KLW Holdings Limited
Findings to Date by the Special Auditors

4 November 2015

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1. Executive Summary

Background

1. KLW Holdings Limited ("KLW" or "the Company") is a company listed on the Catalist Board of the Singapore Stock Exchange Securities Trading Limited ("SGX"). It is an investment holding company. The principal activities of the subsidiary companies of KLW range from door manufacturing and distributions to property investments and developments.

2. On 27 May 2015 the Company announced that the Managing Director and the majority shareholder, Lee Boon Teck ("LBT"), ("the 27 May 2015 Announcement") entered into the following term sheets:

   a) Development of property in Bali ("Bali Term Sheet");
   b) Acquisition of a hotel in Zhangye, Gansu ("Zhangye Hotel Term Sheets");
   c) Development of a piece of property in Zhangye, Gansu ("Zhangye Development Term Sheets").

   Collectively, the Zhangye Hotel Term Sheets and Zhangye Development Term Sheets are defined as "the Zhangye Term Sheets".

3. The 27 May 2015 Announcement stated that the Company had paid commitment fees of a total of S$16.2 million with respect to these term sheets, S$2.2 million for the Bali Term Sheet and S$7 million each for the two Zhangye Term Sheets between 8 January 2014 and 21 June 2014. The term sheets were entered between 3 April 2014 and 21 June 2014. Based on the term sheets, the commitment fees would be refunded to the Company if there were no definitive agreements entered by July 2014. The Company had not signed any definitive agreement by the due dates. The payment of commitment fees were made without any approval from the Board of Directors ("Board").

4. The 27 May 2015 Announcement also stated that out of the commitment fees paid of S$16.2 million, the Company had recovered a total of S$8.8 million as at 27 May 2015. The Company made a subsequent announcement on 28 August 2015 on the recovery of a further S$200,000. As of this date, there are still commitment fees of S$7.2 million which remained unrecovered.

5. On 25 June 2015 the Audit Committee appointed PricewaterhouseCoopers LLP ("PwC") to conduct a special review of the circumstances surrounding the entering of the term sheets and the payments of commitment fees, as well as to determine whether there are any other unauthorized payments which have not been disclosed to the Board. Our scope was subsequently extended to cover payments in relation to an

investment in a subsidiary company, Key Bay Furniture Co., Ltd ("Key Bay"), which was incorporated in Vietnam.

The Bali Term Sheet

6. We understand that the Bali Term Sheet relates to a potential collaboration between KLW and PT Atlas Sutera Jaya ("PT Atlas", a company incorporated in Indonesia on 11 February 2014), on the development of a property in Bali, Indonesia ("the Bali Project").

7. We noted that before any term sheet had been prepared for the Bali Project, the Company had issued a cheque of S$2.2 million on 8 January 2014 in favour of PT Atlas, even though PT Atlas had not been incorporated at that point in time. This cheque was subsequently cleared on 18 March 2014. According to both Felicia Ngo ("Felicia"), the Finance and Human Resource Manager, who prepared the cheque, and the Group Financial Controller, Jaslin Gaw ("Jaslin"), who signed the cheque, they were not provided with any supporting documents with respect to this payment. LBT, who instructed the preparation of the cheque, explained that this was meant to be held in trust with an individual known as Michael Chan Ewe Teik ("MC") as indication of interest by KLW on the Bali Project. LBT explained that as the cheque was not meant to be presented to the bank for clearance, he had procured the refund of the S$2.2 million from MC. Accordingly, even though the cheque from the Company was paid to and cleared by PT Atlas, the refund of S$2.2 million that was paid to the Company on 27 March 2014 was actually from MC and not from PT Atlas. Besides the explanation provided by LBT on the rationale for the repayment arrangement of the S$2.2 million commitment fee, we do not have any other details concerning the relationship between MC and PT Atlas.

8. The Bali Term Sheet was subsequently prepared, on 2 April 2014, by Jaslin. According to Jaslin, she had prepared the Bali Term Sheet based on verbal information provided by LBT, without having sight of any supporting documents to explain the project. She was also instructed to sign on a cheque which did not bear the name of any payee. The cheque was for an amount of S$2.2 million. She had the impression that this cheque was issued pursuant to the Bali Term Sheet. The cheque was cleared on 8 April 2014, in favour of Straitsworld Advisory Ltd ("Straitsworld"), a company incorporated in the BVI of which MC is purported to be a director and a shareholder, when in fact the Bali Term Sheet was entered into with PT Atlas.

