

CHINA MEDICAL (INTERNATIONAL) GROUP LIMITED

(Company Registration No. 200505118M)

DISCLAIMER OF OPINION BY INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS FOR FINANCIAL PERIOD ENDED 31 DECEMBER 2017

The board of directors (the “**Board**” of the “**Directors**”) of China Medical (International) Group Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that its Auditor, Nexia TS Public Accounting Corporation, has issued a disclaimer of opinion in respect of its Independent Auditor's Report for the financial statements of the Group for the financial year ended 31 December 2017 (the “**Auditors Report**”). The Board's responses to the key bases for the disclaimer of opinion are set out below:

Going concern

The Board believes that the use of the going concern assumption in the preparation of the financial statements for the financial year ended 31 December 2017 is appropriate after taking into consideration the following:

- (a) a shareholder, Dato Dr Choo Yeow Ming (“**Dato Dr Choo**”), has provided a letter of financial support expressing his willingness to provide continuing financial support to the Group and the Company upon terms and conditions agreeable to both parties to enable the Group to continue to operate and meet its financial obligations and commitments as and when they fall due in the next 12 months;
- (b) Dato Dr Choo has also provided a written undertaking not to demand repayment of payables due to an entity in which he is a director and majority shareholder of S\$3,500,000 until the date when the Group has the financial ability to make the repayment or the contractual maturity date on 6 November 2019; and
- (c) Dato Dr Choo had further signed an agreement to make available till 1 May 2019 to repay on behalf of the Group should it be unable to repay in full or in part a loan of S\$3,421,000 (equivalent to HK\$20 million) extended by a third party which is due for repayment on 27 June 2018.

Concurrently, the Company will continue to look for other fund raising exercises to fund the working capital and growth of the Group going forward and the Company will also seek for growth opportunities and all other possibilities to complement the existing businesses of the Group.

Impairment of goodwill

During the current financial year, management has reviewed the Aesthetics business and had fully impaired the remaining goodwill arising from the acquisition of China iMyth Company Pte. Ltd. on the basis that the Aesthetics business had been recording losses and management has decided not to proceed with their expansion plans in the PRC for this business.

Recoverability of advances and/or loans

Management had assessed the advances and/or loans made for the Aesthetics business and had fully impaired or written off such amounts as management formed the opinion that these loans are no longer recoverable.

Valuation of warrants and share options

Based on management's assessment, the financial impact arising from the adjustments of the 2017 Rights cum Warrants is minimal. As such, the Company did not make any adjustments for the above matters to the financial statements for the financial year ended 31 December 2017.

Cash and bank balances of the CMIG Medical Services

The cash and bank balances of CMIG Medical Services are supported by bank statements. However, the Auditors were not able to obtain bank confirmations timely for the purposes of their audit.

Financial records of iMyth Taiwan Limited and China iMyth Shanghai Co., Ltd

Management is of the opinion that based on its review, the accounting and financial records of iMyth Taiwan Limited and China iMyth Shanghai have been reasonably maintained despite the challenging business conditions and high staff turnover. China iMyth Shanghai Co., Ltd is under voluntary liquidation.

The Board (i) is of the opinion that sufficient information has been disclosed for trading of the Company's securities to continue in an orderly manner; and (ii) confirmed that all material disclosures have been provided for trading of the Company's shares to continue.

A copy of the aforesaid Auditors' Report is annexed to this announcement for further information. The Auditors' Report and a complete set of the Audited Financial Statements will also be found in the Company's Annual Report 2017 ("**FY2017 Annual Report**"), which will be released on SGXNET and despatched to shareholders in due course. Shareholders of the Company are advised to read this announcement in conjunction with the FY2017 Annual Report.

BY ORDER OF THE BOARD
3 April 2018

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**") for compliance with the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist. The Sponsor has not verified the contents of this announcement.*

This announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this announcement, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Lance Tan, Director, Continuing Sponsorship (Mailing Address: 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318 and E-mail: sponsorship@ppcf.com.sg).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA MEDICAL (INTERNATIONAL) GROUP LIMITED

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the accompanying financial statements of China Medical (International) Group Limited (the "Company") and its subsidiary corporations (the "Group"), which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 16 to 89.

