

INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 TO THE MEMBERS OF KINGMEN CREATIVES LTD

Report on the financial statements

We have audited the accompanying consolidated financial statements of Kingsmen Creatives Ltd. (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 40 to 115, which comprise the balance sheets of the Group and the Company as at 31 December 2012, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement 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 profit and loss accounts and balance sheets 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 audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 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 and statement of changes in equity 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 state of affairs of the Group and of the Company as at 31 December 2012 and of the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Emphasis of matter

Possible outcome from an investigation

On 18 January 2013, the Audit Committee of the Company lodged a police report with the Commercial Affairs Department ("CAD") concerning certain financial affairs of a subsidiary of the Company, as disclosed in Note 36 to the financial statements. As at the date of this report, the Company has not been informed of the commencement of any investigation and whether any findings that may arise from such an investigation would result in any impact on the financial statements of the Company or its subsidiary. 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 subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

Public Accountants and
Certified Public Accountants

Singapore
9 April 2013

36. COMPARATIVE FIGURES

A Settlement Agreement dated 20 December 2010 ("Settlement Agreement") was executed between a subcontractor and its business affiliate and Kingsmen Exhibits Pte Ltd ("KE") (a wholly owned subsidiary of the Company) which involved the subcontractor assuming the repayment of a prepaid amount of \$2,756,000 made by KE to its business affiliate in respect of a project. It was subsequently discovered that two employees of KE had provided personal guarantees to the subcontractor for the project. When the personal guarantee was viewed together with the Settlement Agreement, it would appear that some of the costs of the previously completed projects were under-recognised.

On 10 January 2013, KE then entered into a subsequent Settlement Agreement ("2013 Settlement Agreement") with the subcontractor for the resolution of certain disputes relating to the value of work done for the above project which was completed as of 31 December 2010.

Management has reassessed the value of the works done and acknowledged that services of value equivalent to a prepaid amount of \$2,756,000 to be recovered, had in fact been rendered. In prior years, \$1,300,000 of the prepaid amount of \$2,756,000 had been written off to the consolidated income statement due to management being unsure of a full recovery of the prepaid amount. The prepaid amount as of 31 December 2011 amounting to \$1,456,000 was included as other receivables on the balance sheet. Pursuant to the 2013 Settlement Agreement, KE paid a settlement sum of \$765,000 to the subcontractor and also wrote-off a net sum of \$691,000 which was sought to be recovered from the subcontractor.

In connection with the aforesaid matter, the Audit Committee of the Company has lodged a police report with the Commercial Affairs Department ("CAD") on 18 January 2013. As at the date of this report, the Company has not been informed of the commencement of any investigation and whether any findings that may arise from such an investigation would result in any impact on the financial statements of the Company or its subsidiary.

As the project was completed as of 31 December 2010, the financial impact of \$1,456,000 in relation to the aforesaid matter has been adjusted for as a prior year adjustment. The prior year adjustment resulted in a decrease in other receivable (non-current) and trade and other receivables of \$887,000 and \$569,000, respectively, and a decrease in retained earnings of \$1,456,000 as of 31 December 2011. As required by FRS1, presentation of financial statements, the comparatives have been accordingly restated and the restated opening balance sheet as of 1 January 2011 has been presented. The details are as follows:

	Group			
	As restated		As previously reported	
	31.12.2011	1.1.2011	31.12.2011	1.1.2011
	\$'000	\$'000	\$'000	\$'000
Other receivable - non-current	56	37	943	1,371
Trade and other receivable - current	94,609	73,734	95,178	73,856
Retained earnings	46,844	37,835	48,300	39,291

37. SUBSEQUENT EVENTS

The following events have occurred subsequent to balance sheet date:

- (a) A wholly owned subsidiary of the Group, Kingsmen Projects Pte Ltd ("KP") and a 92.2% held subsidiary of the Group, Kingsmen North Asia Limited ("KNA") incorporated a subsidiary, K-Fix (Kunshan) Co Ltd ("K-Fix"). KP and KNA hold 70% and 30% of K-Fix, respectively. The principal activity of the subsidiary is the manufacturing of interior and exhibition furniture, as well as fixtures and displays.
- (b) The Company incorporated a 70% subsidiary, Thinkfarm Pte Ltd. The principal activities of the subsidiary are custom publishing, media sales and events marketing.

38. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the financial year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 9 April 2013.