

**3. Critical accounting judgements and key sources of estimation uncertainty (Continued)**

**3.2 Key sources of estimation uncertainty (Continued)**

(ii) Fair value of non-current assets held for sale

Non-current assets held for sale is measured at the lower of carrying amount and fair value less costs to sell.

Fair value in respect of non-current assets held for sale is assessed with reference to the forced sale value whereby a 20% downward adjustment was considered against their market value. The valuation was performed by an independent valuer and based on the market comparison approach. The carrying amount of non-current assets held for sale of the Group as at 31 December 2016 was \$6,720,000 (2015: \$Nil).

**4. Going Concern and Scheme of Arrangement**

The Group incurred total comprehensive loss of \$114,914,963 for 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 \$53,583,852 respectively.

During the financial year, the Group received demand letters from banks, financial institutions and creditors to request for immediate repayment which resulted in legal actions against the Group.

Thereafter, the Company and its subsidiary, Serrano Holdings Pte Ltd, commenced an original scheme of arrangement (the "Original Scheme") that involves certain creditors (the "Phase One Scheme Creditors") which was approved by the Phase One Scheme Creditors in October 2016. In January 2017, pursuant to the Original Scheme, the Group entered into a conditional investment agreement (the "Investment Agreement") with proposed investors (the "Investors") who will subscribe for new ordinary shares of the Company for a cash consideration of \$8,000,000. However, the Company was informed by the Investors in June 2017 of the Investors' request to revise the Original Scheme to include other creditors that are currently not part of the scheme so as to preserve the working capital position of Group after the Original Scheme is implemented. Otherwise, the Investors will not proceed with the Investment Agreement.

Therefore, the Investors requested the Group to appoint new professionals in order to begin the formal process of amending the Original Scheme to include the other creditors that are currently not part of the scheme ("Phase Two Scheme Creditors"). The Group proposed an amended scheme of arrangement (the "Amended Scheme") and was approved by the Phase One and Phase Two Scheme Creditors (the "Scheme Creditors") in December 2017. The Amended Scheme commenced on 6 March 2018 and the Original Scheme was thereby terminated.

NOTES TO THE FINANCIAL STATEMENTS  
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**4. Going Concern and Scheme of Arrangement (Continued)**

The Amended Scheme comprises principally the following elements:

- a) subscription by Investors for shares amounting to (70 - A)% of the enlarged share capital of the Company for a cash consideration of \$8,000,000. The cash consideration of \$4,000,000 will be used to pay Phase One Scheme Creditors on a pro-rata basis; and the remaining cash consideration of \$4,000,000 will be used to pay Phase Two Scheme Creditors on a pro-rata basis and contribute to the general working capital of the Company to finance existing ongoing projects;
- b) distribution of new shares amounting to 25% and A% of the enlarged share capital of the Company to Phase One Scheme Creditors and Phase Two Scheme Creditors, respectively, on a pro-rata basis in accordance with the balance remaining of their approved claims after giving credit for any cash distributions received as stated in (a) above; and
- c) execution of supplemental agreement to the Investment Agreement to be entered into by the Company and the Investors in order to make amendments to the Investment Agreement so as to incorporate the principal terms which are in line with the Amended Scheme.

As part of the Amended Scheme, the Group also appointed a Scheme Manager to carry out the adjudication process for proof of debts submitted by the Scheme Creditors. The cut-off date for the submission of proof of debts is 16 March 2018. As at the date of the financial statements, the adjudication process is still ongoing.

The successful completion of the Amended Scheme and the Investment Agreement are subject to fulfilment of conditions precedent in accordance with their respective terms and conditions by 29 May 2018 and 26 June 2018 respectively.

These events or conditions indicate the existence of material uncertainties that may cast significant doubts about the Group's and the Company's ability to continue as going concerns.

Notwithstanding the presence of these material uncertainties, the management and Directors of the Company are of the opinion that it is appropriate to prepare the financial statements on a going concern basis as there is presently no substantial grounds that the Group will have to be liquidated or to cease trading. The management and Directors of the Company are taking active steps to fulfil the conditions precedent of the Amended Scheme and the Investment Agreement which they believe, when implemented, will enable the Group to revive its core business activities.