9. The Bali Term Sheet does not contain material details of the Bali Project such as the identity of the property in Bali earmarked for development, total capital required for the development, specific plans for the development, the full amount that each party was required to invest and the expected returns on such investment. The Bali Term Sheet provided that a commitment fee of S$2.2 million be paid to PT Atlas upon signing of the term sheet. According to the Bali Term Sheet, such commitment fee was to be refundable to

KLW if no definitive agreement were signed by 31 July 2014. The Bali Term Sheet was eventually dated on 3 April 2014 and signed by LBT on behalf of KLW and a "Lee Han Siew" ("LHS") purportedly on behalf of PT Atlas. We understand that LHS is the Lead Commisioner and majority shareholder of PT Atlas. LHS subsequently denied that the signature on the Bali Term Sheet belonged to him, notwithstanding that he had also confirmed that PT Atlas had received the S$2.2 million.

10. LBT confirmed that the only information that he had relating to the Bali Term Sheet was provided by LHS. Such information was provided only after the Bali Term Sheet had been signed and after commitment fee had been paid. This information included a valuation report and building certificates relating to a piece of land in North Sanur, Bali, Indonesia, preliminary feasibility studies report and worksheet and registration document of PT Atlas. There was no independent verification done to verify the authenticity of these documents provided and the Company did not engage any professionals to perform an independent due diligence to assess the financial viability of the Bali Project.

11. We noted that out of the commitment fee of S$2.2 million, the Company had as at 27 May 2015, recovered S$1.8 million via a deposit bearing the transaction reference *"straitsworld advis"*. The Company made an announcement on the same date about the entering of the Bali Term Sheet, the payment of commitment fee of S$2.2 million and the recovery of S$1.8 million.

12. We noted a further payment of S$200,000 into the Company's bank account on 1 July 2015 being partial repayment of the remaining commitment fee in respect of the Bali Term Sheet. According to LBT, this deposit of S$200,000 was paid by MC. With this further sum, the total recovery of the commitment fees pursuant to the Bali Term Sheet was S$2 million. To date, there remains a balance of S$200,000 commitment fee outstanding in relation to the Bali Term Sheet.

13. For the purpose of preparation of the Company's half year financial results announcement for the period ended 30 September 2014, the S$2.2 million commitment fee had been classified as "Cash and bank balances", notwithstanding that this amount had been paid to and cleared by a third party and was no longer in the Company's bank account. According to both Jaslin and Felicia, they had passed the accounting entry based on LBT's explanation that the S$2.2 million was "held in trust" on behalf of the Company.

14. We noted that the S$2.2 million was paid out of funds raised from a Rights Issue conducted by the Company in 2013 ("the 2013 Rights Issue"). In the various announcements made by the Company on the use of proceeds from the 2013 Rights Issue, the Company only announced that the funds raised from the 2013 Rights Issue were used to increase its paid up share capital in a subsidiary company. However, the

Company did not go on to announce that part of the funds had in fact been used to pay the commitment fees for the Bali Project.

The Zhangye Term Sheets

15. We understand that the Zhangye Term Sheets relate to two projects that were collaboration between Ambertree Pte Ltd ("ABT"), a wholly owned subsidiary company of KLW, and Straitsworld for two projects in Zhangye, Gansu, the People's Republic of China. One related to the acquisition of a hotel in Zhangye ("the Zhangye Hotel Project") and the other related to the development of a piece of property in Zhangye ("the Zhangye Development Project").

16. There were two term sheets each for the above projects. Both the 1st term sheet for the Zhangye Hotel Project ("the 1st Zhangye Hotel Term Sheet") and the 1st term sheet for the Zhangye Development Project ("the 1st Zhangye Property Term Sheet") were prepared at the same time by Jaslin, on 26 May 2014 (collectively referred to as "first Zhangye Term Sheets"). These first Zhangye Term Sheets were prepared based on verbal instructions by LBT, without any supporting documents providing details of the Zhangye projects. Jaslin had also signed two blank cheques (that did not bear the name of the payee, the date and the amount) presented to her by LBT at the time that she prepared these two term sheets. The two cheques were both cleared on 29 May 2014 and payable to Straitsworld.

