

# Independent Auditor's Report to the Members of Swee Hong Limited

## Report on the Financial Statements

We have audited the accompanying financial statements of Swee Hong Limited (the "Company") and its subsidiary corporations (the "Group") set out on pages 41 to 101, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 30 June 2016, 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, Chapter 50 (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 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 the 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.

### *Opinion*

In our opinion, 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 30 June 2016, 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 Swee Hong Limited (Cont'd)**

### *Emphasis of matter*

We draw attention to Note 4 to the financial statements. For the financial year ended 30 June 2016, the Group reported a gross loss of \$1,976,580 (2015: \$5,014,178) and total comprehensive loss of \$10,325,129 (2015: \$51,336,116). As at 30 June 2016, the Group's and Company's current liabilities exceeded their current assets by \$56,614,345 (2015: \$46,973,165) and \$57,383,817 (2015: \$47,766,403), respectively and the Group and Company have net equity deficit of \$45,042,095 (2015: \$34,716,966) and \$45,809,566 (2015: \$34,908,198), respectively.

As at 30 June 2016, the Company has balances of trade and other payables and borrowings amounting to \$45,408,243 and \$22,180,668, respectively which are overdue. In 2015, as the Company failed to meet their financial obligations on their respective due dates, certain creditors filed legal actions/proceedings to the High Court of the Republic of Singapore (the "Court") against the Company to demand payments. During the current financial year, the Company filed an application to the Court ("Application") to propose a scheme of arrangement between the Company and certain of its creditors ("Scheme") for the purposes of implementing and facilitating the Company's debt restructuring plan. On 25 November 2015, the Court approved the Scheme and granted the orders in the Application (the "Order of Court"). The Company extracted the Order of Court on 30 November 2015 and lodged a copy of the Order of Court with the Registrar of Companies on 2 December 2015. As such, the Scheme took effect and became binding on all parties on and from 2 December 2015. Included in the above balances of trade and other payables and borrowings are the amounts of debt outstanding agreed between the creditors and the Scheme manager under the Scheme ("Approved Debt Outstanding") amounting to approximately \$28.1 million and \$18.0 million, respectively.

The above conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's and Company's abilities to continue as going concerns. Nevertheless, the directors of the Company believe that the use of the going concern assumption in the preparation of the financial statements for the financial year ended 30 June 2016 is appropriate after taking into consideration of the following assumptions and measures:

- (a) As disclosed in Note 31, the Company has on 11 August 2016, allotted and issued the following:
- (i) 435,739,903 Creditors Start Conversion Shares and 67,766,667 Fee Shares to the conversion creditors under the Scheme. Consequently, trade and other payables and borrowings decreased by approximately \$8.0 million and \$0.6 million, respectively and the Company had written off 48% of the Approved Debt Outstanding which resulted in further decrease of trade and other payables and borrowings by approximately \$16.6 million and \$4.5 million, respectively. The remaining Approved Debt Outstanding will be satisfied either through cash payment or issuance of ordinary shares of the Company as full satisfaction and full discharge of the Approved Debt Outstanding.
  - (ii) 493,721,724 OHL Conversion Shares to Ong Hock Leong ("OHL") under the Scheme as full settlement of the Approved Debt Outstanding amounting to approximately \$9.9 million. Consequently, borrowings further decreased by the same amount.
  - (iii) 1,400,000,000 Subscription Shares and 500,000,000 Warrants Shares to KH Foges Pte. Ltd. ("Controlling Shareholder") for a total consideration of \$4.0 million and \$5.0 million, respectively, for additional working capital purposes.

## **Independent Auditor's Report to the Members of Swee Hong Limited (Cont'd)**

### *Emphasis of matter (Cont'd)*

- (b) The Company is currently marketing for sale its office building to generate funds for fulfilment of the Approved Debt Outstanding under the Scheme. The estimated sale price is between \$2.5 million to \$3.5 million.
- (c) The Group has obtained a letter of undertaking from its Controlling Shareholder to provide financial support to the Company in relation to its working capital purposes by exercising the Warrants Shares to subscribe for new ordinary shares of the Company when required and provide continuing financial support to enable the Group and Company to continue as going concerns.
- (d) With the successful outcome of the above measures, the Company expects to bid for potential new projects in the next twelve months.

If the Group and the Company are unable to continue in operational existence in the foreseeable future, 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 balance sheets. In addition, the Group and the Company may have to reclassify non-current assets to current assets. The financial statements do not include any adjustment which may arise from these uncertainties. Our opinion is not qualified in respect of this matter.

