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ANNOUNCEMENT PURSUANT TO RULE 704(5) OF THE SGX-ST LISTING MANUAL

The Board of Directors of Oceanus Group Limited (the “Company”) wishes to announce that the Company’s Independent Auditors, Foo Kon Tan LLP (“Independent Auditors”), have issued a qualified opinion in the Independent Auditor’s Report on the consolidated financial statements of the Company and its subsidiaries for the financial year ended 31 December 2017.

Relevant sections of the Independent Auditor’s Report are reproduced below:

Independent auditor’s report to the members of Oceanus Group Limited

Report on the financial statements

We have audited the financial statements of Oceanus Group Limited (the “Company”) and its subsidiaries (the “Group”), which comprise the consolidated statements of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, the consolidated income statement, 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 notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matters 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 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

Our audit report dated 7 December 2017 on the consolidated statements for the previous year ended 31 December 2016 contained a disclaimer of opinion on the following matters that have a continuing relevance to the 2017 financial statements:

- (1) Trade and other payables and supporting documents;
- (2) Loans; and
- (3) Biological assets.

(1) Trade and other payables and supporting documents

(1)(A) Trade and other payables (Notes 15 and 16 to the financial statements)

As at 31 December 2017, trade and other payables included amounts of RMB8 million (2016 – RMB8 million) related to purchases of raw materials and consumable, capital expenditure and operating expenses brought forward from prior years.

We were not able to carry out auditing procedures on these trade and other payables as at 31 December 2017 and 31 December 2016 because documentation supporting the transactions were not available. We were unable to satisfy ourselves by alternative means concerning the validity, completeness and accuracy of these trade and other payables of RMB8 million (2016 – RMB8 million) in aggregate as at 31 December 2017 and 31 December 2016.

Basis for Qualified Opinion (Cont'd)

(1)(B) Amount due to executive director (Notes 16 to the financial statements)

As at 31 December 2016, other payables included an amount of RMB1,000,000 payable to the executive director. This liability amount arose from the payment made on behalf of a subsidiary to a third party to restore safety and resume control at a farm seized by that subsidiary's contract security and protection services provider. Based on management representation, this payment was made in the interest of time where the Group had no access to the subsidiary's premises which was under siege.

We were unable to satisfy ourselves by alternative means concerning the validity and accuracy of this liability amount as at 31 December 2016 and the occurrence and accuracy of the related expense for the year ended 31 December 2016 because documentation supporting the transaction were not available.

This liability amount was settled during the current financial year ended 31 December 2017.

Had the above matters been satisfactory resolved in the current year, necessary adjustments to opening balances as at 1 January 2017 would have consequential effects on the current year's profit or loss and other elements of the financial statements.

(2) Loans

(2)(A) Convertible loans (Note 17 and Note 18 to the financial statements)

On 26 December 2017, the Company redeemed the convertible loans for a consideration of RMB397,259,000 comprising cash of RMB62,577,815 and issue of new shares in the share capital of the Company of RMB334,681,098.

In accordance with Financial Reporting Standard 32 *Financial Instruments: Presentation* ("FRS 32"), when an entity extinguishes a convertible instrument before maturity, the redemption consideration (including directly attributable costs) is allocated to the liability and equity components of the instrument at the date of transaction. The redemption amount is allocated to the liability component based on its fair value with the residual amount allocated to the equity component. Any resulting gain or loss relating to the liability component is recognised in profit or loss.

Management applied the redemption consideration against the carrying amount of the convertible loans and recognised a gain on redemption of RMB179,517,000. This was not in compliance with FRS32.

Management did not assess the fair value of the derivative liability related to redemption premium for the convertible loans during the period from 1 January 2017 to 26 December 2017 when the convertible loans were outstanding.

We were unable to satisfy ourselves by alternative means concerning the gain or loss on redemption of the convertible loans, the amount of the redemption consideration to be allocated to the equity component at the redemption date, and the fair value of the redemption premium for the convertible loans for the year ended 31 December 2017.

