

Independent auditor's report to the members of Foreland Fabrictech Holdings Limited

Report on the financial statements

We were engaged to audit the accompanying financial statements of Foreland Fabrictech Holdings 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 2014, the 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 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 and fair presentation of financial statements in accordance with Singapore Financial Reporting Standards, and Section 90 of the Companies Act 1981 of Bermuda, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material statement, whether due to fraud or error.

Auditor's responsibility

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 paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The Group

1. Compensation claim

- Validity of claim

According to the audited accounts for the financial year ended 31 December 2013, it was reported that the Group recorded a provision for claim of RMB282,992,774 on the statements of financial position as at 31 December 2013, and an expense in the statement of profit or loss and other comprehensive income of RMB282,992,774 for the financial year.

As disclosed in Note 13 to the financial statements, this provision was made with respect to a claim made by Jiangxi Longdu Clothing and Accessories Weaving Limited Co. Ltd ("Jiangxi Longdu"). On 17 November 2013, Jiangxi Longdu made a complaint to Fulian Knittings Co., Limited ("Fulian") that there were quality issue over the purchase of certain dyed textiles which were used in the manufacture of winter jackets for its customer, known as Mega Chinese Limited (Mega Chinese), ("the Complaint").

The extent of the internal investigation by Fulian and the process of legal review carried out by Fujian Minhua Law Firm and the work performed by the PRC valuer Fujian Hua Tie Certified Public Accounting Firm ("Fujian Hua Tie") regarding the claim and compensation raised several doubts by the special accountants in their report submitted before the Singapore Exchange Limited ("SGX"). The 2013 auditor's report also draw attention that there was disagreement between the then audit committee members and the management where there was difference in opinion as to the handling of the claim and had required the appointment of another reputable audit firm and reputable law firm to conduct an independent re-assessment of the customer claim.

Independent auditor's report to the members of Foreland Fabrictech Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

The Group (Cont'd)

1. Compensation claim (Cont'd)

- Validity of claim (Cont'd)

The compensation claim of RMB282,992,774 was reported to be made up of:

- Fujian Hua Tie's assessment of Jiangxi Longdu's loss at RMB275,284,800; and
- Jiangxi Longdu's loss of interest for the period 1 January 2014 to 30 April 2014 at RMB7,707,974.

On 6 May 2014, Fulian paid the compensation sum of RMB282,992,774. There was no further outstanding amount owing between the parties upon a final payment of RMB3,079,380 made by Jiangxi Longdu to Fulian in September 2014.

As at the date of this report, we have not been provided with any further evidence to show cause that there is a change of event or circumstances that could explain the reported matter otherwise. On this basis, we were unable to ascertain the veracity of the claim made and compensation paid as we were not able to obtain sufficient appropriate evidence to satisfy ourselves as to whether the validity of the claim and appropriateness of the amount paid which may have impact on the retained profits carried forward for the current year as well as the impact on the income tax, and the consolidated statement of cash flow for the financial year thereon.

On 7 December 2016, the directors of the Company lodged a complaint with Commercial Affairs Department regarding the above matter.

On 27 December 2016, the directors of the Company announced that they are in the process of engaging legal advisers with a view to take further measures against Tsoi Kin Chit, who is the former executive director of the Company, in relation to the possible breach of securities laws or other offences arising from the above matter. Such measures would likely also be extended to its subsidiary in China, Fulian Knitting Co., Limited. As at the date of this report, the status is preliminary.

As described in Note 12 to the financial statements, in respect of taxation, the extent of the validity of the compensation claim has significant impact on the manner in which the taxation, whether current or deferred tax, is to be reported. Because of the uncertainty and the manner and timing in which taxation is to be reported, we were unable to ascertain the correctness of the taxation to be accounted for.

2. Land use rights and property, plant and equipment

- Assessment of impairment

- (i) As disclosed in Notes 4(a) and 4(b) to the financial statements, the net book value of the Group's land use rights and property, plant and equipment amounted to RMB22,108,000 and RMB76,073,000 respectively as at 31 December 2014. There were indications of impairment required to be assessed given the reported compensation claim in the financial year 2013. The Group did not appoint an independent professional valuer to assess the recoverable amount of the land use rights and property, plant and equipment and the extent of impairment to be made for the financial year ended 31 December 2014.

We were unable to obtain sufficient appropriate evidence to assess the recoverable amount of the Group's land use rights and property, plant and equipment as at 31 December 2014.

Independent auditor's report to the members of Foreland Fabrictech Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

The Group (Cont'd)

2. Land use rights and property, plant and equipment (Cont'd)
 - Documentary evidence not available
 - (ii) As disclosed in Note 4(a) to the financial statements, the Group has land use rights of RMB29,749,000 acquired in the financial year 2011. We were not provided with the relevant and appropriate audit evidence from the land bureau authority to ascertain the cost incurred for this land use rights.

3. Inventories
 - Lack of supporting documents

The work-in-progress and finished goods were RMB498,000 and RMB985,000 respectively as at 31 December 2014. In so far as to the costing of the dyed textile process, we were not provided with relevant documents regarding the production process for the raw materials used and the allocated processing costs such as yarn, chemicals and additives as well as the quality testing process. Because we were unable to obtain sufficient appropriate audit evidence as to the processing of raw materials used and the allocated processing costs, we were unable to ascertain that the allocation of cost of production of the dyed products. Accordingly, we were unable to ascertain the unit cost of the dyed products and therefore the carrying amount of the inventories at the end of reporting period and the impact on the profit or loss.

