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Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of Camsing Healthcare Ltd. (the "Company") and its subsidiaries (the "Group"), as set out on pages 13 to 79, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 January 2019, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the financial 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 statement of financial position 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. Audit Matters raised by Preceding Auditor

The financial statements for the financial years ended 31 January 2017 ("FY2017") and 31 January 2018 ("FY2018") were audited by an independent auditor (the "Preceding Auditor"), whose reports dated 5 May 2017 and 3 May 2018 respectively were unmodified.

During the course of its audit of the financial year ended 31 January 2019 ("FY2019"), the Preceding Auditor identified and highlighted various audit matters ("Audit Matters") to the Company's Board of Directors and the Audit Committee, as announced by the Company on 29 March 2019. The Audit Matters relate to, *inter alia*, the following: -

(i) Whether the parties in certain distribution and consignment agreements are related and whether the Group retained the risks and rewards embodied in the products originally sold under the distribution agreement;

(ii) Uncertainty over the recoverability of licence fee income in FY2018 and the reversal of license fee income for FY2019;

(iii) Whether the parties involved in a certain purchase agreement, relating to the sale of wearable technology devices, are related;

(iv) Uncertainty over the sufficiency of the Group's cashflow to meet its operating and financing needs for the next twelve months after the end of the reporting period in view of the breach of certain bank covenants for credit facilities arising from two bank loans.

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Basis for Disclaimer of Opinion (Continued)

1. <u>Audit Matters raised by Preceding Auditor (Continued)</u>

Pursuant to a Notice of Compliance issued by the Singapore Exchange Regulation to the Company on 29 March 2019, the Company appointed a special auditor ("Special Auditor") to investigate into the Audit Matters raised by the Preceding Auditor. The Special Auditor issued an executive summary findings report on 1 September 2020, as disclosed in Note 2(a) to the financial statements.

We carried out audit procedures, including follow-up procedures on the findings reported by the Special Auditor, but have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion as described in (a) to (d) below.

(a) Opening balances

As adumbrated above, the Audit Matters raised concerns over certain transactions which had taken place during FY2017 and FY2018 although the Preceding Auditor had expressed an unmodified audit opinion on each of the financial statements for FY2017 and FY2018. These FY2017 and FY2018 transactions form part of the opening balances for FY2019.

The Preceding Auditor has granted us limited access to its audit working papers for FY2018 ("FY2018 AWP") and pertinent working papers were not made available for our review. Hence, we were unable to determine the nature, timing and extent of audit procedures that had been applied by the Preceding Auditor to those transactions highlighted in the Audit Matters for FY2017 and FY2018. Neither were we able to obtain sufficient and appropriate audit evidence based on the findings reported by the Special Auditor. Consequently, we are unable to determine whether the opening balances of the financial statements of the Group and the Company as at 1 February 2018 are fairly stated.

(b) Distribution and consignment agreements

In the prior financial years, the Company's principal subsidiary, Nature's Farm Pte Ltd ("NF") sold health supplements of $9,360,000 ("Health Supplements-1") to its exclusive distributor, Global Biotech Medical Inc., Limited ("Global Biotech") in FY2017 and FY2018. Subsequently, on 25 January 2018, NF entered into a consignment agreement with I Nitra Consulting Limited ("I-Nitra"), purportedly Global Biotech's distributor, to consign $4,350,000 of Health Supplements-1 ("Consigned Goods") from I-Nitra. Under the terms of the consignment agreement, NF is entitled to commission income of 60% of the gross consignment sales. During FY2019, NF sold some of the Consigned Goods to its retail and wholesale customers and the Group recorded commission income of $304,000 based on 60% of gross sales value.

In a similar arrangement, NF repurchased certain honey products during FY2019 of $228,000 ("Repurchased Honey") from I-Nitra, representing 90.7% of NF's sales of honey products of $599,000 to Global Biotech in FY2018. As at FY2019, the Repurchased Honey included as part of the Group's inventories remained largely unsold.

Basis for Disclaimer of Opinion (Continued)

1. Audit Matters raised by Preceding Auditor (Continued)

(b) Distribution and consignment agreements (Continued)

Subsequent to FY2019, NF repurchased another batch of health supplements from Global Biotech at a cost of $47,000 ("Health Supplements-2") in February 2020, which were originally sold to Global Biotech in January 2018 for $1,226,000, representing a significant discount of 96% purportedly due to an offsetting arrangement for Global Biotech to repay its debts owing to NF. In March 2020, NF received Health Supplements-2 with an expiry date of less than 12 months.