(2)(B) Other loans (Note 14 to the financial statements)

During the year ended 31 December 2015, the Company issued warrants to the financing shareholders and a third party lender during the year ended 31 December 2015. Management did not assess the allocation of the carrying amount of loans from shareholders and a third party to the liability and equity components in connection with the warrants.

Consequently, as at 31 December 2016, loans from shareholders and loans from third parties amounting to RMB2,945,000 and RMB9,792,000, respectively, were measured based on the original loan principals plus accrued interest which had been computed based on the original loan principals and notional interest rates, instead of the effective interest rate in accordance with FRS39 Financial Instruments.

Basis for Qualified Opinion (Cont'd)

The loans from shareholders and loans from third parties were settled during the financial year ended 31 December 2017.

Had the above matters been satisfactorily resolved in the current year, necessary adjustments to opening balances as at 1 January 2017 would have consequential effects on the current year's profit or loss and other elements of the financial statements.

(3) Biological assets (Note 10 to the financial statements)

Management did not conduct a physical count of the biological assets as at 31 December 2016.

Had the necessary retrospective adjustments been conducted to the prior financial year ended 31 December 2016, it may have consequential effects on the current year's profit or loss and other elements of the financial statements.

Management conducted a physical count of the biological assets as at 31 December 2017.

(4) Other investment (Note 6.1 to the financial statements)

On 27 July 2017, the Group acquired 60% equity interest in Oceanus Australia Abalone World Pty Ltd for a consideration of RMB17,066,000.

The Group recognised an impairment loss on the cost of investment of RMB17,066,000 in the investee for the year ended 31 December 2017 due to no control over and no access to the accounting records of the investee.

In the absence of management's documentary assessment of the impairment loss based on accounting records and financial information of the investee, we were unable to satisfy ourselves by alternative means concerning the impairment loss for the year ended 31 December 2017 and the carrying amount of other investment 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 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.

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

Management is responsible for the other information. The other information obtained at the date of this auditor's report is information included in the 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 the other information, we are required to report the fact. We were unable to obtain sufficient appropriate evidence about the matters as described in the Basis for Qualified Opinion section above. Accordingly, we were unable to conclude whether or not the other information is materially misstated with respect to the matter.

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 matters 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.

Valuation of property, plant and equipment and prepaid leases (Note 4 and Note 5 to the financial statements)

Risk:

Property, plant and equipment and prepaid leases collectively account for approximately 43% of the Group's total assets as at 31 December 2017.

Management engaged an external professional valuer to assess the recoverable amount of property, plant and equipment and prepaid leases. The recoverable amount was determined to be the fair value less cost to sell of the assets, which was higher than the value in use of these assets.

The valuation process involves significant judgement in determining the appropriate valuation methodology to be used, and the underlying assumptions to be applied.

Our response and work performed:

We assessed the Group's processes for the selection of the management's expert, the determination of the scope of work of the management's expert, and the review and acceptance of the valuations reported by the management's expert. We have evaluated the competence, qualification and objectivity of management's expert, obtained an understanding of the work of that expert; and evaluated the appropriateness of that expert's work as audit evidence for the relevant assertion. We also read the terms of engagement of the management's expert with the Group to determine whether there were any matters that might have affected their objectivity or limited the scope of their work.

We have evaluated whether the auditor's expert has the necessary competence, capabilities and objectivity for our purposes. Through our appointed auditor's expert, we considered the valuation methodologies used against those applied by the management's expert for similar asset types. We have examined the valuation assumptions with regards to the market conformity. We have reviewed the mathematical correctness of fundamental calculation steps.

We also considered the adequacy of the descriptions in the financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates. This includes the relationships between the key unobservable inputs and fair values, in conveying the uncertainties.

Key Audit Matters (Cont'd)

Valuation of biological assets (Note 10 to the financial statements)

Risk:

The Group's biological assets are measured at fair value as determined by an independent firm of professional valuers.

Estimating the fair value is a complex process involving a number of judgements and estimates regarding various inputs. Consequently, we have determined the valuation of biological assets to be a key audit matter.