17. Both the first Zhangye Term Sheets did not contain details of the projects, such as the address and location of the hotel or the land earmarked for development, total capital required for the acquisition or development, specific plans for the acquisition or development, the full amount that each party was required to invest and the expected returns from such investments. Both the 1st Zhangye Hotel Term Sheet and the 1st Zhangye Property Term Sheet provided that a commitment fee of S$3.5 million each be paid to Straitsworld upon signing of the term sheet. According to these term sheets, such commitment fees would be refundable to KLW if no definitive agreements were signed by 31 July 2014 in the case of the 1st Zhangye Hotel Term Sheet and 15 July 2014 in the case of the 1st Zhangye Property Term Sheet.

18. The second Zhangye Term Sheets for the Zhangye Hotel Project ("the 2nd Zhangye Hotel Term Sheet") and the Zhangye Development Project ("the 2nd Zhangye Property Term Sheet") were both entered on the same date, viz. on 21 June 2014(collectively referred to as "second Zhangye Term Sheets"). Similar to the first Zhangye Term Sheets, the second Zhangye Term Sheets were prepared under the verbal instructions of LBT and without any supporting documents providing details of the projects. We understand that these second Zhangye Term Sheets were meant to replace the respective first Zhangye Term Sheets and that all terms in the first Zhangye Term Sheets were to remain the same except for the commitment fees which were revised to S$7 million for each of the project. Two further cheques were presented to Jaslin for signature on the

same date - both did not bear the name of the payee, the date and the amount. Both cheques were cleared on 23 June 2014, made payable to Straitsworld.

19. According to LBT, besides a number of site visits by LBT to Zhangye to inspect a piece of land which was purportedly earmarked for the Zhangye Development Project, and receipt of an agreement between the Zhangye Government, Straitsworld and a White Group on the acquisition of a hotel in Zhangye, as well as meeting with the Zhangye government, LBT did not have any other documentation or information relating to the Zhangye projects. The Company did not engage any independent professionals to perform a financial due diligence to assess the financial viability of the Zhangye projects.

20. We noted that the commitment fee of S$7 million in respect of the 2nd Zhangye Hotel Term Sheet had been recovered by the Company - S$3 million on 26 May 2015 and S$4 million on 27 May 2015. However, the commitment fee of S$7 million in respect to the 2nd Zhangye Property Term Sheet remains outstanding as of this date. We understand that this S$7 million commitment fee was redesignated as the commitment fee for a new project known as Project Happy entered between the Company, Straitsworld and MC on 25 May 2015. The Board is of the view that such redesignation provided a better chance of recovery of the commitment fee as MC had undertaken to fulfill the payment obligation of Straitsworld and in turn the S$7 million commitment fee.

21. For the purpose of preparation of the Company's half year financial results announcement for the period ended 30 September 2014, the S$14 million commitment fees (S$7 million in respect of the 2nd Zhangye Hotel Term Sheet and S$7 million in respect of the 2nd Zhangye Property Term Sheet) had been classified as "Cash and bank balances", notwithstanding that it had been paid to and cleared by a third party and was no longer in the Company's bank account. According to both Jaslin and Felicia, such classification was based on LBT's explanation that the S$14 million was held on trust for the Company.

22. We noted that out of the S$7 million in respect of the first Zhangye Term Sheets, approximately S$6.03 million was paid out of funds raised from the 2013 Rights Issue. However, as in the case of the Bali Term Sheet, the Company did not go on to announce that part of the funds had in fact been used to pay the commitment fees for the Zhangye Projects.

23. We also noted that the further S$7 million in respect of the second Zhangye Term Sheets were paid out of funds raised from a share placement by the Company in 2014 ("the 2014 Placement"). In the various announcements made by the Company on 27 October 2014 ("27 October 2014 Announcement") and 4 November 2014 ("4 November 2014") on the use of proceeds from the 2014 Placement, the Company had announced that the funds raised were either pending deployment or had been used for purposes other than for the payments of the above commitment fees. Further, on 4 June 2015, the Company announced that

S$5.04 million out of the 2014 Placement was used to pay the commitment fees in respect of the second Zhangye Term Sheets. This stated sum of S$5.04 million deviates from the actual payment of the commitment fees of S$7 million made in respect of the second Zhangye Term Sheets. We have not been provided with any satisfactory explanation for such deviation.

