# Independent Auditor's Report

**To the members of KLW Holdings Limited**

**Report on the Financial Statements**

We have audited the accompanying financial statements of KLW Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") as set out on pages 39 to 108, which comprise the balance sheets of the Group and the Company as at 31 March 2016 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and statement of changes in equity of the Company 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 qualified audit opinion.

*Basis for Qualified Opinion*

Opening balances

We, together with the component auditors, were appointed as auditors of the Company and its subsidiaries subsequent to the balance sheet date. We and certain component auditors were not given access to the audit work papers of the predecessor auditors, and were unable to satisfy ourselves by alternative means concerning:

(i) the quantities of work-in-progress and finished goods amounting to $2,907,724 in aggregate that were held by a subsidiary as at 31 March 2015;

(ii) the validity, completeness and accuracy of contract work-in-progress, including recognised profits and/or recognised losses on uncompleted contract work, that entered into the determination of amounts due from and to customers for contract work amounting to $3,333,528 and $250,720 respectively of a subsidiary as at 31 March 2015; and

(iii) the accuracy of asset revaluation reserve and the deferred tax liabilities arising from the revaluation of the leasehold land and buildings amounting to $3,973,109 and $1,267,315 respectively of a subsidiary as at 31 March 2015.

# Independent Auditor's Report

**To the members of KLW Holdings Limited**

**Report on the Financial Statements (cont'd)**

*Basis for Qualified Opinion (cont'd)*

Opening balances (cont'd)

Since these opening balances as at 1 April 2015 entered into the determination of the financial performance and cash flows for the financial year ended 31 March 2016, we were unable to determine whether adjustments might have been necessary in respect of the revenue, cost of sales, tax expense and profit for the year reported in the consolidated statement of comprehensive income and the cash flows from operating activities reported in the consolidated statement of cash flows.

Our opinion on the current year's financial statements of the Group is also modified because of the possible effects of these matters on the comparability of the current year's figures and the corresponding figures in respect of:

(i) the balance of inventories as presented on the balance sheet and the line items of the inventories as disclosed in Note 18 to the financial statements; and

(ii) the line items of trade receivables, due from/to customers on contract work and trade payables as disclosed in the Notes 16, 17 and 20 to the financial statements in respect of contract work-in-progress.

Asset revaluation reserve and deferred tax liabilities

As described in the above paragraphs, we were unable to obtain sufficient appropriate evidence to determine whether the asset revaluation reserve and deferred tax liabilities of the Group arising from the revaluation of the leasehold land and buildings were properly and accurately accounted for in the prior years and during the financial year ended 31 March 2016. Accordingly, we are unable to determine whether adjustments might have been necessary in respect of the deferred tax expense reported in the consolidated statement of comprehensive income during the year and the closing balances of asset revaluation reserve and deferred tax liabilities reported in the consolidated balance sheet as at 31 March 2016.

Loans due from former subsidiaries

As disclosed in Note 5 to the financial statements, the Group has written off loans due from its former subsidiaries, Teeni Enterprise Pte Ltd and Teeni Universal Pte Ltd, amounting to $876,013 in aggregate during the financial year ended 31 March 2016. These loans were waived in the previous financial year ended 31 March 2015 by the then Managing Director of the Company. However, the waivers were not recorded in the previous year's financial statements as the waiver letters signed by the then Managing Director only came to the attention of the management during the current financial year. As disclosed in Note 16 to the financial statement, the Board of Directors has ratified the decision to write off the loans in the financial year ended 31 March 2016. Accordingly, the management recorded the write-off of the loans in the profit or loss for the financial year ended 31 March 2016. Had the Group recorded such write-off in the previous financial year, the profit for the current financial year ended 31 March 2016 would have increased by $876,013.

*Qualified Opinion*

In our opinion, except for the possible effects of the matters regarding the opening balances, asset revaluation reserve and deferred tax liabilities, and the effects of the matter regarding the write-off of loans due from former subsidiaries described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity 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 March 2016 and the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year ended on that date.

