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ANNOUNCEMENT PURSUANT TO RULE 704(5) OF THE SGX-ST LISTING MANUAL

The Board of Directors of Oceanus Group Limited (the "Company') wishes to announce that the Company's Independent Auditors, Foo Kon Tan LLP ("Independent Auditors"), have issued a qualified opinion in the Independent Auditor's Report on the consolidated financial statements of the Company and its subsidiaries for the financial year ended 31 December 2016.

Relevant sections of the Independent Auditor's Report are reproduced below:

Independent auditor's report to the members of Oceanus Group Limited

Report on the financial statements

We were engaged to audit the accompanying financial statements of Oceanus Group Limited (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity 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

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, Cap. 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 financial statements and to maintain accountability of assets.

Auditor’s responsibilities

Our responsibility is to express an opinion on these financial statements based on conducting our audit in accordance with Singapore Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

(1) Going concern

As discussed in Note 2(a) to the financial statements, as at 31 December 2016, the Group and the Company had net current liabilities of RMB599,679,000 and RMB524,891,000 (2015 – RMB557,417,000 and RMB489,803,000), and had a deficit in shareholders’ funds of RMB490,798,000 and RMB419,103,000 (2015 – RMB397,763,000 and RMB358,330,000) respectively. The Group incurred a loss after tax of RMB62,236,000 and a total comprehensive loss of RMB93,035,000. The Group had convertible loans of RMB352,896,000 of which RMB308,774,000 was due on 31 December 2016. As at 31 December 2016, interest on convertible loans in arrear was RMB49,189,000 (2015 – RMB28,445,000). These factors indicate the existence of a material uncertainty which may cast a significant doubt on the Group’s and Company’s ability to continue as a going concern.

The matters set out above and in Note 2(a) to the financial statements indicate the existence of a material uncertainty which cast a significant doubt on the Group’s and the Company’s ability to continue as a going concern. The going concern assumption under which the financial statements are prepared is dependent on the successful conclusion of the debt restructuring exercise as disclosed in Note 33 to the financial statements, disposal of assets that are not related to its current operations and positive cash flow from its operations in future.

The financial statements of the Group and the Company do not include any adjustments relating to the realisation and classification of asset amounts that may be necessary if the Group and the Company are unable to continue as a going concern. Should the going concern assumption be inappropriate, adjustments would have to be made to reflect the situation that assets may need to be realised other than in the amounts at which they are currently recorded in the consolidated statements of financial position. In addition, the Group and the Company may have to provide for further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No adjustments have been made in the financial statements of the Group and the Company in respect of these. The ability of the Group and the Company to continue as going concerns depends on the successful outcome of the matters set out above which cannot be determined at present. 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) Biological assets

As at 31 December 2016, the carrying amount of the biological assets was RMB6,404,000 (2015 – RMB2,418,000).

Management did not conduct a physical count of the biological assets as at 31 December 2016 and 31 December 2015. Hence, we were unable to satisfy ourselves by alternative means concerning the existence, quantity and the accuracy of the costs of the biological assets held at 31 December 2016 and 31 December 2015.

(3) Recoverable amount of property, plant and equipment and prepaid leases and impairment losses

As described in Note 4 and Note 5 of the consolidated financial statements, the Group had carried out an impairment assessment over its property, plant and equipment and prepaid leases.

The recoverable amount was based on the cash-generating unit's fair value less costs to sell, as determined by an independent professional valuer based on the market approach and cost approach, which was higher than value-in-use.

As described in Note 4, management had not recognised a reversal of impairment loss on property, plant and equipment and prepaid leases amounting to RMB28,843,000 and RMB137,000, respectively, for the year ended 31 December 2016. This is not in compliance with FRS 36 Impairment of Assets.

As at 31 December 2016, the carrying amount of the Group's buildings and farm structures constructed on land leased from third parties ("Collectively-owned Land") and the related prepaid leases amounted to RMB121,193,000 and RMB1,214,000 (2015 – RMB154,679,000 and RMB1,352,000), respectively.

In assessing the fair value of these buildings and farm structures and the related prepaid leases, the valuer had made certain key assumptions as follows:

(1) the Collectively-owned Land is freely transferable to any third party in the open market;
(2) consent for the land transfer will be granted by the individual owners of the land; and
(3) recoverable amount of property, plant and equipment and prepaid leases and impairment losses.

It was assumed that the relevant regulatory documents required for the land transfer had been obtained. As at 31 December 2016 and 31 December 2015, no separate transfer agreements had been entered into with the individual owners of the land to transfer the ownership to the Group.

In the absence of legally binding contractual arrangements and the resultant uncertainty over transferability of Collectively-owned Land in the key assumptions used in the determination of impairment loss, we were unable to satisfy ourselves by alternative means concerning the impairment loss amounts calculated for the year ended 31 December 2016 and 31 December 2015, and carrying amount of these assets as at 31 December 2016 and 31 December 2015.