Acquisition of a subsidiary company in Vietnam

24. The Company had through its wholly owned subsidiary company, KLW Resources Sdn Bhd ("KLWR"), entered into a share transfer agreement ("the Vietnam STA") to acquire 100% shares in Key Bay at a purchase consideration of US$1,582,532. The Vietnam STA was entered between KLWR and two individuals known as Yeh Yen Ting ("YYT") and Kuo Chia Wen ("KCW"). The Vietnam STA was dated April 2014 without a specific date.

25. According to LBT, he performed a site visit and *"surveyed the surrounding land prices"*. However, there was no independent due diligence or valuation carried out by the Company at the time the Vietnam STA was entered into. Accordingly we are not able to determine if the purchase consideration represents fair value for the acquisition of Key Bay. Three payments were made by KLWR and the Company – first, an initial deposit of US$800,000 on 10 April 2014, a subsequent US$300,000 on 20 May 2014 and a final payment of S$657,653 (equivalent to US$482,532) on 25 March 2015.

26. It appears that while there were discussions in various meetings with the Board and IDs regarding the rental and/or purchase of a piece of land in Vietnam for the construction of a manufacturing facility by the Company, the acquisition of Key Bay was not brought to the attention of the Board and the IDs until a later date around March to May 2015. The Company also did not disclose any investment in this subsidiary company when it announced its half year results ended 30 September 2014 or make a separate announcement of such an acquisition until 7 July 2015, after such acquisition had been made known to the Board.

27. The IDs informed us that it was only after the Board was made aware of the acquisition in Vietnam, that they had commissioned an independent valuation of the land to be performed and legal advice on the effectiveness of land use rights and transfer of shares. The independent valuation by Jones Lang LaSalle shows an indicative valuation of US$2.2 million on the value of the land. The legal advice by Kelvin Chia Partnership opines that the Company was granted the land use rights for a period up to 6 September 2063. We also understand from LBT that the relevant documents had been submitted to the Vietnam authorities around July/August 2015, to register the Company's 100% ownership. Notwithstanding these and the fact that full purchase consideration of US$ 1,582,532 had been paid, we noted that the Charter Agreement of Key Bay had not been updated to reflect KLWR as the 100% shareholder in Key Bay.

Payments made to LBT from funds raised by the Company through the issuance of new shares

28. We have been informed that it is customary for LBT to provide personal financing to the Company to fund its operations when the Company had insufficient funds. We further understand that the financing provided by LBT is interest free and there was no fixed term of repayment. The Company would make repayments to LBT as and when it had funds and upon request by LBT. There is no formal or written agreement between the Company and LBT for such financing arrangements.

29. However, we noted repayments of advances to LBT that were partially funded from proceeds from the 2013 Rights Issue, 2014 Placement and 2014 Rights cum Warrants Issue. These included repayment of a total of S$1,635,176 to LBT funded from the 2013 Rights Issue proceeds, a total of S$450,000 from the 2014 Placement proceeds and a total of S$367,000 from the 2014 Rights cum Warrants Issue. The use of the funds to repay LBT was not brought to the attention of the Board and was also not disclosed by the Company in the announcements made in respect of the use of funds from the 2013 Rights Issue and 2014 Placement.

30. In addition to the above payments to LBT, there were further payments of a total of S$1.95 million made to LBT on 18 June 2014 and 20 June 2014 out of funds raised from the 2014 Placement. LBT did not make known the purpose of such payments to the finance team and did not provide any supporting documents when making such payment requests. LBT explained to us that the amount was to enable him to pay for expenses related to the Zhangye Hotel Project. LBT explained that he had refunded the S$1.95 million between 23 February 2015 and 31 March 2015 as the Zhangye Hotel Project did not take place. The S$1.95 million was classified by the finance team as "Cash and bank balances" in the various management accounts as well as the Company's half year unaudited accounts ended 30 September 2014, as they had been informed by LBT that these payments were cash held in trust. Such classification had not been brought to the attention of the Board during various AC meetings.

31. We also noted instances where LBT would request the finance team to issue cheques in his personal name or to issue cash cheques for him to pay operational expenses on behalf of the Company or its subsidiary companies. We noted that there were no supporting documents provided to the finance team at the time when the requests were made in these instances. However, LBT explained that supporting documents were provided subsequently after the payments to him had been made.