We were unable to obtain necessary information and explanations on the Special Auditor's findings to determine the commercial substance or business rationale of these arrangements. In addition, we are unable to determine the rights and obligations of the Group under these contractual arrangements with Global Biotech and I-Nitra, or the exact nature of the relationship between these contractual parties, and whether there are any other financial statements implications to the current and prior years' financial statements, including relevant legal and regulatory compliance.

(c) Purchase of wearable technology devices

During FY2019, NF entered into an agreement with Global Biotech to purchase 5,000 units of wearable technology devices ("Purchase Agreement") for a total purchase price of $2,800,000. The Purchase Agreement was undated and signed by then CEO of NF, notwithstanding that the Board of Directors' approval was not obtained. Full payment of the contract sum was approved by an individual, who was the sole signatory to some of the Company's bank accounts ("Sole Signatory"). Payment of $2,800,000 was made to Global Biotech on 15 October 2018, despite NF not receiving any goods at the time of payment. The Sole Signatory was not an employee of the Group and was subsequently taken criminal custody, together with the Company's executive chairman and controlling shareholder, by the Yangpu Branch of the Shanghai Public Security Bureau in China on 25 June 2019 and 20 June 2019 respectively.

Subsequently, NF entered into a supplemental agreement on 8 January 2019 ("Supplemental Agreement") to revise the unit cost downwards and increase the number of quantities ordered, together with a revision of contractual terms which included a non-refundable deposit of 10%, instead of payment of the full contract sum, and to provide for unsold devices after one year to be fully refunded. On 28 March 2019, pursuant to the Supplemental Agreement, NF received a refund of $2,400,000 from Global Biotech. As at the date of this report, none of the devices had been sold. Consequently, the cost of $400,000, net of the amount refunded, were impaired in FY2019.

We were unable to obtain necessary information and explanations on the Special Auditor's findings to determine the commercial substance or business rationale of the Purchase Agreement. In addition, we are unable to determine the legality and substance of the arrangements under the Purchase Agreement and Supplemental Agreement with Global Biotech. We are also unable to determine whether these arrangements are in compliance with the applicable laws and regulations or if there will be any consequential impact to the current year's financial statements.

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Basis for Disclaimer of Opinion (Continued)

1. Audit Matters raised by Preceding Auditor (Continued)

(d) License fees

Pursuant to certain distribution agreements with NF, Caring Global Health Management (Beijing) Co., Ltd ("Caring Global") and Global Biotech agreed to pay licensing fee income to NF for the exclusive use of 2 different trademarks in Hong Kong and China ("Trademark-1" and "Trademark-2", respectively). The Group recognised total license fee income of $852,000 and $414,000 in FY2017 and FY2018 respectively, and $393,000 during FY2019 which was subsequently reversed in January 2019. During FY2019, full impairment loss was recognised on license fee receivable of $369,000 relating to FY 2018.

Under the licensing agreement with Caring Global, the Special Auditor noted that Trademark-1 had been registered and owned by another unrelated company in New Zealand and it was uncertain whether NF has the authority or permission to grant a sub-license of Trademark-1. Further, as highlighted in item (b) "*Distribution and consignment agreements*", certain inventories sold to Global Biotech under the distribution agreement ("Sales Transactions") in the previous financial years were subsequently repurchased by NF, for reasons that were unclear to us, of which license fee income was earned on these Sales Transactions.

Consequently, we were unable to obtain sufficient audit evidence on the Special Auditor's findings to establish the appropriateness of the reversal of license fee income of $393,000 in FY2019, and of the full impairment of $69,000 and $299,759 for Trademark-1 and Trademark-2 respectively, which was affected by the validity and appropriateness of license fee income of $414,000 recognised in FY2018. In addition, we are unable to determine the legality and substance of the licensing arrangements with Caring Global and Global Biotech nor determine the exact nature of the relationship between these contractual parties. We are also unable to determine whether these arrangements are in compliance with the applicable laws and regulations or if there will be any consequential impact to the current and prior years' financial statements.

Basis for Disclaimer of Opinion (Continued)

2. Limitation of scope

Based on the foregoing paragraphs, we are unable to satisfy ourselves as to the existence, completeness and accuracy of transactions that occurred during FY2019 and balances recorded as of that date, including, but not limited to items (a) to (g) as described below.

(a) Opening balances

In addition to the matters (including the limitations imposed by the Preceding Auditor during our review of its FY2018 AWPs) as described in item (1) above, the incumbent management is also unable to provide us with certain supporting documents and satisfactory explanations as it does not have full and complete knowledge of the affairs relating to FY2017 and FY2018. Further, we were unable to perform certain audit procedures that we considered necessary to determine the accuracy and completeness of opening balances. Consequently, we were unable to determine whether opening balances of the Group and the Company as at 1 February 2018 were fairly presented. Since the opening balances as at 1 February 2018 entered into the determination of the financial performance, changes in equity and cash flows of the Group and the Company for FY2019, we were unable to determine whether any material adjustments might have been found necessary in respect of the financial statements of the Group and the Company for FY2019.