Having regard to the cash flow projections of the Group, which are prepared assuming that the Amended Scheme and the Investment Agreement are successfully implemented, the Directors of the Company are of the opinion that the Group and the Company are able to meet their obligations as and when they fall due.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge its 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 ordinary course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the consolidated statement of financial position of the Group and the statement of financial position of the Company. No such adjustments have been made to these financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS  
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**5. Property, plant and equipment**

| <b>Group</b>  | <b>Leasehold<br/>properties<br/>\$</b> | <b>Furniture,<br/>fittings and<br/>office<br/>equipment<br/>\$</b> | <b>Motor<br/>vehicles<br/>\$</b> | <b>Plant and<br/>machinery<br/>\$</b> | <b>Renovation<br/>\$</b> | <b>Total<br/>\$</b> |
|---|--|--|----------------------------------|---------------------------------------|--------------------------|---------------------|
| <b>Cost or valuation</b>                                  |  |  |                                  |                                       |                          |                     |
| Balance at 1 January 2016                                 | 8,948,094                              | 572,737  | 1,082,232                        | 1,279,446                             | 1,709,721                | 13,592,230          |
| Additions   | -                                      | 512,430  | -                                | 3,515,271                             | 708,877                  | 4,736,578           |
| Disposals   | -                                      | -  | (878,886)                        | -                                     | -                        | (878,886)           |
| Written off   | -                                      | (68,468)   | -                                | (858,269)                             | (174,973)                | (1,101,710)         |
| Revaluation adjustment                                    | (3,187,840)                            | -  | -                                | -                                     | -                        | (3,187,840)         |
| Transferred to non-current assets held for sale (Note 14) | (5,760,254)                            | -  | -                                | -                                     | (1,499,645)              | (7,259,899)         |
| Balance at 31 December 2016                               | -                                      | 1,016,699  | 203,346                          | 3,936,448                             | 743,980                  | 5,900,473           |
| <b>Accumulated depreciation and impairment loss</b>       |  |  |                                  |                                       |                          |                     |
| Balance at 1 January 2016                                 | -                                      | 299,488  | 453,762                          | 524,858                               | 517,481                  | 1,795,589           |
| Depreciation for the financial year                       | 962,875                                | 185,994  | 67,283                           | 310,873                               | 264,718                  | 1,791,743           |
| Disposals   | -                                      | -  | (451,753)                        | -                                     | -                        | (451,753)           |
| Written off   | -                                      | (27,969)   | -                                | (348,445)                             | (36,008)                 | (412,422)           |
| Impairment loss for the financial year                    | -                                      | 559,186  | 134,054                          | 3,449,162                             | 537,688                  | 4,680,090           |
| Elimination of accumulated depreciation on revaluation    | (962,875)                              | -  | -                                | -                                     | -                        | (962,875)           |
| Transferred to non-current assets held for sale (Note 14) | -                                      | -  | -                                | -                                     | (539,899)                | (539,899)           |
| Balance at 31 December 2016                               | -                                      | 1,016,699  | 203,346                          | 3,936,448                             | 743,980                  | 5,900,473           |

**Net carrying amount**

Balance at 31 December 2016

|   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| - | - | - | - | - | - | - |
|---|---|---|---|---|---|---|

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**NOTES TO THE FINANCIAL STATEMENTS  
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**5. Property, plant and equipment (Continued)**