(4) Trade and other payables and supporting documents

As at 31 December 2016, trade and other payables included amounts of RMB8 million (2015 – RMB8 million) related to purchases of raw materials and consumable, capital expenditure and operating expenses brought forward from prior years.

We were not able to carry out auditing procedures on these trade and other payables as at 31 December 2016 and 31 December 2015 because documentation supporting the transactions were not available. We were unable to satisfy ourselves by alternative means concerning the validity, completeness and accuracy of these trade and other payables of RMB8 million (2015 – RMB8 million) in aggregate as at 31 December 2016 and 31 December 2015.

(5) Convertible loans

The Group refinanced Convertible Loan 2012 with Convertible Loan 2015 during the year ended 31 December 2015 (Note 18).

Management did not estimate the fair value of Convertible Loan 2015 to assess gain or loss on de-recognition of Convertible Loans 2012, and the allocation of the carrying amount of Convertible Loan 2015 to the liability and equity components upon initial recognition. Interest was accrued based on the notional interest rate, instead of effective interest rate, for the year ended 31 December 2016 and 31 December 2015.

We were unable to satisfy ourselves by alternative means concerning the classification of Convertible Loan 2015 into the liability and equity components and its carrying amount as at 31 December 2016 and 31 December 2015, and the related interest expense based on effective interest rate for the years ended 31 December 2016 and 31 December 2015.

(6) Loans

As described in Note 15 to the financial statements, warrants were issued to the financing shareholders and a third party lender during the year ended 31 December 2015. Management did not assess the allocation of the carrying amount of loans from shareholders and a third party to the liability and equity components in connection with the warrants.

Consequently, as at 31 December 2016, loans from shareholders and loans from third parties amounting to RMB1,894,000 and RMB14,071,000 (2015 – RMB1,811,000 and RMB4,093,000), respectively, were measured based on the original loan principals plus accrued interest which had been computed based on the original loan principals and notional interest rates, instead of the effective interest rate in accordance with FRS39 Financial Instruments.

As described in Note 31.6, management had assumed the total carrying value of loans from shareholders and loans from third parties as at 31 December 2016 amounting to RMB1,894,000 and RMB14,071,000 (2015 – RMB1,811,000 and RMB4,093,000), respectively, approximated the fair value without carrying out an assessment using an appropriate valuation technique and inputs thereto. This constituted a departure from FRS107 Financial Instruments Disclosure.

We were unable to satisfy ourselves by alternative means concerning the classification of these loans into the liability and equity components and their carrying amount as at 31 December 2016 and 31 December 2015, interest on these loans to be computed based on the effective interest rate for the years ended 31 December 2016 and 31 December 2015 and the related accrued interest as at 31 December 2016 and 31 December 2015, and the fair value of these loans to be disclosed in the financial statements as at 31 December 2016 and 31 December 2015.

(7) Other payables

As at 31 December 2016, other payables included an amount of RMB1,000,000 payable to the Group's Executive Director (Note 17).

This liability amount arose from the Group Executive Director's payment on behalf of a subsidiary to a third party to restore safety and resume control at a farm seized by that subsidiary's contract security and protection services provider.

We were not able to carry out auditing procedures on this liability amount as at 31 December 2016 because documentation supporting the transaction were not available. We were unable to satisfy ourselves by alternative means concerning the validity and accuracy of this liability amount as at 31 December 2016 and the occurrence and accuracy of the related expense for the year ended 31 December 2016.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion section 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.

Other Matter

Independent auditor's report for the financial year ended 31 December 2015

The independent auditor's report dated 3 May 2017 on the financial statements for the financial year ended 31 December 2015 of which we were auditors expressed a disclaimer of audit opinion. The matters included in the auditor's report have a consequential material impact on the opening balances in the Basis for Disclaimer of Opinion paragraph stated above.

Placement on the Watch-List

On 2 March 2016, the Company announced that the Singapore Exchange Securities Trading Limited (the "SGX-ST") has notified the Company that pursuant to Rule 1311(1), it will be placed on the Watch-List with effect from 3 March 2016 due to the financial entry criteria. The Company must take active steps to meet the requirements of Listing Rule 1314(1) of the Listing Manual of the SGX-ST (the "Listing Manual") for its removal from Watch-List within 36 months from 3 March 2016, failing which the SGX-ST may either remove the Company from the official list of the SGX-ST (the "Official List") or suspend trading of the Company with a view to remove the Company from the Official List.

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 and its subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The Annual Report for FY2016 which will contain the Independent Auditor's report has been issued to shareholders of the Company and the SGX-ST on 7 December 2017.

BY ORDER OF THE BOARD

Peter Koh Heng Kang, PBM
Executive Director and Chief Executive Officer
7 December 2017