

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

HUAN HSIN HOLDINGS LTD

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Huan Hsin Holdings Ltd (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 December 31, 2017, 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 and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 11 to 74.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity 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 December 31, 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for Opinion

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 opinion.

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Material uncertainty related to going concern

We draw attention to Note 1 in the accompanying financial statements which indicates that as at December 31, 2017, the Group's current liabilities exceeded its current assets by \$50,337,000 (2016 : \$42,151,000) and the Group's capital deficiency amounted to \$81,786,000 (2016 : \$69,742,000), and the Group recorded losses of \$20,588,000 (2016 : profits of \$9,784,000) and the Company recorded losses of \$3,097,000 (2016 : \$48,822,000) for the financial year then ended.

The preparation of the financial statements on a going concern basis is dependent on the successful completion and receipt of the Proposed Subscription and successful completion of the proposed reverse takeover. These events or conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainties which may cast significant doubt on the Group's and Company's ability to continue as going concerns. Our opinion is not modified in respect of this 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 year. 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.

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Key Audit Matters

Valuation of leasehold land and buildings and land use rights

The Group is currently undergoing restructuring and has been making losses since 2011 and continue to record operating losses for the year ended December 31, 2017.

As at December 31, 2017, the Group's non-current assets mainly comprised leasehold land and buildings of \$21 million and land use rights of \$4 million, which collectively contributed to 51% of the total non-current assets.

There is a significant risk that the leasehold buildings and land use rights could be impaired due to the continued losses recorded by the Group. The assessment of the recoverability of the carrying value of leasehold buildings and land use right requires the use of significant amount of judgement and estimates by management.

In assessing the recoverable amount of the leasehold buildings and land use rights, management has relied on the valuations performed by independent external valuers to estimate the net realisable values.

The Group's disclosure of the above significant estimates is provided in Note 3 to the financial statements, and further information related to the land use rights and leasehold buildings are provided in Notes 14 and 15 respectively.

Our audit performed and responses thereon

Our audit procedures focused on evaluating and challenging the key estimates used by management in the valuation of the land use rights and leasehold buildings. These procedures include:

- Discussed and challenged management on the basis used in their assessment in determining the recoverable amounts;
- Considered the Group's past transaction results on the disposal of land use rights and leasehold buildings;
- We evaluated the qualifications and competence of the third party independent valuers and considered whether there were any matters that might have affected their objectivity or limited the scope of their work;
- Assessed the scope of work (as determined by management) of the external valuers, and the results of the valuations reported by the valuers;
- Considered the valuation methodology (which is the depreciated replacement cost approach) and assessed the methodology to determine whether the methodology is generally used by other valuers for similar property types; and
- Discussed with the third party independent valuers to obtain understanding of their work performed on the properties covering amongst others, the valuation methodology, the key unobservable inputs and the significant judgement and appropriateness of assumptions applied.

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

Management is responsible for the other information. The other information comprises the 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 this other information, we are required to report that fact. We have nothing to report in this regard.

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.

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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:

- (a) 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.
- (b) 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.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (d) 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.
- (e) 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.
- (f) 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.

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HUAN HSIN HOLDINGS LTD

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.

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 year 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 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 Yang Chi Chih.


Public Accountants and
Chartered Accountants
Singapore

March 26, 2018

HUAN HSIN HOLDINGS LTD AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

1 GENERAL

- a) The Company (Registration Number 199509142R) is incorporated in Singapore. The Company's principal place of business and its registered office at 77 Robinson Road, #13-00 Robinson 77, Singapore 068896. The Company is listed on the mainboard of the Singapore Exchange Securities Trading Limited ("SGX-ST"). The financial statements are expressed in Singapore dollars.
- b) The principal activities of the Company are investment holding and the provision of services to its subsidiaries. The principal activities of the associate and subsidiaries are disclosed in Notes 11 and 12 to the financial statements respectively.
- c) As at December 31, 2017, the Group's current liabilities exceeded its current assets by \$50,337,000 (2016 : \$42,151,000) and the Group's capital deficiency amounted to \$81,786,000 (2016 : \$69,742,000), and the Group recorded losses of \$20,588,000 (2016 : profits of \$9,784,000) and the Company recorded losses of \$3,097,000 (2016 : \$48,822,000) for the financial year then ended.
- d) As previously disclosed and announced, on February 24, 2016, the Company entered into a subscription agreement with Oriental Straits Investment Limited ("Subscriber") and China Capital Impetus Investment Limited ("CCIIL"). On March 4, 2018, the Subscriber, CCIIL and China Capital Impetus Asset Management Pte Ltd ("CCIAM") entered into a deed of novation in respect of the substitution of CCIIL by CCIAM as a party to the subscription agreement dated February 24, 2016, (as amended, supplemented and modified) ("Subscription Agreement") and the Company, the Subscriber and CCIAM had on March 4, 2018 entered into an agreement to supplement the Subscription Agreement ("Supplemental Agreement").

Pursuant to the Supplemental Agreement, the parties had agreed to the following principal amendments to the Subscription Agreement:

- (i) The Subscriber shall subscribe for, and the Company shall allot and issue to the Subscriber 3,636,363,636 ordinary shares in the share capital of the Company at the issue price of S\$0.022 per Share for an aggregate subscription amount of S\$80 million in two (2) tranches – S\$20 million ("Tranche 1 Subscription") and S\$60 million ("Tranche 2 Subscription") - upon the terms and subject to the conditions of the Subscription Agreement (collectively, the "Proposed Subscription").

