

A. DISCLAIMER OF OPINION BY INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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Capitalised terms used herein, unless otherwise defined, shall have the definitions ascribed to them in the offer document dated 25 September 2013, and registered by the Singapore Exchange Securities Trading Limited acting as agent on behalf of the Monetary Authority of Singapore on 25 September 2013 and the Company's announcements dated 24 November 2017, 30 November 2017, 4 December 2017, 9 February 2018, 10 April 2018, 22 June 2018, 29 August 2018, 31 August 2018, 15 November 2018, 20 December 2018 and 1 March 2019.

A. DISCLAIMER OF OPINION BY INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Pursuant to Rule 704(4) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalist, the board of directors (the "Board") of AsiaPhos Limited (the "Company", and together with its subsidiaries, the "Group") wishes to announce that the Company's independent auditor, Messrs Ernst & Young LLP (the "Independent Auditor"), has issued a disclaimer opinion in relation to the following in its independent auditor's report dated 3 April 2019 ("Independent Auditor's Report") for the financial statements of the Group ("Financial Statements") for the financial year ended 31 December 2018 ("FY2018"). The basis for the disclaimer of opinion is set out below:

i. Assets and liability of disposal group and discontinued operation

In the previous financial year, the assets and directly associated liability of Mine 1, Mine 2 and Fengtai Mine, (collectively, the "Mining Assets") were reclassified as assets and liability of disposal group in the Group's consolidated balance sheet and its results were reclassified as discontinued operation in the Group's consolidated statement of comprehensive income for the year ended 31 December 2017.

As the Chinese Government has yet to finalise the compensation and negotiation is still ongoing, the Independent Auditor was unable to obtain sufficient appropriate audit evidence to determine the appropriateness of the classification of the Mining Assets as assets and liability of disposal group and its results as discontinued operation. They were also unable to assess the appropriateness of the discontinued operation in the statement of comprehensive income and the carrying values of the assets and liability of disposal group in the balance sheet as at 31 December 2018.

ii. Impairment of investment in subsidiaries and amounts due from subsidiaries

There exist significant uncertainties with respect to the outcome of the settlement negotiations with the Chinese Government. The recoverable amounts of the investment in subsidiaries and amounts due from subsidiaries are dependent on the outcome of the settlement negotiations. Consequently, based on available information, they were also unable to obtain sufficient appropriate audit evidence to determine the appropriateness of the carrying values of the cost of investment in subsidiaries amounting to S\$78,036,000 and amounts due from subsidiaries of S\$5,667,000 in the Company's balance sheet as at 31 December 2018.



iii. Recoverable amount of property, plant and equipment

The Group assessed the recoverable value of the elemental phosphorus (“P4”) plant as at 31 December 2018 based on valuation reports prepared by an independent Chinese professional valuer engaged by one of the Group’s bankers to determine the value of certain parts of the P4 plant. Based on the value determined by the Chinese professional valuer, an impairment charge of S\$5,217,000 was recorded for FY2018 to comply with the requirements of SFRS(I)1-36 Impairment of Assets. However, they were unable to obtain sufficient appropriate evidence to satisfy themselves on the reasonableness of the key assumptions and inputs used in the determination of the recoverable amounts of the P4 plant. Consequently, they were unable to assess the appropriateness of the carrying value of the P4 plant and the impairment charge recorded during the year.

iv. Going concern

Excluding the assets and liability of the disposal group, the Group’s current liabilities exceeded its current assets by S\$5,528,000 as at 31 December 2018 and incurred a net loss after tax of S\$14,715,000 for FY2018. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group to continue as a going concern. Based on the available information, they have not been able to obtain sufficient audit evidence to satisfy themselves as to the appropriateness of the use of the going concern assumption in the preparation of the financial statements.

The Independent Auditor did not express an opinion on whether the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore have been properly kept in accordance with the provisions of the Act (the “**Relevant Opinion**”).

A copy of the Independent Auditor’s Report is annexed to this announcement for shareholders’ reference.

The Independent Auditor’s Report and a complete set of the Financial Statements will also be found in the Company’s annual report for FY2018, which will be despatched to shareholders in due course.