### **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.

**Nexia TS Public Accounting Corporation  
Public Accountants and Chartered Accountants**

***Director-in-charge: Lee Look Ling***  
**(Appointed since financial year ended 30 June 2013)**

**07 October 2016**

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## NOTES TO THE FINANCIAL STATEMENTS

### for the financial year ended 30 June 2016

#### 4. Going concern assumption

The Group reported a gross loss of \$1,976,580 (2015: \$5,014,178) and total comprehensive loss of \$10,325,129 (2015: \$51,336,116) for the financial year ended 30 June 2016. Furthermore, as at 30 June 2016, the Group's and Company's current liabilities exceeded their current assets by \$56,614,345 (2015: \$46,973,165) and \$57,383,817 (2015: \$47,766,403) respectively and the Group and Company have net equity deficit of \$45,042,095 (2015: \$34,716,966) and \$45,809,566 (2015: \$34,908,198), respectively.

As at 30 June 2016, the Company has balances of trade and other payables and borrowings amounting to \$45,408,243 and \$22,180,668, respectively which are overdue. As the Company failed to meet their financial obligations on their respective due dates, certain creditors filed legal actions/proceedings to the High Court of the Republic of Singapore (the "Court") against the Company to demand payments. During the current financial year, the Company filed an application to the Court ("Application") to propose a scheme of arrangement between the Company and certain of its creditors ("Scheme") for the purposes of implementing and facilitating the Company's debt restructuring plan. On 25 November 2015, the Court approved the Scheme and granted the orders in the Application (the "Order of Court").

The Company extracted the Order of Court on 30 November 2015 and lodged a copy of the Order of Court with the Registrar of Companies on 2 December 2015. As such, the Scheme took effect and became binding on all parties on and from 2 December 2015. Included in the above balances of trade and other payables and borrowings are the amounts of debt outstanding agreed between the creditors and the Scheme manager under the Scheme ("Approved Debt Outstanding") amounting to approximately \$28.1 million and \$18.0 million, respectively.

The above conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's and Company's abilities to continue as going concerns. Nevertheless, the directors of the Company believe that the use of the going concern assumption in the preparation of the financial statements for the financial year ended 30 June 2016 is appropriate after taking into consideration of the following assumptions and measures:

(a) As disclosed in Note 31, the Company has on 11 August 2016, allotted and issued the following:

- (i) 435,739,903 Creditors Start Conversion Shares and 67,766,667 Fee Shares to the conversion creditors under the Scheme. Consequently, trade and other payables and borrowings decreased by approximately \$8.0 million and \$0.6 million, respectively and the Company had written off 48% of the Approved Debt Outstanding which resulted in further decrease of trade and other payables and borrowings by approximately \$16.6 million and \$4.5 million, respectively. The remaining Approved Debt Outstanding will be satisfied either through cash payment or issuance of ordinary shares of the Company as full satisfaction and full discharge of the Approved Debt Outstanding.
  - (ii) 493,721,724 OHL Conversion Shares to Ong Hock Leong ("OHL") under the Scheme as full settlement of the Approved Debt Outstanding amounting to approximately \$9.9 million. Consequently, borrowings further decreased by the same amount.
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## NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2016

### 4 Going concern assumption (Cont'd)

- (iii) 1,400,000,000 Subscription Shares and 500,000,000 Warrants Shares to KH Foges Pte. Ltd. ("Controlling Shareholder") for a total consideration of \$4.0 million and \$5.0 million, respectively, for additional working capital purposes.
- (b) The Company is currently marketing for sale its office building to generate funds for fulfilment of the Approved Debt Outstanding under the Scheme. The estimated sales price is between \$2.5 million to \$3.5 million.
- (c) The Group has obtained a letter of undertaking from its Controlling Shareholder to provide financial support to the Company in relation to its working capital purposes by exercising the Warrants Shares to subscribe for new ordinary shares of the Company when required and provide continuing financial support to enable the Group and Company to continue as going concerns.
- (d) With the successful outcome of the above measures, the Company expects to bid for potential new projects in the next twelve months.

If the Group and the Company are unable to continue in operational existence in the foreseeable future, 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 balance sheets. In addition, the Group and the Company may have to reclassify non-current assets to current assets. The financial statements do not include any adjustment which may arise from these uncertainties.

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