

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 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, 2019, and the consolidated statement of profit or loss, 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 78.

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 Singapore Financial Reporting Standards (International) ("SFRS(I)s") 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, 2019 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, 2019, the Group reported a net current liabilities of \$42,712,000 (2018 : \$46,500,000) and the Group's capital deficiency amounted to \$71,105,000 (2018 : \$74,696,000), and the Group recorded loss for the year of \$11,810,000 (2018 : \$2,468,000). The ability of the Group and Company to continue as a going concern is highly dependent on the continued financial support from the directors.

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 ability to continue as going concern. 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. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be a key audit matter to be communicated in our report.

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Key Audit Matters

Valuation of financial assets at fair value through other comprehensive income

As at December 31, 2019, the Group's financial assets at fair value through other comprehensive income ("FVTOCI") amounted to S\$47,247,000, representing 65% of the Group's total assets. The financial assets at FVTOCI balance comprise unquoted equity shares stated at fair value, determined by independent professional external valuer.

The valuation of unquoted equity shares involves significant judgement in determining the appropriate valuation methods and use of subjective assumptions. The valuation is sensitive to underlying assumptions applied by the valuer such as market comparables used and liquidity reduction factor and may have a significant impact to the valuation.

The key judgement and estimation on the valuation of financial assets at FVTOCI is disclosed in note 4(c)(vi) to the financial statements, and further information related to financial assets at FVTOCI is provided in Note 12 to the financial statements.

How the matter was addressed in the audit

Our audit procedures includes:

- Obtained an understanding of the relevant controls and processes that management has in place in respect of valuation of unquoted equity shares;
- Obtained the external valuation report and evaluated the work scope, qualifications, competency, objectivity and independence of the external valuer;
- Discussed with the external valuer to obtain understanding of their work performed on the unquoted equity shares covering amongst others, the valuation methodology and the appropriateness of assumptions applied;
- Independently assessed the key assumptions against the data available in the market.

In addition, we have evaluated the adequacy and appropriateness of the disclosures in the financial statements.

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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 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 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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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 Lim Bee Hui.



Public Accountants and
Chartered Accountants
Singapore

June 12, 2020

HUAN HSIN HOLDINGS LTD AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 10 and 11 to the financial statements respectively.
- c) As at December 31, 2019, the Group reported a net current liabilities of \$42,712,000 (December 31, 2018 : \$46,500,000) and the Group's capital deficiency amounted to \$71,105,000 (December 31, 2018 : \$74,696,000), and the Group recorded loss for the year of \$11,810,000 (2018 : \$2,468,000).
- d) The Group has been placed on the Watch-list from March 5, 2014, with various extensions given by SGX-ST to meet the requirement for removal from the list. On December 19, 2018, the Company received a notification of delisting from SGX-ST.

Trading in the Company's securities had ceased since January 18, 2019 and had been suspended from January 21, 2019.

On April 29, 2020, the Company and Pacific Moment Holdings Ltd. (the "Offeror") jointly announced that the Offeror has presented to the directors of the Company a formal proposal to make an exit offer to the shareholders of the Company pursuant to Rules 1306 and 1309 of the Listing Manual (the "Delisting Proposal") in connection with the directed delisting of the Company by the SGX-ST in accordance with Rule 1315 of the Listing Manual and the Delisting Notification. Under the Delisting Proposal, the Offeror will make a conditional cash exit offer (the "Exit Offer") to acquire all the issued and paid-up ordinary shares in the capital of the Company (excluding treasury shares), other than those shares already held directly or indirectly by the Offeror as at the date of the Exit Offer, in accordance with Section 139 of the Securities and Futures Act (Chapter 289) of Singapore and the Singapore Code on Take-overs and Mergers.

The exit-offer letter dated May 14, 2020 have been dispatched to the shareholders on May 14, 2020. Provenance Capital Pte. Ltd. has been appointed as the Independent Financial Adviser ("IFA") to the Independent Directors. Based on IFA's analysis and after having considered carefully the information available as at May 7, 2020, overall, IFA are of the view that the financial terms of the Exit Offer are fair and reasonable.

- e) Notwithstanding the above, management has explored the options available with respect to their financial affairs. The Group has obtained letters of undertaking from the related party, directors and outside party not to demand for payment for at least twelve months from the date of authorisation of these financial statements (Note 18).

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NOTES TO FINANCIAL STATEMENTS

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Management has also prepared monthly cash flows forecasts of the Group for the next twelve months from the date of authorisation of these financial statements based on (i) the latest available interim financial information; (ii) the discussions with major customers about their expected orders, which however, do not represent firm or committed orders; (iii) no repayment of its borrowings and interest to the related party, directors and outside party (Note 18); and (iv) the ability to manage its net cash outflow arising from changes in working capital; and (v) continued financial support from the directors. Furthermore, management is in the process of sourcing for buyers to dispose some of its land use rights so as to aid the cash flows of the Group. Based on the cash flows forecasts and management's assessment, the ability of the Group and Company to continue as a going concern is highly dependent on the continued financial support from the directors.

- f) The above matters represent a material uncertainty 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 financial support from the directors will be available as and when required as well as the ability to source the right buyer and dispose some of the land use rights if the needs arise. The Group and the Company has no intention to undergo voluntary liquidation or to cease trading in the foreseeable future. According to their judgement, management believes that the Group and the Company will be able to continue as a going concern for at least twelve months from the date of authorisation of these financial statements. Hence, the management continue to adopt the going concern assumption in preparing these financial statements.
- g) 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.
- h) 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, 2019 were authorised for issue by the Board of Directors on June 12, 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The financial statements have been prepared in accordance with the historical cost basis, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards (International) ("SFRS(I)s").

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of SFRS(I) 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in SFRS(I) 1-2 *Inventories* or value in use in SFRS(I) 1-36 *Impairment of Assets*.