# INDEPENDENT AUDITOR'S REPORT

*To the Members of China Jishan Holdings Limited*

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of China Jishan Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position 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 year then ended, and notes to the financial statements, including a summary of significant accounting policies as set on pages 38 to 89.

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial positions of the Group and the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group 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.

### Material Uncertainty Related to Going Concern

We draw attention to Note 2(b) to the financial statements, which indicates that as of the financial year ended 31 December 2017, the Group has net current liabilities of RMB 480,134,000 excluding assets classified as held for sale which are subject to the approval by the shareholders of the Company as disclosed in Note 16 to the financial statements (2016: net current liabilities of RMB 534,838,000 excluding assets classified as held for sale, which are subject to the approval by the shareholders of the Company). Further, the Group has bank borrowings of RMB 342,890,000 (2016: RMB 379,000,000) that are due within the next twelve months from 31 December 2017. As stated in Note 2(b) to the financial statements, these conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. 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 period. 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 matters described below to be the key audit matters to be communicated in our report.

| Key Audit Matters | How our audit addressed the key audit matters |
|---|---|
| **Classification and valuation of assets classified as held for sale and legal claim**<br><br>We refer to Notes 2(j), 16 and 36 to the consolidated financial statements.<br><br>The Group had development properties of RMB 497,680,000 (2016: RMB 497,680,000) classified as assets classified as held for sale as at 31 December 2016. The assets classified as held for sale remained unsold as at 31 December 2017.<br><br>FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* provides for the extension of the period required to complete the sale beyond one year provided the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset. In addition, an entity shall measure a non-current asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell.<br><br>Significant management judgement and estimates are involved on the classification and measurement of assets held for sale beyond the one year period. | **Our response:**<br><br>We reviewed the appropriateness of the classification of development properties as assets classified as held for sale beyond the one year period allowed by FRS 105 Non-current Assets Held for Sale and Discontinued Operations by checking management's commitments in its plan to sell the asset against the actual actions taken by management and evaluating the cause of delay.<br><br>We reviewed the valuation of the assets classified as held for sale to the external valuation used by management. We evaluated the competency and objectivity of the external valuer by reviewing their professional credentials and corroborating the valuation inputs used to comparable market data. We engaged our own external valuation expert to assess and challenge the valuations and assumptions used by the external valuer as at 31 May 2017. We challenged the valuation assumptions relied upon by management for the fair value as at 31 December 2017 by comparing them against available industry data, taking into consideration the location, comparability and market factors.<br><br>Our audit procedures in responding to the legal claim included reviewing the contracts and agreements and identifying the specific nature surrounding the legal claim. We reviewed the legal correspondences with third parties and the Purchaser and obtained confirmations from the Group's legal advisors.<br><br>We also discussed with the Audit Committee and the Board of Directors on their assumptions and estimates of the likely financial outcome made on the legal claim. We reviewed the adequacy of the disclosures made in the financial statements. |

**Key Audit Matters (cont'd)**

| Key Audit Matters | How our audit addressed the key audit matters |
|---|---|
| The fair value of the assets classified as held for sale was assessed by management based on a valuation prepared by a professional valuer who has valued it at RMB 1,597,000,000 as at 31 May 2017. The valuation was arrived at based on the Direct Comparison Method. Management has relied on these valuations and has made a judgement that the fair value will not deteriorate significantly as at 31 December 2017.<br><br>During the financial year, the Group had terminated the contract to sell the development properties to a third party purchaser ("Purchaser") owing to the latter's refusal to agree to a revised purchase consideration which is based on an updated independent valuation. In this regard, the Group has received a legal claim from the Purchaser alleging certain breaches to the contract. The threat of legal claim by the Purchaser required significant judgment by management to establish the level of provisioning and increases the risk that provisions and contingent liabilities may not be appropriately provided or adequately disclosed. | **Our findings:**<br><br>We found management's judgement on the classification of the assets classified as held for sale to be appropriate. We also found its measurement to be reasonable.<br><br>We found the disclosures on the Group's exposure to the legal claim to be appropriate. |

**Key Audit Matters (cont'd)**

| Key Audit Matters | How our audit addressed the key audit matters |
|---|---|
| **Recognition of compensation received from government**<br><br>We refer to Note 25 to the consolidated financial statements.<br><br>Compensation received from government relating to the change of the Group's land use rights in 2010 required the Group to vacate and demolish its buildings on those lands before the end of 2017. Since the prior year, the Group has commenced its relocation from the existing premises.<br><br>During the current financial year, the relocation has been completed and the buildings on those lands have been fully demolished.<br><br>Management has assessed that the Group has met the recognition criteria for the compensation received from government, based on the terms and conditions of the compensation agreement, and to a corresponding extent, recognised the compensation amounting to RMB 54,032,000 (2016: RMB 26,661,000) in profit and loss. Due to the significance of the amount involved, we considered the recognition of compensation received from government to be a key focus for our audit. | **Our response:**<br><br>We assessed management's process over the determination of the recognition criteria for the various compensation received from the government.<br><br>We reviewed the terms and conditions of the compensation agreement and evaluated the appropriateness of recognising those compensation in profit or loss during the current financial year with reference to the progress of the relocation and in accordance with the terms and conditions of the compensation agreement.<br><br>We have visited the site and observed that all buildings on those lands have been demolished and the relocation has been completed during the current financial year.<br><br>**Our findings:**<br><br>We found that the Group has met the recognition criteria for compensation received from the government. |

**Other Information**

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 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.

**Responsibilities of Management and Directors for the Financial Statements (cont'd)**

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.

**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 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:

- 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.

- 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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.

- 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.

- 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.

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.

**Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)**

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 period 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 and by the subsidiary company incorporated in Singapore of which we are the auditors 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 Chang Fook Kay.

**Moore Stephens LLP**
Public Accountants and
Chartered Accountants

Singapore
29 March 2018