# Independent Auditor's Report

**To the members of KLW Holdings Limited**

**Report on the Financial Statements (cont'd)**

*Emphasis of Matters*

We draw your attention to the following disclosures in the notes to the financial statements:

Legal claims and contingent liabilities

As disclosed in Note 34 to the financial statements, the Company has on-going legal claims to recover commitment fees of $7.0 million paid by a subsidiary relating to a property development project in the People's Republic of China. The amount has been fully provided for in the financial statements of the Group during the previous financial year ended 31 March 2015. In the event that there is any recovery of the commitment fees, adjustments may have to be made in the financial statements of the Group.

As further disclosed in Note 34 to the financial statements, the counterparty has filed a defence and counterclaims against the Company for a total sum of $3.45 million. The directors of the Company are of the view that no liabilities are required to be recognised in the financial statements for the financial year ended 31 March 2016 in respect of the counterclaims filed against the Company.

Investigation by the Commercial Affairs Department

As disclosed in Note 35 to the financial statements, on 19 November 2015, the Company received a notice from the Commercial Affairs Department ("CAD") of the Singapore Police Force which states that the CAD is investigating an offence under the Securities and Futures Act (Chapter 289 of Singapore).

The directors of the Company has advised that the CAD has not provided any details of its investigation and that, at the date of this report the investigation is on-going. The directors of the Company are of the view that the investigation should not have material financial impact on the Group's and the Company's financial statements.

Our opinion is not further qualified in respect of the above matters.

*Other Matter*

The financial statements for the financial year ended 31 March 2015 were audited by another independent auditor whose report dated 8 July 2015 contained a disclaimer of opinion on the consolidated financial statements of the Group and the balance sheet of the Company as detailed in Note 37 to the financial statements.

**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 provisions of the Act.

**Baker Tilly TFW LLP**
Public Accountants and
Chartered Accountants
Singapore

12 July 2016

## 16. Prepayments, trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ (Reclassified, Note F) | **$** | $ |
| **Current** | | | | |
| Trade receivables | | | | |
| - third parties | **2,387,576** | 2,897,897 | **–** | 1,339 |
| - subsidiaries | **–** | – | **299,529** | 299,529 |
| Accrued revenue | **4,770,364** | – | **–** | – |
| Retention sum (Note 17) | **918,025** | – | **–** | – |
| Due from customers on contract work (Note 17) | **542,925** | 3,333,528 | **–** | – |
| | **8,618,890** | 6,231,425 | **299,529** | 300,868 |
| Less: Impairment loss of trade receivables | **–** | (369,685) | **(299,529)** | (299,529) |
| Trade receivables, net | **8,618,890** | 5,861,740 | **–** | 1,339 |
| Other receivables | | | | |
| - Commitment fees (Note A) | **7,200,000** | 16,200,000 | **–** | – |
| - Other receivables (Note B) | **1,010,946** | 1,518,644 | **221,710** | 231,494 |
| - Due from subsidiaries (non-trade) (Note C) | **–** | – | **30,602,244** | 37,468,334 |
| | **8,210,946** | 17,718,644 | **30,823,954** | 37,699,828 |
| Less: Impairment loss of other receivables | **(7,200,000)** | (7,200,000) | **(8,421,470)** | (8,039,999) |
| Other receivables, net | **1,010,946** | 10,518,644 | **22,402,484** | 29,659,829 |
| Prepayments | **259,580** | 116,094 | **18,434** | 23,836 |
| Advances to suppliers | **126,241** | 364,454 | **–** | – |
| Deposits (Note D) | **611,355** | 3,966,339 | **416,703** | 55,355 |
| Trade and other receivables, net | **10,627,012** | 20,827,271 | **22,837,621** | 29,740,359 |
| **Non-current** | | | | |
| Prepayments (Note E) | **15,254** | 1,526,466 | **–** | – |

### 16. Prepayments, trade and other receivables (cont'd)

Note A - Commitment fees

In previous financial year, the Group has paid a total amount of $16,200,000 as commitment fees in connection with the three non-binding term sheets as described below. The Group has not entered into any definitive agreement with any of the counterparties by the stipulated deadline in July 2014 and as a result, the commitment fees became due and refundable in full by the counterparties since then:

- An amount of $2,200,000 was paid under a term sheet in respect of a property development project in Bali, Indonesia ("Bali term sheet"). During the financial year end, the Group has recovered $2,000,000 of the commitment fee with remaining balance of $200,000 due by the counterparty. Accordingly, the Group made an allowance for impairment loss on the $200,000 of the commitment fee as at 31 March 2015 and 2016.

