INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SINO CONSTRUCTION LIMITED
(Incorporated in Singapore)

Report on the Financial Statements

1. We were engaged to audit the accompanying financial statements of Sino Construction Limited (the "Company") and its subsidiaries (collectively the "Group"), as set out on pages 8 to 65, which comprise the balance sheets of the Group and the Company as at 31 December 2013, the statements of changes in equity of the Group and the Company, the consolidated statement of comprehensive income, and consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

2. 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, Chapter 50 (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.

Auditors' Responsibility

3. Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Singapore Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraph, we are not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Disclaimer Audit Opinion on the Consolidated Financial Statements for the Previous Year Ended 31 December 2012

4. The consolidated financial statements for the year ended 31 December 2012 were audited by another firm of auditors who expressed a disclaimer opinion on 10 June 2013. The disclaimer opinion was in respect of the following matters:

   (a) The accounting records of the key operating subsidiaries in the People's Republic of China were submitted to the Daqing Tax Authority in January 2013 for tax investigation. As the accounting records had not been returned to the Group, the previous auditors were unable to perform audit procedures to obtain sufficient audit evidence to ascertain the appropriateness of the carrying value of the assets, liabilities and operating results included in the consolidated financial statements of the Group as at 31 December 2012. In addition the Company had fully impaired its investments in subsidiaries and the amounts due from subsidiaries. The previous auditors were unable to assess the assumptions and bases used by management in their impairment assessment.

   (b) The matter referred to in the paragraph above is further discussed under paragraph 5.

   (c) Management prepared the financial statements of the Group and the Company on a realisation basis where the assets were measured at the lower of their carrying amounts and estimated realisable values and liabilities were measured at estimated settlement amounts, as management was of the opinion that the Group and the Company were unable to continue to operate as a going concern.

   (d) With regard to the matter referred to the paragraph above, the Group and the Company have reverted to a going concern basis for the preparation of its financial statements as more fully described in Note 3 to the financial statements.

Basis for Disclaimer Opinion

5. The matter referred to in paragraph 4(a) above remains unresolved in the current financial year as the accounting records for the year ended 31 December 2012 were still not made available to the Group. In view of this, we were unable to perform audit procedures to obtain sufficient audit evidence to ascertain the appropriateness of the carrying amount of the opening balances in the financial statements for the year ended 31 December 2013. Accordingly, we were unable to determine any adjustments to the opening balances of the financial statements for the year ended 31 December 2013, which would have consequential effects on the 2013 financial statements.

6. As mentioned in Note 12 to the financial statements, the Group disposed of its interest in two subsidiaries – Daqing City Dazheng Building Installation Co., Ltd and Daqing City Baixinyuan Concrete Products Co., Ltd prior to the year ended 31 December 2013. Further, the Group disposed of its interest in a subsidiary - Daqing Xinyuan Construction Installation Co., Ltd subsequent to the year ended 31 December 2013. As the financial statements of these subsidiaries have not been audited, we were unable to perform audit procedures to obtain sufficient appropriate audit evidence relating to the loss from discontinued operations of RMB115,085,000 as disclosed in Note 10(c) of the financial statements, and consequently:

   (a) The appropriateness and accuracy of the gain on disposal of Daqing City Dazheng Building Installation Co., Ltd and Daqing City Baixinyuan Concrete Products Co., Ltd amounting to RMB78,850,000 (included in Note 12 to the financial statements) recorded in the consolidated statement of comprehensive income for the financial year ended 31 December 2013;

   (b) The appropriateness and accuracy of the write down of the net assets of Daqing Xinyuan Construction Installation Co., Ltd and its subsidiary (the "Disposal Group") to their recoverable amount (as disclosed in Note 11 to the financial statements) included in the consolidated financial statements of the Group as at 31 December 2013.

Disclaimer of Opinion

7. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of the Group and the Company for the financial year ended 31 December 2013.

Report on Other Legal and Regulatory Requirements

8. In our opinion, except for the effects of the matters described in the basis for disclaimer of opinion paragraphs, 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 accounting and other records required by the Act to be kept by the subsidiary incorporated in Singapore of which we are the auditors have been property kept in accordance with the provisions of the Act.

