

# Independent Auditor's report to the Members of Rich Capital Holdings Limited

## Report on the Audit of the Financial Statements

We have audited the financial statements of Rich Capital Holdings Limited 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 March 2019, the consolidated statement of comprehensive income, the 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 and other explanatory information.

In our opinion, except for the possible effects of the matters described in the Basis of Qualified Opinion section of our report, the accompanying consolidated financial statements of the Group and the statement of financial position 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)") 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 March 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

## Basis for Qualified Opinion

### 1. Goodwill on acquisition of Oxley Batam Pte. Ltd. and its joint venture

On 18 May 2018, the Company announced the completion of the acquisition of an 80% equity interest in Oxley Batam by its wholly-owned subsidiary, Rich Batam Private Limited ("Rich Batam") from a wholly-owned subsidiary of Oxley Holdings Limited ("OHL"). Oxley Batam in turn has a 50% equity interest in PT Oxley Karya Indo Batam ("PT OKIB"), which is the property developer of the Group's Oxley Convention City ("OCC") Project in Batam. The consideration paid to OHL comprises of (a) a sum of \$4, representing the consideration for the sale of the ordinary share in Oxley Batam; and (b) a sum of \$10,393,467, representing the consideration for the novation of a loan from OHL to Rich Batam.

Management has evaluated its investment in PT OKIB to be a joint venture in accordance with SFRS(I) 11 – *Joint Arrangements* on the basis that the shareholders' agreement stipulates that the parties to the joint arrangements have rights over the net assets of PT OKIB.

Arising from the acquisition, management recorded a goodwill of \$1.66 million in the Group's carrying amount of its investment in PT OKIB as at 31 March 2019 which arose primarily from the fair value adjustment on the land development parcel with an estimated land area of approximately 20,000 square metres pursuant to a purchase price allocation exercise conducted by the Company's appointed external valuer.

Due to the ongoing disputes with the joint venture partner, we were unable to obtain sufficient appropriate audit evidence to ascertain the appropriateness of the fair value adjustment of the land development parcel and accordingly, we were unable to determine if the goodwill of \$1.66 million on acquisition of Oxley Batam and PT OKIB is fairly stated.

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## Basis for Qualified Opinion (Cont'd)

### 2. Valuation of mining rights/ Recoverable amount of the cost of investment in a subsidiary

#### (i) Valuation of mining rights

Our audit report dated 9 July 2018 on the financial statements for the previous financial year ended 31 March 2018 contained a qualified opinion on (i) the valuation of the mining rights; and (ii) the recoverable amount of the cost of investment in a subsidiary.

The Company, through Summit Light Ventures Ltd ("Summit Light"), is the sole legal owner of certain mining rights in respect of the Birthday Mine located in Western Australia. As at 31 March 2018, management carried out an impairment assessment on the mining rights (also known as "cash generating unit or CGU") since there were indicators of impairment due to delays in the exploration and evaluation activities in respect of the mining rights. Following management's assessment, a full impairment loss on the remaining carrying value of the mining rights amounting to \$1.78 million was recorded in the statement of comprehensive income for the financial year ended 31 March 2018 based on the value-in-use of the CGU.

SFRS(I) 1-36 *Impairment of Assets* states that the recoverable amount of the CGU is based on the higher of its fair value less costs of disposal and value-in-use. We had previously concluded that the use of the value-in-use methodology to determine the recoverable amount of the CGU as at 31 March 2018 was not appropriate because management did not intend to incur further costs in the exploration works for the mining rights and future cash flows would not be expected to be derived from the CGU from continuing use and in the absence of information from management on the fair value of the mining rights, we were not able to obtain sufficient appropriate audit evidence to ascertain whether the mining rights are measured appropriately in accordance with SFRS(I) 1-36.

#### (ii) Recoverable amount of the cost of investment in a subsidiary

In the previous financial year, management recorded a full impairment loss on the investment in Summit Light amounting to \$1.94 million. The recoverable amount of the Company's investment in Summit Light is dependent on the measurement basis of the mining rights as described in the preceding paragraph since Summit Light is the sole legal owner of the mining rights. In the absence of information from management on the fair value of the mining rights, we were not able to obtain sufficient appropriate audit evidence to ascertain whether the recoverable amount of the investment in Summit Light was measured appropriately in accordance with SFRS(I) 1-36 as at 31 March 2018.

As at 31 March 2019, there was no new audit evidence furnished by management to support the fair value of the mining rights as well as the recoverable amount of the investment in Summit Light.

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## 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.

### Going concern assumption

Note 2 to the financial statements provides more information on the going concern basis of preparation of the financial statements, and the material uncertainty which cast doubt on the ability of the Group and the Company to continue as a going concern.