- An amount of $7,000,000 was paid under a term sheet in respect of a hotel acquisition in Zhangye, Gansu, China ("Zhangye Hotel Term Sheet"). The counterparty in this term sheet is a company incorporated in the British Virgin Islands ("Zhangye counterparty"). During the financial year end, the Group has fully recovered this commitment fee from the counterparty.

- An amount of $7,000,000 was paid to the Zhangye counterparty under a term sheet in respect of a property development project in Zhangye, Gansu, China ("Zhangye Property Term Sheet"), which remains outstanding as at 31 March 2016. Despite having entered and agreed into a new plan and agreement to recover the said amount from the counterparty, the Group has not recovered the sum and therefore a full allowance for impairment loss was made as at 31 March 2015.

The Group has entered into another term sheet with the same counterparty, i.e. Zhangye counterparty on 25 May 2015, which sets out certain key indicative terms of a potential transaction proposed to be introduced by the Zhangye counterparty and its director and shareholder to the Company (collectively the "Parties"). The proposal relates to a proposed joint venture in a property development project in Vietnam between the Group and two companies incorporated in Vietnam ("Vietnam Term Sheet").

By entering into the Vietnam Term Sheet, it was agreed amongst the Parties that the outstanding commitment fee amounting to $7.0 million owing by the Zhangye counterparty to the Group under the Zhangye Property Term Sheet will be paid into an escrow account by 25 August 2015, which will serve as the commitment fee paid by the Company under the Vietnam Term Sheet. The said amount will be released from the escrow account to the Company by 25 November 2015 in the event that no definitive agreement is entered into by the Group by then, relating to the Vietnam Term Sheet or from any other transactions so introduced by the Zhangye counterparty or its director and shareholder. The director and shareholder of the Zhangye counterparty has personally undertaken to fulfil the payment obligations under the above Term Sheets.

The Board of Directors have taken actions to recover the commitment fees. On 26 May 2015, 27 May 2015 and 1 July 2015 respectively, the Group had managed to recover a total of $9.0 million. On 22 November 2015, the Company had announced that it had issued a letter of demand for the remaining $200,000 but that the board has kept the claim in abeyance in the meantime. The present claim in the High Court is for the sum of $7.0 million. Accordingly, the remaining outstanding balances of $7.2 million relating to the Bali Term Sheet and Vietnam Term Sheet (originally paid under Zhangye Property Term Sheet) amounted to $200,000 and $7,000,000 respectively have remained outstanding and fully impaired as at 31 March 2016.

## 16. Prepayments, trade and other receivables (cont'd)

Note B - Other receivables

Included in the total other receivables of the Group as at 31 March 2016 is an amount of $Nil (2015: $1,178,958) being loans due from its former subsidiaries Teeni Enterprise Pte Ltd and Teeni Universal Pte Ltd (collectively "Teeni Group"). These amounts were unsecured, interest-free and repayable on demand. The Group has written off loans due from the Teeni Group totalling $876,013 during the financial year ended 31 March 2016. These loans have been waived in the previous financial year by the then Managing Director of the Company. However, the waivers were not recorded in the previous year's financial statements as the waiver letters signed by the then Managing Director only came to the attention of the management during the current financial year. The Board of Directors have ratified the decision to write off the loans in the financial year ended 31 March 2016, after performing the inquiries of the relevant personnel and considering the legal implications of the loan waivers. The remaining non-trade receivable balance of $282,945 has been settled by way of offsetting with amount payable to Teeni Group (Note 20).

Note C - Due from subsidiaries (non-trade)

These amounts are unsecured, interest-free and repayable on demand.

Note D - Deposits

D.1 Included in the deposits of the Group and the Company is a deposit of $227,852 (2015: Nil) being placed with a third party vendor during the financial year ended 31 March 2016 for an option to purchase two office units located at Kallang Avenue, Singapore, for total consideration of $2,278,510. The remaining sum of $2,050,658 has been fully paid subsequent to the balance sheet date and as disclosed in Note 33, the acquisition of office units has been completed.

