ANNICA HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 198304025N)

QUALIFIED OPINION AND EMPHASIS OF MATTER BY THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Pursuant to Rules 704(4) of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist (the "**Catalist Rules**"), the Board of Directors (the "**Board**") of Annica Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to announce that the Company's independent auditor, Baker Tilly TFW LLP (the "**Independent Auditor**"), has issued its Independent Auditor's report dated 11 April 2017 which includes a qualified opinion and an emphasis of matter on the financial statements of the Group for the financial year ended 31 December 2016 ("**FY2016**") (the "**Independent Auditor's Report**").

The Board wishes to highlight that the Independent Auditor has expressed an unqualified opinion on the statement of financial position and the statement of changes in equity of the Company for FY2016.

A copy of the Independent Auditor's Report and the relevant notes to the financial statements are annexed to this announcement.

The financial statements of the Group and of the Company for FY2016 and the Independent Auditor's Report will also be found in the Company's annual report for FY2016, which will be released via the SGXNET and despatched to the Company's shareholders in due course.

By Order of the Board
ANNICA HOLDINGS LIMITED

Sandra Liz Hon Ai Ling
Executive Director and Chief Executive Officer

11 April 2017

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*This announcement has been prepared by the Company and its contents have been reviewed by the Company's Continuing Sponsor, Stamford Corporate Services Pte. Ltd. ("**Sponsor**"), for compliance with the relevant rules of the Catalist Rules.*

The Sponsor has not independently verified the contents of this announcement. This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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INDEPENDENT AUDITOR'S REPORT
To the members of Annica Holdings Limited
For the financial year ended 31 December 2016

Report on the Audit of the Financial Statements

Qualified Opinion on Consolidated Financial Statements of the Group

We have audited the accompanying consolidated financial statements of Annica Holdings Limited and its subsidiaries (the "Group") as set out on pages 37 to 117, which comprise the consolidated statement of financial position of the Group as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion on the Consolidated Financial Statements of the Group section of our report, the accompanying consolidated financial statements of the Group 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 as at 31 December 2016, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Opinion on Financial Statements of the Company

We have audited the accompanying financial statements of Annica Holdings Limited (the "Company") as set out on pages 37 to 117, which comprise the statement of financial position of the Company as at 31 December 2016, 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 statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and FRSs so as to give a true and fair view of the financial position of the Company as at 31 December 2016 and the changes in equity of the Company for the financial year ended on that date.

Basis for Qualified Opinion on the Consolidated Financial Statements of the Group

Loss from discontinued operations of Industrial Power Technology Pte Ltd ("IPT") and The Think Environmental Co. Sdn. Bhd. ("TTEC")

As disclosed in Note 27 to the financial statements, the Company disposed IPT and TTEC ("Disposal Group") during the financial year, and reported loss from discontinued operations of $4,127,000 included in the consolidated statement of profit or loss and other comprehensive income for the financial year ended 31 December 2016. This loss of $4,127,000 has been determined based on the management accounts of the Disposed Group at the date of disposal.

As the management of the Group does not have access to the financial records of the Disposal Group, we are unable to form an opinion as to whether the management accounts of the Disposal Group are in form and content appropriate and proper for determination of the loss from discontinued operations as reported in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Group.

Our audit report dated 12 April 2016 on the consolidated financial statements of the Group for the financial year ended 31 December 2015 contained a qualified opinion on the 2015 consolidated financial statements arising from certain matters related to IPT. The extract of the basis for qualified audit opinion is disclosed in Note 39 to the financial statements.

In view of the matters described in the basis for qualified opinion paragraphs on the financial statements for the financial year ended 31 December 2015, we are unable to determine whether the opening balances of the Group as at 1 January 2016 are fairly stated. The opening balances as at 1 January 2016 entered into the determination of the loss from discontinued operations as reported in the consolidated financial performance and consolidated cash flows of the Group for the financial year ended 31 December 2016.

INDEPENDENT AUDITOR'S REPORT
To the members of Annica Holdings Limited
For the financial year ended 31 December 2016 (cont'd)

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

Basis for Qualified Opinion on the Consolidated Financial Statements of the Group (cont'd)

We are unable to determine whether any adjustments might be necessary in respect of the loss from discontinued operations. Any adjustments to the loss from discontinued operations would affect the loss for the financial year and total comprehensive loss as reported in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year ended 31 December 2016.