We do not express an opinion on the accompanying financial statements of the Group and the balance sheet of the Company. Because of the significance of the matters described in the Bases for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Bases for Disclaimer of Opinion

Going Concern

The following circumstances give rise to material uncertainties as to the appropriateness of the use of the going concern assumption in the preparation of the accompanying financial statements of the Group and the balance sheet of the Company for the current financial year:

- a) As disclosed in Note 4 to the financial statements, the Group and the Company incurred a net loss of S\$12,130,000 (2016: S\$19,436,000) and S\$11,729,000 (2016: S\$15,652,000) respectively and the Group also incurred net operating cash outflows of S\$3,071,000 (2016: S\$12,266,000) for the financial year ended 31 December 2017. As at 31 December 2017, the Group's current liabilities exceeded its current assets by S\$128,000 (2016: S\$919,000).
- b) As at 31 December 2017, the Group had a borrowing owing to a non-related party amounting to S\$3,421,000 (2016: S\$3,730,000) of which the maturity date of repayment due on 28 March 2017 has been extended to 27 June 2017, 27 December 2017 and subsequently to 27 June 2018. As at 31 December 2017, the Group's cash and cash equivalents (excluding bank deposits pledged) were S\$3,344,000 (2016: S\$1,525,000).

The above conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's and the Company's abilities to continue as going concerns. Nevertheless, the Board of Directors of the Company believes that the use of the going concern assumption in the preparation of the financial statements for the financial year ended 31 December 2017 is appropriate after taking into consideration the following assumptions and measures:

- i) As at the balance sheet date, the Group was in negative working capital of S\$128,000 and negative shareholders' fund of S\$3,230,000 and as at that date, the Company has negative shareholders' fund of S\$1,082,000.

The shareholder, Dato Dr Choo Yeow Ming ("Dato Dr Choo"), has provided a letter of financial support expressing his willingness to provide continuing financial support to the Group and the Company upon terms and conditions agreeable to both parties to enable the Group to continue to operate and meet its financial obligations and commitments as and when they fall due in the next 12 months.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA MEDICAL (INTERNATIONAL) GROUP LIMITED (cont'd)**

Bases for Disclaimer of Opinion (cont'd)

Going Concern (cont'd)

The above conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's and the Company's abilities to continue as going concerns. Nevertheless, the Board of Directors of the Company believes that the use of the going concern assumption in the preparation of the financial statements for the financial year ended 31 December 2017 is appropriate after taking into consideration the following assumptions and measures: (cont'd)

- ii) The Group has obtained a written undertaking from Dato Dr Choo not to demand repayment of payables of S\$3,500,000 (being the balance of consideration owing by the Company for the acquisition of 51% of China iMyth Company Pte Ltd from China Medical Investments Co Pte. Ltd. (the Vendor"), Dato Dr Choo is a director and has 55% equity interests in the Vendor) until the date when the Group has the financial ability to make the repayment or the contractual maturity date on 6 November 2019.
- iii) There is a loan of S\$3,421,000 (equivalent to HK\$20 million) extended by a third party to a subsidiary corporation of the Group which is due for repayment on 27 June 2018. Dato Dr Choo had signed an agreement to make available till 1 May 2019 an advance of up to the amount pursuant to this third party loan to repay on behalf of the subsidiary corporation of the Group should it be unable to repay in full or in part.
- iv) Concurrently, the Company will continue to look for other fund raising exercises to fund the working capital and growth of the Group going forward and the Company will also seek for growth opportunities and all other possibilities to complement the existing businesses of the Group.

If the Group and the Company are unable to continue in operational existence in 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 to 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 of the Company to continue in operational existence in the foreseeable future and to meet their financial obligations as and when they fall due are dependent upon the outcome of the assumptions and measures undertaken as disclosed above. At the date of this report, we are unable to obtain sufficient audit evidence regarding the likely outcome of these assumptions and measures including the financial capability of Dato Dr Choo. It is also uncertain whether the Group and the Company will receive additional financing from its directors and/or other shareholders.

The conditions above indicate the existence of material uncertainties which may cast significant doubt on the Group's and the Company's abilities to continue as going concerns and therefore, the Group and the Company may not be able to discharge their liabilities in the normal course of business. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA MEDICAL (INTERNATIONAL) GROUP LIMITED (cont'd)

Bases for Disclaimer of Opinion (cont'd)

Impairment of goodwill

As at 31 December 2017, goodwill was carried at S\$Nil (net of accumulated impairment loss on goodwill of S\$17,997,000) (2016: S\$7,192,000 (net of accumulated impairment loss on goodwill of S\$10,805,000)). The goodwill arose from the acquisition of 51% paid up capital of China iMyth Company Pte. Ltd., which was completed on 6 November 2015 and is allocated to the Group's Aesthetic cash-generating unit ("CGU") in the Republic of China, Taiwan and the People's Republic of China. Refer to Note 17(a) to the financial statements.