D.2 Included in the deposits of the Group in previous year was a refundable rental deposit of $2,327,592, which was due from the landlord of a subsidiary's office premises at the expiration of the lease term and upon fulfilment of certain lease obligations and conditions. The amount has been recovered during the financial year.

D.3 Included in the deposits in previous year was $1,327,120 placed with a third party vendor to secure the purchase of a property in Melbourne, Australia for AUD12,520,000, equivalent to approximately $13,271,200 during the financial year ended 31 March 2015. The remaining sum of AUD11,268,000, equivalent to approximately $11,944,080 have been paid during the current financial year, and the acquisition of the property has been completed on 27 November 2015. Accordingly, the deposit has been reclassified to development property (Note 13) during the financial year ended 31 March 2016.

Note E - Prepayments (non-current)

Included in the prepayments of the Group as at 31 March 2015 was mainly an amount of $1,504,847 paid for the purchase of certain plant and equipment in Vietnam. Of these prepayments, $909,840 have been refunded during the financial year as the purchase did not materialise, and balance of $595,007 has been reclassified to property, plant and equipment during the financial year ended 31 March 2016.

## 16. Prepayments, trade and other receivables (cont'd)

Note F

Certain comparative figures of the trade and other receivables have been reclassified to conform with the current year's presentation. The effects of the reclassifications are as follows:

| | Group | |
|---|---|---|
| | As previously reported | As reclassified |
| | 2015 | 2015 |
| | $ | $ |
| Current | | |
| Trade receivables | 2,897,897 | 6,231,425 |
| Due from customers in contract work | 3,333,528 | – |
| Deposits | 2,639,219 | 3,966,339 |
| Non-current | | |
| Deposits | 1,327,120 | – |

Balance sheet at the beginning of the earliest comparative period as at 1 April 2014 have not been presented as those have not impacted by the reclassification. The reclassification has no impact on the consolidated statement of comprehensive income for the current and previous financial years.

The movements in the allowances for impairment are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| **Trade receivables** | | | | |
| At beginning of the financial year | **369,685** | 227,463 | **299,529** | 299,529 |
| Allowance written off against trade receivables | **(369,685)** | – | **–** | – |
| Allowance for impairment loss | **–** | 181,434 | **–** | – |
| Reversal of impairment loss | **–** | (39,212) | **–** | – |
| At end of the financial year | **–** | 369,685 | **299,529** | 299,529 |
| **Other receivables** | | | | |
| At beginning of the financial year | **7,200,000** | – | **8,039,999** | 8,039,999 |
| Allowance for impairment loss | **–** | 7,200,000 | **381,471** | – |
| At the end of the financial year | **7,200,000** | 7,200,000 | **8,421,470** | 8,039,999 |

## 17. Amounts due from/(to) customers on contract work

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$** | $ |
| **Contract work-in-progress** | | |
| Aggregate costs incurred and recognised profits (less recognised losses) to-date on uncompleted contract work | **1,050,158** | 13,378,552 |
| Less: Progress billings | **(507,233)** | (10,295,744) |
| | **542,925** | 3,082,808 |
| Presented as: | | |
| Due from customers on contract work (Note 16) | **542,925** | 3,333,528 |
| Due to customers on contract work (Note 20) | **–** | (250,720) |
| | **542,925** | 3,082,808 |
| Retention sums on contract work (Note 16) | **918,025** | – |

## 18. Inventories

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$** | $ |
| Finished goods | **498,952** | 1,345,885 |
| Work-in-progress | **1,975,595** | 1,561,839 |
| Raw materials | **3,127,914** | 5,403,626 |
| Goods in transit | **366,418** | 291,057 |
| | **5,968,879** | 8,602,407 |

The cost of inventories recognised as expense and included in "cost of sales" amounted to $19,955,418 (2015: $18,483,587).

Inventories recognised as an expense in "cost of sales" represents write-down of inventories amounted to $1,197,249 (2015: Nil).

