

**CHINA HONGCHENG HOLDINGS LIMITED**

(Incorporated in Bermuda)

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**DISCLAIMER OF OPINION BY THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

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Pursuant to Rule 704(5) of the Listing Manual of Singapore Exchange Securities Trading Limited, the Board of Directors (the “**Board**”) of China Hongcheng Holdings Limited (the “**Company**”) wishes to announce that the Company’s Auditors, Moore Stephens LLP, have issued a disclaimer of opinion in their report (“**Independent Auditor’s Report**”) on the consolidated financial statements of the Company and its subsidiaries (collectively the “**Group**”) for the financial year ended 30 June 2014.

Copies of the Independent Auditor’s Report together with the extracts of the relevant notes to the financial statements are annexed collectively to this announcement as Appendix I.

By Order of the Board  
CHINA HONGCHENG HOLDINGS LIMITED

Liu Ming  
Executive Chairman  
10 October 2014

**Independent Auditors' Report**  
 To the Members of China Hongcheng Holdings Limited  
 (Incorporated in Bermuda with Limited Liability)

1. We were engaged to audit the accompanying financial statements of China Hongcheng Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), as set out on pages 40 to 81, which comprise the statements of financial position of the Group and of the Company as at 30 June 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

3. Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matter described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis for Disclaimer of Opinion**

**Going Concern Assumption**

4. As disclosed in Note 2(b) to the financial statements, the Group incurred a net loss of RMB77,543,000 (2013: RMB77,612,000) and total comprehensive loss of RMB77,543,000 (2013: RMB77,529,000) for the financial year ended 30 June 2014, and as at that date, the Group's and the Company's current liabilities exceeded their current assets by RMB385,671,000 (2013: RMB172,854,000) and RMB11,786,000 (2013: RMB7,314,000), respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as going concerns and to realise their assets and discharge their liabilities in the ordinary course of business.
5. The financial statements have been prepared on the assumption that the Group and the Company will continue as going concerns. Management has prepared a cash flow forecast and is of the view that the Group will have sufficient cash resources to satisfy its working capital requirements for the next twelve months ending 30 June 2015 and to pay its debts as and when they fall due. The forecast was prepared on the basis that the Group's bankers will continue to provide financing and extend existing bank loans to the Group, as well as the ability of the Group to generate positive cash flows from its operations. This assumption is premised on future events, the outcome of which is inherently uncertain.
6. In view of the material uncertainties as discussed above, we are unable to obtain sufficient appropriate audit assurance regarding the use of the going concern assumption in the preparation of the financial statements. Accordingly, we are unable to form a view as to the use of the going concern assumption in the preparation of these financial statements.

 **Independent Auditors' Report**   
To the Members of China Hongcheng Holdings Limited  
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(cont'd)

**Basis for Disclaimer of Opinion (cont'd)**

Going Concern Assumption (cont'd)

7. In the event the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the ordinary 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 ordinary course of business and at amounts which could differ from the amounts at which they are currently recorded in the statement of financial position. In addition, the Group and the Company may have to provide for further liabilities which may arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. No such adjustments have been made to these financial statements.

Impairment of Investment in Subsidiaries

8. As at 30 June 2014, management made an allowance for an impairment loss of the Company's investment in subsidiaries amounting to RMB110,073,000 (2013: RMB35,908,000) as disclosed in Note 12 to the financial statements. However, we were not able to obtain sufficient information to assess the assumptions and bases used by management in their impairment assessment. Accordingly, we were unable to carry out the necessary audit procedures, nor were we able to perform alternative audit procedures, to satisfy ourselves as to the appropriateness of the allowance for the impairment loss of the Company's investment in subsidiaries made by management as at 30 June 2014. Any adjustment to the allowance for impairment loss of the Company's investment in subsidiaries may have a significant consequential effect on the financial position of the Company as at 30 June 2014.

**Disclaimer of Opinion**

9. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs 4 and 8, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion, and accordingly, we do not express an opinion on the financial statements.