Conclusion

The Bali and Zhangye Term Sheets

32. We noted that notwithstanding that the Bali Project, Zhangye Hotel Project and Zhangye Development Project each represented potential and significant investments by the Company, these investments had not been brought to the attention of the Board for discussion or approval prior to the commitment fees of S$16.2 million being paid. Nor were these investments discussed or approved during subsequent Board and AC meetings. Based on documents made available to us, it appears that the IDs were only made aware of the Bali and Zhangye projects and/or Term Sheets on or around March to May 2015. LBT explained that he was the only executive director of the Company at the relevant time and that he had been running the business even before the listing in 1998. LBT further explained that he made business judgments in the interests of the Company and in his view, the entering into the term sheets was merely part of the ordinary course of business. According to LBT, business judgments were left to him and he would update the Board as and when necessary.

33. Nevertheless, it remains questionable why LBT had instructed that the Bali Term Sheet and Zhangye Term Sheets be prepared and the commitment fees of S$16.2 million be paid at the time when material information pertaining to the Bali Project and Zhangye Projects was not known by or disclosed to the Company. No independent due diligence had been performed by the Company to assess the commercial viability of the projects. As the Managing Director of the Company, LBT had, at all material times, a fiduciary duty to safeguard the assets of the company and ought to have exercised due care and diligence to protect and act at all times in the company's interests. Accordingly, the entering of the Bali Term Sheet and Zhangye Term Sheets and the making of significant commitment fee payments of S$16.2 million without first finding out if these projects had commercial substance appears to have been imprudent as such actions could potentially result in a loss of S$7.2 million to the Company if the remaining commitment fees are not able to be recovered.

34. As the most senior finance person in the Group and an authorized cheque signatory, Jaslin had the duty to ensure that all payments that were made out of the Company's funds were properly supported and made in the best interests of the Company. It is inappropriate of Jaslin to have signed the cheques for the significant commitment fees and payments to LBT without even knowing the reasons for such payments and/or without supporting documents, and in certain cases, even to the extent of issuing cash cheques and/or signing blank cheques. This suggests a major breakdown of internal controls in respect of the investment and payment process of the Company, caused by management override.

Acquisition of a subsidiary company in Vietnam

35. The acquisition of a subsidiary in Vietnam, Key Bay, took place in April 2014. SGX Catalist Rule 704(16)(c) requires that "*an issuer must immediately announce any acquisition of shares resulting in a company becoming a subsidiary or an associate of an issuer*". The Company did not disclose any investment in this subsidiary company when it announced its half year results for the period ended 30 September 2014 nor did the Company make a separate announcement on such an acquisition until 7 July 2015. The lack of timely disclosure by the Company on the acquisition of the subsidiary company may potentially be in breach of SGX Catalist Rule 704.

Payments made to LBT

36. As the Managing Director of the Company, LBT had requested for the total amount of S$1.95 million to be paid to him without informing the finance team the purpose of such payment. It was only through our discussions with LBT that he explained to us that the sum of money was intended to be used for the Zhangye Hotel Project. LBT held the money for a period of approximately eight months without using that money for the Zhangye Hotel Project. This could potentially be a breach of fiduciary duty by LBT in his capacity as the Managing Director of the Company. LBT denied that the sum of S$1.95 million was a loan to him and he explained that it was held by him for the Company and was unused and returned to the Company eventually. However, the fact that this amount had been advanced to LBT and remained in his possession for an extended period of time may still be construed as a loan to a director. This could potentially be a breach of Section 162 of the Singapore Companies Act if no prior approval for such loan had been obtained from the shareholders.

37. Further, repayment of loans to LBT of S$1,635,176 from the 2013 Rights Issue proceeds and S$450,000 from the 2014 Placement proceeds, as well as the advancement of S$1.95 million paid to LBT involved payments made to a director. Such payments fall under the definition of an "*interested person transaction*" under SGX Catalist Rule Chapter 9. SGX Catalist Rule 905 requires that "*an issuer must make an immediate announcement of any interested person transaction or aggregate value of all transactions entered into with the same interested person during the same financial year, if the value or aggregate value of the transaction(s) amounts to 3% or more of the group's latest audited net tangible assets*". In addition, SGX Catalist Rule 906 requires that "*an issuer must obtain shareholder approval for any interested person transaction or aggregate value of all transactions entered into with the same interested person during the same financial year, if the value or aggregate value of the transaction(s) amounts to 5% or more of the group's latest audited net tangible assets*". The sum of S$1,635,176 exceeded 5% of the Group's latest audited net tangible assets as at 31 December 2012 and the payments of S$450,000 and S$1.95 million collectively exceeded 5% of the Group's latest audited net tangible assets as at 31 March

2014. The non-disclosure as well as failure to obtain shareholder's approval prior to these payments of these transactions may accordingly be in breach of SGX Catalist Rule 905 and 906.