The completion of the Tranche 1 Subscription shall be subject to customary conditions precedent, including but not limited to shareholders' and regulatory approval of the Proposed Subscription; whereas completion of the Tranche 2 Subscription shall be contingent on completion of the Tranche 1 Subscription and the Company's receipt of the approval-in-principle from the SGX-ST of the Proposed Reverse Takeover ("Proposed RTO").

- (ii) The Proposed RTO refers to the sale and purchase agreement dated March 4, 2018 entered into between the Company and Jade Merit Developments Limited (the "Acquisition Agreement"), pursuant to which the Company will become the legal and beneficial owner of a 99.99% equity interest of a company incorporated in the British Virgin Islands and wholly-owned by Jade Merit Developments Limited on the terms and conditions of the Acquisition Agreement.

HUAN HSIN HOLDINGS LTD AND SUBSIDIARIES

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December 31, 2017

The Subscriber and CCIAM each acknowledges (i) the terms and conditions of the Acquisition Agreement; and (ii) the Aggregate Subscription Amount of S\$80,000,000 shall be utilised by the Company for purposes of the Proposed RTO, in accordance with the terms and conditions of the Acquisition Agreement.

- (iii) The Company shall grant each of the Subscriber and CCIAM (collectively, "Option Holders" and each an "Option Holder") the right but not the obligation to each subscribe for up to 454,545,455 Shares at the issue Price per Share for up to S\$10 million upon the terms and subject to the conditions of the Subscription Agreement (each an "Option"). Each Option Holder may, subject to the terms of the Subscription Agreement, exercise its Option at any time and from time to time during the 36 months period commencing from the completion date of the Tranche 1 Subscription.

For the avoidance of doubt, assuming each Option Holder fully exercises its Option, the aggregate monies to be raised by the Company from both Option Holders is S\$20 million.

- e) On the basis of the above developments, SGX-ST had on March 2, 2018 granted the Company an extension of time of up to March 4, 2019 to meet the requirements for removal from the Watch-List. The extension is subject to, amongst others, achieving each of the milestones by the specified timelines indicated below:

<u>Milestones</u>	<u>Timeline (on or before)</u>
1 Signing of the Supplemental Subscription Agreement with Oriental Straits Investment Limited and China Capital Impetus Investment Limited (i.e. the Proposed Subscription)	March 4, 2018
2 Signing of the sale and purchase agreement for the proposed acquisition of vanadium mine in connection with a proposed reverse take-over (i.e. the Proposed RTO)	March 4, 2018
3 Submission of additional listing application and circular to SGX-ST in relation to the Proposed Subscription	March 15, 2018
4 Submission of RTO application and circular to SGX-ST	May 30, 2018

As of the date of this report, milestones set out in items 1, 2 and 3 of the Table above have been achieved.

- f) The successful completion of the Proposed Subscription is subject to, amongst others, the approval of shareholders at an Extraordinary General Meeting ("EGM") to be convened to seek shareholders' approval on amongst other things, the transfer of more than 15% of the Enlarged Shae Capital of the Group pursuant to the Subscription Agreement in relation to the Proposed Subscription.

If the Proposed Subscription is approved at the EGM, payment for the Tranche 1 Subscription Shares amounting to approximately S\$20 million. ("Tranche 1 Equity Injection") shall be received within 90 days from the date of the EGM. The validity of the going concern assumption depends on the receipt of the equity injections in tranches, which subject to fulfilment of certain condition precedents, of up to S\$100 million as mentioned in (d) above, as well as the outcome of new business arising from Proposed RTO. According to their judgement, management believes that the Group and the Company should be able to operate as going concerns.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2017

- g) The above matters represent material uncertainties that may cast significant doubt on the Group's and the Company's ability to continue as going concerns, and therefore, they may be unable to realise their assets and discharge their liabilities in the normal course of business. Nevertheless, management is confident that the strategies in place to improve the operating performance and financial position of the Group and the Company will allow it to continue in operational existence for the foreseeable future. Hence, they continue to adopt the going concern assumption in preparing the accompanying financial statements.
- h) Accordingly, the accompanying financial statements did not include any adjustments relating to the realisation and classification of asset and liability amounts that may be necessary if the Group and the Company were unable to continue as going concerns. Should the going concern assumption be inappropriate, adjustments may have to be made to (i) reflect the situation that assets may need to be realised other than their carrying amounts; (ii) provide for further liabilities that might arise; and (iii) reclassify non-current assets and non-current liabilities as current. No adjustments have been made in the accompanying financial statements in respect of these.
- i) At December 31, 2017, the Group has available \$6 million (2016 : \$6 million) of undrawn committed short-term borrowing facilities, subject to certain conditions being met. Management believes that the Group will be able to utilise these short-term borrowing facilities if required, and is also of the view that the Group will be able to continue to roll forward their existing banking facilities. In addition, there are no non-current borrowings of the Group approaching maturity within the next 12 months without realistic prospects of renewal or repayment, and there has been no breach of any covenants of the Group's non-current portion of the borrowings which may lead to a request for immediate payment.
- j) The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the financial year ended December 31, 2017 were authorised for issue by the Board of Directors on March 26, 2018.