

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 9 to 55, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 December 2012, 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 audit opinion.

Bases of Qualified Opinion

1. Opening balances

(i) Unverified transactions

The financial statements for the financial year ended 31 December 2011 ("FY2011") were audited by an independent auditor (the "Preceding Auditor") other than Nexia TS Public Accounting Corporation, who issued a disclaimer of opinion on 2 April 2013 on those financial statements due to the following:

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(continued)**

Bases of Qualified Opinion (continued)

1. Opening balances (continued)

(i) Unverified transactions (continued)

The Preceding Auditor was unable to obtain sufficient documentation that will adequately support certain transactions recorded in the accounting books of the subsidiaries of the Group. Accordingly, the Preceding Auditor was unable to satisfy themselves as to the nature and validity of those transactions, as well as the management's business rationale and veracity of the related account balances. There were also no practicable audit procedures available to Preceding Auditor to determine the nature and validity of these transactions.

These transactions are set out as below:

- (a) Various payments for renovation work on investment property and advances for purchase of raw materials and machinery amounting to RMB292.6 million.

As disclosed in Note 35 to the financial statements, the Group restated the balances of investment property and advances to suppliers to RMB25.1 million and RMB51.6 million respectively as at 31 December 2011.

- (b) Sales transactions and sales of raw materials and scrap materials (included in the line items revenue and other income respectively) amounting to RMB13.6 million and RMB19.1 million respectively.

As disclosed in Note 35 to the financial statements, the Group restated the revenue and other income to RMB329.3 million and RMB6.2 million respectively for the FY2011.

- (c) Investment in a new business of RMB20.0 million as disclosed in Note 20 to the financial statements.

For financial year ended 31 December 2012, we have obtained sufficient and appropriate audit evidence to determine the ownership and cost of the investment.

- (d) Loan given to a local government authority of RMB11.5 million.

The local government authority has fully repaid the outstanding sum of RMB11.5 million to the Group on 30 November 2013.

(ii) Independent investigation

The Preceding Auditor indicated that they could not determine what adjustments, if any, may be required to be made and whether any further discrepancies might be reported by the Special Auditor arising thereon which may have an impact on the accompanying financial statements. On 10 August 2013, the Audit Committee has commissioned and appointed Special Auditor to undertake an independent review of the Group's financial matters pertaining to the transactions described as above.

On 23 August 2013, the Special Auditor has completed the independent investigation and several key issues identified by Special Auditor are disclosed in Note 1.2 to the financial statements. As disclosed in Note 35 to the financial statements, the Group restated the opening balance for the financial year 2012.

**Independent Auditor's Report to the Members of
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(continued)**

Bases of Qualified Opinion (continued)

1. Opening balances (continued)

In view of the Preceding Auditor's disclaimer of opinion on the financial statements for the FY2011, and as we were not able to carry out any alternative audit procedures to obtain sufficient and appropriate audit evidence on the opening balances except for items (i)(c) and (i)(d) as above, 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.

2. Going concern

The Preceding Auditor reported that the Group was in a net current liabilities position of RMB19.5 million as at 31 December 2011, including secured bank loans due within the next 12 months of RMB189.4 million. With cash and bank balances of RMB106.9 million as at 31 December 2011, the Group did not appear to have sufficient funds to make the repayment.

The directors have prepared the financial statements on a going concern basis on the assumption that its bankers will continue to provide financing and extend existing loans to the Group, as well as the ability of the Group to generate positive cash flows from its operations. However, the Preceding Auditor was unable to obtain sufficient audit evidence to conclude as to the appropriateness of the going concern assumption in the preparation of the financial statements for the FY2011. Furthermore, the findings of the Special Auditor may affect the continuing availability of the existing credit facilities from the banks and this may affect the Group's ability to operate as a going concern.

We have considered this matter in the "Emphasis of Matter" section of this report.

3. 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 for the financial year 2011 and 2012. Since opening inventories and closing inventories enter into the determination of the financial results and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit/loss for the year reported in the statement of comprehensive income and the net cash flows from operating activities reported in the cash flow statement.

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 2012 and of the results, changes in equity and cash flows of the Group for the financial year ended on that date.

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Emphasis of Matter

We draw attention to Note 2 to the financial statements. The Group incurred total comprehensive losses of RMB62.6 million (2011: total comprehensive income of RMB9.4 million), and was in net current liabilities position of RMB114.6 million (2011: RMB32.0 million). The Group is dependent on short-term bank borrowings to meet its working capital and operating cash flows requirements. As at 31 December 2012, short-term bank borrowings amount to RMB193.0 million (2011: RMB189.4 million). These bank borrowings are significantly higher than the Group's cash and cash equivalents of RMB124.9 million (2011: RMB94.6 million) as at 31 December 2012 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.

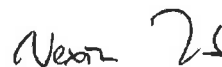
If the Group is unable to continue its operational existence and/or unable to maintain its credit facilities, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than 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

As described in Note 1.2 (ii) to the financial statements, the loan to an interested person amounting to RMB22.5 million as at 31 December 2011 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 RMB21.2 million as at 31 December 2012.

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
2 July 2014**