
EMPHASIS OF MATTER ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited, The Board of Directors (the “**Board**”) of Regal International Group Ltd. (“**Company**”, and together with its subsidiaries, “**Group**”) wishes to inform that the independent auditors of the Company, RSM Chio Lim LLP (“**Auditors**”) have included an emphasis of matter in the Independent Auditors’ Report in respect of material uncertainty related to going concern on the audited financial statements of the Company and its subsidiaries for the financial year ended 31 December 2018 (“**FY2018**”). The Auditors’ opinion is not modified in respect of this matter.

Extracts of the emphasis of matter in the Independent Auditors’ Report and the related notes of the audited financial statements for FY2018 are attached to this announcement as “**APPENDIX I**”.

In the opinion of the Directors, the Group will be able to continue as a going concern as there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due as the Group is expected to be able to generate sufficient cash flows from its operations as well as secure the support from its principal bankers and other stakeholders.

Shareholders are advised to read the Independent Auditors’ Report and the audited financial statements for FY2018 contained in the Annual Report FY2018, which will be released on SGXNET in due course.

By Order of the Board of
Regal International Group Ltd

Su Chung Jye
Executive Chairman and Chief Executive Officer

21 June 2019

APPENDIX I

EXTRACT OF THE EMPHASIS OF MATTER IN THE INDEPENDENT AUDITOR'S REPORT

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the financial statements. The Group incurred a net loss of RM36,901,000 for the reporting year ended 31 December 2018. The Company incurred a net loss of RM382,724,000 for the reporting year ended 31 December 2018. In addition, the Group did not fully pay instalments for bank loans and finance leases as mentioned in Note 28 and its tax obligations to the Malaysian tax authorities resulting in tax penalties being accrued as mentioned in Note 11. The ability of the Group and the Company to continue as going concerns is dependent on (a) the director who is the controlling shareholder providing continuing financial support; (b) the Group being able to generate sufficient cash flows from its operating activities to support its operating expenditure; (c) the Group being able to secure more financing arrangements; and (d) the Group and Company being profitable in the future. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as going concerns. If the going concern assumption is inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised for amounts other than those at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may have to provide for further liabilities that may arise. Our opinion is not modified in respect of this matter.

EXTRACT OF NOTE 1 TO THE AUDITED FINANCIAL STATEMENTS FY2018

Basis for going concern

The financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet their obligations as and when they fall due in the next 12 months. The Group incurred losses after tax of RM36,901,000 (2017: RM3,591,000) for the reporting year ended 31 December 2018. The Company incurred losses after tax of RM382,724,000 for the reporting year ended 31 December 2018. In addition, the Group did not fully pay instalments for bank loans and finance leases as mentioned in Note 28 and its tax obligations to the Malaysian tax authorities as mentioned in Note 11. Notwithstanding the above, the Group had net current asset and net asset positions of RM2,950,000 (2017: RM56,959,000) and RM16,661,000 (2017: RM54,293,000) respectively as at 31 December 2018. The Company had a net current liability position of RM7,370,000 (2017: Net current asset position of RM36,592,000) and net assets of RM49,040,000 (2017: RM431,764,000) respectively as at 31 December 2018. The Group's and Company's objectives, policies and processes for managing capital; financial risk management objectives; details of its financial instruments; availability of borrowing facilities; and its exposures to credit risk and liquidity risk are described in the notes to the financial statements.

The validity of the going concern assumption on which the financial statements were prepared depends on the ability of the Group to generate sufficient cash flows from operations to pay debts as and when they fall due and the Group and Company being profitable in the future. The Group and Company have unrestricted cash and cash equivalents of RM1,512,000 (2017: RM3,319,000) and RM569,000 (2017: RM2,923,000) respectively and there are completed unsold development properties and properties development in progress of RM35,398,000 (2017: RM38,373,000), which the Group is able to pledge with financial institutions to obtain additional financing. The Director, who is the controlling shareholder, has agreed to provide continued financial support. The Group is also able to enter into contra arrangements with suppliers in exchange for services, or for eventual sale to third parties.

The Group has multiple ongoing projects with contents and values to serve their target customers' profile as well as extensive marketing activities to sell existing and in-progress development properties, which are expected to generate revenue subsequent to the reporting year to meet operating cash flows requirements for the Group. The Group is also in discussions with the tax authorities and the principal lenders to restructure its obligations and to manage its cash flows better.

If the Group and Company are unable to continue as going concerns, adjustments may have to be made to reflect the situation that the assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts stated in the statements of financial position. In addition, the Group and Company may have to provide for further liabilities which may arise.

As at the date of these financial statements, the Directors believe that the Group and Company are well placed to manage their business risks and have adequate resources to meet their obligations as and when they fall due for at least 12 months from the end of the reporting year and this is supported by the Group's cash flow forecast for 2019. Accordingly, the Directors are of the opinion that it is appropriate for the financial statements to be prepared using the going concern basis.

EXTRACT OF NOTE 11 TO THE AUDITED FINANCIAL STATEMENTS FY2018

The Group has been served with tax demand letters amounting to RM 6.7 million for its subsidiaries and RM 5.8 million for its associate in Malaysia. These amounts have been recorded in the respective books as income tax payable. The Group has also accrued for the tax penalties arising from the late payments. Subsequent to year end, the Group has been liaising with the tax authorities to arrange for the payment plans of the outstanding matters.

EXTRACT OF NOTE 28 TO THE AUDITED FINANCIAL STATEMENTS FY2018

Term Loans

During the reporting year, there were defaults in payment of instalments of RM418,000 on the borrowings of RM7,501,000 at the end of the reporting year. Due to callable clauses in the loan agreements, Management has classified the affected borrowings as current. However, the lenders have not recalled these facilities as at the date of the financial statements.

The defaulted amount has been fully settled as of the date of the financial statements.

Finance Leases

During the reporting year, there were defaults in payment of instalments of RM656,000 on the finance leases that totalled RM5,887,000 at the end of the reporting year. This was due to shortage of liquid funds. Due to callable clauses in the finance lease agreements, Management has classified the affected balances as current. However, the lenders have not recalled these facilities as at the date of the financial statements.

The defaulted amount has been fully settled as of the date of the financial statements.