| <b>Group</b>   | <b>Leasehold<br/>properties<br/>\$</b> | <b>Furniture,<br/>fittings and<br/>office<br/>equipment<br/>\$</b> | <b>Motor<br/>vehicles<br/>\$</b> | <b>Plant and<br/>machinery<br/>\$</b> | <b>Renovation<br/>\$</b> | <b>Total<br/>\$</b> |
|--|--|--|----------------------------------|---------------------------------------|--------------------------|---------------------|
| <b>Cost or valuation</b>                               |  |  |                                  |                                       |                          |                     |
| Balance at 1 January 2015                              | 5,500,000                              | 438,273  | 2,459,430                        | 1,269,646                             | 951,796                  | 10,619,145          |
| Additions  | 4,938,600                              | 172,467  | -                                | 16,100                                | 841,578                  | 5,968,745           |
| Disposals  | -                                      | (28,944)   | (1,377,198)                      | (6,300)                               | -                        | (1,412,442)         |
| Written off  | -                                      | (9,059)  | -                                | -                                     | (83,653)                 | (92,712)            |
| Revaluation adjustment                                 | (1,490,506)                            | -  | -                                | -                                     | -                        | (1,490,506)         |
| Balance at 31 December 2015                            | 8,948,094                              | 572,737  | 1,082,232                        | 1,279,446                             | 1,709,721                | 13,592,230          |
| <b>Representing:</b>                                   |  |  |                                  |                                       |                          |                     |
| At cost  | -                                      | 572,737  | 1,082,232                        | 1,279,446                             | 1,709,721                | 4,644,136           |
| At valuation   | 8,948,094                              | -  | -                                | -                                     | -                        | 8,948,094           |
|  | 8,948,094                              | 572,737  | 1,082,232                        | 1,279,446                             | 1,709,721                | 13,592,230          |
| <b>Accumulated depreciation</b>                        |  |  |                                  |                                       |                          |                     |
| Balance at 1 January 2015                              | 901,032                                | 248,785  | 973,449                          | 407,136                               | 367,291                  | 2,897,693           |
| Depreciation for the financial year                    | 741,022                                | 71,057   | 195,942                          | 124,022                               | 180,990                  | 1,313,033           |
| Disposals  | -                                      | (16,331)   | (715,629)                        | (6,300)                               | -                        | (738,260)           |
| Written off  | -                                      | (4,023)  | -                                | -                                     | (30,800)                 | (34,823)            |
| Elimination of accumulated depreciation on revaluation | (1,642,054)                            | -  | -                                | -                                     | -                        | (1,642,054)         |
| Balance at 31 December 2015                            | -                                      | 299,488  | 453,762                          | 524,858                               | 517,481                  | 1,795,589           |
| <b>Net carrying amount</b>                             |  |  |                                  |                                       |                          |                     |
| Balance at 31 December 2015                            | 8,948,094                              | 273,249  | 628,470                          | 754,588                               | 1,192,240                | 11,796,641          |

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**5. Property, plant and equipment (Continued)**

On 31 December 2016, the Group classified its leasehold properties and renovation with a net carrying amount of \$6,720,000 from property, plant and equipment to “Non-current assets held for sale” as the management has committed to sell these properties within next financial year as disclosed in Note 14 to the financial statements.

As at 31 December 2016, the Group’s leasehold properties were revalued based on valuation performed by an independent valuer on 27 February 2017 having appropriate professional qualification and experience. The valuation was based on the market comparison approach. Details of valuation techniques and inputs used are disclosed in Note 30.5 to the financial statements.

If the revalued property has been included in the financial statements at historical cost less accumulated depreciation, the carrying amount of the Group’s leasehold property as at 31 December 2016 would have been \$Nil (2015: \$1,859,876).

As at 31 December 2016, the carrying amount of the Group’s leasehold properties of \$Nil (2015: \$8,948,094) was pledged for banking facilities as set out in Note 17 to the financial statements and the carrying amounts of plant and equipment which were acquired under finance lease arrangements were as follows:

|                     | <b>Group</b> |                  |
|---------------------|--------------|------------------|
|                     | <b>2016</b>  | <b>2015</b>      |
|                     | <b>\$</b>    | <b>\$</b>        |
| Motor vehicles      | -            | 628,470          |
| Plant and machinery | -            | 592,117          |
|                     | <u>-</u>     | <u>1,220,587</u> |

Finance leased assets are pledged as a security for the related finance lease payables as disclosed in Note 18 to the financial statements.

As at 31 December 2016, motor vehicles with net carrying amounts of \$Nil (2015: \$474,081) were registered in the names of the Directors of the Company and employees of the Group who are holding the motor vehicles in trust for the Group.

During the financial year, the Group carried out a review of the recoverable amount of its plant and equipment following the downsizing of its operations causing material uncertainty that may cast a significant doubt about the Group’s ability to continue as going concern as disclosed in Note 4 to the financial statements. The review led to the recognition of an impairment loss of \$4,680,090 recognised in profit or loss, and was included in “other expenses” line item of profit or loss. The recoverable amount of the plant and equipment was determined on the basis of their value in use, which is expected to be \$Nil due to the Group’s recent corporate restructuring for its liabilities.

