

Independent Auditor's Report to the Members of Sunmart Holdings Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Sunmart Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 8 to 51, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 December 2013, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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 Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, 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 profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Bases of Qualified Opinion

Opening balances

1. Unverified transactions and independent investigation

Our independent auditor's report dated 2 July 2014 expressed a qualified opinion on the financial statements for the financial year ended 31 December 2012 as we were unable to determine whether any adjustment to the financial year ended 31 December 2012 might have been found necessary, in respect of the unverified transactions reported by Preceding Auditor for the financial year ended 31 December 2011 and the issues identified by Special Auditor in respect of the independent investigation completed on 23 August 2013 which have an impact on the financial results and cash flows for the financial year ended 31 December 2012.

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Bases of Qualified Opinion (continued)

2. Inventories

We were appointed as Independent Auditor of the Group on 10 January 2014 and thus did not observe the stocktake performed by management of the physical inventories as at 31 December 2012.

As the carrying amount of the inventories form part of the opening balances for the current financial year, and as we were unable to carry out any alternative audit procedures to obtain sufficient and appropriate audit evidence on the opening balances, we are unable to determine the impact on the current financial year's consolidated statement of comprehensive income arising from any other adjustments, if any, to these and any other opening balances.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the "Bases for Qualified Opinion" section, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2013 and of the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Emphasis of Matter

We draw attention to Note 2 to the financial statements. The Group incurred total comprehensive losses of RMB40.8 million (2012: RMB62.6 million), and was in net current liabilities position of RMB152.6 million (2012: RMB114.6 million). The Group is dependent on short-term bank borrowings to meet its working capital and operating cash flow requirements. As at 31 December 2013, short-term bank borrowings amount to RMB533.8 million (2012: RMB397.0 million). These bank borrowings are significantly higher than the Group's cash and cash equivalents of RMB248.3 million (2012: RMB124.9 million) as at 31 December 2013 and are due for repayment within twelve months from the balance sheet date.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as going concern and discharge its liabilities in the ordinary course of business. Nevertheless, these financial statements are prepared on a going concern basis because of the following assumptions and measures undertaken:

- (i) The Group is able to continue in its current operational existence and generate sufficient positive cash flows to discharge its liabilities in the normal course of business for the next twelve months.
- (ii) The Group continues to maintain its credit facilities with the relevant financial institutions and has been able to refinance the short-term bank borrowings when they fall due. Management is not aware of any adverse circumstances that might cause the financial institutions not to refinance the short-term bank borrowings.

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Emphasis of Matter (continued)

If the Group is unable to continue its operational existence and/or unable to maintain its credit facilities, the Group may be unable to discharge its liabilities in the normal 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 normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group may have to reclassify non-current assets as current assets and non-current liabilities as current liabilities. The financial statements do not include any adjustment which may arise from these uncertainties. In forming our opinion, we have considered the adequacy of the disclosure of these matters in the financial statements. Our opinion is not qualified with respect to this matter.

Other matters

There was a loan to an interested person amounting to RMB22.5 million as at 31 December 2011 and this has exceeded 5% of the Group's net tangible assets which requires shareholders' approval under SGX-ST listing rules. Shareholders' approval has not been obtained as of the date of this report. As disclosed in Note 14 to the financial statements, the balance of the loan was RMB16.4 million as at 31 December 2013 (2012: RMB21.2 million), and subsequently, the interested person has fully repaid the loan on 25 August 2014.

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.



Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants

Director in-charge: Lee Look Ling
Appointed since financial year ended 31 December 2012

Singapore
26 September 2014