(Incorporated in the Republic of Singapore)
(Company Registration No. 200201764D)

UPDATE ON NOTIFICATION OF INTERNAL AUDIT OF SUBSIDIARIES

The Board of Directors of M Development Ltd (the "Company") refers to its previous announcements made on 9 April 2015, 5 May 2015, and 21 May 2015 regarding an internal audit of its subsidiary, Winsta Holding Pte Ltd, and its subsidiaries, conducted by the forensic consulting firm of Messrs KordaMentha Pte Ltd ("KordaMentha").

An executive summary of KordaMentha's final report is enclosed.

The Company wishes to state that as previously updated, the matters disclosed in KordaMentha's report are presently the subject of litigation in the High Court of Singapore. The Company will make further updates as appropriate.

BY ORDER OF THE BOARD
M DEVELOPMENT LIMITED

Huang Wen-Lai
Executive Chairman and Director
18 September 2015

EXECUTIVE SUMMARY

A) INTRODUCTION

1. KordaMentha Pte Ltd ("**KordaMentha**") was engaged by Winsta Holding Pte Ltd ("**Winsta**") in April 2015 to secure and preserve available records and financial information of Winsta and its subsidiaries including among others Katong Hostel Pte Ltd, Global Residence Pte Ltd, Evan Hostel Pte Ltd and The Hill Lodge @ Mount Vernon Pte Ltd (collectively, the "**Winsta Group**"); and then to review the records obtained and conduct an internal inquiry into the operations and affairs of the Winsta Group, including its procurement processes.
2. The summary of the detailed findings below are extracted from our full factual report dated 25 June 2015 and are based on the documents which we reviewed and inquiries undertaken by us up to 17 June 2015. Based on our review, we have identified certain areas of concern.

B) SUMMARY OF DETAILED FINDINGS

ISSUES NOTED WITH ICS CATERING PTE LTD

3. ICS Catering Pte Ltd ("ICS Catering") is a vendor to the Winsta Group providing catering and breakfast services to Evan Hostel Pte Ltd and The Hill Lodge @ Mount Vernon Pte Ltd since 2013; based on accounting data obtained, ICS Catering provided services amounting to S$1,079,660 in FY2013 and FY2014. We have uncovered evidence that Ms Lynn Sim ('Lynn Sim') and Ms Joyce Sim ('Joyce Sim') were responsible for incorporating ICS Catering, and were directors of ICS Catering at its incorporation. They remained involved in the management operational control of ICS Catering and there is evidence to suggest that Lynn Sim and Joyce Sim were on ICS Catering's payroll; however we understand that their interests were not declared to the Winsta Group.
4. We noted anomalies in the invoicing by ICS Catering, including the following:
    a. ICS Catering invoices were not supported by delivery notes, order confirmations, or confirmations of the price and quantities ordered.
    b. Some invoices were not properly verified before they were paid.
    c. Some invoices were rendered long after the services were allegedly provided.
    d. There is evidence of billing for services not provided.
5. We noted evidence of further potential areas of concern, including:
    a. Non-commercial rentals paid by ICS Catering to Winsta Group companies: ICS Catering rented the first floor of a building for onefifth (1/5) the rent paid by a commercial party which had rented the second floor and the floor area rented to ICS Catering is estimated to be more than half of that rented to the commercial party.
    b. Diversion of profits: A café previously run by Winsta Group was taken over by ICS Catering once the café started making profits, about nine months after inception.
6. We also noted evidence of potential violations of manpower regulations:
    a. Some employees registered under Winsta Group entities were also employees of ICS Catering, or its fully owned subsidiary, ICaterings Pte Ltd.
    b. Members of the Sim family were added to ICS Catering's payroll possibly for the purposes of obtaining an increased quota for the hiring of foreign workers.