**Moore Stephens LLP**  
Public Accountants and  
Chartered Accountants

Singapore  
10 October 2014

# Notes to the Financial Statements

For the financial year ended 30 June 2014

## 2 Summary of Significant Accounting Policies (cont'd)

### (b) Going Concern Assumption

The Group incurred a net loss of RMB77,543,000 (2013: RMB77,612,000) and total comprehensive loss of RMB77,543,000 (2013: RMB77,529,000) for the financial year ended 30 June 2014, and as at that date, the Group's and the Company's current liabilities exceeded their current assets by RMB385,671,000 (2013: RMB172,854,000) and RMB11,786,000 (2013: RMB7,314,000), respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as going concerns and to realise their assets and discharge their liabilities in the ordinary course of business.

The financial statements have been prepared on the assumption that the Group and the Company will continue as going concerns. Management has prepared a cash flow forecast and is of the view that the Group will have sufficient cash resources to satisfy its working capital requirements for the next twelve months ending 30 June 2015 and to pay its debts as and when they fall due. The forecast was prepared on the basis that the Group's bankers will continue to provide financing and extend existing bank loans to the Group, as well as the ability of the Group to generate positive cash flows from its operations.

In the event the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the ordinary 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 ordinary course of business and at amounts which could differ from the amounts at which they are currently recorded in the statement of financial position. In addition, the Group and the Company may have to provide for further liabilities which may arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. No such adjustments have been made to these financial statements.

# Notes to the Financial Statements

For the financial year ended 30 June 2014

## 12 Investment in Subsidiaries

	Company	
	2014 RMB'000	2013 RMB'000
Unquoted equity shares, at cost	244,226	244,226
Less: Allowance for impairment loss	(110,073)	(35,908)
	<b>134,153</b>	<b>208,318</b>

Movement in the allowance for impairment loss during the financial year is as follows:

	Company	
	2014 RMB'000	2013 RMB'000
Balance at beginning of year	35,908	-
Allowance during the year	74,165	35,908
Balance at end of year	<b>110,073</b>	<b>35,908</b>

### Allowance for impairment loss

In view of the Group's continued operating losses, management has carried out an assessment to determine whether the Company's investment in subsidiaries is impaired, and consequently, an allowance for impairment loss was made, amounting to approximately RMB110,073,000 (2013: RMB35,908,000), to write down the carrying amount of the investment to its estimated recoverable amount as at the statement of financial position date.

Details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities/ Country of incorporation and operations	The Company's cost of investment		Equity interest attributable to the Group	
		2014	2013	2014	2013
		RMB'000	RMB'000	%	%
<u>Direct subsidiary of the Company</u>					
Willgreat Group Limited	Investment holding British Virgin Islands	<u>244,226</u>	<u>244,226</u>	100	100
<u>Indirect subsidiaries of the Company</u>					
Shandong Hongcheng Hometex Co., Ltd (山东宏诚家纺有限公司)	Manufacture and sale of textile products People's Republic of China			100	100

# Notes to the Financial Statements

For the financial year ended 30 June 2014

## 12 Investment in Subsidiaries (cont'd)

### Allowance for impairment loss (cont'd)

Name of subsidiaries	Principal activities/ Country of incorporation and operations	The Company's cost of investment		Equity interest attributable to the Group	
		2014	2013	2014	2013
		RMB'000	RMB'000	%	%
<u>Indirect subsidiaries of the Company</u> (cont'd)					
Zouping Yika Hometex Co., Ltd (邹平亿家家纺有限公司)	Intended: Manufacture and sale of household textile products. Presently dormant People's Republic of China			100	100
Harvest Vantage Limited	Intended: Sales and marketing agent. Presently dormant British Virgin Islands			100	100

All the subsidiaries are audited by Moore Stephens LLP, Singapore for the purpose of consolidation of the Group.

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and repayable on demand. Management believes these balances are fully recoverable and therefore no allowance for impairment loss is necessary.