During the current financial year, management has reviewed the recoverable amount of the Aesthetics CGU and has provided an additional allowance for impairment for its goodwill of S\$7,192,000 (2016: S\$10,805,000) in view that its Taiwan clinic had recorded a loss of S\$307,000 (2016: S\$826,000). Furthermore, management has decided not to proceed with their expansion plans by setting up clinics in Shenzhen as the progress of setting up the respective Wholly Foreign-Owned Enterprise ("WFOE") and the achievability of revenue and operational targets is either slower than expected or cannot be materialised as per their agreed plans. These factors had resulted in a zero recoverable amount for its goodwill.

As at the date of this report, we are unable to determine whether the impairment loss provided on the goodwill is appropriate as we are unable to obtain sufficient appropriate audit evidence with respect to the cash flow projections used in the value-in-use calculations based on financial budgets approved by management. Accordingly, we are unable to satisfy ourselves whether, if any, the underlying key estimates and assumptions used in the cash flow projections to determine the recoverable amount, including the operational performance, operational targets, prevailing and future market conditions or business outlook, regulatory guidelines and framework governing the medical industry, especially on aesthetic practices and foreign medical practitioners would reasonably reflect future events and the set of macroeconomics conditions that will exist and the resultant impairment loss that has been recognised during the financial year.

Recoverability of advances and/or loans

During the financial year ended 31 December 2017, the Group had made advances amounting to \$548,000 (2016: \$5,575,000) to a few business partners for the setting up of clinics through joint venture arrangement and/or WFOE.

As at 31 December 2017, the advances and/or loans before any impairment allowance extended to business partners amounting to S\$6,078,000 (2016: S\$5,575,000). An impairment loss and a write-off on advances and/or loans of S\$1,589,000 (2016: S\$2,323,000) and S\$Nil (2016: S\$2,166,000) respectively were recognised during the financial year ended 31 December 2017.

Management assessed, at the end of the financial year, whether there is any evidence that the advances and/or loans to business partners for the purpose of setting up new aesthetics businesses or acquisition of an equity interest in an existing business are impaired.

As at the date of this report, we are unable to obtain sufficient appropriate audit evidence concerning the existence and accuracy of the advances and/or loans provided to business partners which amounting to S\$6,078,000 (2016: S\$5,575,000). We are unable to perform any other alternative audit procedures to satisfy ourselves with respect to the carrying amount of S\$Nil (2016: \$1,086,000) and the resultant impairment loss, if any, on the advances and/or loans at the balance sheet date. As a result of the above, we are unable to determine the adjustments, if any, to be made to these financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA MEDICAL (INTERNATIONAL) GROUP LIMITED (cont'd)**

Bases for Disclaimer of Opinion (cont'd)

Valuation of warrants and share options

As disclosed in Note 21 to the financial statements, on 11 October 2017, the Company made an announcement in relation to the proposed renounceable and non-underwritten rights issue of up to 10,107,788,721 new ordinary shares of the Company (the "Rights Shares") with up to 10,107,788,721 free detachable warrants (the "Warrants"), on the basis of three Rights Shares for every one existing ordinary share (the "Shares") of the Company held by entitled shareholders, and one Warrant for every one Rights Shares subscribed, fractional entitlements to be disregarded (the "2017 Rights cum Warrants Issue"). Following the 2017 Rights cum Warrants Issue, there are adjustments to the number of warrants and exercise prices of outstanding share options granted in May 2008, June 2008 and October 2014 respectively. Based on the recommendation of the Committee, comprising of the Directors of the Company, Yap Siew Sin, Chew Soo Lin and Hano Maeloa, the adjustments are as follow:-

- Additional warrants of 80,309,351 are issued and the number of warrants has increased from 66,179,592 to 146,488,943. The exercise price of the Warrants remains at S\$0.005.
- Additional share options of 158,393,000 are issued and the number of share options has increased from 103,950,000 to 262,343,000. The exercise price of the share options also has been adjusted from S\$0.0130 or S\$0.0150 to S\$0.01.

In relation to the 2017 Rights cum Warrants Issue, the fair value of the Rights Shares is required to be allocated separately between the value of the share capital and the value of the warrants. Whilst the additional share options granted to selected Directors and/ or Employees are to be recognised at fair value in accordance with FRS 102 – Share-based Payment.

Based on management's assessment, the financial impact arising from the adjustments of the 2017 Rights cum Warrants is minimal. The management did not make any adjustments for the above matters to the financial statements for the financial year ended 31 December 2017.

As at the date of this report, the fair value of the Rights Shares arising from the 2017 Rights cum Warrants Issue is not allocated separately between the value of the share capital and the value of the warrants. In addition, we are unable to obtain sufficient appropriate audit evidence to ascertain whether the management's assessment on the fair value of the additional share options granted to selected Directors and/ or Employees is in accordance with FRS 102 – Share-based payment.