Our opinion on the current year's financial statements of the Group is also modified because of the possible effect of these matters on the comparability of the current year's figures and the 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 Company 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 2016 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 on the Consolidated Financial Statements of the Group, we are unable to obtain sufficient appropriate evidence with respect to the loss from discontinued operations of Disposal Group for the financial year ended 31 December 2016. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Material Uncertainty Related to Going concern

We draw attention to Note 3.1 to the financial statements with respect to the Group's and the Company's ability to continue as going concerns. During the financial year ended 31 December 2016, the Group reported a net loss of $8,218,000 (2015: $8,440,000) and has net operating cash outflows of $3,369,000 (2015: $8,721,000), and the Company reported a net loss of $4,371,000 (2015: $7,670,000).

These factors indicate the existence of a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as going concerns. Nevertheless, for the reasons disclosed in Note 3.1 to the financial statements, the Directors are of the view that it is appropriate for the financial statements of the Group and of the Company to be prepared on a going concern basis. Our opinion is not qualified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT
To the members of Annica Holdings Limited
For the financial year ended 31 December 2016 (cont'd)

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

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 year. 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 matters described in the Basis for Qualified Opinion on the Consolidated Financial Statements of the Group section and Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Description of key audit matter

Goodwill relating to acquisition of GPE Power Systems (M) Sdn. Bhd. ("GPE")

As disclosed in Note 11 and Note 15 to the financial statements, on 1 March 2016, the Company completed its acquisition of 70% shareholding interest in GPE at a consideration of $1,837,500. The newly acquired subsidiary is classified in the energy services segment (a new business segment in 2016). The Group recorded goodwill amounted to $1,020,000 by applying the acquisition method in accordance with FRS 103 Business Combinations.

Impairment assessment of goodwill is considered a key audit matter due to the judgement and estimations involved in the determination of the value-in-use of GPE. The judgement and estimations involved relates to the future performance of GPE and the discount rate applied to future cash flow forecasts.

Our audit procedures to address the key audit matter

- We evaluated management's value-in-use model and the key assumptions and inputs to the value-in-use model including forecast revenue, forecast gross profit margin, forecast expenditures, discount rate and terminal growth rate.
- We evaluated the management's methodologies and challenged their key assumptions and inputs by comparing the forecasts to recent performance and industry benchmarks.
- We checked the mathematical accuracy of the value-in-use model and agreed cash flows to the most recent approved financial budgets from the Board of Directors.
- We evaluated management's sensitivity analysis to assess the impact on the recoverable amount of GPE by reasonable possible changes to the estimated gross profit margin, growth rate and discount rate.
- We have also assessed the adequacy and appropriateness of the disclosures made in the financial statements.

Emphasis of Matter

Matters with Commercial Affairs Department

We draw your attention to Note 37 to the financial statements which describes the uncertainty in relation to the outcome of the Commercial Affairs Department's ("CAD") investigations.

On 7 February 2017, the CAD confirmed to us that its investigations are on-going. As of the date of this report, the Directors confirmed that the CAD has not provided the Company with any further details or updates of its investigations.

In view of the above, there exists an uncertainty, whether the on-going investigations, the outcome of which is unknown, may have an impact on the Group's on-going business operations. Our opinion is not qualified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT
To the members of Annica Holdings Limited
For the financial year ended 31 December 2016 (cont'd)

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 Annica Holdings Limited
For the financial year ended 31 December 2016 (cont'd)

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 Tay Guat Peng.

Baker Tilly TFW LLP
Public Accountants and
Chartered Accountants
Singapore

11 April 2017

EXTRACT

3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the financial year. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

3.1 Critical judgement made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

<u>Going concern</u>

During the financial year ended 31 December 2016, the Group reported a net loss of $8,218,000 (2015: $8,440,000) and has net operating cash outflows of $3,369,000 (2015: $8,721,000), and the Company reported a net loss of $4,371,000 (2015: $7,670,000). These factors indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as going concerns. Nevertheless, the Directors are of the view that it is appropriate for the financial statements of the Group and of the Company to be prepared on a going concern basis as:

(1) The review of the cash flow forecasts of the Group and of the Company for the financial year ending 31 December 2017 showed that the Group and the Company have adequate resources and will be able to generate sufficient cash flows in the next 12 months to meet their financial obligations as and when they fall due taking into consideration:

(a) proceeds of 3,000,000 from the sale of the Company's leasehold property which is expected to be received within the next 12 months, out of which $150,000 being deposit equivalent to 5% of the proceeds, has been received subsequent to the financial year and as at the date of this report (Note 10);

