Independent Auditor's Report to the Members of AsiaPhos Limited

Report on the audit of the financial statements

Qualified Opinion

We have audited the financial statements of AsiaPhos Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2017, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated statement of cash flows of the Group 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 balance sheet 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 December 2017 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

The assets and directly associated liability of Mine 1, Mine 2 and Fengtai Mine, (collectively, the "Mining Assets") were reclassified as assets and liability of disposal group in the Group's consolidated balance sheet as at 31 December 2017 and its results have been reclassified as discontinued operation on the Group's consolidated statement of comprehensive income statement for the year ended 31 December 2017. Further details are provided in Note 2, Note 4.1 (a), Note 4.2 (d) and Note 9 to the financial statements.

The directors are of the view that the fair value less costs of disposal of the Mining Assets is higher than their carrying amounts as at 31 December 2017. However, there exists significant uncertainties with respect to the recoverable amount of the disposal group as it is subject to further negotiation with the relevant authorities in the People's Republic of China ("PRC"). Based on the information available to us, we were unable to obtain sufficient appropriate audit evidence to determine if the assets of disposal group amounting to $90,110,000 and liability of disposal group amounting to $815,000 are carried at the lower of carrying amount or fair value less cost of disposal as at 31 December 2017. Consequently, we were also unable to determine whether adjustment is required to the cost of investment in subsidiaries amounting to $78,036,000 in the Company's balance sheet as at 31 December 2017. Any adjustment would have a consequential effect on the results of the discontinued operation for the year ended 31 December 2017, and the carrying amounts of the Group's assets and liability of disposal group and cost of investment in subsidiaries in the Company's balance sheet as at 31 December 2017.

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 qualified opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Group's annual report, but does not include the financial statements and our auditor's report thereon.

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 obtain sufficient appropriate audit evidence to determine if the disposal group is carried at the lower of carrying amount or fair value less cost of disposal as at 31 December 2017. Consequently, we were also unable to determine whether adjustment is required to the cost of investment in subsidiaries in the Company's balance sheet as at 31 December 2017. Accordingly, we were unable to conclude whether or not the other information is materially misstated with respect to these matters.

Key audit matter

Key audit matter is those matter that, in our professional judgement, was of most significance in our audit of the financial statements of the current period. The matter was 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 this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

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

We have fulfilled our responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to the matter below. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter (cont'd)

Area of focus	How our audit addressed the matter
Impairment assessment of the Group's plant and machinery relating to downstream segment	
The Group recorded certain plant and machinery relating to the downstream segment of $2,599,000, which constitute 9% of the total non-current assets as at 31 December 2017. Management has identified that the non-production of a downstream chemical indicated potential impairment of the above mentioned plant and machinery pertaining to the downstream segment. Accordingly, management has performed impairment assessment on the plant and machinery, and measured the recoverable amount of the asset based on value-in-use method using discounted cash flows. The impairment assessment was significant to our audit due to the significant management judgement involved in making certain assumptions and estimates in the impairment assessment which are affected by expected future market and economic conditions. Based on the outcome of this impairment test, management has assessed that no impairment loss is required.	We reviewed management's process in the assessment of whether there is an indication that the plant and machinery relating to downstream segment may be impaired and their estimation of the recoverable amount of the asset. We obtained the value-in-use assessment prepared by management and assessed the reasonableness of the key assumptions and estimates used, focusing on revenue, costs and appropriateness of growth rates to historical trends, in addition to checking the mathematical accuracy of underlying calculations. Given the complexity involved, our internal valuation specialists assisted us in reviewing the reasonableness of the discount rate used by management. We also assessed the adequacy of the disclosures in Note 12 of the financial statements.

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 Act and FRSs, 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 skepticism 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.

- 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.

Independent Auditor's Report to the Members of AsiaPhos Limited

Auditor's responsibilities for the audit of the financial statements

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 and by those subsidiary corporations incorporated in Singapore of which we are the auditors 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 Philip Ling Soon Hwa.

Ernst & Young LLP

Public Accountants and
Chartered Accountants

28 March 2018