Recording of Cash and Bank balances

38. The reclassification of the S$16.2 million commitment fees in respect of the Bali Term Sheet and the Zhangye Term Sheets and the S$1.95 million paid to LBT as "Cash and bank balances" when in fact these amounts had been paid and were no longer in the Company's bank accounts represents a misstatement in the half year accounts for period ended 30 September 2014 that was announced by the Company on 4 November 2014.

39. Jaslin and Felicia claimed that they made this reclassification based on LBT's explanation that these were cash held on trust. Jaslin further informed us that she had the impression that LBT intended to defer the disclosure of the payment of such amounts when he "*commented*" that these should "*remain in cash*". However, LBT claimed that he did not have such an intention and had left the book keeping to Jaslin and Felicia as he was not a trained accountant. We have not seen any documentary evidence relating to such conversation(s) between LBT, Jaslin and Felicia and have not been able to verify the truth or accuracy of the comments made to us by Jaslin and LBT in this regard.

Usage and disclosure of funds from the issuance of new shares

Announcements made for the use of funds from the 2013 Rights Issue

40. The Company made four separate announcements on the use of funds from the 2013 Rights Issue on 6 August 2013 ("6 August 2013 Announcement"), 26 June 2014 ("26 June 2014 Announcement"), 27 October 2014 and 4 November 2014 (collectively referred to as "the Announcements for the 2013 Rights Issue"). These announcements contain the following inaccuracies:

(a) In all these announcements, the Company did not disclose the use of funds for the payment of commitment fees in respect of the First Zhangye Term Sheets. The 6 August 2013 Announcement only announced that S$10.5 million was used to subscribe for additional shares in ABT. However, the fact that approximately S$6.03 million (out of the S$10.5 million that was invested in ABT) was in fact used for partial payment of commitment fees for the Zhangye projects was not announced.

(b) All the Announcements for the 2013 Rights Issue did not disclose the following:
- the commitment fee of S$2.2 million in respect of the Bali Term Sheet;
- the repayment of loans of S$1.6 million to LBT and his wife, Lau Poh Hong; and
- the payment of S$600,000 "compensation to directors" to LBT and a Lee Choon Tai (whom we understand to be the father of LBT).

(c) The 26 June 2014 Announcement also stated that S$1 million was used for expenses incurred for corporate exercise. However, Felicia was only able to provide supporting payments in respect of S$594,518 incurred for such corporate expenses that had been paid out of the 2013 Rights Issue proceeds.

(d) The 27 October 2014 Announcement stated that S$0.4 million remaining from the 2013 Rights Issue was used to pay part of the deposit for the acquisition of a Flinders Property, when in fact the funds for the acquisition of the Flinders Property were utilized from the 2014 Rights cum Warrants Issue and not from the 2013 Rights Issue.

(e) The 4 November 2014 Announcement stated that S$0.24 million was used to fund the factory setup. We understand from Felicia that this related to the leasing of a factory in Vietnam which did not take place eventually.

(f) The 4 November 2014 Announcement also stated that S$1.4 million was used for expenses incurred for corporate exercise. However, Felicia was only able to provide supporting payments in respect of S$594,518 incurred for such corporate expenses that had been paid out of the 2013 Rights Issue proceeds.

41. SGX Catalist Rule 815 requires that "*An issuer must announce any significant disbursement of the proceeds raised from the rights issue*". The above lack of timely and proper announcements on the use of proceeds from the 2013 Rights Issue may potentially be in breach of SGX Catalist Rule 815.

