

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 accompanying 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, 2018, 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 87.

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, 2018 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.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
HUAN HSIN HOLDINGS LTD**

Material uncertainty related to going concern

We draw attention to Note 1 in the accompanying financial statements which indicates that as at December 31, 2018, the Group reported a net current liabilities of \$46,500,000 (December 31, 2017 : \$50,337,000, January 1, 2017 : \$42,151,000) and the Group's capital deficiency amounted to \$74,696,000 (December 31, 2017: \$81,786,000, January 1, 2017 : \$69,742,000), and the Group recorded loss for the year of \$2,468,000 (2017 : \$20,588,000) for the financial year then ended.

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 concerns. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HUAN HSIN HOLDINGS LTD

Key Audit Matters

Valuation of financial assets at fair value through other comprehensive income

As at December 31, 2018, the Group's financial assets at fair value through other comprehensive income ("FVTOCI") amounted to S\$34,087,000, representing 44% 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.

Our audit performed and responses thereon

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.

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 13 to the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

HUAN HSIN HOLDINGS LTD

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HUAN HSIN HOLDINGS LTD

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HUAN HSIN HOLDINGS LTD

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.

Deint & Imene nP

Public Accountants and
Chartered Accountants
Singapore

March 26, 2019

HUAN HSIN HOLDINGS LTD AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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 11 and 12 to the financial statements respectively.
- c) As at December 31, 2018, the Group reported a net current liabilities of \$46,500,000 (December 31, 2017 : \$50,337,000, January 1, 2017 : \$42,151,000) and the Group's capital deficiency amounted to \$74,696,000 (December 31, 2017: \$81,786,000, January 1, 2017 : \$69,742,000), and the Group recorded loss for the year of \$2,468,000 (2017 : \$20,588,000) for the financial year then ended.
- d) On February 24, 2016, the Company entered into a subscription agreement with Oriental Straits Investment Limited ("Subscriber") and China Capital Impetus Investment Limited ("CCIIL"). On March 4, 2018, the Subscriber, CCIIL and China Capital Impetus Asset Management Pte Ltd ("CCIAM") entered into a deed of novation in respect of the substitution of CCIIL by CCIAM as a party to the subscription agreement dated February 24, 2016, (as amended, supplemented and modified) ("Subscription Agreement") and the Company, the Subscriber and CCIAM had on March 4, 2018 entered into an agreement to supplement the Subscription Agreement ("Supplemental Agreement").
 - (i) The subscriber shall subscribe for, and the Company shall allot and issue to the Subscriber 3,636,363,636 ordinary shares in the share capital of the Company at the issue price of S\$0.022 per share for an aggregate subscription amount of S\$80 million in two tranches.
 - (ii) The Proposed Reverse Takeover ("Proposed RTO") refers to the sale and purchase agreement dated March 4, 2018 entered into between the Company and Jade Merit Developments Limited (the "Acquisition Agreement"), pursuant to which the Company will become the legal and beneficial owner of a 99.99% equity interest of a company incorporated in the British Virgin Islands and wholly-owned by Jade Merit Developments Limited on the terms and conditions of the Acquisition Agreement.
 - (iii) The Company shall grant each of the Subscriber and CCIAM the right but not the obligation to each subscribe for up to 454,545,455 shares at the issue price per share for up to S\$10 million upon the terms and subject to the conditions of the Subscription Agreement.

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 March 2, 2018, SGX-ST granted the Company a final extension of time of up to March 4, 2019 to meet the requirements for removal from the Watch-List. The extension is subject to, amongst others, achieving each of the milestones by the specified timelines indicated below:

HUAN HSIN HOLDINGS LTD AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018

<u>Milestones</u>	<u>Timeline (on or before)</u>
1 Signing of the Supplemental Subscription Agreement with Oriental Straits Investment Limited and China Capital Impetus Investment Limited (i.e. the Proposed Subscription)	March 4, 2018
2 Signing of the sale and purchase agreement for the proposed acquisition of vanadium mine in connection with a proposed reverse take-over (i.e. the Proposed RTO)	March 4, 2018
3 Submission of additional listing application and circular to SGX-ST in relation to the Proposed Subscription	March 15, 2018
4 Submission of RTO application and circular to SGX-ST	May 30, 2018

The above timeline was however not met in 2018, and the Company had on August 14, 2018 terminated the proposed acquisition agreement. On December 19, 2018, the Company received a notification of delisting from SGX-ST.

- e) On January 8, 2019, the Company submitted an appeal to SGX-ST in relation to the SGX-ST's decision to delist the Company ("Notification of Delisting"). The Company appealed on the grounds that the Company and the Subscriber have identified suitable assets headquartered in Beijing, which can provide the Company with a basis to support a new reverse-takeover exercise. The said assets include a group of dental clinics and a dental hospital which is currently one of the largest private dental practices in Beijing and was profitable as at August 31, 2018.

Trading in the Company's securities had ceased since January 18, 2019 and had been suspended from January 21, 2019. The Company has one month from the date of notification to inform the SGX-ST of the exit offer proposal (i.e. by January 19, 2019).

On March 1, 2019, SGX-ST rejected the Company's appeal against the Notification of Delisting and provided an additional month to submit a reasonable cash exit offer proposal, i.e. up to end March 2019.

- f) Without the equity injections from the above Proposed RTO, management has explored the options available with respect to their financial affairs. The Group has obtained letters of undertaking from the directors and outside party not to demand for payment for at least twelve months from the date of directors' report for the financial year ended December 31, 2018.

Management has also prepared monthly cash flows forecasts of the Group for the financial year ending December 31, 2019 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 (iv) the ability to manage its net cash outflow arising from changes in working capital. Management is of the view that the cash flows forecasts are achievable and financial support from directors will be available as and when required. According to their judgement, management believes that the Group and the Company should be able to operate as going concerns.

HUAN HSIN HOLDINGS LTD AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

- g) The above matters represent material uncertainties 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 the strategies in place to improve the operating performance and financial position of the Group and the Company will allow it to continue in operational existence for the foreseeable future. The Group and the Company are dependent on directors for continued financial support and management is satisfied that the financial support will be available when required. Hence, the management continue to adopt the going concern assumption in preparing the accompanying financial statements.
- h) 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.
- i) 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, 2018 were authorised for issue by the Board of Directors on March 26, 2018.
- j) For all periods up to and including the year ended December 31, 2017, the financial statements were prepared in accordance with the previous framework, Financial Reporting Standards in Singapore ("FRSs"). These financial statements for the year ended December 31, 2018 are the first set that the Group and the Company have prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)"). Details of first-time adoption of SFRS(I) are included in Note 31.