# Notes to the Financial Statements

**For the financial year ended 31 March 2016**

## 19. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| Cash and bank balances | **7,374,598** | 21,246,852 | **1,468,371** | 12,574,941 |
| Fixed deposits | **28,571,116** | 10,000,000 | **27,024,616** | 10,000,000 |
| Cash and cash equivalents | **35,945,714** | 31,246,852 | **28,492,987** | 22,574,941 |

Fixed deposit of the Group and Company bears interest rate at 1.30% and 2.90% (2015: 1.22% and 1.22%) respectively per annum and have a maturity period of 10 months and 10 months (2015: 5 months and 5 months) respectively from the balance sheet date.

Included in cash and cash equivalents are bank deposits amounting to $501,680 (2015: $203,303) which are not freely remissible to overseas because of currency exchange restrictions.

## 20. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| **Current** | | | | |
| Trade payables | | | | |
| - third parties | **1,131,392** | 1,599,882 | **–** | – |
| - due to customers on contract work (Note 17) | **–** | 250,720 | **–** | – |
| | **1,131,392** | 1,850,602 | **–** | – |
| Other payables | | | | |
| - third parties | **2,083,362** | 1,019,167 | **137,028** | 152,012 |
| - directors | **–** | 264,379 | **–** | 140,733 |
| Rental deposits received | **138,620** | 78,082 | **–** | – |
| Deferred income | **–** | 137,880 | **–** | – |
| Accrued operating expenses | **4,469,494** | 1,110,241 | **517,405** | 358,293 |
| | **6,691,476** | 2,609,749 | **654,433** | 651,038 |
| Trade and other payables | **7,822,868** | 4,460,351 | **654,433** | 651,038 |

The amounts due to directors in previous financial year were unsecured, interest-free and repayable on demand.

Deferred income in previous financial year comprised of rental income received in advance and was non-refundable.

## 5. Other income/expenses (cont'd)

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$** | $ |
| Other expenses: | | |
| Impairment loss of trade and other receivables (Note 16) | **–** | 7,381,434 |
| Impairment loss on property, plant and equipment (Note 11) | **416,263** | – |
| Loans due from former subsidiaries written off (Note 16) | **876,013** | – |
| Loss on disposal of property, plant and equipment | **5,346** | – |
| | **1,297,622** | 7,381,434 |

## 6. Finance costs

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$** | $ |
| Finance leases | **6,309** | 8,892 |
| Bankers' acceptance and foreign currency loan against import | **20,002** | 41,465 |
| Term loan | **718,729** | 261,239 |
| Finance cost for shares with preference rights | **459,680** | 522,382 |
| Others | **72,793** | 25,970 |
| | **1,277,513** | 859,948 |

Finance costs for shares with preference rights relate to dividend paid to the holder of Class A Shares of a subsidiary, which is classified as a financial liability (Note 21).

## 7. Staff costs

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$** | $ |
| Staff costs (including directors): | | |
| Salaries and bonuses | **12,350,452** | 10,231,436 |
| Contributions to defined contribution plans | **277,103** | 276,374 |
| Others | **12,066** | – |
| | **12,639,621** | 10,507,810 |
| Representing staff costs charged to: | | |
| Cost of sales | **7,719,710** | 6,030,850 |
| Administrative expenses | **4,919,911** | 4,476,960 |
| | **12,639,621** | 10,507,810 |

**32. Capital management (cont'd)**

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| Total borrowings and payables | **31,814,718** | 30,030,623 | **5,814,433** | 6,226,466 |
| Cash and cash equivalents | **(35,945,714)** | (31,246,852) | **(28,492,987)** | (22,574,941) |
| Net (surplus) / debt | **(4,130,996)** | (1,216,229) | **(22,678,554)** | (16,348,475) |
| Total equity | **78,987,634** | 76,338,612 | **74,376,598** | 85,530,894 |
| Total capital | **74,856,638** | 75,122,383 | **51,698,044** | 69,182,419 |
| Gearing ratio | **N.M** | N.M | **N.M** | N.M |

N.M – Not meaningful

The Board of Directors reviews the capital structure on the annual basis. As part of this review, the committee considers the cost of capital and the risk associated with each class of capital, and monitors the gearing ratio. Based on recommendations of the committee, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts or redemption of existing debts.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**33. Events after the balance sheet date**

On 6 May 2016, Company has paid the balance consideration of $2,050,658 plus expenses of $166,071 for the acquisition of the two office units at 2 Kallang Ave, CT Hub, Singapore.

