

SINGAPORE KITCHEN EQUIPMENT LIMITED

(Company Registration No.: 201312671M)

(Incorporated in Singapore)

DISCLAIMER OF OPINION BY THE INDEPENDENT AUDITOR ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

Pursuant to Rule 704(4) of the Listing Manual Section B: Rules of Catalist (the “**Catalist Rules**”) of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”), the Board of Directors (the “**Board**”) of Singapore Kitchen Equipment Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that the Company’s independent auditor, Foo Kon Tan LLP, have included a disclaimer of opinion (“**Disclaimer of Opinion**”) in their Independent Auditor’s Report dated 14 July 2022 (the “**Independent Auditor’s Report**”) in relation to the consolidated financial statements of the Group and the Company for the financial year ended 31 December 2021 (“**FY2021**”) (the “**Financial Statements**”).

A copy of the Independent Auditor’s Report is attached to this announcement for information.

The Independent Auditor’s Report and a complete set of the Financial Statements is contained in the Company’s Annual Report for FY2021 (“**FY2021 Annual Report**”), which has been concurrently released by the Company on 14 July 2022. Shareholders of the Company are advised to read this announcement in conjunction with the FY2021 Annual Report.

In responding to the disclaimer of opinion provided, the Board is of the view that the Group’s systems of internal controls may not be adequate to address financial, operational, compliance and information technology controls and risk management systems during the year. As detailed in the Company’s announcement dated 8 June 2022, the Company had appointed Rajah & Tann Singapore (“**R&T**”) to conduct a fact-finding review of, *inter alia*, the internal control lapses in the various entities within the Group, as well as Baker Tilly Consultancy (Singapore) Pte. Ltd. (“**Baker Tilly**”) as the Company’s internal auditors to review and enhance the Company’s operating procedures and internal controls.

The Board has been carefully reviewing the contents of the finalised report provided by R&T and the findings of Baker Tilly (collectively, the “**Relevant Findings**”), and had directed that Baker Tilly conduct a follow-up review on the lapses in the Company’s operating procedures and internal controls that have been identified by the Relevant Findings. The Board will, in consultation with its internal auditors, Audit Committee, management team and other professional advisors, take such steps as may be necessary to address the areas of concern that have been identified.

By Order of the Board

SINGAPORE KITCHEN EQUIPMENT LIMITED

Chua Chwee Choo

Executive Director and Chief Executive Officer

14 July 2022

*This announcement has been reviewed by the Company’s sponsor, RHT Capital Pte. Ltd. (the “**Sponsor**”), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”).*

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The details of the contact person for the Sponsor are as follows:

Name: Ms Bao Qing (Registered Professional, RHT Capital Pte. Ltd.)

Address: 6 Raffles Quay, #24-02, Singapore 048580

Email: sponsor@rhtgoc.com

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SINGAPORE KITCHEN EQUIPMENT LIMITED

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of Singapore Kitchen Equipment Limited (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 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group and the statement of financial position of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

Opening balances and comparative information

We were appointed as auditor of the Company on 6 November 2021, in respect of the financial statements for the financial year ended 31 December 2021 ("FY2021"). The financial statements for the financial year ended 31 December 2020 ("FY2020") were audited by another auditor who expressed a disclaimer of opinion on those financial statements on 22 October 2021.

The basis for a disclaimer of opinion by the predecessor auditor related to payments amounting to S\$1.39 million made by the Group to the Company's holding company, QKE Holdings Pte. Ltd. ("QKEH"), arising from a debit note received by the Group from QKEH claiming reimbursement of eight transactions ("Eight Transactions") that had been paid on behalf of the Group, and other irregularities and matters that were subsequently identified by the predecessor auditor, which include the uncovering of altered supplier invoices, cheque images and bank statements; the discovery of payment vouchers which were constructed for payments of staff bonuses that were not authorised; contracts with customers which were not identified in prior periods resulting in improper recognition of revenue in the previous financial years; and new information presented to the predecessor auditor in relation to arrangements with customers which were inconsistent with those management representations which the predecessor auditor had obtained in prior periods.

In view of the above, the predecessor auditor assessed the impact of the various irregularities, inconsistencies in management representation and the potential lapses in internal control over the financial reporting processes, and determined that there may be misstatements in multiple elements of the financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SINGAPORE KITCHEN EQUIPMENT LIMITED

Basis for Disclaimer of Opinion (Cont'd)

Opening balances and comparative information (Cont'd)

The predecessor auditor was therefore unable to obtain sufficient appropriate audit evidence to conclude whether the financial statements for FY2020 were materially misstated; to ascertain the existence, completeness, accuracy, rights and obligations, valuation and/or classification, and related disclosures, of various transactions and balances entered into with customers, suppliers and the holding company, including the prior year adjustments then made by management; and to evaluate whether the Group had operated within appropriate internal control and corporate governance frameworks which may have a pervasive effect on the financial statements for FY2020.

In addition, the Company had engaged a legal firm to conduct a review of the Eight Transactions. As the review by the legal firm was ongoing, the report of which could provide new information and findings that may have an impact on the financial statements for FY2020, the predecessor auditor was unable to determine if any adjustments arising thereon, which may be required, and the extent of impact on the financial statements for FY2020.

As disclosed in Note 31 to the financial statements, the legal firm has since completed its fact-finding review and addressed various issues at large in its report, which include arrangement for QKEH to make payments on behalf of the Group; alterations of the Group's documents; lapses in the Group's internal controls; enhancement of the Group's internal controls; and possible breaches of the respective legislations as identified by the legal firm.

Accordingly, we are unable to determine whether the opening balances as at 1 January 2021 are fairly stated. Due to the carry-forward effects on the financial performance and cash flows for FY2021 and the closing balances of assets and liabilities of the Group and the Company as at 31 December 2021, we are unable to determine whether any adjustments might have been necessary in respect of the financial statements for FY2021.

