

Independent auditor's report to the members of Xpress Holdings Ltd

Report on the Financial Statements

We have audited the accompanying financial statements of Xpress Holdings Ltd (the “Company”) and its subsidiaries (the “Group”) set out on pages F01 to F59, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 July 2015, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Bases of Qualified Opinion

The financial statements for the financial year ended 31 July 2014 (“FY2014”) were audited by an independent auditor (the “preceding auditor”) other than Nexia TS Public Accounting Corporation, who issued a disclaimer opinion on 28 January 2015 on those financial statements due to the following:

(i) Going concern

As disclosed in Note 13 of the previous year's financial statements, the Company and certain subsidiary corporations in the Group have defaulted in payments, breached certain financial covenants and failed to comply with certain indebtedness agreements. As at the date of the preceding auditor's report, the Group has received notices of default from various lenders for repayment of outstanding loans as well as termination of credit facilities granted to companies in the Group.

Independent auditor's report to the members of Xpress Holdings Ltd (Cont'd)

(i) Going concern (Cont'd)

On 8 January 2015, the landlord of the Group's corporate office premises (the "Landlord") filed a winding up application against the Company for a sum of \$913,864 owing by a subsidiary, Xpress Print (Pte) Ltd to the Landlord in respect of the rent on office premises for the months from April 2014 until the date of full payment. A hearing of the winding up application is scheduled for 30 January 2015.

As discussed in Note 2 of the previous year's financial statements, the Group incurred a net loss of \$146 million during FY2014 and as at that date, the Group's and the Company's current liabilities exceeded its current assets by \$7.1 million and \$3.4 million respectively. As at 31 July 2014, the Group's overdrafts exceeded its cash balances and fixed deposits by approximately \$715,000.

The matters set out above indicate the existence of a material uncertainty which cast a significant doubt on the Group's and the Company's ability to continue as going concerns. The financial statements of the Group and the Company have been prepared on going concern basis, which assume that the Group and the Company will continue in operation at least for a period of 12 months from the balance sheet date. The financial statements of the Group and the Company do not include any adjustments relating to the realisation and classification of asset amounts that may be necessary if the Group and the Company are unable to continue as going concerns. Should the going concern assumption be inappropriate, adjustments would have to be made to reflect the situation that assets may need to be realised other than in the amounts at which they are currently recorded in the balance sheets. In addition, the Company and the Group may have to provide for further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No adjustments have been made in the financial statements of the Group and the Company in respect of these.

The ability of the Group and the Company to continue in operation in the foreseeable future and to meet their financial obligations as and when they fall due depend on the completion of the share placement as disclosed in Note 30 of the previous year's financial statements. Therefore, they were not able to form an opinion as to whether the going concern basis of presentation of the accompanying financial statements of the Group and the Company is appropriate.

During the financial year ended 31 July 2015, the Group recorded a net profit of \$311,000, and as at that date, the Group and the Company are in net current asset position of \$1.1 million and \$2.8 million respectively. As disclosed in Note 11 of the financial statements about the completion of the share placement on 21 July 2015, the directors have prepared the financial statements on a going concern basis as the Group and the Company have sufficient working capital to ensure business continuity for the next 12 months and that the Group and the Company will be able to pay its debts as and when they fall due.

(ii) Available-for-sale financial assets

As disclosed in Note 7 to the financial statements, the investee is not listed on any stock exchange. The Company was unable to gain access to the financial information of the unquoted equity securities to determine the fair value of the investment at 31 July 2014. According to management, the investee was supposed to seek a public listing in the People's Republic of China which did not materialise. The investee, being in the traditional printing industry, has been badly affected by the decline in business prospects in China. Management therefore decided to recognise an impairment loss on the investment with a resultant loss amounting to \$1,940,000.

Independent auditor's report to the members of Xpress Holdings Ltd (Cont'd)

Bases of Qualified Opinion (Cont'd)

(ii) Available-for-sale financial assets (Cont'd)

In the absence of information from management on the fair value of the investment, the preceding auditor was not able to perform any audit procedures, and there were no practicable alternative audit procedures that they could carry out to ascertain the appropriateness of the impairment amount.

