

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF NGSC LIMITED

(FORMERLY KNOWN AS NEXT-GENERATION SATELLITE COMMUNICATIONS LIMITED)

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

### Report on the Audit of the Financial Statements

#### *Qualified Opinion*

We have audited the financial statements of NGSC Limited (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 March 2018, 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, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements of the Group and the statement of financial position 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 March 2018 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 Qualified Opinion*

##### (1) Opening balances

Our independent auditor's report dated 1 November 2017 contains a *Disclaimer of Opinion* on the financial statements for the financial year ended 31 March 2017. The *Basis for Disclaimer of Opinion* on the financial statements for the financial year ended 31 March 2017 is disclosed in Note 31 to the financial statements.

In view of the matters described in the *Basis for Disclaimer of Opinion* paragraphs on the financial statements for the financial year ended 31 March 2017, we were unable to determine whether the opening balances as at 1 April 2017 are fairly stated.

Since the opening balances as at 1 April 2017 are entered into the determination of the financial position of the Group and of the Company as at 31 March 2018 and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended 31 March 2018, we were unable to determine whether adjustments, if any, might have been found to be necessary in respect of the Group's and the Company's financial statements for the financial year ended 31 March 2018.

Our opinion on the current financial year's financial statements of the Group and the Company is also modified because of the possible effects of these matters on the comparability of the current year's figures and the corresponding figures.

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 Company 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 qualified opinion.

## **INDEPENDENT AUDITOR'S REPORT** (Cont'd)

### **TO THE MEMBERS OF NGSC LIMITED**

(FORMERLY KNOWN AS NEXT-GENERATION SATELLITE COMMUNICATIONS LIMITED)

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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

#### ***Emphasis of Matter***

##### **1. Inclusion on the watch-list due to the minimum trading price entry criteria**

We draw your attention to Note 30(d) to the financial statements.

On 4 June 2017, the Company announced that the Singapore Exchange Securities Trading Limited ("SGX-ST") has notified the Company that it would be placed on the watch-list due to the Minimum Trading Price ("MTP") Entry Criteria with effect from 5 June 2017.

The Company will have to meet the requirements of Rule 1314 (2) of the Listing Manual within 36 months from 5 June 2017, failing which the SGX-ST would delist the Company or suspend trading in the Company's shares with a view to delisting the Company. In this regard, Listing Rule 1314 (2) states that the Company will be assessed by the SGX-ST for removal from the watch-list if it records volume-weighted average price of at least \$0.20 and an average daily market capitalisation of \$40 million or more over the last 6 months.

Following the Company's inclusion in the watch-list, the Company is required to provide a quarterly update on its efforts and the progress made in meeting the exit criteria of the watch-list. In addition, the Company was also previously placed under the watch-list under the financial criteria.

On 31 May 2012, the Company announced that it had applied for an extension of time to meet the requirements to exit from the watch-list which are set out under Listing Rule 1314.

On 20 April 2018, the Company has submitted an application to the SGX-ST for an extension of time to apply for removal from the Watch-List under the Financial Exit Criteria. As at the date of this report, the Company is still pending response from SGX-ST. Our opinion is not modified in respect of this matter.

##### **2. Trading in derivative contracts**

We draw your attention to Note 18 to the financial statements.

In September 2017, the Company's subsidiary, Ban Joo Global Pte. Ltd. ("BJG") opened a trading account with InterActive Broker and started to trade in derivatives. As at 31 March 2018, the Group has a derivative contract for a notional amount of US\$1.97 million and incurred a loss of \$207k during the financial year (Note 6).

According to management, this is entirely a trading activity for the treasury funds of NGSC Limited. BJG was used as a vehicle to confine the risk capital to the amount of deposits placed with InterActive Broker, and is not an open-ended exposure. The total amount of deposits placed with InterActive Broker was \$679k (equivalent to USD 500k). This deposit has since dropped to \$474k (equivalent to USD 350k) with the \$207k loss incurred.

Management informed that this trading account is part of a normal treasury function to manage the liquidity position of the Group which is mostly denominated in US Dollar and Hong Kong Dollar, the latter being closely pegged to US Dollar.

The trade positions are monitored weekly by the Financial Controller and reported to Chief Executive Officer. The results are reported to Audit Committee and the Board of Directors (the "Board") at every quarter of the financial year. A director of the Company's subsidiary, NGSC Capital Pte. Ltd., who is a seasoned professional with over decades of experience has been approved by the Board to exercise authority over this trading account. Our opinion is not modified in respect of this matter.