B. BOARD’S VIEW OF MATTERS BROUGHT UP BY INDEPENDENT AUDITOR

The Independent Auditors did not express the Relevant Opinion because of the significance of the matters referred to in their Basis for Disclaimer of Opinion section of their report. However, the Board is of the view that the accounting and other records required to be kept under section 199(1) of the Singapore Companies Act relate only to Singapore-incorporated companies and not foreign companies.

In light of this, the Board is of the view that the accounting and other records of the Company and its Singapore-incorporated subsidiaries, as required to be kept under section 199(1) of the Singapore Companies Act, have been kept in accordance with the Singapore Companies Act.

The Board further wishes to set out the following:



i. Assets and liability of disposal group and discontinued operation

Since November 2017, the Group has been in discussion with the Chinese Government in relation to Mine 1, Mine 2 and Fengtai Mine (collectively, the “Mining Assets”). Based on legal advice received, while the Group’s ownership of the Mining Assets was still valid as at 31 December 2017, the Mianzhu City Government’s request to provide a letter of undertaking to vacate and rehabilitate its mining sites in respect of Mine 2 and Fengtai Mine and the non-renewal of mining and exploration licenses of Mine 1 is tantamount to an indirect expropriation of these Mining Assets.

SFRS(I) 5 *Non-current assets held for sale and discontinued operations* requires non-current assets to be classified as held for sale if the carrying amount will be recovered principally through a sale transaction or otherwise rather than continuing use. The carrying value of the Mining Assets is expected to be recovered principally through compensation receivable from the Chinese Government for the expropriation of the Mining Assets.

SFRS(I) 5 also recognises that events and circumstances may extend the period required to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude the disposal group from being classified as held for sale if the delay is caused by events or circumstances beyond the Group’s control and there is sufficient evidence that the Group remains committed to its plan to sell the disposal group.

As at 31 December 2018, because of unexpected changes, the disposal of Mining Assets has not been completed. As announced on 15 November 2018, the negotiations on disposal of the Mining Assets had been escalated from the Sichuan Provincial Government to Ministry of Commerce of the Chinese Government (“MOFCOM”).

As announced on 1 March 2019, the Group has cooperated fully with the Chinese government in provision of the required information and is currently still engaged in negotiations with MOFCOM and the Sichuan Provincial Government on, *inter alia*, the selection of an independent valuer to value its claims and the terms of reference of such engagement.

Accordingly, because of the continuing discussions with the Chinese Government, the directors are of the view that the one-year rule exception under SFRS(I) 5 is applicable and the Group continues to present all mining related property, plant and equipment, mine properties, goodwill and deposits for rehabilitation and mining levy, and the provision for rehabilitation as “assets of disposal group” and “liability of disposal group” respectively on the Group’s consolidated balance sheet as at 31 December 2018.

Immediately before the classification to assets of disposal group on 30 November 2017, the recoverable amount of the mining assets was estimated. Based on independent valuation of the mining assets, the fair value of the relevant assets is greater than their carrying value. No impairment loss was identified for FY2018 and FY2017.

No adjustments have been made to the classification and carrying value of these assets so as not to prejudice the Group’s position in the ongoing discussion with the Chinese Government. Adjustments will be made and recognised in the consolidated income statement when the amount of compensation can be ascertained.



ii. Recoverable amount of property, plant and equipment

The Group has recognised that the P4 plant may be impaired as production could not resume after it was shut down for maintenance because of the wrongful acts of the Chinese Government. It has recognised impairment charge of S\$5,217,000 in its Consolidated Statement of Comprehensive Income. As there is a lack of observable comparable data, the recoverable amount has been estimated based on independent professional valuer engaged by the bank. The recoverable amount of the P4 plant will depend on successful conclusion of negotiation to either form a joint venture to relocate outside China or a sale or leasing or processing arrangement with other phosphate chemical groups in China. The Group will continue to explore opportunities and monitor market development and assess the appropriateness of the carrying value of P4 Plant.

iii. Going concern

The Board is of the opinion that the Company and the Group are able continue as a going concern. The basis of the Board's opinion is as follows:

