

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TECHNICS OIL & GAS LIMITED (REGISTRATION NO:200205249E)

Report on the financial statements

We have audited the accompanying financial statements of Technics Oil & Gas 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 30 September 2015, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the group, and statement of changes in equity of the company for the reporting year then ended, and significant accounting policies and other explanatory information.

Management's responsibility 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 Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Interests in associates

- (a) The company's investment in Norr Offshore Group Limited ("NOGL"), a foreign associate accounted for by the equity method, is carried at \$298,000 on the consolidated statement of financial position as at 30 September 2015, and the company's share of the NOGL's net loss after tax is included in the consolidated statement of income for the reporting year then ended.
- (b) As at end of the reporting year, there were trade and other receivables owing by associates, NOGL and Norr Systems Hydraulics Pte Ltd ("NSHPL") as follows:

	Group 2015 \$'000	Company 2015 \$'000
<u>Trade and other receivables:</u>		
NOGL	1,490	1,052
NSHPL	13,086	-
	<u>14,576</u>	<u>1,052</u>

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(c) Contingent liability

	Group 2015 \$'000	Company 2015 \$'000
Financial guarantee provided by the Company in respect of financial liabilities of NOGL	458	458

As more fully disclosed in Note 41, the associates' financial information which were audited by other auditors have been subject to audit qualifications as follows:

- (i) Adverse opinion for NOGL
- (ii) Qualified opinion regarding adequacy of provision for losses on NSHPL's work in progress inventories

Accordingly, we are unable to satisfy ourselves as to the extent of the ultimate realisability of the investments in associates and the above receivables and the crystallisation of the above contingent liability. We are also unable to ascertain the accuracy of the share of net assets of associates recorded at the end of the reporting year and results for the reporting year ended 30 September 2015 accounted for under the equity method as per FRS 28 Investment in Associates and Joint Ventures.

Qualified Opinion

In our opinion, except for the possible effects of the matters referred to in the Basis for Qualified Opinion paragraphs, the 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 Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the group and of the company as at 30 September 2015 and of the financial performance, changes in equity and cash flows of the group and changes in equity of the company for the reporting year ended on that date.

Emphasis of Matter

We draw attention to Note 2B to the financial statements with respect to allowance for doubtful trade accounts and net realisable value of balance on construction contract costs. As at end of the reporting year, included in trade receivables, accrued revenue and balance on construction contract costs are amounts of \$1,518,000, \$7,506,000 and \$1,351,000 respectively owing by and recoverable from a third party customer. The total allowance for impairment loss made in respect of these balances was \$8,822,000. No further allowance for impairment loss was made in relation to the remaining balance of \$1,553,000. Management considered the financial health of and near-term business outlook for the third party. Management is of the view that the balance is recoverable taking into consideration the profitability and financial position of the customer based on its latest audited financial statements for the reporting year ended 31 December 2014. The future outcome may be uncertain and adjustments may be required in future to increase or reduce the provision. Our opinion is not further qualified in respect of this matter.

Report on other legal and regulatory requirements

In our opinion, subject to the above matters, 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.

RSM Chio Lim LLP
Public Accountants and
Chartered Accountants
Singapore

6 January 2016

Partner-in-charge of audit: Teo Cheow Tong
Effective from year ended 30 September 2014

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2015

41. Other matters

As disclosed in note 14, the Company has equity interests in associates, Norr Group Offshore Limited (“NOGL”) and two of its subsidiaries, Norr System Pte Ltd (“NSPL”) and Norr System Hydraulics Pte Ltd. (“NSHPL”), whose financial statements were audited by auditors other than RSM Chio Lim LLP.

- (i) The independent auditors of NOGL has issued an adverse audit opinion on the special purpose financial information of NOGL for the financial year ended 30 September 2015 which have been prepared for the purpose of the preparation of the Group’s consolidated financial statements, as follows:

“Basis for Adverse Opinion for NOGL

The special purpose financial information has been prepared on a going concern basis by management. As at September 30, 2015, the Company’s current liabilities exceeded its current assets by S\$1,883,993 and the Company has incurred a net loss of S\$6,265,329 during the year ended September 30, 2015. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. In addition, we understand that management has plans to liquidate the Company. Consequently, the use of the going concern assumption to prepare the special purpose financial information is not appropriate.

As at date of this report, no assessment of impairment was performed by the management for the Company’s cost of investments in subsidiaries amounting to S\$10,638,298 as this will be eliminated on consolidation. We have not been able to perform any work in respect of this matter.”

- (ii) The independent auditors of NSHPL has issued an adverse audit opinion on the special purpose financial information of NSHPL for the financial year ended 30 September 2015 which have been prepared for the purpose of the preparation of the Group’s consolidated financial statements, as follows:

“Basis for Qualified Opinion for NSHPL

The Company’s work in progress inventory as at September 30, 2015 of S\$12,580,661 constitutes actual cost incurred of S\$14,268,406 less provision for net realisable value (“NRV”) of S\$1,687,725 for a project with an original contract sum of S\$21,104,800 (US\$17,020,000). Subsequent to the end of the reporting period, this project was terminated with the contract customer due to the customer’s inability to continue with the project. We understand from management that the Company plans to resell the completed project at a 20% reduction from the original contract sum to another third party who has issued a letter of interest to enquire on the offer based on the reduced contract sum of S\$16,238,101 (US\$13,616,000). On that basis, the Company recorded a provision for net realisable value of S\$1,687,725 for cost incurred that is not expected to be recovered and a provision for foreseeable loss of S\$490,654 for expected future losses arising from the reduction in the contract sum. Subsequent to the recording of the mentioned provision, the Company entered into a sales contract with the third party for a contract sum of S\$14,297,000 (US\$10,000,000), subject to satisfaction of certain terms and conditions. Arising from this, there is a [further] shortfall in the provision for net realisable value by S\$1,503,891 and provision for [further] foreseeable losses by S\$437,210 which have not been adjusted in the accompanying special purpose financial information by the Company as at the date of this report.”

- (iii) The auditors’ report of associate, Norr Systems Pte. Ltd. (“NSPL”) was not subject to any audit qualification, but it includes an emphasis of matter on the uncertainty of its ability to operate as a going concern.