For the purpose of consolidated statement of cash flows, the Group’s additions to property, plant and equipment during the financial year were financed as follows:

|  | <b>Group</b>     |                  |
|--|------------------|------------------|
|  | <b>2016</b>      | <b>2015</b>      |
|  | <b>\$</b>        | <b>\$</b>        |
| Additions of property, plant and equipment             | 4,736,578        | 5,968,745        |
| Acquired under finance lease payables/borrowings       | (3,468,201)      | (4,656,000)      |
| Cash payments to acquire property, plant and equipment | <u>1,268,377</u> | <u>1,312,745</u> |

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**7. Investments in subsidiaries**

|                                 | <b>Company</b> |             |
|---------------------------------|----------------|-------------|
|                                 | <b>2016</b>    | <b>2015</b> |
|                                 | <b>\$</b>      | <b>\$</b>   |
| Unquoted equity shares, at cost | 18,268,138     | 18,268,138  |
| Capital contributions (Note 11) | 13,634,245     | -           |
|                                 | 31,902,383     | 18,268,138  |
| Allowance for impairment losses | (31,902,383)   | (7,200,000) |
|                                 | -              | 11,068,138  |

Movement in allowance for impairment losses was as follows:

|   | <b>Company</b> |             |
|---|----------------|-------------|
|   | <b>2016</b>    | <b>2015</b> |
|   | <b>\$</b>      | <b>\$</b>   |
| Balance at beginning of financial year    | 7,200,000      | -           |
| Impairment loss during the financial year | 24,702,383     | 7,200,000   |
| Balance at end of financial year          | 31,902,383     | 7,200,000   |

As at 31 December 2016, the management carried out a review of the recoverable amount of the investments in subsidiaries due to the losses reported by subsidiaries as a result of increased project costs and operations downsized causing a material uncertainty that may cast a significant doubt about the Group's ability to continue as going concern as disclosed in Note 4 to the financial statements. The review led to the Company recognising full impairment loss of \$24,702,383 (2015: \$7,200,000) in the Company's profit or loss.

The details of the subsidiaries are as follows:

| <b>Name of company</b>                            | <b>Principal place of business</b> | <b>Principal activities</b>  | <b>Proportion of ownership interest held</b> |             |
|---|------------------------------------|--|--|-------------|
|   |                                    |  | <b>2016</b>                                  | <b>2015</b> |
|   |                                    |  | <b>%</b>                                     | <b>%</b>    |
| Artiwood Supervina Pte Ltd <sup>(1) (2)</sup>     | Singapore                          | Manufacturing, wholesale and retailing of furniture and other related products | 100  | 100         |
| Serrano Design Pte. Ltd. <sup>(1) (2)</sup>       | Singapore                          | Project work, interior design and related services                             | 100  | 100         |
| Serrano Holdings Pte Ltd. <sup>(1)</sup>          | Singapore                          | Non-building construction and wholesale of furniture for projects purposes     | 100  | 100         |
| Sanzio Space Planner Pte. Ltd. <sup>(1) (2)</sup> | Singapore                          | Wholesale of furniture and fittings, renovation and interior design            | 100  | 100         |

<sup>(1)</sup> Audited by BDO LLP, Singapore for consolidation purposes.

<sup>(2)</sup> On 30 January 2018, the subsidiaries have been placed under Provisional Liquidation.

**NOTES TO THE FINANCIAL STATEMENTS  
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**8. Investment in associate (Continued)**

The summarised financial information below reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts), adjusted for differences in accounting policies between the Group and the associate.

|                                     | <b>Group</b>       |                    |
|-------------------------------------|--------------------|--------------------|
|                                     | <b>2016</b>        | <b>2015</b>        |
|                                     | <b>\$</b>          | <b>\$</b>          |
| <b>Assets and liabilities</b>       |                    |                    |
| Current assets                      | 1,263,150          | 2,453,969          |
| Non-current assets                  | 32,266             | 50,628             |
| Total assets                        | <u>1,295,416</u>   | <u>2,504,597</u>   |
| Current liabilities                 | (1,289,614)        | (2,470,829)        |
| Non-current liabilities             | (5,802)            | (17,178)           |
| Total liabilities                   | <u>(1,295,416)</u> | <u>(2,488,007)</u> |
| Net assets                          | -                  | 16,590             |
| Proportion of the Group's ownership | 49%                | 49%                |
| Share of net assets                 | -                  | <u>8,129</u>       |
| <b>Revenue and expenses</b>         |                    |                    |
| Revenue                             | 2,775,591          | 3,788,577          |
| Total comprehensive income          | <u>(16,590)</u>    | <u>(211,445)</u>   |

The investment in an associate had no contingent liabilities and capital commitments as at 31 December 2016.