As at 31 March 2019, the Group and the Company reported cash balances of \$702,000 and \$661,000 respectively after a payment on 28 November 2018 of \$2 million to Rich-Link Construction Pte. Ltd. ("RLC") on behalf of PT OKIB in Indonesia and after other net cash outflows.

On 27 June 2019, the Board of Directors of the Company requested for a voluntary suspension of the Company's shares to address the issues raised in a legal letter received from a law firm appointed by PT Karya Indo Batam ("PT KIB"), the joint venture partner of PT OKIB, demanding amongst other things, that the Group disburses the outstanding shareholder's loan to PT OKIB. Arising from this voluntary suspension of the Company's shares, the Company may have difficulty to raise fresh funds to meet the various operational cashflow needs through fund raising options.

Management's basis for preparing the financial statements on a going concern basis as at 31 March 2019 is provided in Note 2, including the fact that the Group has positive net current assets of \$2.6 million and positive equity attributable to shareholders of \$20.4 million at the reporting date. Furthermore, RLC has subsequently refunded the payments of \$1.75 million and \$0.25 million to the Company on 22 July 2019 and 7 August 2019, respectively. As at 30 July 2019, the Group's and the Company's cash balances were \$1,529,000 and \$1,512,000, respectively.

Our response and work performed:

We evaluated management's assessment of the Group's ability to continue as a going concern, relying on the sources of liquidity and funding available to the Group. We evaluated the cash flows forecasts prepared by management, for the next 12 months from the balance sheet date and assessed if these forecasts are reasonable by stress-testing the forecasts. We challenged the appropriateness of the key assumptions used by management. We sighted to the letter of undertaking received from a shareholder of its subsidiary that the payment of management fee incurred for the financial period from 1 April 2019 to 31 March 2020 shall be temporary deferred to 1 April 2020. In addition, the Company has obtained a letter of financial support from the controlling shareholder and we have assessed his financial ability in providing such financial support to the Company.

We found management's assessment of the sources of liquidity and funding above to support the going concern basis of accounting in the preparation of the financial statements to be reasonable. Adequate disclosure of the pertinent information has also been set out in Note 2 to the financial statements.

# **Independent Auditor's report to the Members of Rich Capital Holdings Limited (Cont'd)**

## **Information other than the Financial Statements and Auditor's Report Thereon**

Management is responsible for the other information. The other information obtained at the date of this auditor's report is 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 on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We were unable to obtain sufficient appropriate evidence about the matters as described in the Basis for Qualified Opinion section above. Accordingly, we were unable to conclude whether or not the other information is materially misstated with respect to the matter.

## **Responsibilities of Management and Those Charged with Governance 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

# Independent Auditor's report to the Members of Rich Capital Holdings Limited (Cont'd)

## 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 Singapore Standards on Auditing ("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 and the Company'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 Rich Capital Holdings Limited (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.

## Other Matter

### Payment made to RLC

There was a lapse in the governance process in respect of a payment of Rp 20 billion (equivalent to approximately \$2 million) made by the Company on behalf of PT OKIB in Indonesia to RLC in relation to the Group's OCC Project in Batam, Indonesia on 28 November 2018. The payment was not made in accordance with the terms of the letter of award provided to RLC by PT OKIB dated 15 October 2018 in relation to the OCC Project. The letter of award provides that unless and until PT OKIB receives the advance payment guarantee of a sum equivalent to 10% of the contract sum (approximately \$12.5 million) from RLC, no advance payment shall be made to RLC. As at the date of this audit report, the statutory financial statements of PT OKIB for the financial period ended 31 March 2019 has not been adopted by the shareholders of PT OKIB, which comprised representatives from the Company and the joint venture partner although RLC has subsequently refunded the payments of \$1.75 million and \$0.25 million to the Company on 22 July 2019 and 7 August 2019, respectively.

Arising from this lapse, the Company announced on 14 August 2019 that they have appointed an independent reviewer to carry out an independent review based on the approved scope of work set out by SGX-ST. The scope of work includes inter alia, (i) the tender and award of the construction contract to RLC and the adherence to guidelines and review procedures for the Group's mandated interested person transaction; (ii) the advance payment of \$2 million made to RLC; (iii) matters relating to the proposed acquisition of 100% equity interest in RLC and Rich-Link Builders Pte. Ltd.; and (iv) the cessation of the former Executive Director of the Company (collectively known as the "Independent Review").

As at the date of this audit report, the Independent Review is still ongoing and conclusions not known.

# **Independent Auditor's report to the Members of Rich Capital Holdings Limited (Cont'd)**

## **Report on Other Legal and Regulatory Requirements**

Except for the matters described in the Basis for Qualified Opinion section of the report, the accounting records required by the Act to be kept by the Company and its subsidiaries 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 Kong Chih Hsiang Raymond.

Foo Kon Tan LLP  
Public Accountants and  
Chartered Accountants

Singapore,

11 September 2019