Independent Auditor's Report to the members of Trek 2000 International Ltd and its subsidiaries

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of Trek 2000 International Ltd (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 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects on ongoing investigations and opening balances as described in the Basis for Qualified Opinion section of our report, the accompanying financial statements are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (International) (SFRS(I)) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Qualified Opinion

Ongoing investigations and opening balances

As disclosed in Note 3 to the financial statements, the Company has appointed an external professional firm to conduct an independent review into certain inconsistencies in accounting records and certain past transactions of the Group. The external professional firm released its Report on Suspicious Transactions (the "Phase 2 Report") on 23 April 2018. Seven issues were raised and the possible financial impacts on each of the issue were also assessed and quantified in the Phase 2 Report.

In prior years, the Company announced that several ex-key executives of the Company are assisting the Commercial Affairs Department ("CAD") of the Singapore Police Force in the investigations on a possible offence under the Penal Code, Chapter 224 pursuant to the provisions of the Criminal Procedure Code (Chapter 69, 2012 Revised Edition). The outcome of the CAD investigations and related actions by Singapore Exchange Regulation Pte Ltd ("SGX RegCo") in respect of potential breaches of the Listing Manual, is still pending. The majority of the accounting records in respect of the prior years are currently kept with CAD for their investigation and we were not granted access to review the audit working papers of the predecessor auditors. On this basis, we are unable to determine whether any adjustments are necessary in respect of the prior years' financial statements.

In view of the matters highlighted in the above paragraphs, there could be adjustments and/or disclosures, that may arise on certain financial statements' items, i.e. opening revenue reserve, trade and other payables and tax related liabilities.

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Basis for Qualified Opinion (Cont’d)

Ongoing investigations and opening balances (Cont’d)

Furthermore, the Company has disposed of Racer Group in the previous financial year ended 31 December 2017, resulting in a net loss on disposal of US$1,077,494 in the consolidated statement of comprehensive income.

The predecessor auditors were unable to perform the necessary audit procedures to satisfy themselves as to whether the financial statements of Racer Group were in form and content appropriate and proper for inclusion and disclosure in the financial statements for the financial year ended 31 December 2016, as well as for the period from 1 January 2017 to the date of disposal of Racer Group (i.e. 13 March 2017). Accordingly, they were unable to ascertain the accuracy of the recorded net loss on disposal of Racer Group recognised in the financial year ended 31 December 2017. In view of the above, the comparative consolidated statement of comprehensive income may contain misstatements that were not meaningful and comparable to the Group’s performance for the current financial year.

Information other than the Financial Statements and Auditor’s Report Thereon

Management is responsible for the other information. The other information obtained at the date of this auditor’s report is information included in the annual report but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report the fact. We were unable to obtain sufficient appropriate evidence about the matters as described in the Basis for Qualified Opinion section above. Accordingly, we were unable to conclude whether or not the other information is materially misstated with respect to the matter.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

(1) Capitalisation of development costs

As at 31 December 2018, the Group's intangible assets comprised mainly internally generated development costs comprising directly attributable cost of materials and cost of employee benefits incurred on a project, amounting to US$1.19 million. During the current financial year, the Group accelerated the amortisation of the carrying amount of development costs on the remaining projects by US$0.28 million to Nil, as the forecasted cashflows to be derived from the remaining projects are expected to be lower than their respective carrying amounts.

The Group's research and development personnel are involved in the development of new product offerings and enhancements to existing products. Management exercises significant judgement in determining whether to expense or capitalise these costs, after considering (i) technical feasibility, (ii) intention and ability to complete the development, (iii) the ability to use or sell and generate future economic benefits from the intangible assets and (iv) the ability to measure the costs reliably involved as detailed in SFRS(I) 1-38 – *Intangible Assets*. Furthermore, rapid technological change in the industry would require management to determine whether there is an indication of impairment on the carrying value of the development costs that have been previously capitalised and this requires significant management judgement and assumptions which are affected by future market or economic developments. We have considered this to be an area of key audit focus.