ISSUES NOTED WITH I-MASTERS AIR-CONDITIONAL PTE LTD

7. I-Masters Air-Conditional Pte Ltd ("I-Masters") has been providing air-conditioning services to the Winsta Group since 2013, and in FY2013 and FY2014 billed Winsta Group a total of S$252,266. As at the date of its incorporation, Overseas Students Placement Centre Pte Ltd ("OSPC"), and a senior Winsta Group employee known as Shawn Tan, were shareholders of I-Masters; Shawn Tan was also the sole director of I-Masters at incorporation.

8. We noted evidence that Lynn Sim and Shawn Tan were involved in the management of I-Masters. OSPC is a company owned by the members of Sim family, but their interest in I-Masters was never previously disclosed. Employees of Winsta Group were instructed by Joyce Sim to engage I-Masters for air-conditioning repairs for Katong Hostel.

9. A review of I-Masters invoices discovered amongst other things the following possible areas of concern:

    a. The number of units serviced based on service reports was potentially less than the number of units invoiced.

    b. Different rates were charged for the same services provided.

    c. Of the 454 invoices issued to the Winsta Group, approximately 37 invoices amounting to S$79,727.80 did not have adequate supporting documents appended.

    d. One quotation process for reinstatement work done for the Winsta Group was potentially rigged. One of the two quotations received was provided by I-Masters, but the other was provided by a person who receives a salary from I-Masters.

10. There is also potential violation of manpower regulations:

    a. An employee under a Winsta Group entity's work permit was carrying out work for I-Masters.

    b. Although employed by Winsta Group, Shawn Tan was added to I-Masters payroll with no salary but with CPF contribution purportedly to have sufficient quota for foreign workers.

ISSUES NOTED WITH UNI-HOUSE PTE LTD AND UNIHOUSE @ EVANS PTE LTD

11. Uni-House Pte Ltd ("Uni-House") leased two buildings from Winsta Group from March 2012 to December 2014 for a monthly rental of S$60,000 and a 30% share of Uni-House's net profit after tax. Uni-House is the sole shareholder of Uni-House @ Evans Pte Ltd which also leased one building from Winsta Group at Evans Road for use as a boarding house.

12. We noted a directors' resolution of Uni-House appointing Lynn Sim and Joyce Sim as joint signatories of Uni-House even before execution of the tenancy agreements above, and appeared to be in control of Uni-House's finances; and this was never disclosed. Joyce Sim was subsequently appointed by Winsta Group to Uni-House's board to safeguard Winsta Group's interests in Uni-House, but her prior involvement was not disclosed.

13. There appeared to be the following anomalies:

    a. Uni-House was granted further rent free periods and reduction in rent apparently without authorisation by Winsta Group's board.

    b. Certain students appeared to be diverted from staying at Winsta Group properties to Uni-House properties.

    c. The financials of Uni-House, which affects Winsta Group's 30% share of net profit after tax, may not be accurate because:

i We sighted two sets of Uni-House profit and loss accounts for Uni-House: one showing a profit of S$72,584 and the other a profit of S$8,841; we have not been able to determine the veracity of these accounts. Even if the profit for 2013 were S$8,841 instead of S$72,584. Uni-House did not declare any profit share to Winsta Group.

ii As at 6 May 2015, the 2014 financial accounts recorded a revenue of S$225,370.66, but only S$640 in expenses was recorded.

iii Profits may have been understated due to erroneous recording of motor vehicles as expenses instead of assets, and possible non-recording of transactions.

iv Joyce Sim made plans to transfer RMB300,000 as "disbursements" to shareholders of Uni-House but this was not recorded in the accounts.

d. An amount of RMB195,000 was paid to a bank account Shanghai in the name of Joyce Sim, which appears to be related to shareholder disbursement for the 65% shareholding in Uni-House. We have not determined if Joyce Sim is the beneficial owner of the 65% shareholding in Uni-House held by Mr Soh Kok Chye.

ISSUES NOTED WITH OVERSEAS STUDENTS PLACEMENT CENTRE PTE LTD AND ATAS RESIDENCE PTE LTD

14. OSPC was the appointed marketing and sales agent for Winsta Group in respect of tenants for service apartments as well as students for Katong Hostel. Members of the Sim family own 75% of OSPC.

