the Group is unable to continue in operational existence for the foreseeable future, 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 sheets. In addition, the Group may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.

3.2 ***Estimates and assumptions***

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

Indicators of impairment have been identified by management on the Group's property, plant and equipment. Management determines the assets' recoverable amounts based on the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from market prices less incremental costs for disposing the asset. The value in use calculation requires management to estimate future cash flows and a suitable discount rate in order to calculate the present value of cash flows.

The key management's assumptions used in value in use calculation are as follows:

(a) Limestone price of RM 39/t – RM 350/t, varies based on the type (precipitated calcium carbonate or ground calcium carbonate) and form (chips and lumps, uncoated powder or coated powder)

(b) Production rate of 480,000 t and 1,080,000 t per annum for the quarries held by GCCP Gridland Sdn. Bhd. and Hyperact Marketing Sdn. Bhd. respectively

(c) Discount rate of 12% and 16% for GCCP Gridland Sdn. Bhd. and Hyperact Marketing Sdn. Bhd. respectively

(d) Capital expenditure of approximately US$17 million in 2021 for Hyperact Marketing Sdn. Bhd.

The carrying value of the Group's non-financial assets at the end of the reporting period is disclosed in Note 10.

10. Property, plant and equipment

Group	Leasehold quarry lands RM	Office equipment RM	Furniture and fittings RM	Renovation RM	Motor vehicles RM	Water tank and pump RM	Sign board RM	Plant and machineries RM	Crusher plants RM	Office units RM	Total RM
Cost:											
At 1 January 2017	71,751,704	250,781	84,084	604,126	2,440,731	18,940	4,880	4,692,787	22,204,628	3,344,400	105,397,061
Additions	2,899,870	8,392	–	–	624,245	–	–	410,000	–	–	3,942,507
Write-off	–	–	–	(20,608)	–	–	–	–	–	–	(20,608)
At 31 December 2017 and 1 January 2018	74,651,574	259,173	84,084	583,518	3,064,976	18,940	4,880	5,102,787	22,204,628	3,344,400	109,318,960
Adjustment*	–	–	–	–	–	–	–	–	(459,825)	–	(459,825)
Additions	–	2,259	–	–	–	–	–	400,000	–	–	402,259
Write-off	–	–	(2,519)	–	–	–	–	–	–	–	(2,519)
At 31 December 2018	74,651,574	261,432	81,565	583,518	3,064,976	18,940	4,880	5,502,787	21,744,803	3,344,400	109,258,875
Accumulated depreciation:											
At 1 January 2017	4,734,328	40,433	23,065	89,604	664,113	5,697	998	1,099,263	1,979,165	64,493	8,701,159
Charge for the year	2,565,727	25,630	8,280	58,524	600,044	1,894	488	625,195	1,480,308	36,853	5,402,943
Write-off	–	–	–	(12,536)	–	–	–	–	–	–	(12,536)
At 31 December 2017 and 1 January 2018	7,300,055	66,063	31,345	135,592	1,264,157	7,591	1,486	1,724,458	3,459,473	101,346	14,091,566
Charge for the year	2,633,840	26,512	8,280	58,352	575,811	1,894	488	698,887	1,474,177	42,078	5,520,319
Write-off	–	(651)	–	–	–	–	–	–	–	–	(651)
At 31 December 2018	9,933,895	91,924	39,625	193,944	1,839,968	9,485	1,974	2,423,345	4,933,650	143,424	19,611,234
Net carrying amount:											
At 31 December 2017	67,351,519	193,110	52,739	447,926	1,800,819	11,349	3,394	3,378,329	18,745,155	3,243,054	95,227,394
At 31 December 2018	64,717,679	169,508	41,940	389,574	1,225,008	9,455	2,906	3,079,442	16,811,153	3,200,976	89,647,641

* During the financial year, adjustment for prior years addition of RM 459,825 was made due to lower actual cost incurred.

10. Property, plant and equipment (cont'd)

Assets held under finance leases

During the financial year ended 31 December 2018, the Group acquired plant and machineries with an aggregate cost of RM 400,000 (2017: motor vehicles with an aggregate cost of RM 624,245) by means of finance leases.

The carrying amount of motor vehicles and plant and machineries held under finance leases as at 31 December 2018 was RM 1,948,192 (2017: RM 2,146,658).

Leased assets are pledged as security for the related finance lease liabilities.

Assets pledged as security

In addition to assets held under finance leases, certain property, plant and equipment with carrying amounts of RM 36,878,663 (2017: RM 56,823,287) were mortgaged to secure the Group's bank loans and bank overdraft facilities.

The Group has office units with an aggregate cost of RM 3,344,400 which were partially financed by means of term loan. The carrying amount of office units mortgaged to secure the term loan was RM 3,200,976 (2017: RM 3,243,054).

The cash outflow on acquisition of property, plant and equipment amount to RM 42,259 (2017: RM 3,293,607) for the financial year ended 31 December 2018.