Announcements made for the use of funds from the 2014 Placement issue

42. The Company made three separate announcements on the use of funds from the 2014 Placement on 27 October 2014, 4 November 2014 and 4 June 2015 ("4 June 2015 Announcement") (collectively referred to as "the Announcements for the 2014 Placement"). These announcements contain the following inaccuracies:

(a) The Company did not disclose the use of funds for the payment of S$7 million commitment fees in respect of the second Zhangye Term Sheets in its 27 October 2014 Announcement and the 4 November 2014 Announcement. The 4 June 2015 Announcement stated that S$5.04 million was used out of the 2014 Placement proceeds for the Zhangye Development Project, when only S$3.5 million was paid out of the 2014 Placement proceeds for the 2nd Zhangye Property Term Sheet. There was no mention of the S$3.5 million commitment fee was in fact paid out of the 2014 Placement proceeds in respect of the 2nd Zhangye Hotel term sheet.

(b) All the Announcements for the 2014 Placement did not disclose the following:

- S$450,000 repayment of loan to LBT ; and
- a further sum of S$1.95 million paid to LBT.

(c) The 27 October 2014 Announcement stated that S$2,356,480 was used to make partial payment for the acquisition of Flinders Property, while the 4 November 2014 Announcement and the 4 June 2015 Announcement stated that S$2.8 million was used to make partial payment for such acquisition out of the 2014 Placement proceeds. However, we noted that the payments for the acquisition of the Flinders Property were funded entirely out of the 2014 Rights cum Warrants Issue and not in fact from the 2014 Placement.

(d) The 27 October 2014 Announcement stated that an amount of S$7.6 million from the 2014 Placement proceed was pending deployment and the 4 November 2014 Announcement stated that S$5.6 million was pending deployment. However, we noted that the S$10 million raised from the 2014 Placement issue was almost fully utilized to pay for various commitment fees for the Zhangye Projects and payments to LBT. Jaslin and Felicia, both responsible for the preparation of the announcement, are not able to substantiate the amounts that were stated to be pending deployment in these announcements. Jaslin admitted that these were inaccurate disclosures and the purpose of such inaccurate statements was to avoid disclosing the fact that the amounts had been utilized towards payments of commitment fees. Jaslin claimed that while LBT had not directly instructed her to make such disclosures, she had the impression that LBT intended to defer the announcement of the commitment fee to a later date as he explained to her that these were cash held in trust and should "*remain in cash*". LBT has denied having such an intention. We have not been able to verify the accuracy and truth of the various comments made to us by Jaslin and LBT in this regard.

(e) The 4 November 2014 Announcement stated that S$1.1 million was used for the purchase of industrial property for operational use. We understand from Jaslin that the industrial property refers to the purchase of a Kaki Bukit Property. However, we noted that out of the S$1.1 million, S$316,050 was partly funded by the 2013 Rights Issue proceeds and the remaining S$737,927 was funded from the 2014 Rights cum Warrants Issue. None of the proceeds for the purchase of Kaki Bukit Property had been funded through the 2014 Placement.

(f) The Company announced on 4 June 2015 that S$1.96 million was used to fund the operating expenses of KLW Group mainly for the Company's industrial unit at Senoko Loop and also for professional fees. However, after the abovementioned payments for commitment fees for the two Zhangye projects and payments to LBT had been taken into account, there appears to be insufficient funds left from the 2014 Placement proceeds for any operating expenses. We have not been provided

with sufficient appropriate evidence to support the statement that payments of S$1.96 million were for operational use.

Announcement made for the use of funds from the 2014 Rights cum Warrants Issue

43. The Company made three separate announcements on the use of funds from the 2014 Rights cum Warrants Issue on 27 October 2014, 4 November 2014 and 4 June 2015 (collectively referred to as "the Announcements for the 2014 Right cum Warrants Issue"). These announcements contain the following inaccuracies:

(a) The 27 October 2014 Announcement and the 4 November 2014 Announcement both announced that the funds raised from the 2014 Rights cum Warrants Issue were pending deployment. However, we noted that the Company had made the following payments out of the proceeds from the 2014 Rights cum Warrants Issue by 27 October 2014:

- S$2,435,296 as 10% deposit for acquisition of Flinders Property;
- S$155,597 as legal fees for potential investment in a Wah Loon Group;
- S$737,927 as payment for acquisition of Kaki Bukit Property;
- S$150,000 as payment to LBT by 27 October 2014, and a further payment of S$217,000 by 4 November 2014.

Accordingly, these payments have not been announced in both the 27 October 2014 Announcement and the 4 November 2014 Announcement.