**9. Available-for-sale financial assets**

|                                     | <b>Group and Company</b> |                  |
|-------------------------------------|--------------------------|------------------|
|                                     | <b>2016</b>              | <b>2015</b>      |
|                                     | <b>\$</b>                | <b>\$</b>        |
| Unquoted equity investment, at cost | 1,800,000                | 1,800,000        |
| Allowance for impairment losses     | (1,800,000)              | (260,000)        |
|                                     | <u>-</u>                 | <u>1,540,000</u> |

Movement in allowance for impairment losses was as follows:

|   | <b>Group and Company</b> |                |
|---|--------------------------|----------------|
|   | <b>2016</b>              | <b>2015</b>    |
|   | <b>\$</b>                | <b>\$</b>      |
| Balance at beginning of financial year    | 260,000                  | -              |
| Impairment loss during the financial year | 1,540,000                | 260,000        |
| Balance at end of financial year          | <u>1,800,000</u>         | <u>260,000</u> |

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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**9. Available-for-sale financial assets (Continued)**

The available-for-sale financial assets represents 30% (2015: 30%) equity interest in J-Plan Associates Pte Ltd. The shareholding interest exceeds 20% of the total shareholding in the investee company but the Group considers that it does not have the power to exercise any influence over the entity as the Group has no representation on the Board of Directors. This investment is intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

The investment in J-Plan Associates Pte Ltd is measured at cost less impairment as these equity instruments do not have active market quoted prices and therefore the fair value of these instruments cannot be reliably measured.

The management assesses the fair value of its available-for-sale financial assets at the end of each reporting period to determine whether there is any indication of impairment. As at 31 December 2015, the fair value was based on net realisable value of the investee's net assets. During the financial year ended 31 December 2016, the Group and the Company recognised an impairment loss of \$1,540,000 (2015: \$260,000) in profit or loss subsequent to the assessment performed by the management on the fair value of the available-for-sale financial assets.

Allowance for impairment loss was included in the "other expenses" line item in the profit or loss of the Group for the financial year ended 31 December 2016.

The currency profile of available-for-sale financial assets as at the end of the reporting period was Singapore dollar.

**10. Inventories**

|                | Group   |           |
|----------------|---------|-----------|
|                | 2016    | 2015      |
|                | \$      | \$        |
| Finished goods | 174,347 | 1,370,922 |

The cost of inventories recognised as an expense and included in "cost of sales" line item in the Group's profit or loss for the financial year ended 31 December 2016 amounted to \$33,312,652 (2015: \$20,974,495).

During the financial year, the management carried out a review of the realisable values of its inventories and the review led to the recognition of a write down for inventory obsolescence of \$1,061,746 (2015: \$Nil) that has been included in "cost of sales" line item in the Group's profit or loss.



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**11. Trade and other receivables (Continued)**

Movements in allowance for impairment losses on third parties trade receivables were as follows:

|  | <b>Group</b>     |                  |
|--|------------------|------------------|
|  | <b>2016</b>      | <b>2015</b>      |
|  | <b>\$</b>        | <b>\$</b>        |
| Balance at beginning of financial year           | 2,197,888        | 121,961          |
| Allowance written back during the financial year | (27,388)         | (33,852)         |
| Bad receivables written off                      | (540,015)        | (12,080)         |
| Charged for the financial year                   | 5,281,123        | 2,121,859        |
| Balance at end of financial year                 | <u>6,911,608</u> | <u>2,197,888</u> |

Movements in allowance for impairment losses on third parties non-trade receivables were as follows:

|  | <b>Group</b>     |                  |
|--|------------------|------------------|
|  | <b>2016</b>      | <b>2015</b>      |
|  | <b>\$</b>        | <b>\$</b>        |
| Balance at beginning of financial year | 2,234,119        | -                |
| Bad receivables written off            | (474,855)        | -                |
| Charged for the financial year         | 1,816,511        | 2,234,119        |
| Balance at end of financial year       | <u>3,575,775</u> | <u>2,234,119</u> |

Allowance for impairment losses on doubtful trade and non-trade receivables are made in respect of estimated irrecoverable amounts subsequent to debt recovery assessment made by the management by reference to past default experience and aging of the receivables.