We have obtained an understanding of management's process for assessing whether any research and development costs spent has met all the recognition criteria under SFRS(I) 1-38. We have also reviewed the detailed analyses prepared by management on the Group's research and development costs spent for the current financial year, allocated by product group and tested the reconciliation of the amounts reported to the accounting records. We have also considered other information, including product demonstration by management on the products and solutions being developed in relation to key customer contracts, the stage of related sales prospects and where appropriate, the level of sales generated from previous generation of products and solutions, to determine whether the status and performance of the current project under development corroborated with management's assertions over the technical feasibility and the ability to generate probable future economic benefits.

Other than the development costs incurred on the specific project mentioned in the preceding paragraphs, the results of our audit procedures did not identify any inconsistencies with management's conclusion that no material element of the spending incurred on research and development in the current financial year met the criteria for capitalisation. We have also assessed the adequacy of the disclosures in respect of the development costs in Note 5.

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Key Audit Matters (Cont'd)

(2) Provision for slow-moving and obsolete inventories

As at 31 December 2018, the Group has gross inventories of US$5.74 million, with provision for slow-moving and obsolete inventories of US$2.35 million. Inventory balances comprise raw materials and finished products. The determination of provision for slow moving and obsolete inventories requires management to exercise judgement in identifying slow-moving and obsolete inventories and make estimates of the net realisable value to determine an appropriate level of provision required. This process also involves management to consider the price protection arrangements with certain key suppliers, adding complexity to the process. This process is also subject to uncertainty arising from rapid technological changes, given the nature of the Group's inventories. As such, we determined that this is a key audit matter.

As part of our audit of the carrying value of inventories, we evaluated the analyses and assessments made by management with respect to the carrying value and the identification of slow-moving and obsolete inventories and the expected demand and net realisable value of the inventories. We tested the net realisable values of the inventories on a sample basis by comparing the carrying values of the inventories to the latest selling prices. We attended and observed management's physical stock count process, including identification of slow-moving and obsolete inventories. We also inquired of management to obtain an understanding of the terms of the price protection arrangement that the Group has entered with its suppliers. We have also assessed the adequacy of the disclosures in respect of inventories in Note 9.

<u>Other matters</u>

The financial statements for the financial year ended 31 December 2017 and 31 December 2016 were audited by other firms of auditors whose report dated 27 March 2018 and 29 May 2017 respectively expressed a disclaimer of opinion on those financial statements.

On 26 April 2018, SGX RegCo issued a Notice of Compliance to the Company and exercised its administrative powers under the Listing Rule 1405(1)(e) to object the continuing appointment of certain ex-key management personnel of the Company as a director and/or executive officer in any issuer for a period of three years from the date of the letter. In addition, SGX RegCo requires the Company to appoint independent professionals to undertake an independent review of the Company's internal controls and corporate governance practices pursuant to Listing Rule 1405(1)(f). The Company will be required to seek the Exchange's approval on the firm to be appointed, the terms of reference for the engagement and the scope of the independent review. The Company has appointed Baker Tilly TFW to conduct the independent review.

SGX RegCo also requires a confirmation from every member of the Board that the internal procedures put in place by the Board to safeguard the Group's cash (including the change of cheque signatories) are adequate and effective. During the course of our audit, we noted that the process of changing of cheque signatories for some overseas bank accounts are still ongoing. Management explained that the delay was due to the bureaucratic and lengthy process in making the changes to the cheque signatories, and this was subsequently resolved by transferring the significant bank balances to other bank accounts where bank signatories have been previously changed. As at the date of this report, the changes to the cheque signatories have been completed, except for one bank account, whose entire amount has been transferred to another bank account where the bank signatories have been previously changed.

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to the members of Trek 2000 International Ltd
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Other matters (Cont'd)

On 4 December 2018, SGX-ST notified the Company that it would be placed on the Watch-List due to the Minimum Trading Price ("MTP") Entry Criterion with effect from 5 December 2018. The Company will have to meet the requirements of Rule 1314(2) of the Listing Manual within 36 months from 5 December 2018, failing which SGX-ST would delist the Company or suspend trading in the Company's shares with a view to delisting the Company.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report to the members of Trek 2000 International Ltd and its subsidiaries (Cont'd)

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report to the members of Trek 2000 International Ltd and its subsidiaries (Cont'd)

Report on Other Legal and Regulatory Requirements

Except for the matter described in the Basis for Qualified Opinion section of the report, the accounting and other records required by the Act to be kept by the Company and its subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Kong Chih Hsiang, Raymond.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore
5 April 2019