(b) additional funds to be raised from the issuance of the 2% redeemable convertible bonds ("RCBs") (Note 17). Subsequent to the financial year and as at the date of this report, the Company has issued RCBs with an aggregate principal of $500,000 (Note 38). The Company is working with the subscribers of the RCBs to raise further proceeds from the issuance of the RCBs in the next 12 months; and

(c) proceeds from the allotment and issuance of ordinary shares of the Company to a third-party investor pursuant to an option agreement (Note 17) ("Option Shares"). The Company targets to raise proceeds from the allotment and issuance of the Option Shares to the investor in the next 12 months.

(2) the Directors are actively evaluating various strategies, including fund raising, acquisitions of suitable businesses as well as restructuring the Group's existing businesses or assets to improve the existing business and earnings base of the Group.

After considering the measures taken described above, the Directors believe that the Group and the Company have adequate resources to continue its operations as going concern. The consolidated financial statements of the Group and the financial statements of the Company are prepared on a going concern basis.

EXTRACT

3. Critical accounting judgements and key sources of estimation uncertainty (cont'd)

3.1 Critical judgement made in applying accounting policies (cont'd)

Going concern (cont'd)

The financial statements did not include any adjustments that may result in the event that the Group and the Company is unable to continue as going concerns. In the event that the Group and the Company is unable to continue as going concerns, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the amounts 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 might arise and to reclassify non-current assets and liabilities as current assets and liabilities.

27. Discontinued operations

On 17 March 2016, the Company completed the disposal of its entire shareholding interest in IPT and The Think Environmental Co. Sdn. Bhd. ("Disposal Group") for a cash consideration of $2. Following the completion of disposal, the post-tax results of the Disposal Group (which previously contributed to the biomass projects segment) were presented separately on the consolidated statement of profit or loss and other comprehensive income as "Discontinued operations" and comparatives have been restated.

The loss for the financial year from the discontinued operations is analysed as follows:

	Group	
	2016	2015
	$'000	$'000
Loss of the Disposal Group	**719**	7,413
Loss on disposal of the Disposal Group	**3,408**	–
	4,127	7,413

The results of the Disposal Group presented as discontinued operations for the financial year ended 31 December 2016 and the restated corresponding financial year ended 31 December 2015 are as follows:

	Group	
	2016	2015
	$'000	$'000
Construction revenue	**1,724**	13,037
Cost of sales	**(2,103)**	(14,164)
Gross loss	**(379)**	(1,127)
Other income (Note (i))	**–**	121
Selling and distribution expenses	**(8)**	(49)
Administrative expenses	**(349)**	(1,622)
Other expenses	**20**	(4,642)
Finance costs	**(3)**	(94)
Loss before income tax of the Disposal Group (Note (ii))	**(719)**	(7,413)
Income tax expense	**–**	–
Loss of the Disposal Group, net of tax	**(719)**	(7,413)
Loss on disposal of the Disposal Group		
- gain on disposal of discontinued operations (Note 29)	**7,434**	–
- impairment of amount due from Disposal Group (Note 29)	**(10,842)**	–
	(3,408)	–
Loss from discontinued operations, net of tax	**(4,127)**	(7,413)

EXTRACT

27. Discontinued operations (cont'd)

(i) Other income comprises the following:

	Group 2016 $'000	2015 $'000
Government grants	–	44
Write-back of long outstanding payables no longer required	–	77
	–	121

(ii) Loss before income tax of the Disposal Group is arrived at after charging/(crediting):

	Group 2016 $'000	2015 $'000
Amortisation of intangible assets (Note 15)	**2**	8
Interest expenses on borrowings	**3**	22
Interest expenses on loans	–	40
Finance charge from banks	–	32
Foreign currency exchange loss	**23**	577
Loss on disposal of property, plant and equipment	–	3
Impairment loss on property, plant and equipment (Note 14)	–	61
Depreciation of property, plant and equipment	**24**	99
Other recoverable written off	–	660
Impairment loss on investment in an associate (Note 12)	–	44
Waiver of amount due to an associate	–	(44)
Allowance for impairment of:		
- other recoverable (Note 6)	–	406
- doubtful other receivables (Note 32)	–	574
- doubtful trade advance to an associate (Note 32)	–	2,104
- doubtful trade receivables (Note 32)	–	240

The impact of the discontinued operations on the cash flows of the Group is as follows:

	Group 2016 $'000	2015 $'000
Operating cash flows	**(97)**	(9,312)
Investing cash flows	–	*
Financing cash flows	**171**	8,013
Total cash inflows/(outflows)	**74**	(1,299)

* Amount below $1,000.

