

EXTRACTED FROM THE INDEPENDENT AUDITOR'S REPORT TO THE AUDITED FINANCIAL STATEMENTS OF GS HOLDINGS LIMITED FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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 90 to 187, which comprise the statements of financial position of the Group and of the Company as at 31 December 2019, 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 financial 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 Singapore Financial Reporting Standards (International) ["SFRS(I)"] 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 2019 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 financial 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.

Emphasis of Matter - Trade and Other Receivables

We draw attention to Note 18 to the financial statements.

The carrying amount of the Group's trade and other receivables is \$23,832,000 (2018: \$1,925,000) after deducting allowance for impairment losses of \$13,000 (2018: \$106,000) as at 31 December 2019. Included in the Group's trade and other receivables are trade receivables of \$21,918,000 (RMB112,000,000) and other receivables of \$1,566,000 (RMB8,000,000) owing from 14 Branding, Operations and Procurement ("BOP") outlets.

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

Emphasis of Matter - Trade and Other Receivables (cont'd)

As disclosed in Note 18, Mr Pang Pok and Mr Zhang Rongxuan have collectively provided personal guarantees in respect of the entire outstanding receivables from the 14 BOP outlets as at 31 December 2019. Ms Zhang Liying, Mr Pang Pok, Mr Liu Changsheng and Mr Zhang Rongxuan have also collectively provided Securities in respect of the amount of the outstanding receivables recovered from the 14 BOP outlets and held by Ms Zhang Liying but not yet transferred to Wish Hospitality Holdings Private Limited's ("**Wish**") bank account. The Group has considered the personal guarantees and Securities and assessed that no credit loss allowance is required on these receivables.

We obtained an understanding from management about the current status of recovering the Group's outstanding receivables from the 14 BOP outlets as disclosed in Note 18 and assessed management's consideration of the adequacy of the personal guarantees and Securities provided with respect to the outstanding receivables. We sighted to the Deeds signed between the Company and Mr Pang Pok, Mr Zhang Rongxuan, Ms Zhang Liying and Mr Liu Changsheng as well as the Supplemental Deed signed between the Company and Mr Pang Pok as personal guarantees and Securities for the outstanding receivables. We have also assessed the adequacy and appropriateness of the disclosures made in the consolidated financial statements.

Our opinion is not modified in respect of this matter.

EXTRACTED FROM NOTE 18 TO THE AUDITED FINANCIAL STATEMENTS OF GS HOLDINGS LIMITED FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

18 Trade and other receivables

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Trade receivables				
- third parties	21,962	1,150	-	-
- related parties	-	62	-	-
- subsidiaries	-	-	303	3,405
	21,962	1,212	303	3,405
Less: Allowance for impairment losses [Note 31(b)]				
- third parties	(13)	(106)	-	-
- subsidiaries	-	-	(280)	(2,213)
	21,949	1,106	23	1,192
Other receivables				
- third parties	1,568	231	-	-
- related parties	-	51	-	-
- subsidiaries	-	-	278	4,228
	1,568	282	278	4,228
Less: Allowance for impairment losses [Note 31(b)]				
- subsidiaries	-	-	(202)	(117)
	1,568	282	76	4,111
Advances to customers	-	163	-	-
GST receivables	10	-	8	-
Deposits	275	148	-	-
Prepayments	30	226	6	111
	315	537	14	111
	23,832	1,925	113	5,414

The non-trade amounts due from subsidiaries and related parties are interest-free, unsecured and repayable on demand.

The advances to customers are non-trade in nature, unsecured, interest-free and have no fixed terms of repayment.

Included in the Group's trade and other receivables are trade receivables of \$21,918,000 (RMB112,000,000) and other receivables of \$1,566,000 (RMB8,000,000) owing from 14 Branding, Operations and Procurement ("BOP") outlets.

The Group is experiencing a delay in the collection of these outstanding receivables from the 14 BOP outlets as the Group is in the process of ongoing negotiations with the People's Republic of China ("PRC") tax authorities on the amount of corporate income tax and/or withholding tax ("tax issues") to be withheld before arrangements can be made to remit the receivables back to the Group in Singapore.

18 Trade and other receivables (cont'd)

The Group engaged a “big four” accounting firm in Beijing as its professional tax adviser to assist with ongoing consultations on the tax issues. The Group had been experiencing delays on the ongoing negotiations with the PRC tax authorities due to recent developments relating to the spread of the COVID-19 in the PRC. The Group is working towards resolution of the tax issues by end of May 2020.

While the Group is working on settlement of the Group’s tax issues, the Group appointed Ms Zhang Liying as the Group’s authorised representative to collect the outstanding receivables for and on behalf of the Group. Ms Zhang Liying is a PRC national and is the 20% non-controlling shareholder of Wish, an 80% owned subsidiary of the Group.

In order to protect the Group’s interest and ensure that the outstanding receivables are duly collected and subsequently remitted to the Group, the Group has obtained the following Securities set out below (“**Securities**”) by reference to the Deeds signed between the Company and Mr Pang Pok, Mr Zhang Rongxuan, Mr Zhang Liying and Mr Liu Changsheng. The Securities, collectively, will cover the entire amount of the outstanding receivables recovered from the 14 BOP outlets by Ms Zhang Liying, but not yet transferred to Wish’s bank account.

Security Provider	Description of Security
Ms Zhang Liying, being the holder of 20% of the shares in the issued share capital of Wish (the “ Charged Wish Shares ”).	A first fixed charge in favour of Company all Charged Wish Shares.
Marvel Earn Limited, being the holder of 18,655,555 shares in the Company (the “ Charged GS Shares ”). Marvel Earn Limited is 100% owned by Ms Zhang Liying.	A first fixed charge in favour of the Company over all Charged GS Shares.
Mr Pang Pok, Mr Liu Changsheng and Mr Zhang Rongxuan (“ Guarantors ”), being directors of the Company, have agreed to provide guarantees to protect the interests of the Company and its non-controlling shareholders and ensure that the Company will have additional recourse in the event of any default by Ms Zhang Liying.	Personal guarantees provided by the Guarantors to guarantee the transfer to the Company/Wish of any outstanding service fees collected by Ms Zhang Liying.

Apart from the above Securities, Mr Pang Pok and Mr Zhang Rongxuan have also entered into a Supplemental Deed and Deed with the Company respectively to guarantee, in the event that Ms Zhang Liying fails to collect, and the Company or Wish does not receive, the entire amount of the outstanding receivables from the 14 BOP outlets amounting to \$23,484,000 (RMB120,000,000) by 15 October 2020, the Company has a right of recourse by requiring Mr Pang Pok and/or Mr Zhang Rongxuan to pay such amount of the receivables which was not received by the Company or Wish.

The Board is of the view that the above-mentioned safeguards, measures, personal guarantees and Securities are adequate and appropriate for recovering the receivable balances from 14 BOP outlets totalling \$23,484,000 (RMB120,000,000).