

Independent Auditor's Report to the Members of Ryobi Kiso Holdings Ltd.

Report on the Audit of the Financial Statements

Disclaimer of opinion

We were engaged to audit the accompanying financial statements of Ryobi Kiso Holdings Ltd. (the "Company") and its subsidiary corporations (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 June 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity 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, as set out on pages 10 to 93.

We do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion of our report, we have not been able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

Going concern

The Group and the Company incurred a net loss of \$72,885,000 and \$65,833,000 for the financial year ended 30 June 2018 respectively (2017: net profit of \$1,053,000 and \$2,114,000) and as at that date, the Group and the Company are in net current liabilities position of \$63,121,000 and net current assets position of \$20,802,000 respectively (2017: Net current assets position of \$13,589,000 and \$36,762,000). In addition, as disclosed in Note 18(d) to the financial statements, the Group has breached certain financial covenant clauses on some of its loan agreements, consequently, a non-current portion of borrowings amounting to \$17,028,000 has been reclassified to current borrowings as at the financial year end.

The above condition indicate the existence of material uncertainties which may cast significant doubt on the Group's and the Company's abilities to continue as going concerns. Nevertheless, the Board of Director believes that the use of the going concern assumption on the preparation of the financial statements for the financial year ended 30 June 2018 is still appropriate after taking into consideration of the following assumptions and measures:

- (a) On 27 June 2018, the Group appointed an independent financial advisor to assist the Group in restructuring the current and projected financial position of the Group to work out a restructuring proposal together with the bank lenders and creditors. On 31 July 2018, the Company and certain of its subsidiary corporations, have made applications to the High Court ("Court") of the Republic of Singapore to commence a court supervised reorganisation process, with the intention of proposing a Scheme of Arrangement to reorganise their liabilities. The Court has granted a moratorium for a period of 6 months from 27 August 2018 for the Group to work with the independent financial advisor, bank lenders and creditors to develop a Scheme of Arrangement for the reorganisation of their liabilities and business [Note 38(a)].
- (b) The Group is in discussion and/or looking for potential parties in respect of the disposal of certain non-critical assets to facilitate the ongoing reorganisation process.

**Independent Auditor's Report to the Members of
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(cont'd)**

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

Basis for Disclaimer of Opinion (cont'd)

Going concern (cont'd)

In the event that the Group and the Company are unable to continue in operational existence in the foreseeable future, the Group and the Company may be unable to discharge their 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 statement of financial position. In addition, the Group and the Company may have to reclassify non-current assets to current assets and non-current liabilities to current liabilities. The financial statements do not include any adjustment which may arise from these uncertainties.

The ability of the Group and the Company to continue as going concerns depends on the successful outcome of the measures and assumptions set out above which cannot be determined at present. As such, we are unable to obtain sufficient audit evidence to form an opinion as to the appropriateness of the use of the going concern basis in the preparation of the accompanying financial statements of the Company.

Winding up of a subsidiary corporation

On 29 June 2018, one of the Company's wholly owned subsidiary corporations, Ryobi Kiso (S) Pte. Ltd., has commenced winding up proceedings against its 70% owned subsidiary corporation, Ryobi Tactics Pte. Ltd. ('RT'). On 27 July 2018, the High Court has granted a winding up order and subsequently, a liquidator has been appointed.

Nevertheless, the financial statements of RT for the financial year ended 30 June 2018 have been prepared by the management on a going concern basis. Included in the financial statements of RT for the financial year ended 30 June 2018 were revenue and net loss of \$10,982,000 and \$5,287,000 respectively. As at 30 June 2018, the total assets and total liabilities of RT were carried at \$18,399,000 and \$23,350,000 respectively.

During the financial year, the Company has consolidated the financial statements of RT which have been prepared on a going concern basis. We are of the view that the application of the going concern basis for the preparation of the financial statements of RT is a departure from *Financial Reporting Standards ("FRS") 1 – Presentation of Financial Statements*. We are unable to obtain the relevant financial information, supporting documents and explanations from the management of RT when winding up proceedings against RT were commenced by RKS.

Accordingly, we are unable to ascertain the financial impact to the consolidated financial statements of the Group for the financial year ended 30 June 2018.

Other Information

Management is responsible for the other information. The other information comprises the information include in the annual report, but does not included 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.

**Independent Auditor's Report to the Members of
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(cont'd)**

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

Other Information (cont'd)

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 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 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.

**Independent Auditor's Report to the Members of
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(cont'd)**

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

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

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also: (cont'd)

- 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.

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Report on Other Legal and Regulatory Requirements

Except for the matters described in the Basis for Disclaimer Opinion paragraphs, 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 director on the audit resulting in this independent auditor's report is Ms. Lee Look Ling.

**Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants**

Singapore

18 February 2019