4. Investment in a subsidiary, Fulian and amount owing by a subsidiary, Fulian
 - Assessment of impairment

In the 2013 audited report, it was reported that the auditor had not been able to obtain appropriate audit evidence to satisfy themselves with regards to the carrying amount of the investment in a subsidiary, Fulian and the extent of the amount owing by Fulian to be recoverable as carried in the books of the Company. This is because the management of the Company provided the impairment sum based on internal management estimate adopting the value-in-use method (See Note 5 to the financial statements). Based on the report prepared by the Special Accountant, we noted that several of the assumptions used by the management were queried without satisfactory input.

On the basis as explained above, where no independent professional valuer was appointed to assess the recoverable amount of the property, plant and equipment, we were unable to ascertain the recoverable amount of the investment in a subsidiary.

5. Limitation of scope - account receivables, account payables, cash and cash equivalents and inventories of Fulian

Due to limitations placed on the scope of our work by the then directors of the Group, the audit evidence available was limited as follows:

 - (i) Account receivables and account payables
 - We were unable to visit the customers and the suppliers to physically obtain the confirmation letters for the outstanding balance in the account receivables of RMB16,181,145 and account payables of RMB12,081,337 and to inspect the documentary evidence to support the amount owing by the customers and the liability owing to the suppliers for the financial year ended 31 December 2014.

Independent auditor's report to the members of Foreland Fabrictech Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

The Group (Cont'd)

5. Limitation of scope - account receivables, account payables, cash and cash equivalents and inventories of Fulian (Cont'd)

Due to limitations placed on the scope of our work by the then directors of the Group, the audit evidence available was limited as follows (Cont'd):

(i) Account receivables and account payables (Cont'd)

Based on our sample items selected as part of our audit alternative procedures, we were unable to ascertain whether the sales invoices raised by Fulian and the supplier invoices received from the suppliers can be matched and traced to the tax invoice number found in the government website as the tax invoice number of these respective invoices cannot be found in the government tax authority website (<http://wssw.fj-n-tax.gov.cn/etax/135/sscx/fpcy.jsp>). We have informed and discussed with the finance team in Fulian on 19 December 2016. However, there was no outcome as at the date of this report.

(ii) Cash and cash equivalents

- In the 2013 audited report, it was reported that the auditor had not been able to obtain appropriate audit evidence to satisfy themselves with regards to certain bank balances and fixed deposits of two bank accounts of Fulian totalling RMB292,298,353 as included in the Group's cash and cash equivalents at 31 December 2013.

On 28 May 2014, Fulian closed the two said bank accounts and transferred the balance of RMB99,606 to a new operating bank account. We have physically obtained the bank confirmation reply of the new bank directly from the bank for the financial year ended 31 December 2014. However, we were unable to physically obtain and verify the bank statement directly from the bank as there was no letter of consent from Fulian's authorised bank signatory, Tsoi Kin Chit, who is the former executive director of the Company. No letter of consent was obtained upon request by our audit team.

As disclosed in Note 9 to the financial statements, the cash on hand was RMB608,000 as at 31 December 2014. We were unable to count the cash on hand of RMB608,000 as we were appointed as the Company's independent auditors only in year 2016. In the absence of alternative procedures, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves on the existence and accuracy of the cash on hand as of 31 December 2014.

We have informed and discussed with the local management of Fulian regarding the deficiency of internal control of cash and bank over receipts and payments for which we did not receive any comments from the local management. As these transactions relate to the dealing of past directors of the Company and has been reported by the Special Accountant, the existing directors of the Company believed that all necessary steps to be taken have been appropriately considered.

Independent auditor's report to the members of Foreland Fabrictech Holdings Limited (Cont'd)

Basis for Disclaimer of Opinion (Cont'd)

The Group (Cont'd)

5. Limitation of scope - account receivables, account payables, cash and cash equivalents and inventories of Fulian (Cont'd)

Due to limitations placed on the scope of our work by the then directors of the Group, the audit evidence available was limited as follows (Cont'd):

(iii) Inventories

- We were unable to observe the counting of physical inventories having a carrying amount of RMB2,483,000 as at 31 December 2014 as we were appointed as the Company's independent auditors only in year 2016. In the absence of alternative procedures, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves on the existence of the inventories as of 31 December 2014. Should it be found necessary, adjustments would be made to the carrying amount of the inventories for the financial year ended 31 December 2014, with a corresponding impact to the profit or loss for the financial year then ended and/or retained earnings as of 31 December 2014.

As a result of the above, we have been unable to obtain sufficient evidence concerning account receivables, account payables, cash and cash equivalents and inventories of Fulian as at 31 December 2014.

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.

Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on whether the accounting and other records to be kept by the Company have been properly kept.

Independent auditor's report to the members of Foreland Fabrictech Holdings Limited (Cont'd)

Other matters

1. The financial statements for the financial year ended 31 December 2013 were audited by another firm of auditors whose report dated 5 August 2014 expressed a modified opinion on those financial statements.
2. Going concern
The 2013 audited report contained a disclaimer on the appropriateness of going concern assumptions of the Group and the Company. This has been considered resolved in the financial year ended 31 December 2014. Please refer to Note 29 for details.
3. Cessation of Company Secretary
On 8 December 2016, the directors of the Company ceased the service of Tan Chee How as Company Secretary. As at the date of this report, the Company is looking for a suitable company secretary to replace Tan Chee How.
4. The directors' report and statement by directors is signed by a single director of the Company.

This report, including the opinion, has been prepared for and only for you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore, 25 January 2017