

INDEPENDENT AUDITOR'S REPORT

to the Members of Changjiang Fertilizer Holdings Limited

Basis for Disclaimer of Opinion

1. Going concern

- (i) As disclosed in Note 4 to the financial statements, the Group incurred total comprehensive losses of RMB219,768,000 (2013: RMB318,961,000) and net cash outflows from its operating activities of RMB16,582,000 (2013: RMB10,325,000) for the financial year ended 31 December 2014. Furthermore, the Group's and the Company's current liabilities exceeded its current assets by RMB17,754,000 and RMB30,115,000 (2013: Net current assets of RMB36,157,000 and net current liabilities of RMB26,637,000) respectively and the Company was at net liability position of RMB7,132,000 (2013: net asset of RMB181,406,000) as at 31 December 2014.
- (ii) Due to persistent weak demand for the Group's products, the Group could not satisfy the minimum threshold levels required for production in order to justify the costs involved, the production activities in all the three production plants of the Group have ceased since previous financial year.
- (iii) As disclosed in Note 9 to the financial statements, the Group's wholly-owned subsidiary, Miluo Jincheng Shiye Co., Ltd ("JC Miluo") has received a notice from the local environment protection agency informing it that, in connection with the urbanisation development plans of the city including the initiatives taken by the city to clean up the environment in urban areas, JC Miluo is required to take steps towards the winding-down of its operations in its existing factory which is located in an urban area of the city and relocate the factory (the "City-Redevelopment").
- (iv) As disclosed in Note 9 to the financial statements, the Group's wholly-owned subsidiary, Changjiang Huafei (Hunan) Co., Ltd ("Changjiang Huafei") has also been notified by a local government agency that it will be also affected by the City-Redevelopment. However, as at the date of this report, Changjiang Huafei has not received any formal notification.

INDEPENDENT AUDITOR'S REPORT

to the Members of Changjiang Fertilizer Holdings Limited

Report on the Financial Statements (continued)

Basis for Disclaimer of Opinion (continued)

1. Going concern (continued)

- (v) As disclosed in Note 8 to the financial statements, JC Miluo and Changjiang Huafei were granted a tax preferential policy by Miluo City People's Government of China and Xiangyin County People's Government of China to pay a minimum of RMB2.1 million and RMB1.0 million from FY2009 and FY2010 and increase by 40% and 25% on an annual basis until FY2013 and FY2014 respectively. The provision for income tax for the other subsidiary, Hunan Changjiang Huafei Hanshou Co., Ltd ("Huafei Hanshou") is currently calculated based on the standard rate of income tax in People's Republic of China of 25%. The Group recorded current tax liabilities of RMB32,449,000 (2013: RMB32,449,000) as at 31 December 2014. As at the date of this report, the Group has not made any payments to the local tax authorities since financial year 2010.
- (vi) On 28 February 2015, the Company announced that the Executive Chairman and Executive Director of the Company, Mr Cai Jian Hua is taking a leave of absence from his duties for a period of six months with effect from 1 March 2015 to 1 September 2015 to sort out his personal matters. During such period, Mr Cai will not be carrying out any duties on behalf of the Company. In Mr Cai's absence, his duties as the Chairman of the Board of Directors will be undertaken by Mr Zhu Xue Cheng as Acting Chairman. Mr Zhu is an Executive Director and the Deputy Chief Executive Officer of the Company. The Company does not envision any negative impact on the performance of the Company arising as a result of Mr Cai's absence.

These conditions above indicate that there is an existence of material uncertainties which may cast significant doubt on the Group's and the Company's ability to continue as going concerns. Nevertheless, these financial statements are prepared on a going concern basis because of the following assumptions and measures undertaken by management and the Board of Directors:

- (a) The Group and the subsidiaries are currently in negotiation with the local government to work out the arrangement to put the land ("land use rights") of JC Miluo and Changjiang Huafei on which the factories are currently sited for sale by auction or otherwise, the proceeds of such sale whereof being for JC Miluo's and Changjiang Huafei's own account.
- (b) The Group and the subsidiaries are currently in negotiation with a third party to rent out the existing production facilities of its subsidiary, Hunan Changjiang Huafei Hanshou Co., Ltd or to produce new products using existing facilities, or to dispose the subsidiary on a going concern basis.
- (c) As disclosed in Note 28(3)(a), the proposed share placement of approximately S\$359,900, equivalent to RMB1,674,000.
- (d) As disclosed in Note 28(3)(b), the proposed convertible loan of approximately S\$359,900, equivalent to RMB1,674,000.
- (e) Potential acquisition of a new business.