The currency profiles of trade and other receivables as at the end of the reporting period were as follows:

|                      | <b>Group</b>   |                   | <b>Company</b> |                   |
|----------------------|----------------|-------------------|----------------|-------------------|
|                      | <b>2016</b>    | <b>2015</b>       | <b>2016</b>    | <b>2015</b>       |
|                      | <b>\$</b>      | <b>\$</b>         | <b>\$</b>      | <b>\$</b>         |
| Singapore dollar     | 180,023        | 14,067,066        | 13,293         | 14,910,238        |
| United States dollar | 45,354         | 4,333,784         | -              | -                 |
|                      | <u>225,377</u> | <u>18,400,850</u> | <u>13,293</u>  | <u>14,910,238</u> |

**12. Amounts due from contract customers**

|   | <b>Group</b>     |                   |
|---|------------------|-------------------|
|   | <b>2016</b>      | <b>2015</b>       |
|   | <b>\$</b>        | <b>\$</b>         |
| Aggregate amount of costs incurred plus recognised profits less recognised losses to date | 35,072,562       | 285,750,345       |
| Less: progress billings   | (30,342,343)     | (215,725,466)     |
|   | <u>4,730,219</u> | <u>70,024,879</u> |
| Less: Allowance for impairment losses   | (4,613,603)      | (594,306)         |
| Amounts due from contract customers   | <u>116,616</u>   | <u>69,430,573</u> |

**NOTES TO THE FINANCIAL STATEMENTS  
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**12. Amounts due from contract customers (Continued)**

As at 31 December 2016, retention sums amounting to \$Nil (2015: \$6,955,919) are included in the amounts due from contract customers.

The project costs amounting to \$93,802,928 (2015: \$101,798,455) are included in “cost of sales” line item in Group’s profit or loss.

Movements in allowance for impairment losses were as follows:

|  | <b>Group</b>     |                |
|--|------------------|----------------|
|  | <b>2016</b>      | <b>2015</b>    |
|  | <b>\$</b>        | <b>\$</b>      |
| Balance at beginning of financial year           | 594,306          | -              |
| Allowance written back during the financial year | (104,452)        | -              |
| Impairment loss during the financial year        | 4,123,749        | 594,306        |
| Balance at end of financial year                 | <u>4,613,603</u> | <u>594,306</u> |

**13. Cash and cash equivalents**

|   | <b>Group</b>        |                    | <b>Company</b> |               |
|---|---------------------|--------------------|----------------|---------------|
|   | <b>2016</b>         | <b>2015</b>        | <b>2016</b>    | <b>2015</b>   |
|   | <b>\$</b>           | <b>\$</b>          | <b>\$</b>      | <b>\$</b>     |
| Fixed deposits with bank  | -                   | 5,705,426          | -              | -             |
| Cash and bank balances  | 308,499             | 2,735,725          | 30,645         | 80,966        |
| Cash and cash equivalents on statements of financial position     | <u>308,499</u>      | <u>8,441,151</u>   | <u>30,645</u>  | <u>80,966</u> |
| Bank overdrafts   | (12,078,612)        | (10,998,837)       |                |               |
| Fixed deposits pledged  | -                   | (5,705,426)        |                |               |
| Cash and cash equivalents on consolidated statement of cash flows | <u>(11,770,113)</u> | <u>(8,263,112)</u> |                |               |

Fixed deposits were placed for a period of 12 months and bore effective interest rates between 0.15% to 1.03% per annum in previous financial year.

As at 31 December 2016, fixed deposits of the Group amounting to \$Nil (2015: \$5,705,426) are pledged to banks for facilities granted to the Group as referred to in Note 17 to the financial statements.

