

Independent auditor's report to the members of Foreland Fabrictech Holdings Limited

Report on the Audit of the Financial statements

Disclaimer of Opinion

We were engaged to audit the financial statements of Foreland Fabrictech Holdings Limited (the “Company”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 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 for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group and the statement of financial position of the Company. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The Group and the Company

1 Litigation information and judgements enforcement

As discussed in Note 28 (d) to the financial statements, on 9 May 2018, the Company’s lawyers in the PRC issued a legal due diligence report on Fulian, which disclosed a total of 26 court proceedings and/or its financial impact, if any, among other judgment enforcements against a former subsidiary, Fulian, which had been deconsolidated from the Group and the Company in the financial year ended 31 December 2017 and such proceedings and/or its financial impact, if any, were not reflected in the financial statements of the Group and the Company for the financial year ended 31 December 2018 and/or in prior years to the extent applicable.

On 9 July 2018, the Company announced that both the Company and its wholly-owned subsidiary, Fujian Jinjiang Fulian Knitting Co., Ltd. (“Fulian”), received a Court Enforcement Notice (“Notice”) from Fujian Jinjiang People’s Court (“Court”) arising from an undisclosed legal suit (that commenced in 2013) arising from a dispute involving a private lending and guarantee agreement (“Agreement”) over RMB 7 million entered into by the Company, Fulian, Mr. Tsoi Kin Chit (“Tsoi”) (former Director and Executive Chairman of the Company), Mr. Cai Fengquan, and 泉州星皓机械有限公司 with Hong Youling previously. The current Board is not aware of the Agreement.

According to the Notice:

- the Company and Fulian are required to perform the obligations as enforced in the legal documents;
- double payment of the interest charged and/or late payment charges incurred for late payment of the loan amount; and
- payment of legal costs incurred for the issuance of the Notice. Further to the Notice, the Court has taken measures to impose certain expenditure restrictions on the Company and Fulian.

Independent auditor's report to the members of Foreland Fabrictech Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

The Group and the Company (Cont'd)

1 Litigation information and judgements enforcement (Cont'd)

Based on preliminary communication with a PRC law firm, there is a possibility to challenge the effectiveness of guarantee provided in name of the Company. The Company was not notified of the aforementioned legal suit and hence was not given a proper chance to defend itself in the Court. Notwithstanding these legal proceedings, the Board of directors of the Company are of the view that they have no impact to the Company or the Group as none of the entities within the Group have issued any undertakings or commitments to the third parties on behalf of the subsidiary, Fulian, nor is the Group exposed to any contingent liabilities related to the undertakings of Fulian as at 31 December 2018 and as of the date of this report. The Company is exploring various options and is in discussion with potential investors.

The impact of the court proceedings and enforcement judgments including the above Notice pertaining to the undisclosed legal suit (that commenced in 2013) against the Company and Fulian on the financial statements of the Group for the year ended 31 December 2018 and/or in prior years could not be ascertained as we were unable to perform the necessary procedures to verify and/or corroborate the nature of these items due to limitation of scope.

The Company

2. Deconsolidation of subsidiary, Fulian

As disclosed in Note 28(c) and in our report on the financial statements for the financial year ended 31 December 2018, the Company has deconsolidated a subsidiary, Fulian, during the year ended 31 December 2017 as management has determined that the control over the subsidiary, Fulian, has been lost since 1 April 2017. We were unable to obtain sufficient appropriate audit evidence on management's assessment as the Company continues to have power over Fulian by virtue of the fact that the Company continues to hold 100% equity interest in Fulian as at 31 December 2017 and as of the date of this report. We are unable to ascertain whether the loss of control is demonstrated though should control remain, the presentation and the basis of preparation of the Group's financial statements will not be properly reflected as all the financial assets, non-financial assets and financial liabilities will be reported differently as what has been disclosed therein. Accordingly, we are unable to determine the appropriateness of the loss of control assertion nor its financial effects arising thereof on these financial statements including the disclosures on the adoption of SFRS(I) in Note 2(b) during the year ended 31 December 2018.

3. Limitation of scope – bank balances of the Company as at 31 December 2018

Due to limitation of scope, we were unable to ascertain the appropriateness of the bank balance of RMB 681 (2017: RMB 866) as at 31 December 2018 held by the Company in a bank in the PRC as we were not able to obtain direct confirmation from the bank. Accordingly, we are unable to satisfy ourselves as to the existence, accuracy and completeness of the bank accounts and bank balances of the Company. In addition, the extent of disclosure as to the transactions with the bank may be materially distorted had confirmation been received.

Independent auditor's report to the members of Foreland Fabrictech Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

The Company (Cont'd)

4. Recoverability of amount due from a subsidiary

We were unable to obtain sufficient audit evidence on the recoverability of the amount due by a subsidiary of RMB 336,000 as at 31 December 2018.