Moore Stephens LLP
Public Accountants and
Chartered Accountants

Singapore
7 May 2014

Extracts of the Notes to the Financial Statements

Note

3 Going Concern Assumption

(a) In the previous financial year, management prepared the financial statements of the Group and the Company on a realisation basis where the assets were measured at the lower of their carrying amounts and estimated realisable values and liabilities were measured at estimated settlement amounts, as management was of the opinion that the Group and the Company were unable to continue to operate as a going concern. In the current financial year, the financial statements of the Group and the Company have been prepared on a going concern basis which is discussed further in paragraphs (b) to (d) below.

(b) The Group incurred a net loss of RMB140,033,000 (2012: RMB493,074,000) and a total comprehensive loss of RMB137,059,000 (2012: RMB496,499,000) for the financial year ended 31 December 2013. As at 31 December 2013, the Group's current liabilities exceeded its current assets by RMB261,000 (2012: current assets exceeded its current liabilities by RMB149,932,000). These conditions indicate the existence of an uncertainty which may cast doubt as to the ability of the Group to continue as a going concern.

(c) The financial statements have been prepared on a going concern basis for the reasons stated below.

(d) The ability of the Group to continue as a going concern is dependent on its ability to meet its day-to-day working cash flow requirements from a combination of the working capital generated from operations, proceeds from the disposal of subsidiaries and proceeds from the issuance of unsecured redeemable convertible bonds (Note 34(e)). In the assessment of the going concern assumption, management prepared a cash flow projection and the directors of the Company are of the opinion that the Group has adequate resources to continue as a going concern for the foreseeable future.

Extracts of the Notes to the Financial Statements

Note
10 Discontinued Operations

(c) Analysis of loss for the year from discontinued operations

The combined results of the discontinued operations included in the consolidated statement of comprehensive income are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

	Group	
	2013	2012
	RMB'000	RMB'000
Revenue	120,585	285,798
Expense	(245,998)	(840,571)
Loss from operations	(125,413)	(554,773)
Finance income	20	370
Other income	10,003	42,121
Finance costs	(7,807)	(4,515)
Gain on disposal of subsidiaries (Note 12)	78,850	-
Loss recognised on re-measurement to fair value less costs to sell	(8,335)	-
Loss before tax from discontinued operations	(52,682)	(516,797)
Income tax	(62,403)	25,331
Loss after tax from discontinued operations	(115,085)	(491,466)

The impact of the discontinued operations on the cash flows of the Group was as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Net cash flow from operating activities	(7,545)	46,844
Net cash flow from investing activities	(211)	(98,222)
Net cash flow from financing activities	20,000	-
Net cash inflow/(outflow)	12,244	(51,378)

The heating business has been classified and accounted for at 31 December 2013 as a disposal group held for sale (see Note 11 Assets Classified as Held for Sale).

Extracts of the Notes to the Financial Statements

Note
11 Assets Classified as Held for Sale

	Group	
	2013 RMB'000	2012 RMB'000
Assets related to heating business	249,970	-
Liabilities associated with assets held for sale	202,204	-

As described in Note 10 Discontinued Operations, the Group disposed of its heating services business on 27 March 2014.

As disclosed in Note 8, the Accounting Records were provided to the Tax Authority pursuant to the Tax Investigation Notices. As the Accounting Records have not been returned to the Group, it has not been possible to determine the appropriateness and accuracy of the write down of the net assets of the disposal group to their recoverable amount.

The major classes of assets and liabilities of the heating services business at the end of the reporting period are as follows:

	Group	
	2013 RMB'000	2012 RMB'000
Assets		
Property, plant and equipment	117,402	-
Land use rights	45,450	-
Inventories	314	-
Prepaid operating expenses	36,781	-
Cash and bank balances (Note 19)	25,664	-
Trade and other receivables	24,359	-
Assets of heating services business classified as held for sale	249,970	-
Liabilities		
Trade and other payables	83,592	-
Other liabilities	178	-
Loan and borrowings	70,000	-
Income tax payable	43,417	-
Deferred tax liability	5,017	-
Liabilities of heating services business classified as held for sale	202,204	-
Net assets of heating services business classified as held for sale	47,766	-