The carrying amounts of the assets and liabilities of the Disposal Group at the date of disposal are disclosed in Note 29.

EXTRACT

27. Discontinued operations (cont'd)

(iii) Loss per share from discontinued operations attributable to equity holders of the Company:

	Group	
	2016	2015
Loss for the financial year from discontinued operations used in the computation of basic loss per share from discontinued operations ($'000)	**(3,816)**	(4,255)
Weighted average number of ordinary shares on issue ('000)	**7,258,154**	1,313,246
Basic and diluted loss per share from discontinued operations (cents)	**(0.05)**	(0.32)

The basic and diluted loss per share from discontinued operations are calculated by dividing the loss from discontinued operations, net of tax, attributable to equity holders of the Company by the weighted average number of ordinary shares of the Company. As at the end of the respective financial year, diluted loss per share is similar to basic loss per share as there is no dilutive potential ordinary shares.

The following claims and contingent liabilities of the Group are related to IPT as at 31 December 2015:

IPT had various claims and contingent liabilities on contracts entered with IPT's customers as at 31 December 2015. The aggregate maximum liquidated damages according to the terms of the various contracts, was approximately $11,600,000. On the basis that the outcomes of each of the claims from the IPT's customers could not be reliably estimated and the obligation of the liquidated damages were subject to those outcomes, representation from the management of IPT on the status of the negotiations between IPT and the IPT's customers and lawyer's opinion on the merits of the claims from the IPT's customers, the Directors were of the opinion that no further allowance for doubtful receivables on the amount owing from the IPT's customers of $6,057,000 and no provision for liquidated damages were necessary as at 31 December 2015.

In 2016, prior to the Group's disposal of IPT, IPT received writs of summons and claims totalled $668,000 made against it from certain trade creditors for outstanding debts in respect of goods delivered and services rendered to IPT. The full amounts of the outstanding debts claimed under the writs of summons have been provided for in the financial statements as at 31 December 2015. As the management of IPT was unable to determine the probable outcome and current status of the writs of summons, consequently, the Directors were of the opinion that no additional liabilities might arose and no additional liabilities were recognised as at 31 December 2015.

EXTRACT

37. Other Matters

Matters with Commercial Affairs Department

As announced by the Company on 4 April 2015 and 29 April 2015, the Company and certain of its subsidiaries, P.J. Services Pte Ltd, Nu-Haven Incorporated and IPT (which was disposed during the financial year), were served with notices to provide certain information and documents for the period from 1 January 2011 to 3 April 2015 to the Commercial Affairs Department (the "CAD") in relation to its investigations into an offence under the Securities and Futures Act (Cap. 289). Since then, the Company has been co-operating fully with CAD in its investigations. On 7 February 2017, the CAD confirmed to the Company's external auditor that its investigations are on-going. The CAD has not provided the Company with any further details or updates of its investigations.

One of the Group's employee, who was the Company's former Chief Operating Officer, is assisting the CAD with its investigations.

The business and day-to-day operations of the Group are not affected by the investigations and have continued as normal. However, the ongoing investigations have cast a negative outlook on the Company from the perspective of the financial institutions which are highly risk averse and pose limitations to the Group's growth and expansion plans.

39. Basis for qualified audit opinion on the financial statements for the financial year ended 31 December 2015

The independent auditor's report dated 12 April 2016 expressed a qualified audit opinion on the financial statements for the financial year ended 31 December 2015. The extract of the basis for qualified audit opinion is as follows:

Basis for Qualified Opinion

Trade and other receivables relating to a subsidiary, Industrial Power Technology Pte Ltd ("IPT")

Included in the trade and other receivables shown in 2015 financial statements is a net carrying amount of $7,986,000 comprising amounts due from FTJ Bio Power Sdn. Bhd. ("FTJ") of $1,975,000, Songkhla Biomass Company Limited ("Songkhla") of $3,403,000, Thai Maidensha Company Limited ("Thai Maidensha") of $679,000 and advance for equipment of $1,929,000.