Our response and work performed:

We used our auditor's expert to assist in evaluating the appropriateness of the valuation techniques and assumptions applied in determining the fair value of biological assets. We evaluated the competence, capabilities and objectivity of the auditor's expert.

We assessed the completeness and appropriateness of the valuation report of management's independent valuation expert and assessed the competence, objectivity and independence of this expert.

We also assessed the adequacy of the classification and disclosures of biological assets in 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 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 Company'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.

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

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.

Other Matters

Independent auditor's report for the financial year ended 31 December 2016

We highlight that the audit report dated 7 December 2017 on the financial statements for the previous year ended 31 December 2016 contained a disclaimer opinion on several matters, including matters resolved during the financial year ended 31 December 2017 are as follows:

- The going concern assumption under which the financial statements for the year ended 31 December 2016 were prepared. The ability of the Group and the Company to continue as a going concern was dependent on the successful conclusion of a debt restructuring exercise, disposal of assets that are not related to its current operations and positive cash flow from its operations in future.
- The fair value less costs to sell of farm buildings and structures erected on land leased from third party land owners and the related prepaid leases was assessed by an independent valuer to be RMB121,193,000 and RMB1,214,000, respectively, as at 31 December 2016. In assessing the fair value of these assets, the valuer had made certain key assumptions concerning the Group's ability to procure transferability of the land from the owners.
- The notional amounts of loans with attached warrants from financing shareholders and third parties were not allocated to the liability and equity components at inception and not subsequently measured at amortised cost using the effective interest method.

Independent auditor's report for the financial year ended 31 December 2016 (Cont'd)

In arriving at our opinion on the financial statements for the year ended 31 December 2017, which is qualified, we have considered and taken into account of the above matters which were resolved during the current financial year ended 31 December 2017:

- On 26 December 2017, the Company completed the debt restructuring exercise (the "Debt Restructuring") and disposed of property, plant and equipment comprising farm buildings and structures and land use rights (prepaid leases) for a consideration of RMB182,871,000 with a resultant gain of RMB93,518,000. As at 31 December 2017, the Group had net current assets of RMB23,881,000. As at 31 December 2017, excluding amounts due to subsidiaries of RMB102,489,000, the Company had net current assets of RMB36,951,000. The directors of the Company have the power and authority to manage the payment obligations to the said wholly-owned subsidiaries if the need ever arises.
- During the year ended 31 December 2017, the Group disposed of certain property, plant and equipment comprising farm buildings and structures and land use rights (prepaid leases) for a consideration of RMB182,871,000 with a resultant gain of RMB93,518,000. This transaction provides evidence of transferability of the subject land.
- On 26 December 2017, the convertible loans and loans from the financing shareholders and third parties were repaid.

Other Matters (Cont'd)

Placement on the Watch-List

On 14 December 2015, the Company announced that it was placed on the Watch-List by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) under the financial entry criteria. On 3 March 2016, the Company announced that it was also placed on the Watch-List with effect from 3 March 2016 due to the minimum trading price (“**MTP**”) entry criteria. With respect to its placement on the Watch-List based on the financial entry criteria, the Company had to fulfil the financial exit criteria (“**Financial Exit Criteria**”) under Rule 1314(1) of the Listing Manual of the SGX-ST (“**Listing Manual**”) for its removal from the Watch-List within 24 months from 14 December 2015 (i.e. 14 December 2017). As announced by the Company on 6 March 2018 and 7 March 2018, the Company has since obtained from the SGX-ST an extension of up to 2 June 2018 to meet the Financial Exit Criteria. Separately, with respect to its placement on the Watch-List based on the MTP entry criteria, the Company has to fulfil the MTP exit criteria under Rule 1314(2) of the Listing Manual for its removal from the Watch-List within 36 months from 3 March 2016 (i.e. 3 March 2019).

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 its subsidiaries 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 Toh Kim Teck.

The Annual Report for FY2017 which will contain the Independent Auditor’s Report has been issued to shareholders of the Company and the SGX-ST on 13 April 2018

BY ORDER OF THE BOARD

Peter Koh Heng Kang,^{PBM}
Executive Director and Chief Executive Officer
13 April 2018