In addition, our opinion on the current year's financial statements is also modified because of the possible effect of these matters on the comparability of the current year's figures and the corresponding figures.

Inventories, purchases and cost of sales

Included in inventories as at 31 December 2021 as disclosed in Note 7 to the financial statements are spare parts of S\$719,026. We have been unable to obtain the relevant supporting documents in respect of certain selected items of spare parts, such as supplier invoices, to ascertain the accuracy of the cost of spare parts, and sales invoices for the sale of spare parts or rendering of maintenance and repair services, to ascertain the net realisable value of spare parts as at 31 December 2021. Under SFRS(I) 1-2 *Inventories*, inventories shall be measured at the lower of cost and net realisable value. Consequently, we are unable to satisfy ourselves as to the appropriateness of the carrying amount of the Group's inventories as at 31 December 2021 and the opening balances as at 1 January 2021. In the absence of sufficient documentary evidence, we are also unable to ascertain the appropriateness of purchases, cost of sales and write-down on inventories recognised in profit or loss for FY2021.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SINGAPORE KITCHEN EQUIPMENT LIMITED

Basis for Disclaimer of Opinion (Cont'd)

Trade receivables

Included in trade and other receivables as at 31 December 2021 as disclosed in Note 8 to the financial statements are net trade receivables of S\$7,861,700, comprising gross trade receivables of S\$8,226,957 and allowance for impairment losses of S\$365,257. As disclosed in Note 28.1 to the financial statements, trade receivables with an aggregate carrying amount of S\$1,270,358 are past due more than 90 days. We have been unable to obtain sufficient appropriate audit evidence, such as details of subsequent collections and historical loss rates adjusted with forward-looking information, to ascertain the recoverability of the outstanding amounts and the expected credit losses on trade receivables. In addition, as described in the *Revenue* section below, we are unable to determine that revenue is recorded in the correct accounting period, which has a corresponding impact on trade receivables. Consequently, we are unable to satisfy ourselves as to the appropriateness of the carrying amount of the Group's trade receivables as at 31 December 2021, the impairment losses on trade receivables recognised in profit or loss for FY2021, the related disclosures in the notes to the financial statements for FY2021, and the opening balances as at 1 January 2021.

Revenue

Revenue in the consolidated statement of profit or loss and other comprehensive income for FY2021 is S\$27,774,185. As disclosed in Note 17 to the financial statements, the Group's revenue derived from the sale of kitchen equipment amounted to S\$20,175,308 for FY2021. We have been unable to obtain sufficient documentary evidence, including delivery orders with date of acknowledgement indicated by customers upon receipt and acceptance of goods, to determine that revenue is recorded in the correct accounting period. In respect of revenue from the installation and construction of kitchen facilities amounting to S\$663,003 for FY2021, we have been unable to obtain the supporting details of such project revenue recognised over time, including the costing schedules and computations of percentage of completion based on cost-input method. In relation to revenue from the rendering of maintenance and repair services of S\$6,699,447 for FY2021, which includes preventive maintenance of kitchen equipment performed on a periodic basis, we have been unable to obtain sufficient documents and information from management, such as the maintenance contracts and progress billings, to ascertain the appropriateness of such revenue recognised over time. For rental income from the lease of kitchen equipment to customers, we are unable to obtain sufficient information to assess the classification of certain leases as operating leases.

In view of the above, we are unable to ascertain the existence, completeness and accuracy of revenue recognised by the Group for FY2021. Consequently, we are unable to satisfy ourselves as to the appropriateness of the Group's revenue and the related disclosures in the notes to the financial statements for FY2021.

In connection with the sale of kitchen equipment and facilities, the Group also provides assurance warranty to customers against manufacturing defects after delivery or construction. However, the Group has not recorded any provision for warranty in accordance with SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*. We have been unable to obtain sufficient information, such as the repair costs incurred by the Group arising from warranty, and the supporting documents to assess the impact to the financial statements. As a result, we are unable to satisfy ourselves as to the appropriateness of the Group's provisions as at 31 December 2021 and the opening balances as at 1 January 2021.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SINGAPORE KITCHEN EQUIPMENT LIMITED

Basis for Disclaimer of Opinion (Cont'd)

Fact-finding review and investigations

As disclosed in Note 32 to the financial statements, the Company received a letter dated 30 March 2022 from the Accounting and Corporate Regulatory Authority ("ACRA") informing the Company that the ACRA is conducting an investigation into possible breaches of Section 402(1) of the Companies Act 1967 (the "Act") and has requested the Company to provide to the ACRA a copy of the report from the legal firm in respect of the fact-finding review. On 25 April 2022, the Company announced that it has provided to the ACRA a copy of the finalised report from the legal firm. The Company also received an order dated 29 June 2022 to produce various categories of documents to the Commercial Affairs Department ("CAD") to assist with an investigation into an offence under the Penal Code.

The investigations by the ACRA and CAD have yet to conclude. Based on the information available to us, we are unable to determine whether any adjustments might have been necessary in respect of the financial statements for FY2021 and the opening balances as at 1 January 2021.

Other Matter

The audit of the financial statements for FY2020 was carried out by another auditor who expressed a disclaimer of opinion on those financial statements on 22 October 2021.

Responsibilities of Management and Directors 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 Singapore Financial Reporting Standards (International), 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 responsibility is to conduct an audit of the financial statements in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SINGAPORE KITCHEN EQUIPMENT LIMITED

Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred to in the *Basis for Disclaimer of Opinion* section of our report, we do not express an opinion on whether 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.

The engagement partner on the audit resulting in this independent auditor's report is Cheong Wenjie.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants
Singapore

14 July 2022