The currency profiles of cash and cash equivalents on statements of financial position as at the end of the reporting period were as follows:

|                      | <b>Group</b>   |                  | <b>Company</b> |               |
|----------------------|----------------|------------------|----------------|---------------|
|                      | <b>2016</b>    | <b>2015</b>      | <b>2016</b>    | <b>2015</b>   |
|                      | <b>\$</b>      | <b>\$</b>        | <b>\$</b>      | <b>\$</b>     |
| Singapore dollar     | 293,031        | 7,177,837        | 30,645         | 80,966        |
| United States dollar | 15,468         | 1,260,244        | -              | -             |
| Euro                 | -              | 3,070            | -              | -             |
|                      | <u>308,499</u> | <u>8,441,151</u> | <u>30,645</u>  | <u>80,966</u> |

**SERRANO LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

**24. Loss before income tax**

In addition to the charges and credits disclosed elsewhere in the notes to the financial statements, the above includes the following charges:

|  | <b>Group</b> |             |
|--|--------------|-------------|
|  | <b>2016</b>  | <b>2015</b> |
|  | <b>\$</b>    | <b>\$</b>   |
| <i>Cost of sales</i>   |              |             |
| Allowance for impairment loss on amounts due from contract customers | 4,123,749    | 594,306     |
| Amounts due from contract customers written off                      | 34,394,731   | -           |
| Back charges by main contractors/subcontractors                      | 10,017,990   | -           |
| Depreciation of property, plant and equipment                        | 1,439,750    | 865,044     |
| Employee benefits expense  |              |             |
| - salaries, bonus and other benefits                                 | 6,636,196    | 10,737,684  |
| - defined contribution plans   | 267,498      | 343,047     |
| Operating lease expenses   |              |             |
| - rental of motor vehicles   | 872,690      | 227,679     |
| Subcontractor charges  | 8,402,364    | 18,635,437  |
| Write-down of inventories  | 1,061,746    | -           |
|  | <hr/>        | <hr/>       |
| <i>Selling and distribution costs</i>                                |              |             |
| Advertisement and sponsorship  | 44,617       | 58,381      |
| Exhibition expenses  | 555,378      | 640,034     |
| Telephone charges  | 95,854       | 170,603     |
| Travelling expenses  | 180,602      | 242,056     |
|  | <hr/>        | <hr/>       |
| <i>Administrative expenses</i>                                       |              |             |
| Audit fees   |              |             |
| - Auditors of the Company  | 23,000       | 104,000     |
| Non-audit fees   |              |             |
| - Auditors of the Company  | -            | -           |
| Depreciation of property, plant and equipment                        | 351,993      | 447,989     |
| Directors of the Company   |              |             |
| - fees   | 170,000      | 128,000     |
| - salaries, bonus and other benefits                                 | 611,734      | 787,506     |
| - defined contribution plans   | 37,894       | 33,108      |
| Directors of the subsidiaries  |              |             |
| - salaries, bonus and other benefits                                 | 102,000      | 124,363     |
| - defined contribution plans   | 11,730       | 10,583      |
| Employee benefits expense  |              |             |
| - salaries, bonus and other benefits                                 | 588,128      | 861,093     |
| - defined contribution plans   | 76,767       | 120,963     |
| Operating lease expenses   |              |             |
| - rental of land   | 208,198      | 156,525     |
| - rental of offices and warehouses                                   | 512,694      | 821,658     |
|  | <hr/>        | <hr/>       |

**SERRANO LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

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**24. Loss before income tax (Continued)**

|   | Group<br>2016 | 2015      |
|---|---------------|-----------|
|   | \$            | \$        |
| <i>Other expenses</i>   |               |           |
| Allowance for impairment loss on available-for-sale financial assets          | 1,540,000     | 260,000   |
| Allowance for impairment loss on doubtful third parties trade receivables     | 5,281,123     | 2,121,859 |
| Allowance for impairment loss on doubtful third parties non-trade receivables | 1,816,511     | 2,234,119 |
| Amortisation of intangible asset  | -             | 47,040    |
| Bad third parties trade receivables written off                               | 857,268       | 22,260    |
| Foreign exchange loss, net  | 113,548       | -         |
| Impairment loss on intangible assets  | 518,237       | -         |
| Impairment loss on plant and equipment  | 4,680,090     | -         |
| Initial public offering expenses  | -             | 188,893   |
| Liabilities arising from corporate guarantee attributable to a third party    | 4,613,187     | -         |
| Late payment interest and fine  | 1,425,719     | 27,161    |
| Loss on disposal of plant and equipment                                       | 45,805        | -         |
| Plant and equipment written off   | 689,288       | 57,889    |

Employee benefits expense includes the remuneration of key management personnel of the Group as disclosed in Note 29 to the financial statements.