If the Group and the Company are unable to continue their operational existence for the foreseeable future, the Group and the Company may be unable to discharge their 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 and the Company may have to reclassify non-current assets as current assets respectively. The financial statements do not include any adjustment which may arise from these uncertainties.

INDEPENDENT AUDITOR'S REPORT

to the Members of Changjiang Fertilizer Holdings Limited

Report on the Financial Statements (continued)

Basis for Disclaimer of Opinion (continued)

1. Going concern (continued)

The ability of the Group and the Company to continue their operation in foreseeable future and to meet their financial obligations as and when they fall due depend on the favourable outcome of the assumptions and measures undertaken as disclosed above. Therefore, we are not able to form an opinion as to whether the going concern basis of presentation of the accompanying financial statements of the Group and the Company is appropriate.

2. Total assets

The Group's total assets as at 31 December 2014 amounted to RMB59,011,000 (2013: RMB268,839,000). The realisation of the total assets will depend on the favourable outcome of the assumptions and measures undertaken as mentioned in Note 1(a) and 1(b) above. Based on the information available to us, we are unable to satisfy ourselves as to the appropriateness of the carrying amount of total assets.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, 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.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

4 Going concern

The Group incurred total comprehensive losses of RMB219,768,000 (2013: RMB318,961,000) and net cash outflows from its operating activities of RMB16,582,000 (2013: RMB10,325,000) for the financial year ended 31 December 2014. Furthermore, the Group's and the Company's current liabilities exceeded its current assets by RMB17,754,000 and RMB30,115,000 (2013: Net current assets of RMB36,157,000 and net current liabilities of RMB26,637,000) respectively and the Company was at net liability position of RMB7,132,000 (2013: net asset of RMB181,406,000) as at 31 December 2014.

Due to persistent weak demand for the Group's products, the Group could not satisfy the minimum threshold levels required for production in order to justify the costs involved, the production activities in all the three production plants of the Group have ceased since previous financial year.

In addition, as disclosed in Note 9 to the financial statements, the Group's wholly-owned subsidiary, Miluo Jincheng Shiye Co., Ltd ("JC Miluo") has received a notice from the local environment protection agency informing it that, in connection with the urbanisation development plans of the city including the initiatives taken by the city to clean up the environment in urban areas, JC Miluo is required to take steps towards the winding-down of its operations in its existing factory which is located in an urban area of the city and relocate the factory (the "City-Redevelopment").

Changjiang Huafei (Hunan) Co., Ltd ("Changjiang Huafei") has also been notified by a local government agency that it will be also affected by the City-Redevelopment. However, as at the date of this report, Changjiang Huafei has not received any formal notification.

As disclosed in Note 8 to the financial statements, JC Miluo and Changjiang Huafei were granted a tax preferential policy by Miluo City People's Government of China and Xiangyin County People's Government of China to pay a minimum of RMB2.1 million and RMB1.0 million from FY2009 and FY2010 and increase by 40% and 25% on an annual basis until FY2013 and FY2014 respectively. The provision for income tax for the other subsidiary, Hunan Changjiang Huafei Hanshou Co., Ltd ("Huafei Hanshou") is currently calculated based on the standard rate of income tax in People's Republic of China of 25%. The Group recorded current tax liabilities of RMB32,449,000 (2013: RMB32,449,000) as at 31 December 2014. As at the date of this report, the Group has not made any payments to the local tax authorities since financial year 2010.