**34. Legal claims and contingent liabilities**

On 7 September 2015, a writ of summons and statement of claim was issued against Mr Chan Ewe Teik ("Mr. Chan") by the Company and filed in the High Court of Singapore. The claim was for the sum of $7.0 million, paid as a refundable commitment fee to Straitsworld Advisory Limited ("Straitsworld") under a term sheet in respect of a property development project in Zhangye Gansu, the People's Republic of China, and due to the Company under a subsequent term sheet ("Project Happy Term Sheet") under which, inter alia, Mr. Chan undertook to fulfil the payment obligation of Straitsworld.

On 30 September 2015, Mr Chan had filed a defence and counterclaim. Mr Chan, inter alia, denied the claims of the Company and has counterclaimed for a total sum of $3.45 million (including an alleged loan of $0.75 million) which he has alleged are owing to him from the Company.

In response, the Company has filed a reply and defence to the counterclaim on 9 October 2015, in which the Company has expressly denied all the allegations set out in Mr Chan's counterclaims and has put Mr Chan to strict proof of each of his counterclaims.

**34. Legal claims and contingent liabilities (cont'd)**

On 26 November 2015, the Company announced that it has withdrawn the action filed against Mr Chan for the repayment of $7.0 million and that the Company filed a writ of summons and statement of claim against Straitsworld and Mr Chan in the High Court of Singapore. The Company is claiming for the following:

(a) the payment of $7.0 million;

(b) alternatively, damages to be assessed;

(c) interests and costs; and

(d) such further or other relief as the Court deems fit.

On 18 December 2015, Straitsworld and Mr Chan had filed a defence and counterclaim. They denied the claims of the Company and has sought for, inter alia, a declaration that the Project Happy Term Sheet be rescinded against Mr Chan and damages.

On 6 April 2016, the Company had filed a reply and defence to counterclaim denying Straitsworld's and Mr Chan's counterclaims.

On 25 April 2016, the Court dismissed Mr. Chan's application for summary judgment and granted the Company unconditional leave to defend Mr Chan's claim for an alleged loan of $0.75 million.

On 3 May 2016, the Company had filed an application for summary judgment against Straitsworld and Mr Chan for the sum of $7.0 million, interests and costs. As of the date of these financial statements, these cases are still ongoing.

The amount of $7.0 million has been fully provided for in the financial statements of the Group and the Company during the previous financial year. In the event that there is any recovery of the fees, adjustment may have to be made in the financial statements of the Group.

With respect to the counterclaims filed against the Company, the directors of the Company are of the view that there are no liabilities required to be recognised in the financial statements.

**35. Investigation by the Commercial Affairs Department**

On 19 November 2015, Company received a notice from the Commercial Affairs Department ("CAD") of Singapore Police Force which states that CAD is investigating an offence under the Securities and Futures Act (Chapter 289 of Singapore) pursuant to the provisions of the Criminal Procedure Code 2012 (Chapter 68, 2012 Revised Edition). For the purpose of the investigation, CAD requested access to documents and information from the Company and its subsidiaries for the period from 1 January 2012 until the date when the notice was served.

The Company's consultant (former managing director) and Head of Operation and Human Resource (former Group Financial Controller) were interviewed by CAD officers in relation to its investigation. Subsequently, the Group Finance Manager and Group Accountant of the Company were interviewed by the CAD.

The directors of the Company have advised that the CAD has not provided any details of its investigation, and that there had been no further updates from CAD since the serving of the notice, the submission of the documents and the aforementioned interviews of the consultant and employees of the Company. As at the date of these financial statements, the investigation is on-going. The business and day-to-day operations of the Group are not affected by the investigation and have continued as normal. The directors of the Company are of the view that the investigation should not have material financial impact on the Group's and the Company's financial statements.

## 36. Comparative figures

The financial statements of the Group for the financial year ended 31 March 2015 were audited by another independent auditor whose report dated 8 July 2015 contained a disclaimer opinion on those financial statements as disclosed in Note 37.

