

# INDEPENDENT AUDITOR'S REPORT

To the Members of Serrano Limited

## Report on the Audit of the Financial Statements

### Disclaimer of Opinion

We were engaged to audit the financial statements of Serrano 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 31 December 2016;
- the consolidated statement of 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.

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

### Basis for Disclaimer of Opinion

#### 1. Going concern

As disclosed in Note 4 to the financial statements, the Group incurred total comprehensive loss of \$114,914,963 during the financial year ended 31 December 2016. In addition, as at 31 December 2016, the Group's and the Company's total and current liabilities exceeded their total and current assets by \$109,646,494 and \$53,383,852 respectively.

Following receipt of demand letters and legal actions taken against the Group by some creditors during the financial year, the Group commenced an original Scheme of Arrangement (the "Original Scheme") to restructure its liabilities. Pursuant to the Original Scheme, the Group entered into a conditional investment agreement (the "Investment Agreement") in January 2017 with investors (the "Investors") who will subscribe for new ordinary shares of the Company for a cash consideration of \$8,000,000. Thereafter, on the Investors' request to revise the Original Scheme, the Group proposed an amended Scheme of Arrangement (the "Amended Scheme") which was approved by the scheme creditors (the "Scheme Creditors") in December 2017 and sanctioned by the Court in February 2018. The Amended Scheme commenced on 6 March 2018 and the Original Scheme was thereby terminated.

Both the Amended Scheme and the Investment Agreement are subject to the fulfilment of conditions precedent in accordance with their respective terms and conditions by 29 May 2018 and 26 June 2018 respectively. As at the date of our report, certain conditions precedent have not been fulfilled.

## **Basis for Disclaimer of Opinion (Continued)**

### **1. Going concern (Continued)**

These events or conditions, along with other matters as set forth in Note 4, indicate the existence of multiple material uncertainties that may cast significant doubts on the Group's and the Company's ability to continue as going concerns, which is premised entirely on the successful implementation of both the Amended Scheme and the Investment Agreement.

Due to the multiple material uncertainties that may preclude the satisfactory fulfilment of all the remaining conditions precedent of both the Amended Scheme and the Investment Agreement, we are unable to form an opinion as to whether the use of the going concern basis of accounting in the preparation of the accompanying financial statements is appropriate.

### **2. Completeness, existence and accuracy of liabilities**

As at 31 December 2016, the Group recorded total liabilities amounting to \$117,227,292. As part of the Amended Scheme described above, the Group has appointed a Scheme Manager to carry out the adjudication process for proof of debts. The cut-off date for proof of debts is 16 March 2018 and will include debts submitted by the Scheme Creditors up to this date. As at the date of our report, the adjudication process is still ongoing.

Management is unable to provide a reconciliation between the liabilities recorded as at 31 December 2016 and the amounts in the proof of debts submitted by the Scheme Creditors. Management is also unable to provide us with the necessary documents to perform alternative procedures.

We were therefore unable to obtain sufficient appropriate audit evidence on the completeness, existence and accuracy of the Group's and the Company's liabilities. Consequently, we were unable to determine if any further adjustments to or disclosures in the accompanying financial statements for the financial year ended 31 December 2016 may be necessary.

### **3. Project revenue, contract costs and other items of expenses**

The Group's main revenue stream is derived from project contracts wherein the revenue and costs are recognised by reference to the stage of completion of each project at the end of the reporting period. The stage of completion is measured by the proportion of project costs incurred for work performed to-date relative to the estimated total project costs. For the financial year ended 31 December 2016, the contract revenue and contract costs recognised was \$12,761,197 and \$93,802,928 respectively.

As described in item 2 above, we were unable to obtain sufficient appropriate audit evidence on the completeness, existence and accuracy of the Group's liabilities. Any adjustment arising therein may affect the completeness, existence, accuracy and classification of project costs (which in turn could affect the determination of the Group's project revenue), other items of expenses recorded and provision for foreseeable losses, if any.

Accordingly, we were unable to obtain sufficient appropriate audit evidence on the project revenue, contract costs, other items of expenses and provision for foreseeable losses that should be recognised by the Group for the financial year ended 31 December 2016. Consequently, we were unable to determine if any further adjustments to or disclosures in the accompanying financial statements for the financial year ended 31 December 2016 may be necessary.

#### **Basis for Disclaimer of Opinion (Continued)**

##### **4. Impairment losses charged, write-down and write-off to profit or loss**

For the financial year ended 31 December 2016, the Group recorded the following in the profit or loss:

- Impairment loss on plant and equipment amounted to \$4,680,090 (Notes 5 and 24);
- Impairment loss on available-for-sale financial assets amounted to \$1,540,000 (Notes 9 and 24);
- Write-down of inventories amounted to \$1,061,746 (Notes 10 and 24);
- Impairment loss on amounts due from contract customers (retention sums) amounted to \$4,123,749 (Notes 12 and 24); and
- Write-off of amounts due from contract customers amounted to \$34,394,731 (Note 24).

We were unable to obtain sufficient appropriate audit evidence on whether the above impairment, write-down or write-off of respective assets were appropriate as management was unable to provide relevant information or documents to support their basis. We were also unable to perform alternative audit procedures. Consequently, we were unable to determine if any further adjustments to or disclosures in the accompanying financial statements for the financial year ended 31 December 2016 may be necessary.

##### **5. Subsequent events**

Management has disclosed certain subsequent events in Notes 4 and 7 to the financial statements.

As management is unable to provide us with the necessary documents and accounting records, we were unable to obtain sufficient appropriate audit evidence that all subsequent events that have occurred up to the date of our auditor's report that may require adjustment to, or disclosure in the accompanying financial statements have been identified by management.

Consequently, we were unable to determine if any further adjustments to or disclosures in the accompanying financial statements for the financial year ended 31 December 2016 may be necessary.

### 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 Singapore Companies Act, Chapter 50 (the “Act”) and Financial Reporting Standards in Singapore (“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 responsibility is to conduct an audit of on these financial statements in accordance with Singapore Standards on Auditing and to issue an auditor’s report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group 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 have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

### Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred to in the *Basis for Disclaimer of Opinion* section of our report, we do not express an opinion on whether 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 Leong Hon Mun Peter.

**BDO LLP**  
Public Accountants and  
Chartered Accountants

Singapore  
29 March 2018