As a result of the above, we are unable to determine the adjustments, if any, to be made to these financial statements for the financial year ended 31 December 2017.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA MEDICAL (INTERNATIONAL) GROUP LIMITED (cont'd)**

Bases for Disclaimer of Opinion (cont'd)

Existence and completeness of cash and bank balances

We are not able to obtain bank confirmation for one of the subsidiary corporation, CMIG Medical Services (Hong Kong) Limited. ("CMIG Medical Services") for cash at bank amounting to S\$31,000 as at 31 December 2017, which is included in cash and cash equivalents of Note 12 to the financial statements.

As at the date of this report, we are unable to ascertain the existence and completeness of this bank balance of CMIG Medical Services and whether there are any other facilities or similar with the financial institution which could have an impact on the financial statements, or related information that require disclosure.

Consolidation of financial statement – iMyth Taiwan Limited

As disclosed in Note 15 to the financial statements, the Group had a 51% equity interest iMyth Taiwan Limited ("iMyth Taiwan") as at 31 December 2017.

We were unable to obtain sufficient audit evidence on all information and explanations which we considered necessary in order to provide us with reasonable assurance on the completeness, existence and accuracy of the financial statements of iMyth Taiwan, included in the financial statements of the Group, nor are they appropriately and properly consolidated. There were no other practicable audit procedures that we could perform to satisfy ourselves on the completeness, existence and accuracy of the financial statements of iMyth Taiwan and whether they have been properly reflected in the consolidated financial statements of the Group.

Deconsolidation of subsidiary corporation, China iMyth Shanghai Co., Ltd.

As disclosed in Note 12 to the financial statements, as at 2 June 2017, the Group lost control over its subsidiary corporation, China iMyth (Shanghai) Co., Ltd. ("China iMyth"), as a liquidator was appointed to voluntarily liquidate China iMyth.

The Group has consolidated the financial results of China iMyth up to the date that the respective control ceased. Consequently, management has derecognised the assets and liabilities associated with China iMyth and recognised a total loss on deconsolidation amounting to S\$245,000 for the financial year ended 31 December 2017.

In carrying out our audit of China iMyth, we were unable to obtain sufficient appropriate audit evidence to determine the:-

- (a) Carrying values of the assets and liabilities associated with China iMyth,
- (b) Veracity of the respective components in the financial results of China iMyth; and
- (c) Resultant loss on deconsolidation of China iMyth

for the current financial year ended 31 December 2017 because the accounting and other records supporting the transactions during the financial year, and the resultant balances, were not available.

We were unable to perform other alternative audit procedures to satisfy ourselves with respect to these said transactions and balances. As a result of the above, we were unable to determine the adjustments, if any, to be made to these financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA MEDICAL (INTERNATIONAL) GROUP LIMITED (cont'd)

Bases for Disclaimer of Opinion (cont'd)

Opening balances

Our independent auditor's report on the consolidated financial statements of the Group and the balance sheet of the Company for the financial year ended 31 December 2016 dated 7 April 2017 included a disclaimer of opinion on the appropriateness of going concern assumptions of the Group and of the Company as there were existence of material uncertainties which may cast significant doubt about the ability of the Group and of the Company to continue as going concerns, and the inability to obtain sufficient appropriate audit evidence on the impairment of goodwill and the appropriateness and impairment of the carrying amount of the advances and/or loans.

As the matters mentioned above have not been resolved in the financial year ended 31 December 2017, we have considered the impact as below.

In view of the significance of the matters described in the bases for disclaimer of opinion paragraphs on the financial statements for the financial year ended 31 December 2016, we were unable to determine:-

- (a) Whether the opening balances of the Group and of the Company as at 1 January 2017 were fairly presented; and
- (b) The impact on the current financial year's financial position of the Company and of the Group and the financial performance, changes in equity and cash flows of the Group.

Our opinion on the current financial year's consolidated financial statements of the Group and the balance sheet of the Company is a disclaimer of opinion because of the significance of these matters on the comparability of the current financial year's figures and the corresponding figures.

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 Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs"), 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
CHINA MEDICAL (INTERNATIONAL) GROUP LIMITED (cont'd)**

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Group's financial statements in accordance with Singapore Standards of Auditing and to issue an auditor's report. However, because of the matters described in the *Bases for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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.

Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred to the *Bases for Disclaimer of Opinion* section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement director on the audit resulting in this independent auditor's report is Loh Hui Nee.

**Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants**

Singapore

3 April 2018