Extracted from the Independent Auditor's Report to the Audited Financial Statements of SBI Offshore Limited for the financial year ended 31 December 2018.

INDEPENDENT AUDITOR'S REPORT

To the Members of **SBI Offshore Limited**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SBI Offshore 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 2018;
- 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 financial year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position 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 Singapore Financial Reporting Standards (International) ("SFRS(I)s") 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 2018, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the changes in equity of the Company for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSA"). 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 opinion.

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.

1 Disposal of leasehold property and related land lease prepayment ("Property") held by a China subsidiary, Jiangyin SBI Offshore Equipment Co., Ltd. ("JSBI")

Key Audit Matter

As disclosed in Note 17 to the financial statements, the disposal of the Property was completed during the financial year and the Group received cash proceeds of RMB15,129,000 (equivalent to US$2,273,000), net of commission, relevant taxes and transaction fee of RMB2,871,000 (equivalent to US$439,000).

We draw your attention to Note 30 to the financial statements where it is disclosed that the Company received a Notice of Compliance dated 21 December 2018 (the "Notice") from the Singapore Exchange Regulation Pte Ltd ("SGX RegCo") and a special auditor was appointed on 21 March 2019 to investigate several matters in relation to the disposal of the Property. As at the date of these financial statements, the special audit is ongoing and has not been concluded.

We have determined this to be a key audit matter as the disposal of the Property is a significant transaction completed during the financial year.

Related Disclosures

Refer to Note 17 and Note 30 to the financial statements.

Audit Response

Our procedures included, amongst others, the following:

- Recomputed management's calculation for the loss on disposal of Property by comparing the overall net cash proceeds against the carrying value of the Property and checked the receipt of cash proceeds by JSBI against bank advice;
- Read management and the Board's responses to the queries raised by SGX RegCo as announced on 20 December 2018;
- Held discussions with the Board, management and component auditors of JSBI to understand their assessment of the matters raised in the Notice. In this regard, management and the Board have assessed that the disposal of the Property has been appropriately accounted for as the disposal was made to a third party on a commercial basis and the consideration of RMB18 million was arrived on a willing buyer willing seller basis;
- Assessed the reasonableness of management's judgements on the requirements of SFRS(I)s to evaluate whether provision should be made for possible breaches of rules, laws and regulations. In this regard, no provision has been made as the special audit is ongoing and has not been concluded and it is premature to ascertain if there are any potential penalties and legal implications prior to the conclusion of the special audit; and
- Assessed the adequacy of the related disclosure notes to the financial statements.

Emphasis of Matter

We draw attention to Note 29 to the financial statements which indicates that the Board has appointed an independent reviewer in May 2018 to undertake a review of the matter(s) that may have given rise to the unauthorised write-off in 2015 relating to a receivable of RMB17.3 million from JSBI to the Company. As of the date of these financial statements, the review by the independent reviewer is ongoing and has not been concluded.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the 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.

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 SFRS(I)s, 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.

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

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.

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 Adrian Lee Yu-Min.

BDO LLP
Public Accountants and
Chartered Accountants

Singapore
3 April 2019

Extracted from Note 29 to the Audited Financial Statements of SBI Offshore Limited for the financial year ended 31 December 2018.

Update on receivable of RMB17.3 million from a China subsidiary, Jiangyin SBI Offshore Equipment Co., Ltd. ("JSBI") and recoverability of the said amount

As announced by the Company on 28 February 2018, the Board was made aware by its auditors of a difference between the audited 2015 accounts of the Company and those of the Company's wholly-owned subsidiary, JSBI, incorporated in the PRC.

Based on the Board's review, the difference arose because there was an amount of RMB17.3 million (equivalent to US$2.65 million) payable by JSBI to the Company ("JSBI Payables") that was written off in the audited 2015 PRC financial statements of JSBI for statutory and tax filing purposes without the authorisation of the Board (the "Write-off"). Whilst the Write-off was made in the audited PRC financial statements, the Write-off was not made or adjusted for in the JSBI's accounting records to date. Hence, the intercompany balances could be and were eliminated on consolidation for the Group's financial statements in 2015 and 2016.

The Board has determined that there is no basis for the unauthorised Write-off as there were no records of minutes or Board resolutions passed to approve the Write-off and the Board will seek to reverse the written off amount.

After consultation with the PRC tax advisors, should the written off amount be reversed in JSBI's audited financial statements, the PRC tax authorities might deem the RMB17.3 million as income of JSBI and impose a value added tax ("VAT") of 17% (approximately RMB2.5 million on the VAT exclusive amount of RMB14.8 million) as the RMB17.3 million arose from the receipts of monies by JSBI on behalf of the Company.

Accordingly, a provision of RMB2.5 million (equivalent to US$373,000) for potential tax-related liabilities has been recorded in the Group's financial statements for the year ended 31 December 2017. The Board has assessed and determined that no further provision is required for the financial year ended 31 December 2018 based on their consultation with the PRC tax advisors.

Based on management and the Board's assessment, save for the provisions for potential tax exposure and possibility of further provisions for potential tax penalties and legal implications (as detailed below under "Contingent liabilities") which may be required to be recorded at JSBI or the Company:

- The Write-off had not resulted in any material direct financial loss to the Group and Company;
- The Group's financial statements for the current and prior financial years are not materially misstated as the intercompany balances were eliminated on consolidation; and
- The amount receivable from JSBI of RMB17.3 million recognised in the Company's financial statements are recoverable and supported by the recoverable amounts of JSBI's net assets comprising mainly cash held by JSBI, arising from the net cash proceeds received from the sale of the leasehold property and related land lease prepayment to a third party as disclosed in Note 17 to the financial statements.

Contingent liabilities

As announced by the Company on 25 May 2018, in consultation with the Company's sponsor and SGX-ST, the Board has appointed KordaMentha Pte Ltd as the independent reviewer ("Independent Reviewer") to undertake a review of the matter(s) that may have given rise to the unauthorised Write-off in 2015, inter-alia, breaches in rules, laws and regulations as well as lapses in control. The scope of the independent review will include inter-alia reviewing the nature and circumstances of the unauthorised Write-Off in 2015, assessing the financial impact, identifying any lapses or weaknesses in internal control, breaches in rules, laws and regulations, and making the appropriate recommendations.

As at the date of these financial statements, no provision has been made for potential tax penalties and legal implications as the review by the Independent Reviewer is ongoing and has not been concluded.