15. ATAS Residence Pte Ltd ("ATAS") offers similar services as a Winsta Group subsidiary, namely, serviced apartments. Both Lynn Sim and Joyce Sim were founding shareholders and directors of ATAS, but their interests were transferred to other persons subsequently. Both OSPC and ATAS appear to be run by the same management and employees, including Lynn Sim and Joyce Sim and persons associated with them.

16. There is evidence that business and business opportunities have been diverted from Winsta Group by OSPC and ATAS:

a. A lease for service apartments meant for Winsta Group was diverted by Lynn Sim to ATAS instead.

b. A number of persons staying at Winsta Group properties were discovered to have prematurely terminated their lease and moved to properties controlled by ATAS or OSPC.

c. Both Lynn Sim and Joyce Sim receive commission from serviced apartments operated by OSPC.

ISSUES NOTED WITH JIU MAO JIU HOTPOT PTE LTD

17. At its incorporation, Lynn Sim and Joyce Sim were the sole shareholders and directors of Jiu Mao Jiu Hotpot Pte Ltd ("JMJ"). In 2014, JMJ appears to receive funds on behalf of Joyce Sim for the business that may be diverted away from Winsta Group.

MISCELLANEOUS ISSUES NOTED

18. We also noted the following issues:

a. An amount of S$1.2m was withdrawn from a Winsta Group subsidiary bank account, by way of a cashiers' order, and recorded as a deposit to the Commissioner of Lands, Singapore Land Authority; the application for a cashiers' order was authorised by Lynn Sim and Mr Sim Poh Ping ('Sim Poh Ping'). The cashiers' order was never paid out and was eventually banked back into the company. Whilst we were not able to identify any valid purpose for the payment to the Singapore Land Authority, Skype messages suggest that Mr Sim did not want to release the funds back to Winsta Group until certain personal guarantees were signed.

b. Receivables reports from Winsta Group showed that OSPC had been collecting rental from persons on behalf of Winsta Group since 2007, and some of such rental had not been returned.

C) DISCLAIMER

LIMITATIONS

19. Our findings represent our work done up to 17 June 2015 and are identified through review of the documents and data collected, or through information provided by employees of Winsta Group relevant to its scope of work that were made available to KordaMentha up to 17 June 2015.

20. We conducted a limited interrupted interview with Shawn Tan and we did not interview Connie Ng, the Finance Manager of Winsta Group, as she did not present for interviews with us. Additionally, we have not interviewed the directors of Winsta Group (Sim Poh Ping, Joyce Sim and Lynn Sim) and other external parties.

21. As a result, the findings could be amended or added to if further information comes to light.

INFORMATION RELIED ON

22. The statements and opinions contained herein are given in good faith. We have relied upon the accuracy and completeness of information provided by the employees of Winsta Group.

23. The findings have been prepared by KordaMentha with care and diligence. However, our work did not include the procedures necessary to conduct an audit or to enable us to express an opinion as to whether the financial information contained herein present a true and fair view in accordance with applicable accounting standards and accordingly, no such opinion is expressed.

24. KordaMentha does not warrant the accuracy or reliability of any of the information supplied to it.

RELIANCE ON THIS EXECUTIVE SUMMARY

25. The issues considered during this review have been specifically limited to the matters set out in our engagement letter dated 7 April 2015 (the "Engagement Letter").

26. Our findings are based on documents and information relevant to our scope of work that were made available to us and the work done up to 17 June 2015. We have no responsibility to update our findings for events or circumstances occurring after 17 June 2015, apart from any subsequent arrangement.

27. The findings have been prepared, and may be relied on, solely for the purpose/s specified in the Engagement Letter and use by Winsta Holding. These findings may only be published or distributed:

    a. For the purpose/s specified in paragraph 1; or

    b. In accordance with any law or by order of a court of competent jurisdiction.

28. The express written consent of KordaMentha must be obtained prior to relying upon, publishing or distributing these findings, or part of it, for some other purpose. KordaMentha does not accept responsibility to anyone if they use these findings for some other purpose.