

Company's Response to Independent Auditors' EOM:

The auditors has highlighted that management has experienced difficulties with the FY2011 audit of its associate, Tianjin Swan Lake Real Estate Development Co., Ltd. ("Tianjin Swan Lake"). Although management has significant influence with its 15.16% interest, it has no control over the day to day management of its associate and fulfillment of the audit requirements. The difficulties highlighted have resulted in the associate's financial statements being subjected to a disclaimer by the auditors, Messrs BDO China Shu Lun Pan CPAs Limited for the reporting year ended 31 December 2011.

Accordingly, the Board would like to draw attention to Note 17 to the financial statements, which discusses the following:

- 1) The profit compensation amount of \$1.9 million in relation to the investment in an associate as a credit item in profit or loss;
- 2) Impairment on the investment in associate.

On the above issues highlighted and as part of the FY2011 audit, the Board has sought legal advice in February 2012 on the matters raised above upon discussion with its auditors.

1). Profit Guarantee

The pertinent clause: Under clause 7.3 of the SPA (refer to SGXNET announcement dated 20 January 2011, under the heading the Profit Guarantee), the vendor covenants with and undertakes to the Company that:

(a) if the audited net operating profit after tax of Tianjin Swan Lake (the "NPAT") for financial year 2011 (the "2011 NPAT") is less than 30% of the total audited operating revenues of Tianjin Swan Lake (the "Revenues") for financial year 2011 (the "2011 Revenues"), the vendor shall pay to the Company an amount equivalent to 15.16% of the actual amount by which the 2011 NPAT has fallen below 30% of the 2011 Revenues in SGD equivalent;

(b) if the NPAT for financial year 2012 (the "2012 NPAT") is less than 30% of the Revenues for financial year 2012 (the "2012 Revenues"), the vendor shall pay to the Company an amount equivalent to 15.16% of the actual amount by which the 2012 NPAT has fallen below 30% of the 2012 Revenues in SGD equivalent; and

(c) if (i) the 2011 NPAT is less than 23% of the 2011 Revenues or (ii) the 2012 NPAT is less than 23% of the 2012 Revenues, the Company may elect to exercise a put option to require the vendor to buy back all the shares in Greatly Holdings Investment Limited held by the Company.

Based on the legal advice, the Board is of the view that clause 7.3 of the SPA is legally binding and enforceable. The profit guarantee compensation of \$1.9 million is in line with the conditions in the guarantee and term sheet that formed the basis for clause 7.3 of the SPA. In addition, the Company has already received cash of \$1.2 million from the vendor in relation to the profit guarantee as at the date of this report. The Company's auditors had suggested that in addition to the legal opinion it further sought confirmation from its legal advisor that there is no claw-back on the 2011 profit guarantee in the event the put option is exercised after the payment of profit guarantee. Based on the confirmation, the Board is of the view that the accounting treatment of the profit guarantee in the accounts is appropriate.

2). Impairment

The legal opinion obtained, has confirmed that the agreements that were entered into and mechanisms were intended to protect the Company's interests. The profit guarantee, the put option and the guarantee for the purchase consideration for the acquisition were for the benefit and safeguard of the Company. The Board has taken the legal advice and mechanisms into consideration when considering the issue of possible impairment. The opinion sought has indicated that these clauses and mechanisms are legally binding and enforceable.

In view of the above and on the grounds that the vendor has so far been honouring the terms and conditions of the SPA and has met its obligations under the profit guarantee, the Board is of the view that an impairment of the investment in Tianjin Swan Lake is not required at this time.