On 28 February 2015, the Company announced that the Executive Chairman and Executive Director of the Company, Mr Cai Jian Hua is taking a leave of absence from his duties for a period of six months with effect from 1 March 2015 to 1 September 2015 to sort out his personal matters. During such period, Mr Cai will not be carrying out any duties on behalf of the Company. In Mr Cai's absence, his duties as the Chairman of the Board of Directors will be undertaken by Mr Zhu Xue Cheng as Acting Chairman. Mr Zhu is an Executive Director and the Deputy Chief Executive Officer of the Company. The Company does not envision any negative impact on the performance of the Company arising as a result of Mr Cai's absence.

These conditions above indicate that there is an existence of material uncertainties which may cast significant doubt on the Group's and the Company's ability to continue as going concerns. Nevertheless, these financial statements are prepared on a going concern basis because of the following assumptions and measures undertaken:

- (i) The Group and the subsidiaries are currently in negotiation with the local government to work out the arrangement to put the land ("land use rights") of JC Miluo and Changjiang Huafei on which the factories are currently sited for sale by auction or otherwise, the proceeds of such sale whereof being for JC Miluo's and Changjiang Huafei's own account.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

4 Going concern (continued)

- (ii) The Group and the subsidiaries are currently in negotiation with a third party to rent out the existing production facilities of its subsidiary, Hunan Changjiang Huafei Hanshou Co., Ltd or to produce new products using existing facilities, or to dispose the subsidiary on a going concern basis.
- (iii) Proposed share placement of approximately S\$359,900, equivalent to RMB1,674,000.
- (iv) Proposed issuance of convertible loan of approximately S\$359,900, equivalent to RMB1,674,000.
- (v) Potential acquisition of a new business.

If the Group and the Company are unable to continue its operational existence for the foreseeable future, the Group and the Company may be unable to discharge their 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 and the Company may have to reclassify non-current assets and liabilities as current assets and liabilities respectively. The financial statements do not include any adjustment which may arise from these uncertainties.

The ability of the Group and the Company to continue in operation in foreseeable future and to meet their financial obligations as and when they fall due depend on the favourable outcome of the assumptions and measures undertaken as disclosed above.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

8 Income tax

(a) Income tax expense

	Group	
	2014	2013
	RMB'000	RMB'000
Tax expense attributable to loss is made up of:		
Loss for the financial year:		
From discontinued operations		
Current income tax - Foreign [Note 8(b)]	–	(9,850)

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the PRC standard rate of income tax as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Loss before income tax from		
- Continuing operations	(84,212)	(71,296)
- Discontinued operations [Note 9(d)]	(136,675)	(239,294)
	(220,887)	(310,590)
Tax calculated at tax rate of 25% (2013: 25%)	(55,222)	(77,647)
Effects of:		
- Tax incentives	–	84,000
- Expenses not deductible for tax purposes	–	3,497
- Tax losses where no deferred tax has been recognised	55,222	–
Tax charge	–	9,850

(b) Income tax expense of foreign operations

On 2 December 2008, Miluo City People's Government of China granted the Group's subsidiary, Miluo Jincheng Shiye Co., Ltd ("JC Miluo"), a tax preferential policy whereby JC Miluo is required to pay a minimum of RMB2.1 million from FY2009 and subsequently increase by 40% on an annual basis until FY2013 to cover all taxes (e.g. VAT, Stamp Duty, Land Use Tax, Urban Real Estate Tax, Corporate Income Tax, etc). Any amount paid in excess of the minimum tax liability will be refunded (subject to the approval by Miluo City People's Government of China) to the Group.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

8 Income tax (continued)

(b) Income tax expense of foreign operations (continued)

On 9 February 2010, Xiangyin County People's Government of China granted the Group's subsidiary, Changjiang Huafei (Hunan) Co., Ltd ("Changjiang Huafei"), a tax preferential policy whereby Changjiang Huafei is required to pay a minimum of RMB1.0 million from FY2010 and subsequently increase by 40% on an annual basis until FY2014 to cover all taxes (e.g. VAT, Stamp Duty, Land Use Tax, Urban Real Estate Tax, Corporate Income Tax, etc). Any amount paid in excess of the minimum tax liability will be refunded (subject to the approval by Xiangyin County People's Government of China) to the Group.