## **INDEPENDENT AUDITOR'S REPORT** (Cont'd)

### **TO THE MEMBERS OF NGSC LIMITED**

(FORMERLY KNOWN AS NEXT-GENERATION SATELLITE COMMUNICATIONS LIMITED)

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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

#### ***Information Other than the Financial Statements and Auditor's Report Thereon***

Management is responsible for the other information. The other information comprises the information listed below that is included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

- (a) Letter to Shareholders;
- (b) Board of Directors;
- (c) Key Management;
- (d) Corporate Information;
- (e) Corporate Governance;
- (f) Directors' Statement;
- (g) Information on Shareholdings;
- (h) Notice of Annual General Meeting; and
- (i) Proxy Form

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. As described in the *Basis for Qualified Opinion* section above, we were unable to determine whether the opening balances as at 1 April 2017 are fairly stated. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter, where applicable.

#### ***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. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

## INDEPENDENT AUDITOR'S REPORT (Cont'd)

### TO THE MEMBERS OF NGSC LIMITED

(FORMERLY KNOWN AS NEXT-GENERATION SATELLITE COMMUNICATIONS LIMITED)

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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

#### Key Audit Matters (cont'd)

##### Key audit matters

##### How the matter was addressed in the audit

#### 1. Impairment assessment of investment in joint ventures and subsidiary

During the financial year, the Group made an impairment loss of approximately \$28.62 million (2017: \$Nil) on its investment in joint ventures and the Company made an impairment loss of \$31.33 million (2017: Nil) on its investment in subsidiaries.

Following this impairment loss, the Group and Company's investment in joint ventures and subsidiary amounted to \$2.54 million and \$26.58 million respectively, which represent approximately 11% and 57% of the Group's and Company's total assets respectively.

Impairment assessment of joint ventures and subsidiary are performed when an indication of impairment exists. Impairment is recognised when the carrying amount of the joint ventures exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's or cash generating unit's fair value ("FV") less costs of disposal and its value in use ("VIU").

Management has used the independent valuer's FV less costs of disposal, (which is higher than its VIU) as its recoverable amount.

The significant assumptions and estimates, including the basis, used for the assessment of the recoverable amount of investment in joint venture and subsidiary are disclosed in Note 3.2(a), 12 and 13.

Our audit focused on evaluating the key assumptions used by both management and management's expert in conducting the impairment review based on VIU and FV less costs of disposal. Our audit procedures included and were not limited to the following:

- 1) Tested management's assumptions used in VIU to calculate the recoverable amount and assessed the accuracy of the historical data used by management as the basis of arriving at the estimated discounted future cash flows ("DCF");
- 2) Reviewed the engagement terms entered into with the independent valuer to ascertain if there were any matters that may have affected the valuer's objectivity or placed limitations in the scope of their work;
- 3) Evaluated the qualifications and competence of the independent valuer;
- 4) Considered the valuation methodologies adopted;
- 5) Tested the integrity of inputs of the projected cash flows used in the valuation;
- 6) Challenged the cash flow forecasts used with comparison to recent information, historical trend analysis; and
- 7) For key inputs used for the DCF such as discount rate and weighted costs of capital, ensured the valuer has taken into consideration the general market outlook for the relevant industry, including comparing against comparable listed companies.

## INDEPENDENT AUDITOR'S REPORT (Cont'd)

### TO THE MEMBERS OF NGSC LIMITED

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FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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

#### Key Audit Matters (cont'd)

##### Key audit matters

##### How the matter was addressed in the audit

### 2. Independent investigation by Ernst & Young Advisory Pte. Ltd. ("EY")

As stated in Note 31(b) and as announced by the Company on 7 December 2017, following the completion of EY report on their findings relating to the funds place with a finance company ("EY1 Report"), EY has completed its further investigation into the acquisition of MSN group, and has issued a report (the "EY2 Report") on its findings to the Company.

The Company's Board of Directors (the "Board") have reviewed the EY2 Report and have noted that EY has in their EY2 Report highlighted, among other things: (a) possible connections between Bright Reach International Limited and a former director of the Company, Hady Hartanto; and (b) possible connections between Hady Hartanto, Bright Reach International Limited and a finance company, Niaga Finance Company.