Extracts of the Notes to the Financial Statements

Note

12 Investment in Subsidiaries

	Company	
	2013	2012
	RMB'000	RMB'000
Unquoted shares, at cost		
At 1 January	239,191	239,191
Additions	781	-
	239,972	239,191
Less: allowance for impairment loss	(239,191)	(239,191)
At 31 December	781	-

Movement in the allowance for impairment loss is as follows:

	Company	
	2013	2012
	RMB'000	RMB'000
At 1 January	239,191	-
Impairment loss recognised during the year	-	239,191
At 31 December	239,191	239,191

In the previous financial year, management performed impairment tests for the investments in Xinyuan via an assessment of the recoverable amount of Dazheng, Baixinyuan and Sunshine. With the implementation of cooling measures by the government, the heating services business has been affected by the slowing pace of property developments. This coupled with the rising cost of operations, has resulted in the actual cashflows from this business segment falling short of initial projections. Furthermore, in view of the PRC subsidiaries not having cashflows to sustain their operations and no immediate plan of the PRC subsidiaries to continue with their construction and concrete business, the recoverability from the investment in subsidiaries is uncertain. An impairment loss of RMB239,191,000 has been made accordingly. No impairment loss was recognised in profit or loss during the current financial year.

Name of company	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
			2013 %	2012 %
Held by the Company				
Daqing Xinyuan Construction Installation Co., Ltd ("Xinyuan") [2]	PRC	Investment and planning services	100	100
Sino Building & Construction Pte. Ltd. ("SCBC") [1]	Singapore	Design, construction and civil engineering activities, project consultancy and management services	100	-
Daqing Naifei Le Consulting Co., Ltd ("Naifei Le") [1]	PRC	Design and planning services, project management and consultancy services	100	-

12 Investment in Subsidiaries (cont'd)

Name of company	Country of incorporation	Principal activities	Proportion (%) of ownership interest 2013	2012
Held by Xinyuan				
Daqing City Dazheng Building Installation Co., Ltd. ("Dazheng") [3]	PRC	Building construction and civil engineering activities	-	100
Daqing City Baixinyuan Concrete Products Co., Ltd. ("Baixinyuan") [3]	PRC	Concrete mixing and brick manufacturing	-	100
Daqing Sunshine Reli Thermal Co., Ltd. ("Sunshine") [2]	PRC	Heating services	100	100

[1] Reviewed by Moore Stephens LLP Singapore for FRS consolidation purposes

[2] Reclassified as held for sale (see Note 11)

[3] Disposed of during the current financial year

Incorporation of subsidiaries

(i) During the financial year, the Company incorporated a wholly owned subsidiary, SC Building & Construction Pte. Ltd., with an initial share capital of S$100,000 (equivalent to RMB478,000).

(ii) During the financial year, the Company incorporated a wholly owned subsidiary, Daqing Naifei Le Consulting Co., Ltd, with an initial share capital of US$50,000 (equivalent to RMB303,000).

Disposal of subsidiaries

On 6 November 2013, the Group disposed of Dazheng and Baixinyuan which carried out its construction business in the PRC (Note 10(a)).

12 Investment in Subsidiaries (cont'd)

Disposal of subsidiaries (cont'd)

The effects of the disposal on the cash flows of the Group were:

	2013 RMB'000
Carry amounts of assets and liabilities disposed:	
Property, plant and equipment	13,644
Inventories	3,577
Prepaid operating expenses	190
Trade and other receivables	47,110
Cash and bank balances	27
Total assets	64,548
Trade and other payables	89,054
Other liabilities	7,434
Loan and borrowings	740
Income tax payable	45,970
Total liabilities	143,198
Net liabilities disposed	78,650

The aggregate cash inflow arising from the disposal of subsidiaries is as follow:

	2013 RMB'000
Net liabilities disposed of (as above)	(78,650)
Gain on disposal (Note 10)	78,850
Cash consideration from disposal	200
Less: cash and cash equivalent in subsidiaries disposed	(27)
Net cash inflow on disposal	173