## 37. Basis for disclaimer of audit opinion on the financial statements for the financial year ended 31 March 2015

The independent auditor's report dated 8 July 2015 contained a disclaimer of audit opinion on the financial statements for the financial year ended 31 March 2015. The extract of the basis for disclaimer of opinion is as follows:

Basis for Disclaimer of Opinion

(a) As disclosed in Note 7 to the financial statements, included in the Group's trade and other receivables as at 31 March 2015 was a net receivable of commitment fees amounting to $9.0 million, after an allowance for impairment loss of $7.2 million was made against the gross receivable of $16.2 million. The balance of $9.0 million was subsequently recovered by the Group as of the date of this report (see below).

As a background, during the current financial year, the Group paid a total of $16.2 million of commitment fees pursuant to three term sheets ("Term Sheets") entered into with the respective counterparties for the contemplated collaboration between the Group and these respective counterparties in certain property development and hotel acquisition projects in Bali (Indonesia) and Zhangye Gansu (China), as more fully described in Note 7 to the financial statements. The Group had not entered into any definitive agreement with the respective counterparties by the stipulated deadline of July 2014. As a result, the commitment fees of $16.2 million had since become refundable in full by the counterparties but remained unpaid and became overdue as at 31 March 2015 (the balance sheet date).

Subsequent to the balance sheet date and on 27 May 2015, the Company announced that, amongst others, the Term Sheets and the commitment fees paid there thereunder were without proper authorisation of the Board of Directors, and had since taken the necessary actions to recover the commitment fees paid. On 26 May 2015, 27 May 2015 and 1 July 2015 respectively, the Group had managed to recover a total of $9.0 million. The remaining outstanding balance of $7.2 million was fully provided for by the Group merely on the grounds of prudence and conservatism, as publicly announced by the Company on 26 June 2015.

In the light of the above, we have not been able to obtain sufficient appropriate audit evidence and satisfactory explanations from management and the directors relating to the (i) propriety of the Term Sheets and the commitment fees paid thereunder; (ii) relationship between the Group and the counterparties as well as the credentials and financial credibility of these counterparties; (iii) commercial rationale in making substantial commitment fees to these counterparties on the execution of the Term Sheets or prior to the execution of any definitive agreement; (iv) appropriate approval processes for sanctioning major contracts and payments, in particular, the Term Sheets and commitment fees paid; and (v) appropriateness of the allowance for impairment of $7.2 million on the basis as stated above.

**37. Basis for disclaimer of audit opinion on the financial statements for the financial year ended 31 March 2015 (cont'd)**

Basis for Disclaimer of Opinion

(b) As announced by the holding company on 27 May 2015, the Audit Committee is concerned with the internal control lapses and corporate governance failure which have been uncovered, and will undertake a review into the matter. Subsequently on 26 June 2015, the Audit Committee has appointed PricewaterhouseCoopers LLP ("PWC") as the Special Auditors to conduct an independent review relating to the above matter, including reviewing the processes and procedures concerning the Company's approval of major contracts and substantial payments.

As at the date of this report, PWC's independent review is still ongoing. Accordingly, we are unable to ascertain the pervasiveness of the potential internal control lapses and corporate governance failures and/or to determine whether any further exceptions that may be reported by PWC and any adjustments arising thereon which may have an impact on the accompanying financial statements.

(c) In view of the matters set out in the preceding paragraphs, we are unable to determine the appropriateness, completeness and accuracy of the financial statements of the Group and the balance sheet of the Company, nor are we able to quantify the extent of adjustments that might be necessary in respect of the financial statements of the Group and balance sheet of the Company for the financial year ended 31 March 2015. We are also unable to determine the related effects of those matters described above, including any effects on representations, which could only be reported and disclosed in the financial statements of the Group and the balance sheet of the Company for subsequent financial years when they become determinable and can be reasonably estimated.

*Disclaimer of Opinion*

Due to the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs above, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

**38. Authorisation of financial statements**

The consolidated financial statements of the Group and the balance sheet of the Company for the financial year ended 31 March 2016 were authorised for issue in accordance with a resolution of the directors dated 12 July 2016.