

EXTRACTED FROM THE INDEPENDENT AUDITOR'S REPORT TO THE AUDITED FINANCIAL STATEMENTS OF GS HOLDINGS LIMITED FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of GS Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 11 to 50, which comprise the statements of financial position of the Group and Company as at 31 December 2017, and 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 and the statement of changes in equity of the Company for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") 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 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company 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 3 to the financial statements with respect to the Group's and Company's ability to continue as a going concern. During the financial year ended 31 December 2017, the Group and Company incurred a net loss of \$3,877,697 (2016: \$1,951,282) and \$2,047,871 respectively. The Group reported net cash outflows from operating activities of \$1,663,246 (2016: \$2,291,813). At 31 December 2017, the Group's and Company's current liabilities exceeded its current assets by \$2,063,867 (2016: \$1,744,957) and \$2,729,330 (2016: \$2,101,576) respectively. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Group's and Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 year. 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.

Report on the Audit of the Financial Statements (cont'd)

Valuation of investment properties

Refer to Note 13 to the consolidated financial statements.

The carrying values of investment properties ("IP") amounted to \$4,570,000 and represented 22% of the Group's total assets as at 31 December 2017. These investment properties are stated at their fair values based on independent professional valuations.

The valuation of investment property requires significant judgement and estimation. There is a risk that the investment properties may not be fairly stated if the valuation methodologies adopted and the key assumptions applied by the independent professional valuer ("Valuer") are inappropriate. A small change in the key assumptions applied by the Valuer can have a significant impact on the valuation.

Our procedures to address the key audit matter

We assessed the Group's process for selection of the Valuer, the determination of the scope of work of the Valuer, and the review and acceptance of the valuations reported by the Valuer. We have also read the terms of engagement of the Valuer with the Group to determine whether there were any matters that might have affected their objectivity or limited the scope of their work.

We held discussions with the Valuer and considered the valuation methodologies used. We assessed the expected investment yield used in the valuation by comparing them against historical rental rates and negotiation with the current tenant.

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

Impairment of property, plant and equipment

Refer to Note 11 to the consolidated financial statements.

The carrying values of property, plant and equipment ("PPE") amounted to \$11,363,420 and represented 56% of the Group's total assets as at 31 December 2017.

PPE are tested for impairment when there are indicators that the carrying amount may not be recoverable. If there are indicators of impairment, the recoverable amount of the PPE is estimated. The deficit between the recoverable amount and carrying amount would be recognised immediately as impairment loss in profit or loss.

The identification of cash generating unit ("CGU"), assessment of indicators of impairment and where such indicators exist, the determination of the recoverable amount of the CGU require judgement. The determination of the recoverable amount when value in use is applicable requires estimates of forecasted revenues, growth rates, profit margins and discount rates.

Impairment of property, plant and equipment (cont'd)

Our procedures to address the key audit matter

We assessed the determination of the CGU and the recoverable amount of the CGU based on our understanding of the nature of the Group's business and the economic environment in which its CGU's operate.

We reviewed the CGU's historical performances and held discussions with management to understand their assessment of the future performance of the CGU. This included obtaining an understanding of management's planned strategies around business expansion, revenue stream growth strategies and cost initiatives. We assessed management's estimates applied in the discounted cash flow model based on our knowledge of the CGU's operations, and compared them against historical performance.

We tested the mathematical accuracy of the discounted cash flow model and evaluated the sensitivity of the outcomes by considering downside scenarios against reasonably plausible changes to the key assumptions.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report 2017 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 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.

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 FRSs, 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.

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

- 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.

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 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 Ong Kian Guan.

Baker Tilly TFW LLP
Public Accountants and
Chartered Accountants
Singapore

4 April 2018

EXTRACTED FROM NOTE 3 TO THE AUDITED FINANCIAL STATEMENTS OF GS HOLDINGS LIMITED FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

3 Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt in the subsequent paragraphs).