The other subsidiary, Hunan Changjiang Huafei Hanshou Co., Ltd ("Huafei Hanshou"), had applied for a preferential tax policy from Hanshou County People's Government of China. As at the balance sheet date, the subsidiary is still engaged in an ongoing negotiation with the local authorities. The provision for income tax for this entity is currently calculated based on the standard rate of income tax in the PRC of 25%.

Set out below are the taxes paid, net of tax refund, for subsidiaries under preferential tax policy:

	JC Miluo RMB'000	Changjiang Huafei RMB'000	Huafei Hanshou RMB'000	Total RMB'000
2014				
Tax paid:				
- VAT (net)	—	—	—	—
- Other taxes (e.g. Land and Real estate, City Maintenance, Other Business Taxes)	—	—	—	—
Indirect tax paid	—	—	—	—
Minimum tax liabilities:				
- Minimum tax payable based on preferential tax policy ^(a)	—	—	—	—
Income tax expense	—	—	—	—
2013				
Tax paid:				
- VAT (net)	57	—	—	57
- Other taxes (e.g. Land and Real estate, City Maintenance, Other Business Taxes)	113	—	—	113
Indirect tax paid	170	—	—	170
Minimum tax liabilities:				
- Minimum tax payable based on preferential tax policy	8,067	1,953	—	10,020
Income tax expense	7,897	1,953	—	9,850

(a) No minimum tax liabilities was provided for financial year ended 31 December 2014 as the subsidiaries in PRC are in net loss positions.

As at 31 December 2014, no deferred tax has been recognised for withholding taxes that will be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in PRC as the Group is in a position to control the timing of the remittance of earnings and it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The deferred tax liabilities not recognised is approximately RMB nil (2013: RMB18,070,000).

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

9 Discontinued operations and disposal group classified as held for sale

The Group has three production plants located in PRC operated by its wholly-owned subsidiaries, namely Miluo Jincheng Shiye Co., Ltd (“JC Miluo”), Changjiang Huafei (Hunan) Co., Ltd (“Changjiang Huafei”), and Hunan Changjiang Huafei Hanshou Co., Ltd (“Huafei Hanshou”).

On 21 June 2013, the Group announced that JC Miluo has received a notice from the local environment protection agency informing it that, in connection with the urbanisation development plans of the city including the initiatives taken by the city to clean up the environment in urban areas, JC Miluo is required to take steps towards the winding-down of its operations in its existing factory which is located in an urban area of the city and relocate the factory (the “City-Redevelopment”).

Changjiang Huafei (Hunan) Co., Ltd (“Changjiang Huafei”) has also been notified by a local government agency that it will be also affected by the City-Redevelopment. However, as at the date of this report, Changjiang Huafei has not received any formal notification.

The Group and the subsidiaries are currently in negotiation with the local government to work out the arrangement to put the land (“land use rights”) of JC Miluo and Changjiang Huafei on which the factories are currently sited for sale by auction or otherwise, the proceeds of such sale whereof being for JC Miluo’s and Changjiang Huafei’s own account.

The production activities of Huafei Hanshou has temporarily ceased its production since 2013. The Group and the subsidiaries are currently in negotiation with a third party to rent out the existing production facilities of its subsidiary, Hunan Changjiang Huafei Hanshou Co., Ltd or to produce new products using existing facilities, or to dispose the subsidiary on a going concern basis.

In view of the above, the entire assets and liabilities related to JC Miluo and Changjiang Huafei are classified as a disposal group held for sale on the balance sheet, and the entire results from JC Miluo and Changjiang Huafei are presented separately on the statement of comprehensive income as “Discontinued operations”.

The Group is in the midst of negotiation with local government authority on the compensation relating to JC Miluo and Changjiang Huafei and expects that it will be completed within 12 months from the end of the reporting period.