- (a) The Group is able to generate cash flows from its downstream chemical segments through trading of chemical products like Sodium Tripolyphosphate ("STPP"), Sodium Hexametaphosphate ("SHMP") as well as other polyphosphate chemicals and achieve reduction in cash outlays and overheads due to downsized operations and lower headcount;
- (b) The Group has entered into a settlement agreement with a particular customer which is a subsidiary of a State-Owned Enterprise and also partly owned by the Deyang Government for outstanding receivables of \$1,119,000 (RMB 5,600,000). The Group has not received the expected installments which were due on 31 January 2019, 28 February 2019 and 31 March 2019 as the said customer has not resumed its operations. Nevertheless, the Group expects the customer to settle the outstanding;
- (c) The Group is exploring sale of land that is surplus to the Group's current operating requirements; and
- (d) Discussions will be carried out by the Group with financial institutions to rollover its existing loans as and when they fall due. As the Group has in the past not defaulted on any of the loans extended to it, barring unforeseen circumstances, the Directors expect that the Group will be able to requisite financing for the Group's operations.

The Board confirmed that all material disclosures, facts and information (including but not limited to disclosures pertaining to material operations and business of the Group, the going-concern assumption) have been provided and announced for trading of the Company's shares to continue and are not aware of any facts the omission of which would make any statement misleading.

The Directors undertake to provide such further updates and any other material information for shares to be traded in an orderly manner.



C. COLLATERAL IN RELATION TO BANK LOANS

In the results announcement for fourth quarter and financial year ended 31 December 2018 dated 1 March 2019 (the “Results Announcement”), the Group reported that the Group pledged land use rights and certain plant and equipment with net book value of RMB20.8 million (approximately \$4.2 million) and RMB52.6 million (approximately \$10.5 million) as collaterals for its bank loans.

Upon clarification with one of the banks, as at 31 December 2018, the details of the Group’s pledged assets for its bank loans include

- i. land use rights with net book value of RMB20.8 million (approximately S\$4.2 million);
- ii. plant and equipment with net book value of RMB52.6 million (approximately S\$10.5 million);
- iii. certain buildings with net book value of RMB30.1 million (approximately S\$6.0 million); and
- iv. bank balance of RMB1.5 million (approximately S\$0.3 million). Included in the bank agreement, it was stipulated that the Group is required to deposit an amount of RMB1.5 million, equivalent to 1 year’s interest expense, to a specific bank account. The balance in this bank account will solely be used to pay interest on the bank loan.

The cash flow statement of the Group is re-presented as follows:

	Results Announcement	Financial Statements
	FY2018	FY2018
	\$'000	\$'000
Cash flows from operating activities :		
Net cash flows generated from operating activities	307	307
Cash flows from investing activities :		
Net cash flows generated by investing activities	471	471
Cash flows from financing activities :		
Repayment of bank loan	(6,929)	(6,929)
Proceeds from bank loan	6,432	6,432
Decrease in pledged deposits	1,021	713
Net cash flows generated from financing activities	524	216
Net increase in cash and cash equivalents	1,302	994
Cash and cash equivalents at beginning of period	1,182	1,182
Effects of exchange rate changes on cash and cash equivalent	(29)	(23)
Cash and cash equivalents at end of period	2,455	2,153



For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise

	Results Announcement	Financial Statements
	31.12.2018	31.12.2018
	\$'000	\$'000
Cash and bank balances	2,455	2,455
Less: pledged deposits	-	(302)
Cash and cash equivalents at end of period	2,455	2,153

Save as disclosed above, there are no changes to the Group's consolidated statement of comprehensive income, balance sheet, consolidated statement of cash flows and statement of changes in equity for FY2017 and FY2018 as set out in the Results Announcement.

Shareholders are advised to read this Announcement together with The Independent Auditor's Report and a complete set of the Financial Statements within the Company's annual report for FY2018, which will be despatched to shareholders in due course.

BY ORDER OF THE BOARD

Simon Ong Eng Hock
 Executive Director
 AsiaPhos Limited
 3 April 2019

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor ("Sponsor"), Asian Corporate Advisors Pte. Ltd., for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("Exchange"). The Company's Sponsor has not independently verified the contents of this announcement including the correctness of any of the figures used, statements or opinions made.

This announcement has not been examined or approved by the Exchange and the Exchange assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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