



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF LEY CHOON GROUP HOLDINGS LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Ley Choon Group Holdings 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 March 2019, the consolidated statement of profit or loss and other 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, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards International ("SFRS(I)s") 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 March 2019 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 Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(A) to the financial statements. The Group incurred net loss and total comprehensive loss of S\$9,605,000 and S\$10,074,000, respectively, for the financial year ended 31 March 2019. In addition, the Company had net current liabilities of S\$30,209,000 as at 31 March 2019.

As disclosed in Note 14 to the financial statements, the Group did not meet the financial covenants in respect of its restructured borrowings for the relevant period ended 31 December 2018. These borrowings amounted to S\$55,968,000 as at 31 March 2019. The Group had obtained from the relevant lenders waivers of compliance with the financial covenants relating to 31 December 2018 before the end of the reporting period. The Group had also obtained waivers of compliance with the financial covenants relating to 30 June 2019 from the relevant lenders before the date of authorisation of the financial statements. Nonetheless, the Group is still required to comply with the financial covenants for the subsequent relevant periods ending 31 December 2019, 30 June 2020 and 31 December 2020. In the event that these financial covenants are not met by the Group and not waived by the lenders, the borrowings may be called for repayment at any time upon notification by the lenders. The appropriateness of the use of the going concern assumption in the financial statements is dependent on the factors disclosed in Note 2(A), including the continuing goodwill from the relevant lenders to waive the financial covenants if they are not met.

These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's and the Company's ability to continue as going concern.

If the Group and the Company were unable to continue in operational existence, the Group and the Company may be unable to discharge their liabilities in the normal course of business, and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may need to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. No such adjustments have been made to the financial statements.

Our opinion is not modified in respect of this matter.

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TO THE MEMBERS OF LEY CHOON GROUP HOLDINGS LIMITED

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.

Key audit matter

Our responses and work performed

Revenue recognition over time

For the long-term projects where the Group satisfies its performance obligations over time, the Group has determined that a cost-based input method provides a faithful depiction of the Group's performance in transferring control to the customers, as it reflects the Group's efforts incurred to date relative to the total inputs expected to be incurred on the projects. The measure of progress is based on the costs incurred to date as a proportion of total costs expected to be incurred up to the completion of the projects.

The level of total expected costs to be incurred on each contract is estimated by the Group and includes certain judgements as contracts may run over a number of accounting periods and include variations in contract work, claims and incentive payments, and forecasts in relation to future costs including labour and materials which are not yet contractually agreed. The nature of these judgements increases the risk of them being susceptible to management override.

Our audit procedures included testing the Group's internal controls over revenue. We assessed whether the revenue recognition policies adopted complied with SFRS(I) 15 as detailed in Note 2(F) to the financial statements. We inspected the terms of significant sales contracts to assess whether they were consistent with the detailed calculations being considered. We agreed amounts recognised to contract sums and variation orders. Our testing also included evaluating customer acceptance of the work done. When assessing the stage of completion on contracts, we agreed amounts recognised to documentary evidence on a sample basis. This included the agreement of actual costs incurred to invoices and other supporting documents, and the assessment of any judgements applied in the projection of total contract costs through consideration of the Group's historical experience of costs on similar contracts. Our audit procedures also included reviewing for variation orders and enquiring of key personnel regarding adjustments for job costing and expected losses from onerous contracts. We also considered the adequacy of disclosures in the financial statements, including management's sensitivity analysis to assess the impact from reasonably possible changes to estimates of expected costs of uncompleted contracts and revenue.



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF LEY CHOON GROUP HOLDINGS LIMITED

Key Audit Matters (Continued)

Key audit matter

Our responses and work performed

Impairment testing of non-financial assets (the Group's property, plant and equipment and the Company's investments in subsidiaries)

In view of the significant losses incurred by the Group for the current financial year, management has assessed that there are indications of impairment of the property, plant and equipment of the Group and the investments in subsidiaries of the Company. Accordingly, these assets are tested for impairment.

The impairment testing of the Group's property, plant and equipment and the Company's investments in subsidiaries is considered to be a significant risk area due to the judgemental nature of key assumptions and the significance of the carrying amounts of these assets in the statements of financial position of the Group and the Company.

An impairment loss is recognised for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of value in use and fair value less costs of disposal.

Fair value less costs of disposal encompasses estimating the expected selling prices of the underlying assets by identifying the comparable assets and determining the current market selling/purchase prices of these assets, and the estimated cash outflows to settle the obligations in respect of the underlying liabilities. Input inaccuracies or inappropriate bases used to determine the level of impairment, including the comparable assets used in the fair value measurements, could result in material misstatement in the financial statements.

The valuation techniques and inputs to the impairment tests based on fair value less costs of disposal are disclosed in Note 3 and Note 5 to the financial statements.

Our procedures in relation to management's testing of impairment and determination of the recoverable amount of the Group's property, plant and equipment and the Company's investments in subsidiaries based on fair value less costs of disposal included:

- Assessing the methodologies and appropriateness of the key assumptions used by the management's experts;
- Understanding and reviewing the assumptions in the input data from management and the management's experts through discussions, comparisons to industry peers and independent external data sources and where available to agreement with supporting documentation and historical trends; and
- Evaluating the competence, capabilities and objectivity of the management's experts.

We involved auditor's expert to assist us in the above. We evaluated the competence, capabilities and objectivity of the auditor's expert, and the adequacy of the work performed by the experts.

We also considered the adequacy of disclosures in the financial statements, describing the methodologies used, degree of subjectivity and key assumptions used in the estimates.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, which we obtained prior to the date of this auditor's 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 identified above 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 this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF LEY CHOON GROUP HOLDINGS LIMITED

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 SFRS(I), 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.
- 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.



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF LEY CHOON GROUP HOLDINGS LIMITED

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

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 the directors 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 the directors, 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.

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 auditor 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 Chin Sin Beng.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants
Singapore

5 July 2019