(a) The impact of the discontinued operations on the cash flows of the Group is as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Operating cash outflows	(16,326)	(10,627)
Investing cash outflows	–	(22,396)
Financing cash outflows	–	(68,050)
Total cash outflows	(16,326)	(101,073)

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

9 Discontinued operations and disposal group classified as held for sale (Continued)

(b) Details of the assets in disposal group classified as held-for-sale are as follows:

	Group 2014 RMB'000
Property, plant and equipment	10,900
Intangible assets – “Land use rights”	28,464
Trade and other receivables [Note 9(b)(i)]	–
	<u>39,364</u>

(i) Trade and other receivables

	Group 2014 RMB'000
Trade receivables	
- Non-related parties	15,878
Less: Allowance for impairment of trade receivables [Note 25(b)(ii)]	(15,878)
Trade receivables - net	–
Advances to suppliers	21,083
Less: Allowance for impairment of advances to suppliers	(21,083)
Advances to suppliers - net	–
Deposits	22,396
Less: Allowance for impairment of deposit paid for property, plant and equipment ^(a)	(22,396)
Deposits - net	–

(a) Allowance for impairment of deposit paid for property, plant and equipment is made in relation to abortion of potential acquisition of business assets as disclosed in Note 28(a).

(c) Details of the liabilities directly associated with disposal group classified as held for sale are as follows:

	Group 2014 RMB'000
Other payables	8,054
Current income tax liabilities	19,687
	<u>27,741</u>

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

9 Discontinued operations and disposal group classified as held for sale (continued)

(d) The results of the discontinued operations are as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Revenue	–	32,578
Other income ^(a)	474	12,647
Expenses		
- Cost of sales	–	(39,658)
- Selling and distribution	(44)	(136)
- Administrative ^(b)	(137,105)	(230,705)
- Finance	–	(4,120)
Loss before tax from discontinued operations	(136,675)	(229,444)
Income tax expense	–	(9,850)
Loss for the financial year from discontinued operations	(136,675)	(239,294)

(a) Included in other income in financial year ended 31 December 2013 was an amount of RMB12,128,000 of government grants. There was no condition attached to the government grants. It relates to grants received for the acquisition of environmental friendly equipment for production activities undertaken by one of the Group's subsidiary in the PRC to promote technology advancement and eco-friendly environment.

(b) Included in administrative expense was an impairment charged of RMB56,604,000 and RMB5,813,000 (2013: RMB192,666,000 and RMB nil) recognised for property, plant and equipment and intangible assets for financial year ended 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

28 Significant events

(3) (a) Proposed placement

On 27 March 2015, the Company has entered into a placement agreement with Zhu Qiu Ping, Huang Xiao Wen, Zheng Xin Jian and Luo Qing Feng ("Placees") that the Company has agreed to allot and issue an aggregate of 17,995,000 new ordinary shares in the share capital of the Company ("New Shares"), at S\$0.02 for each new share for an aggregate consideration of S\$359,900. The Company has given undertaking to the Placees that (i) the proceeds from the placement agreement shall be utilised for corporate head office expenses (including any such outstanding liabilities) and investment in any new businesses or assets outside of the People's Republic of China (the "PRC"), but shall not be used for general working capital for operation of the Company's fertilizer business; and (ii) such proceeds shall not be repatriated to the PRC. The completion of the proposed placement is conditional upon, *inter alia*, receipt of approval in-principle from the SGX-ST for the listing of and quotation of the New Shares on the official list of the SGX-ST and such approval being in full force and effect.

(b) Proposed convertible loan

On 27 March 2015, the Company has entered into a convertible loan agreement with Mr Fong Kim Chit for an unsecured interest-free convertible loan of a principal amount of S\$359,900, convertible into 17,995,000 new ordinary shares in the capital of the Company ("Conversion Shares") at a conversion price of S\$0.02. The full principal amount of the loan shall be repaid by the Company to Mr Fong Kim Chit free of interest on 31 July 2015 or such other date as the parties may agree in writing unless there is any acquisition of any Singapore-based income generating assets ("Acquisition Event") or the loan is fully converted into conversion shares.

Upon the occurrence of an Acquisition Event before the repayment date, the full principal amount of the convertible loan shall be converted into the Conversion Shares. The completion of the proposed convertible loan is conditional upon, *inter alia*, receipt of approval in-principle for the listing and quotation of the Conversion Shares on the main board of the SGX-ST being obtained from the SGX-ST and not having been revoked or amended, and where such approval is subject to conditions, such conditions to be so fulfilled in all material respects.