Going concern

The Group and Company incurred a net loss from operations of \$3,877,697 (2016: \$1,951,282) and \$2,047,871 respectively. The Group reported net cash outflows from operating activities of \$1,663,246 (2016: \$2,291,813). At 31 December 2017, the Group's and Company's current liabilities exceeded the current assets by \$2,063,867 (2016: \$1,744,957) and \$2,729,330 (2016: \$2,101,576) respectively. These factors indicate the existence of material uncertainty that may cast doubt on the Group's and Company's ability to continue as going concerns and to realise its assets and discharge its liabilities in the ordinary course of business.

The directors are satisfied that the use of the going concern assumption in the preparation and presentation of the financial statements for the financial year ended 31 December 2017 is appropriate after taking into consideration the following factors:

- (i) The controlling shareholder of the Company, Mr Pang Pok, has on 27 February 2018 provided an irrevocable undertaking to the Company to provide an additional S\$2.0 million interest-free loan for its working capital requirements or any other purpose which the Company may deem fit. Subsequent to the end of the financial year, the shareholder has provided additional interest free loans amounting to \$850,000 to the Group for working capital purposes;
- (ii) The current market value of the Group's properties and Mr Pang Pok's personal properties pledged to the banks for secured bank loans is much higher than the total amount of secured bank loans outstanding as at 31 December 2017, therefore the Group may apply for additional bank loans as and when needed; and
- (iii) The Group is able to improve its cash flows generated from its operations based on the Group's current business outlook.

Management has taken the following measures to improve the Group's operational performance and financial position:

- (i) Adopt a disciplined capital allocation and constant review of capital expenditure plans so as to manage a balanced project portfolio to mitigate risks and optimise profitability for all existing projects;
- (ii) Strengthen current customers' base with new customers in other food and beverage sector, and foster closer customer relationship by providing quality services to customers;
- (iii) Continuously seek improvements in the efficiency of the Group's centralised dishwashing process through enhancements and re-engineering of the workflow process; and
- (iv) Focus on reduction of direct labour related costs through close monitoring of the Group's manpower requirements.

3 Critical accounting judgements and key sources of estimation uncertainty (cont'd)

Going concern (cont'd)

After considering the measures taken described above, the directors believe that they have adequate resources to continue its operations as a going concern.

For these reasons, the financial statements have been prepared on the assumptions that the Group and Company will continue as going concerns. The financial statements did not include any adjustments that may result in the event that the Group and Company are unable to continue as a going concern. In the event that the Group and Company are unable to continue in operational existence for the foreseeable future, the Group and Company may be unable to realise its assets and discharge its 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 Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Valuation of investment properties

The Group's investment properties are stated at estimated fair values based on the valuation performed by independent firm of professional valuers. In determining fair values, the valuers have based their valuation on methods of valuation which involves certain estimates, including comparison with sale transactions of similar properties and expected future income stream to be achieved from the property. The valuation methodologies, significant inputs used and details of the properties are disclosed in Note 13 to the financial statements. As at 31 December 2017, the carrying amount of investment properties is \$4,570,000 (2016: \$4,791,324).

Impairment of non-financial assets

At each reporting date, the Group assesses whether there are any indications of impairment for all non-financial assets. The Group also assesses whether there is any indication that an impairment loss recognised in prior periods for a non-financial asset, other than goodwill, may no longer exist or may have decreased.

If any such indication exists, the Group estimates the recoverable amount of that asset or the cash-generating unit ("CGU") to which the asset belongs. The identification of CGU, assessment of indicators of impairment and where such indicators exist, the determination of the recoverable amount of the CGU require judgement. An impairment loss exists when the carrying value of an asset (or CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. An impairment loss recognised in prior periods shall be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Where value in use calculations are undertaken, management is required to estimate the expected future cash flows from the asset or cash-generating unit and a suitable discount rate in order to determine the present value of the cash flows. The carrying values of the Group's property, plant and equipment are disclosed in Note 11. Details of the key assumptions applied in the Company's impairment assessment of its investment in subsidiaries and the carrying amounts of the investments are disclosed in Note 12. Changes in assumptions made and discount rate applied could affect the carrying values of these assets.