During the financial year ended 31 December 2015, IPT received a notice of termination letter from FTJ in respect of a contract between IPT and FTJ on grounds of alleged breach and default by IPT on certain terms under the contract. As disclosed in 2015 financial statements, the matters relating to the notice of termination letter are still on-going as at the date of this report. The Directors are of the opinion that the outcome and exposure to liquidated damages cannot be reliably estimated.

In addition, arising from delay in delivery of certain projects with Songkhla and Thai Maidensha, IPT is also exposed to payment of liquidated damages to the respective debtors. Details of these contracts and the Group's exposure to liquidated damages are disclosed in 2015 financial statements.

We are unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the recoverability of the total receivables of $7,986,000 included in trade and other receivables, and whether any provision for liquidated damages is required in the consolidated financial statements for the financial year ended 31 December 2015 with respect to the above mentioned matters.

Writs of summons relating to IPT

As disclosed in 2015 financial statements, IPT received writs of summons and claims totaling $668,000 from certain trade creditors subsequent to the end of the reporting period, for outstanding debts in respect of goods delivered and services rendered to IPT. Full amounts of the outstanding debts claimed under the writs of summons have been provided in the 2015 financial statements. The Directors are of the view that no further liabilities are required to be recognised with respect to the writs of summons. We are unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether any provision for other liabilities is required in the consolidated financial statements for the financial year ended 31 December 2015 with respect to the writs of summons.

EXTRACT

39. Basis for qualified audit opinion on the financial statements for the financial year ended 31 December 2015 (cont'd)

Opening balances

The auditor's report on the Group's financial statements for the financial year ended 31 December 2014 similarly included a qualification on the recoverability of the carrying amount of net trade receivables of $2,863,000 arising from a notice of termination of contract received from FTJ, and inability to ascertain whether any provision is required with respect to the notice of termination.

In view of the matters described in the basis for qualified opinion paragraphs on the financial statements for the financial year ended 31 December 2014, we are unable to determine whether the opening balances of the Group as at 1 January 2015 are fairly stated. Since the opening balances as at 1 January 2015 entered into the determination of the financial performance, changes in equity and cash flows of the Group for the financial year ended 31 December 2015, we are unable to determine whether adjustments might have been found necessary in respect of the Group's financial statements for the financial year ended 31 December 2015.

Our opinion on the 2015's financial statements of the Group is also modified because of the possible effect of these matters on the comparability of the 2015's figures and the corresponding figures.

Qualified Opinion on consolidated financial statements of the Group

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group as at 31 December 2015, and of the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date.

Opinion on the statement of financial position and statement of changes in equity of the Company

In our opinion, 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 Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Company as at 31 December 2015 and the changes in equity of the Company for the financial year ended on that date.

Emphasis of Matter

1. Matters with Commercial Affairs Department

   We draw your attention to 2015 financial statements which describes the uncertainty in relation to the outcome of the Commercial Affairs Department's ("CAD") investigations.

   On 22 January 2016, the CAD confirmed to us that its investigations are on-going. As informed to us by the Directors, the CAD has not provided the Company with any further details or updates of its investigations.

   In view of the above, there exists an uncertainty, whether the on-going investigations, the outcome of which is unknown, may have an impact on the Group's on-going business operations. However, the on-going investigations have cast a negative outlook on the Company from the perspective of the financial institutions which are highly risk averse and pose limitations to the Group's growth and expansion plans.

   Our opinion is not qualified in respect of this matter.

EXTRACT

39. Basis for qualified audit opinion on the financial statements for the financial year ended 31 December 2015 (cont'd)

Emphasis of Matter (cont'd)

2. Going concern assumption

We draw your attention to 2015 financial statements. During the financial year ended 31 December 2015, the Group reported a net loss of $8,440,000 (2014: $14,492,000) and has net operating cash outflows of $8,721,000 (2014: $417,000), and the Company reported a net loss of $7,670,000 (2014: $13,872,000). At 31 December 2015, the Group's and the Company's accumulated losses amounted to $47,840,000 (2014: $42,587,000) and $54,068,000 (2014: $46,398,000) respectively. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. Nevertheless, for the reasons disclosed in 2015 financial statements, the Directors were of the view that it was appropriate for the financial statements of the Group and of the Company to be prepared on a going concern basis.

The financial statements did not include any adjustments that may result in the event that the Group and the Company was unable to continue as a going concern. In the event that the Group and the Company was unable to continue as a going concern, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the amounts 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 might arise and to reclassify non-current assets and liabilities as current assets and liabilities.

Our opinion is not qualified in respect of this matter.