The Board adopted the EY2 Report and noted the findings highlighted in the same. To address these findings, the Board convened a Special Committee to seek legal advice, on the basis of the EY2 Report findings, in relation to (i) the continuing obligations (if any) of the Company under the Listing Rules and Companies Act, (ii) the extent of any damage caused to the Company arising from these matters that took place in the past under previous management; and (iii) the appropriate action (including any legal action if deemed appropriate) that the Company can reasonably take.

As announced on 1 February 2018, the Special Committee has appointed WongPartnership LLP ("WP LLP") as legal counsel to advise the Special Committee on the EY2 Report findings.

As at the date of this report, management informed that WP LLP's advisory work is still on-going and has yet to furnish the Board with any advice or report.

However, the Board based on their judgement is of the view that WP LLP advice would not have any significant financial impact on the Group's financial statements.

The details of the Board's critical judgement are as detailed in Note 3.1(c).

Our audit procedures included and were not limited to the following:

- 1) Inquired with the Board on the status of the legal advice from WP LLP;
- 2) Discussed with the Audit Committee and the Board on their views with respect to any material financial impacts on the financial statements;
- 3) Send circularization letter to WP LLP to inquire on the status of their legal advice, and
- 4) Obtained email confirmation from WP LLP on 3 August 2018 and was informed the following:
  - WP LLP has been appointed by the Company's Special Committee to provide legal advice in relation to the findings in the EY2 Report;
  - WP LLP is still in the process of obtaining the necessary documents to enable them to fully advise the Company on the findings in the EY2 Report. No formal opinion has been rendered to the Company's Special Committee yet; and
  - At present, WP LLP do not consider their appointment to advise on the findings in the EY2 Report to involve impending litigation or claim by or against, or a contingent liability of the Company.

## INDEPENDENT AUDITOR'S REPORT (Cont'd)

### TO THE MEMBERS OF NGSC LIMITED

(FORMERLY KNOWN AS NEXT-GENERATION SATELLITE COMMUNICATIONS LIMITED)

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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

#### Key Audit Matters (cont'd)

##### Key audit matters

##### How the matter was addressed in the audit

### 3. Reversal of deferred expenditure

During the financial year, the Group reversed its entire deferred expenditure of approximately \$4.036 million (equivalent to USD\$3.0 million) and recognised the amount as "other income" (Note 5) in profit or loss account.

As stated in Note 21<sup>(3)</sup>, deferred expenditure as at 31 March 2017 relates to the outstanding purchase consideration amounting to approximately \$4.2 million (equivalent to US\$3.0 million) to be paid to Bright Reach International Limited upon the satisfaction of certain conditions stipulated in the sale and purchase agreement of the acquisition of the MSN group in 2011.

This finding is also being documented in EY2 Report as detailed in Point 2 above.

The Company subsequently sought legal advice from its legal counsel, WP LLP to substantiate management's basis of "time-barred" under the Limitation Act as reason for the reversal of this deferred expenditure.

The details of the Board's critical judgement are as detailed in Note 3.1(d).

Our audit procedures included and were not limited to the following:

- 1) Send circularization letter to WP LLP to inquire on their conclusion with respect to the legality for this reversal of deferred expenditure;
- 2) Obtained a copy of the letter from WP LLP containing their conclusion with respect to the legality for reversal of this deferred expenditure; and
- 3) Discussed with the Audit Committee and the Board on their final views with respect to the conclusion reached for the reversal of deferred expenditure after obtaining the legal counsel's conclusion.

## INDEPENDENT AUDITOR'S REPORT (Cont'd)

### TO THE MEMBERS OF NGSC LIMITED

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FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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

#### Key Audit Matters (cont'd)

##### Key audit matters

##### How the matter was addressed in the audit

#### 4. Recoverability of convertible loan to an external entity with interest of 7% per annum

As stated in Note 15<sup>(2)</sup>, the Company entered into an agreement (the "Subscription Agreement") with a Hong Kong incorporated company, JeeOne International Holding Limited ("JeeOne") on 18 September 2017 to subscribe for \$938k (equivalent of RMB 4.5 million) convertible notes with 7% interest per annum (payable every 6 months in advance).