5. Letter of demand by a creditor

On 19 August 2017, the Company received a letter of demand from a creditor to repay S\$40,607 (RMB 198,649) that was included in trade and other payables (Note 11). This amount has not been paid as of the date of this report.

The Group and the Company

6. Appropriateness of going concern assumption

Our audit report for the previous financial year ended 31 December 2017 contained a disclaimer of opinion on the basis, among others, that we were unable to ascertain the appropriateness of the going concern assumption used for FY2017.

The Group had recorded net losses of RMB 5,182,000 (2017: RMB 87,566,000) and recorded net cash outflows from its operating activities of RMB 1,320,000 (2017: RMB 1,233,000) for the financial year ended 31 December 2018, had deficits in its equity of RMB 14,192,000 (2017: RMB 8,991,000) and had net current liabilities of RMB 14,203,000 (2017: RMB 9,016,000) as at that date. The Company had deficits in its equity of RMB 11,557,000 at 31 December 2018 (2017: RMB 8,838,000) with net current liabilities of RMB 11,577,000 (2017: RMB 8,872,000) as at that date.

Based on the latest unaudited management accounts as at 31 March 2019, the Group and the Company had net current liabilities of RMB 12,798,000 and RMB 12,476,000 and deficits in equity of RMB 12,781,000 and RMB 12,459,000 respectively. The Group had recorded an unaudited net loss of RMB 954,000 for the financial period ended 31 March 2019.

As discussed in Note 28(e) to the financial statements, the Company has received a letter of demand from a creditor to repay S\$40,607 (RMB 198,649).

In addition, the Singapore Exchange – Securities Trading Limited (“SGX”) has on 29 May 2019 issued a notification of delisting date (“Notification”) to the Company stating that the Company will be delisted from the Official List of the SGX-ST on 28 June 2019 owing to breach(es) of the SGX Listing Rules. The directors are currently reviewing the Notification from SGX-ST and intends to make an appeal to SGX-ST.

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. The ability of the Group and the Company to continue as going concerns is dependent on the following:

- i. the ability of the Company to obtain new funding from investors;
- ii. securing new business opportunities through acquisitions or injection of new businesses; and;
- iii. the generation of significant positive cash flow from the Group's operations.

Independent auditor's report to the members of Foreland Fabrictech Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

The Group and the Company (Cont'd)

6. Appropriateness of going concern assumption (Cont'd)

The Company's directors are of the view that the going concern assumption is appropriate in the preparation of the Group's financial statements and statement of financial position of the Company as the directors will endeavour to obtain alternative financing arrangements including private placements to enable the Group and the Company to meet their obligations as and when they fall due.

We were not able to obtain sufficient appropriate audit evidence to satisfy ourselves as to the reliability of the assessment made by the Company. The appropriateness of the use of the going concern assumption is dependent on the ability of the Group and the Company to raise additional fund to repay the liabilities owing to creditors, to provide working capital and to generate sufficient cash flows for their requirements.

7. Auditor's report on the financial statements for the financial year ended 31 December 2017 ("FY2017")

In so far as to the opening balances are concerned, we draw attention to the auditor's report in the 2017 Annual Report, inter alia, the following matters:

- a) inability to determine the appropriateness of the financial information, namely, revenue and expenses for the first three months of FY2017 of Fulian whose financial information was consolidated with the Group for the year ended 31 December 2017;
- b) inability to determine the appropriateness of the loss on derecognition RMB 81,863,000 for FY2017 of Fulian that was consolidated with the financial results of the Group for the year ended 31 December 2017;
- c) Inability to determine whether the Company has a loss of control over the subsidiary, Fulian, during the year ended 31 December 2017 in which the Company derecognised Fulian as a subsidiary of the Group for the period then ended;
- d) litigation information and judgements enforcement against Fulian and the Company that were not reflected in the books of Fulian and in the Company;
- e) inability to verify the bank balances in China held by the Company as at 31 December 2017;
- f) inability to determine the recoverability of the amount due of RMB 185,000 due by a subsidiary to the Company as at 31 December 2017;
- g) inability to determine the appropriateness of the going concern assumption of the Group and the Company; and
- h) impact of the matters raised in the disclaimer of opinion in the auditor's report in prior years namely, FY2013, FY2014, FY2015, FY2016 and FY2017, on the opening retained earnings of the Group and the appropriateness of the comparative figures of the Group for the year ended 31 December 2018.

These matters have not been resolved during the financial year ended 31 December 2018.

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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 SFRS(I)s, 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 and the Company'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 and the Company 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 responsibility is to conduct an audit of these financial statements in accordance with Singapore Standards of Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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.

Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred to in the Basis for Disclaimer of Opinion section of our report, we do not express an opinion on whether the accounting and other records to be kept by the Company have been properly kept.

Independent auditor's report to the members of Foreland Fabrictech Holdings Limited (Cont'd)

Other Matter

This report, including the opinion, has been prepared for and only for you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

The engagement partner on the audit resulting in this independent auditor's report is Chang Fook Kay.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore, 14 June 2019