For financial year ended 31 July 2015, we have obtained sufficient and appropriate audit evidence to determine the appropriateness of the impairment loss on the investment.

(iii) Trade and other receivables and prepayment

- (a) As at 31 July 2014, trade and other receivables amounting to approximately \$4.9 million are outstanding for more than one year. No impairment loss has been recognised in respect of this amount as management is confident in recovering the entire amount owing by the customers. There is no objective evidence from management that the amount is recoverable.

In the absence of evidence to substantiate the collectability of the outstanding amount, the preceding auditor was unable to ascertain the valuation of these trade and other receivables.

For financial year ended 31 July 2015, we have obtained sufficient and appropriate audit evidence to ascertain the valuation of these trade and other receivables.

- (b) As at 31 July 2014, prepayments include an amount of \$889,000 purportedly related to consulting, legal and logistics services during the financial year ended 31 July 2014. At the date of the preceding auditor's report, they have not been able to obtain adequate information and documentation on these transactions.

For financial year ended 31 July 2015, we have obtained sufficient and appropriate audit evidence to determine the validity of the prepayments made in the preceding year.

(iv) Inventories

The preceding auditor did not observe the counting of physical inventories as at 31 July 2014. They were unable to satisfy themselves by alternative means concerning the inventory quantities held at 31 July 2014 which are stated in the statement of financial position at \$1.5 million.

As at 31 July 2014, inventories include an amount of \$1.2 million held by a subsidiary, Print Planner (Hong Kong) Limited ("PPHK"). The books and records of PPHK's inventories were not available. As a result of these matters, they were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories. They were unable to carry out additional procedures necessary to satisfy themselves as to whether the financial information of PPHK are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements.

Independent auditor's report to the members of Xpress Holdings Ltd (Cont'd)

Bases of Qualified Opinion (Cont'd)

(iv) Inventories

We were appointed as Independent Auditor of the Group on 23 November 2015 and thus did not observe the stocktake performed by management of the physical inventories as at 31 July 2015.

As the carrying amount of the inventories form part of the opening balances for the current financial year, and as we were unable to carry out any alternative audit procedures to obtain sufficient and appropriate audit evidence on the opening balances, we are unable to determine the impact on the current financial year's consolidated statement of comprehensive income arising from adjustments if any, to these and other opening balances.

(v) Loans from third parties

As disclosed in Note 16 of the previous year's financial statements, a subsidiary corporation obtained a loan from a third party amounting to \$720,000 as at 31 July 2014, which, according to management, is unsecured, interest-free and repayable upon demand.

As at the date of the preceding auditor's year's report, the preceding auditor had not been provided with a copy of the loan agreement and has been unable to obtain independent confirmation from the lender. The Preceding Auditor do not consider information and records made available to the Preceding Auditor from alternative procedures sufficient for the preceding auditor to form an opinion on as to the completeness, existence and accuracy and fair presentation of the loan.

For financial year ended 31 July 2015, we have obtained sufficient and appropriate audit evidence to determine the completeness, existence and accuracy and fair presentation of the loan. The loan from third party has since been fully settled by the Group during the current financial year.

In view of the preceding auditor's disclaimer of opinion on the financial statements for the preceding financial year, and as we were not able to carry out any alternative audit procedures to obtain sufficient and appropriate audit evidence on the opening balances as above, we are unable to determine the impact on the current financial year's consolidated statement of comprehensive income and the statement of cash flow arising from adjustments, if any, to these and any other opening balances.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the "Bases for Qualified Opinion" section, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 July 2015 and of the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date.

Independent auditor's report to the members of Xpress Holdings Ltd (Cont'd)

Qualified Opinion (Cont'd)

Report on other legal and regulatory requirements

In our opinion, 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 provision of the Act.

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants

Director in-charge: Low See Lien
Appointed since financial year ended 31 July 2015

Singapore
4 January 2016