

INDEPENDENT AUDITOR'S REPORT

To the Members of JES International Holdings Limited

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of JES International Holdings Limited (the "Company") as set out on pages 48 to 89, which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the Basis 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.

Basis for Disclaimer of Opinion

1. Non-preparation of consolidated financial statements

The Company is a holding company with a number of subsidiaries, joint ventures and an associate. The Company's Hong Kong and Singapore subsidiaries are dormant companies and the Company's investment in an associate and a joint venture are immaterial.

As disclosed in Note 2.1, the Company has not prepared and presented the consolidated financial statements required by FRS 110 - *Consolidated Financial Statements*, and has not equity accounted for its joint ventures and associate as required by FRS 28 - *Investment in Associates and Joint Ventures*.

As further disclosed in Note 2.2, the Company's subsidiaries in the People's Republic of China ("PRC Subsidiaries") are undergoing restructuring whereby managers appointed by the court in the PRC ("Court") have proceeded to conduct the restructuring exercise after approval was granted by the Court on 25 October 2016.

Due to the limited information that we were able to obtain regarding the restructuring exercise, we were unable to obtain sufficient appropriate audit evidence to assess if the Company still has control over the PRC Subsidiaries and whether these PRC subsidiaries should be consolidated by the Company.

Basis for Disclaimer of Opinion (Continued)

2. Going Concern

As disclosed in Note 2.2, as at 31 December 2016, the Company's current liabilities exceeded its current assets by RMB74,810,000 and had a deficit in shareholders' funds of RMB74,703,000, and had amount due to subsidiaries and borrowing amounting to RMB30,156,000 and RMB26,278,000 respectively. In addition, the Company had net cash outflows from operating activities of RMB1,893,000 for the financial year ended 31 December 2016.

As at end of the financial year, the Company had a number of outstanding legal cases relating to the PRC Subsidiaries arising from claims from suppliers and creditors.

As at the date of the financial statements, the PRC Subsidiaries are also in the process of an exercise to restructure their debts and liabilities by managers appointed by the Court.

These events or conditions, along with other matters as set forth in Note 2.2, indicate the existence of multiple material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

As disclosed in Note 2.2, the financial statements of the Company have been prepared on a going concern basis. Due to the existence of multiple material uncertainties, we are not able to form an opinion as to whether the going concern basis of accounting used in the preparation of the accompanying financial statements of the Company is appropriate.

3. Impairment assessment on investment in subsidiaries and amounts due from subsidiaries, and offsetting of balances from subsidiaries

As disclosed in Notes 5, 8 and 12, the carrying amount of the cost of investment in subsidiaries, amount due from a subsidiary and amounts due to subsidiaries are RMB Nil, RMB3,487,000 and RMB30,156,000 respectively. In the prior financial year ended 31 December 2015, the Company recognised impairment losses on cost of investments in subsidiaries and receivable from a subsidiary amounting to RMB1,280,050,000 and RMB148,412,000 respectively due to the cessation of operations of the shipbuilding businesses.

For the year ended 31 December 2016, on the basis that the Court has treated the PRC Subsidiaries as single merged entity for the purpose of the restructuring exercise, the Company (a) reversed RMB117,016,000 of impairment loss on receivable from a PRC subsidiary that was made in the prior year, (b) wrote off payables to PRC subsidiaries amounting to RMB33,027,000, and (c) offset the receivables from the PRC Subsidiaries with the payables to the PRC Subsidiaries amounting to RMB119,600,000.

In view of the uncertainty surrounding the restructuring exercise of the PRC Subsidiaries and the absence of further supporting evidence available for the above impairment assessment and offsetting arrangement, we were not able to obtain sufficient appropriate audit evidence to ascertain the appropriateness of the impairments made and reversal thereof, and whether the offsetting of receivables and payables balances of the PRC Subsidiaries is in accordance with FRS 32 - *Financial Instruments: Presentation*.

Basis for Disclaimer of Opinion (Continued)

4. Prepayment for an investment in unquoted equity

As disclosed in Note 7, the Company has a prepayment for an investment in unquoted equity of RMB53,704,000. No impairment loss was recognised in the prior financial year as management was confident in recovering the entire amount. In the financial year, management carried out an impairment review and recognised an impairment loss on the prepayment amounting to RMB36,105,000 based on the expected amount to be recovered.

We were unable to obtain sufficient appropriate audit evidence to determine whether the provision made in the current financial year is appropriate and whether the recoverable amount of RMB17,599,000 is recoverable as management was unable to provide sufficient information to support its basis for the recoverable amount. There were also no practicable alternative audit procedures that we could carry out. Consequently, we were unable to determine whether adjustments were necessary to the carrying amount of the prepayment for the financial years ended 31 December 2016 and 2015.

5. Related party transactions and balances

FRS 24 - *Related Party Disclosures* requires the disclosure of significant related party relationships, transactions and outstanding balances in the financial statements. We have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the completeness, existence and accuracy of related parties, transactions with related parties as disclosed in Note 25 and their outstanding balances as at the end of reporting period as disclosed in Note 8, Note 11 and Note 12 due to missing accounting and financial records of the Company's subsidiaries in the prior financial year. In the current financial year, whilst some of the missing records have since been recovered, we do not have access to those records nor the subsequent accounting and financial records as they are currently in the possession of local courts and/or the local police in the PRC, as further described in Note 2.1.

Consequently, we were unable to determine if there are any further adjustments or disclosures required to be effected for the financial statements of the Company for the financial years ended 31 December 2016 and 31 December 2015.

6. Comparative figures

As explained in Note 29 to the financial statements, we had issued a disclaimer opinion on the financial statements for the financial year ended 31 December 2015. Our opinion on the current year's financial statements is also modified because of the possible effects of the matters described in Note 29 on the comparability of the current period's figures and the comparative 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 Act and 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 director's responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of on these Company's financial statements in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis 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 Company 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 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 in the Basis 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 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 Ng Kian Hui.

BDO LLP
Public Accountants and
Chartered Accountants
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11 April 2017