(b) The 4 June 2015 Announcement stated that the Company used S$9.4 million for the purchase of Flinders Property. However, we noted that the total payment for the Flinders Property that was funded out of the 2014 Rights cum Warrants Issue proceeds were in fact approximately S$12.7 million.

(c) The 4 June 2015 Announcement stated that the Company used S$1.7 million for the purchase of a Lincoln Property. We noted that the total payment for the Lincoln Property that was funded out of the 2014 Rights cum Warrants Issue proceeds amounted instead to approximately S$1.9 million.

(d) The 4 June 2015 Announcement did not disclose an amount of S$657,649 paid as partial payment for an acquisition of a subsidiary company, Key Bay. It only announced a usage of S$4.7 million for the construction of a factory building in Vietnam. We have not been provided with a detailed breakdown to fully substantiate the use of S$4.7 million for the 2014 Rights cum Warrants Issue proceeds for the construction of the building in Vietnam.

(e) The 4 June 2015 Announcement stated that an amount of S$500,000 out of the 2014 Rights cum Warrants Issue proceeds was used for reinstatement works on the Senoko Loop office. However, we were only able to verify a sum of S$100,000 having been paid out of the 2014 Rights cum Warrants Issue proceeds in respect of the reinstatement works for the Senoko Loop office.

44. SGX Catalist Rule 704 requires immediate disclosure of *"the use of the IPO proceeds and any proceeds arising from any offerings pursuant to Chapter 8* (which deals with issuers changing their capital either by issuing additional equity securities or adjusting existing capital) *as and when such funds are materially disbursed"* as well as *"the reasons for any material deviation from the stated use of proceeds"*. The above lack of timely and proper announcements on the use of proceeds from the 2014 Placement and the 2014 Rights cum Warrants Issue may potentially be in breach of SGX Catalist Rule 704.

Recommendations

45. In view of the major breakdown of internal controls of the Company's procurement, investment and payment processes, the Board should commission a thorough review of the corporate governance and internal controls of the Company to ensure that the various lapses in controls are immediately rectified and appropriate control measures are immediately implemented.

46. In view of the potential breaches of the SGX Catalist Rules and the Singapore Companies Act, the Board should consider engaging legal counsel to review our findings to date and provide advice on the legal implications of our findings to the Company and actions if any to be taken by the Board.

47. The Board should continue to follow up on the necessary steps to secure the Company's effective ownership in Key Bay, including obtaining legal advice, where necessary, and following up with the relevant Vietnam authorities.

48. The Board should ensure proper and effective oversight over the identification of interested party transactions, in particular, the tracking and reconciliation of the various book accounts to determine the net amounts owing to/from LBT from/to the Company at any one point in time. There should be proper procedures in place to ensure that all loans to directors, including all relevant terms thereof, are properly approved, disclosed and documented.

Disclaimers

49. PwC has not been asked (and it has not) commented on, reviewed or assessed the validity or enforceability of the documents provided to PwC. The procedures that PwC performed under this engagement do not

constitute an audit or review in accordance with generally accepted auditing or attestation standards. PwC has not audited or otherwise verified the information supplied to it in connection with its work from whatever source except as specified herein. It must be appreciated that the potential non-compliance with the rules of SGX-ST Listing Manual which we have highlighted in the Findings to Date came to our attention during our specific review of the financial affairs of the Group and therefore it should not be taken to have included all possible/ potential breaches of the rules of SGX-ST Listing Manual that a more extensive examination of the rules might highlight. In addition, our comments do not represent legal advice/interpretation. You should consult with your legal counsel with respect to any legal matters or items that require legal interpretation.

50. PwC's Findings to Date are based on documents and information relevant to its scope of work that were made available to PwC up to 4 November 2015. As of this date, there are still a number of documents and information requested but not yet made available to PwC. Documents or information provided to PwC after 4 November 2015 may have an impact on the Findings to Date. PwC reserves its right to correct any part of its Findings to Date as and when such documents or information emerge.

51. PwC makes no representation and gives no warranty to any person (except to the extent provided in its engagement letter dated 25 June 2015 as to the accuracy or completeness of PwC's Findings to Date. PwC does not accept or assume responsibility for its work and its Findings to Date to any other party except to the AC and SGX. PwC's work was not planned or conducted in contemplation of reliance by any other party. Therefore, items of possible interest to any other party will not be specifically addressed and matters may exist that would be assessed differently by any other party.