On 19 September 2017, the Company remitted approximately \$891k [equivalent to USD 662,451.18 (being RMB 4.5 million net of 3.5% interest payable in advance)]. The objective of this convertible note is to enable JeeOne's 47.94% owned investee company in the People's Republic of China ("PRC") to go for Initial Public listing in Hong Kong.

On 18 March 2018, JeeOne defaulted its interest payment of \$33k (equivalent to RMB 158,794.52). After some internal deliberation, the Board on 12 July 2018 through a legal counsel in Hong Kong served a statutory demand letter to JeeOne for both the principal and interest of \$924k (equivalent to RMB 4,658,794.52). As stated in Note 30(g), the Company announced that after 3 weeks from 12 July 2018, the date of serving the statutory demand letter, the Company will present a winding up petition against JeeOne.

In view of this latest development, management made an allowance for impairment loss of \$938k (equivalent of RMB 4.5 million) as at 31 March 2018.

Our audit procedures included and were not limited to the following:

- 1) Inquired with the Audit Committee and the Board on the following:
  - Reason for not having an announcement for the convertible loan on 18 September 2017 to JeeOne;
  - Any financial due diligence being performed by the Board prior to entering into the Subscription Agreement;
  - Any Board's approval obtained prior to signing the Subscription Agreement and the disbursement of fund to JeeOne's investee company in PRC;
- 2) Obtained written explanation from the Board on the above queries;
- 3) Obtained management representation letter on the above assertion from management; and
- 4) Follow up with management on any payment from JeeOne up to the date the Board authorized the financial statements for issuance.

## INDEPENDENT AUDITOR'S REPORT (Cont'd)

### TO THE MEMBERS OF NGSC LIMITED

(FORMERLY KNOWN AS NEXT-GENERATION SATELLITE COMMUNICATIONS LIMITED)

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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

#### Key Audit Matters (cont'd)

##### Key audit matters

##### How the matter was addressed in the audit

#### 5. Utilization of bank balances

As at 31 March 2018, the Group's bank balances stood at \$15.3 million down from \$23.1 million as at 31 March 2017.

Our audit procedures included and were not limited to the following:

As at 31 March 2018, total net assets stood at \$19.2 million with total cash and bank balances constituted to approximately 79.7% of total net assets.

1) In view of the statutory demand letter served on JeeOne as detailed in Point 4 above, we have highlighted to the Board and Audit Committee on the possible risks involved with respect to loans to external parties;

During the financial year, apart from the recurring operating expenses incurred for the Group's day to day operation, the Company has entered into the following agreements with external parties to better utilize its bank balances:

2) We have requested the Board and the Audit Committee to revisit their risk assessment with respect to loans to external parties;

1) Subscription Agreements entered with JeeOne as detailed in Point 4 above and Note 15<sup>(2)</sup>, which amounted to \$938k (equivalent to RMB 4.5 million);

3) We have enquired and the Board have reassured that all loans to external parties are entered into after careful due consideration with respect to credit risks and all required approval and financial due diligence have been appropriately performed before entering into contracts with all counter parties;

2) Loan agreement with Zhong Ping Trading Development Company Limited (incorporated in Hong Kong) and Mark Tam, with principal amount of \$3 million as announced on 27 April 2017 (Note 15<sup>(2)</sup>).

4) We have enquired and the Board has also assured that management is confident that Zhong Ping Trading Development Company Limited will be able to honor their debts when due on 16 August 2018; and

Subsequent to the financial year, a principal amount of \$1 million has been repaid to the Group, leaving a remaining balance of \$2 million plus interest which will be due on 16 August 2018, as detailed in Note 30(c).

5) We have advised the Board and the Audit Committee on the possibilities of the Group becoming a cash company and the Board has assured that management has taken this into consideration.

## **INDEPENDENT AUDITOR'S REPORT** (Cont'd)

### **TO THE MEMBERS OF NGSC LIMITED**

(FORMERLY KNOWN AS NEXT-GENERATION SATELLITE COMMUNICATIONS LIMITED)

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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

#### ***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 Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore, 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.

## **INDEPENDENT AUDITOR'S REPORT** (Cont'd)

### **TO THE MEMBERS OF NGSC LIMITED**

(FORMERLY KNOWN AS NEXT-GENERATION SATELLITE COMMUNICATIONS LIMITED)

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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

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

- 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 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 Mr Ong Kian Meng.

#### **RT LLP**

Public Accountants and  
Chartered Accountants

Singapore, 7 August 2018