

**Independent Auditor's Report
For the financial year ended 31 December 2018**

Independent Auditor's Report to the Members of AsiaPhos Limited

Report on the audit of the financial statements

Disclaimer of Opinion

We were engaged to audit the financial statements of AsiaPhos Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2018, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income 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.

We do not express an opinion on the accompanying financial statements of the Group and the balance sheet and the statement of changes in equity 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) 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 on 30 November 2017 and its results were reclassified as discontinued operation in the Group's consolidated statement of comprehensive income for the year ended 31 December 2017.

During the current financial year, due to circumstances as disclosed in Note 4.1 (a) and Note 9 to the financial statements, the proposed disposal has not been completed. As disclosed further in Note 4.1 (a), Note 4.2 (c) and Note 9, the directors are of the view that it remains appropriate to classify the Mining Assets as assets and liability of disposal group in the Group's consolidated balance sheet as at 31 December 2018 and its results as discontinued operation on the Group's consolidated statement of comprehensive income for the year ended 31 December 2018. The directors are also of the view that the fair value less costs of disposal of the Mining Assets is higher than their carrying amounts as at 31 December 2018. However, there exists significant uncertainties with respect to the outcome of the proposed disposal as it is subject to further negotiation with the relevant authorities in the People's Republic of China ("PRC"). Based on the information available to us, we were 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. We 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 Group's consolidated balance sheet as at 31 December 2018.

2) Impairment of investment in subsidiaries and amounts due from subsidiaries

As explained in the above paragraphs, there exists significant uncertainties with respect to the outcome of the proposed disposal of the Mining Assets. The recoverable amounts of the investment in subsidiaries and amounts due from subsidiaries are dependent on the outcome of the proposed disposal. Consequently, based on the information available to us, we 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 \$78,036,000 and amounts due from subsidiaries of \$5,667,000 in the Company's balance sheet as at 31 December 2018.

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Basis for Disclaimer of Opinion (cont'd)

3) Recoverable amount of property, plant and equipment

As disclosed in Note 12 to the financial statements, 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 \$5,217,000 was recorded. However, we could not obtain the related underlying computations for the valuations performed. As a result, we were unable to obtain sufficient appropriate evidence to satisfy ourselves on the reasonableness of the key assumptions and inputs used in the determination of the recoverable amount of the P4 plant. Consequently, we were unable to assess the appropriateness of the carrying value of P4 plant and the impairment charge recorded during the year.

4) Going concern

As disclosed in Note 2 to the financial statements, the Group incurred a net loss after tax of \$14,715,000. Excluding the assets and liability of the disposal group, the Group's current liabilities exceeded its current assets by \$5,528,000 as at 31 December 2018. 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.

The directors have prepared the financial statements on a going concern basis based on the assumptions as disclosed in Note 2 to the financial statements. However, based on the information available to us, we have not been able to obtain sufficient audit evidence to satisfy ourselves as to the appropriateness of the use of the going concern assumption in the preparation of the financial statements.

If the Group is unable to continue in operational existence for the foreseeable future, the Group may be unable to discharge its 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 may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.

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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 the Singapore Financial Reporting Standards (International) (SFRS(I)), 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.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct the audit of the financial statements in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matter described in the Basis of Disclaimer of Opinion section of our report, we were unable 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 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 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 and by those subsidiaries incorporated in Singapore 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 Philip Ling Soon Hwa.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

3 April 2019