(b) Camsing Healthcare (Fuzhou) Medical Instrument Co., Ltd ("CFZ")

On 30 November 2017, the Group entered into an investment agreement with a third party, Fuzhou Zhongxin Baokang Trading Co., Ltd ("Fuzhou Zhongxin") to set up CFZ, with principal activities of distribution and trading of medical supplies and medical instruments to local hospitals in China, in the respective equity proportions of 51% and 49%. The Group's initial cost of investment in CFZ was approximately $2,000,000.

As disclosed in Note 5 to the financial statements, management assessed that the Group did not have control over CFZ in FY2019, notwithstanding that the Group has 51% equity interest in CFZ, and concluded that the Group was only able to exercise significant influence over CFZ by virtue of its board representation. Accordingly, the Group reclassified CFZ from a subsidiary to an associate effective 1 February 2018 and recognised a loss on deconsolidation of CFZ of $438,000 and applied equity accounting to recognise the Group's share of losses in CFZ of $422,000 for FY2019. The Group further recognised an impairment loss of $1,058,000 on the remaining carrying amount of the investment in CFZ as at 31 January 2019 due to deteriorating operational performance of CFZ.

Due to the lack of access to the accounting records of CFZ made available to us, we were unable to perform audit procedures to obtain sufficient appropriate audit evidence on the Group's loss on deconsolidation of CFZ, the Group's share of losses in CFZ, as well as the relevant disclosures, including the net assets/liabilities of CFZ, under SFRS (I) 1-28 Investments in Associates to be included in the consolidated financial statements of FY2019. We were also unable to evaluate the appropriateness of the basis of full impairment losses made by the management as at FY2019 and the adequacy of the disclosures therein.

Basis for Disclaimer of Opinion (Continued)

2. <u>Limitation of scope (Continued)</u>

(c) Existence, valuation and completeness of inventories

Having been appointed subsequent to the financial year end, we did not attend the Group's annual inventory count as at 31 January 2019 and we were unable to perform alternative procedures that we considered necessary to verify the existence, accuracy and completeness of the Group's inventories as at 31 January 2019 of $2,122,000 due to the long time lapse between the reporting date and the date of our report. In addition, due to the lack of inventory costing worksheets and inventory aging reports made available to us, we are also not able to obtain sufficient audit evidence to conclude on the appropriateness of the carrying amount of the Group's inventories, including the allowance for obsolescence and write-down of inventories of $87,000 and $46,000 (Note 7) respectively.

(d) Existence and impairment assessment of property, plant and equipment ("PPE")

As at 31 January 2019, the carrying amount of the Group's PPE was $1,406,000, net of impairment charge of $655,000 as disclosed in Note 4, which includes leasehold property at revalued amount of $882,000 and plant and machinery, furniture and vehicles of the principal subsidiary, NF of $524,000. We did not perform fixed asset sighting of the Group's PPE and we were unable to perform alternative procedures that we considered necessary to verify the existence of PPE reported as at 31 January 2019, due to the long time lapse between the reporting date and the date of our report during which there were closures of certain retail outlets.

Further, management made an impairment charge on the Group's PPE of $655,000 (Note 4) in FY2019, using value in use on the basis that certain retail stores reported continuing operating losses. Due to the lack of a proper impairment assessment using discounted cashflows to determine the value in use, we were not able to obtain sufficient appropriate audit evidence to conclude on the appropriateness of the basis of the impairment charge recorded to determine that the resultant carrying amounts of the PPE represents the recoverable amount, on an individual retail outlet basis. Consequently, we are unable to obtain sufficient appropriate audit evidence to conclude on the existence and accuracy of the carrying amount of the Group's PPE as at 31 January 2019, and appropriateness of the amount of impairment loss recognised during FY2019, and if any further adjustments were necessary.

(e) Impairment of investment in the principal subsidiary of the Company

As at 31 January 2019, the carrying amount of the Company's investment in subsidiaries was $4,072,000, net of impairment charge of $9,294,000 as disclosed in Note 5, which relates primarily to investment in the principal subsidiary, NF, held through William Jacks & Co. (Singapore) Pte. Ltd. Management made an impairment charge on investment in NF of $9,294,000 (Note 5) in FY2019, using value in use. On the basis that NF has implemented cost-cutting measures, including the closures of loss-making retail stores, management concluded that no further impairment was required as at 31 January 2019. Due to the lack of a proper impairment assessment using discounted cashflows to determine NF's value in use, we are unable to obtain sufficient appropriate audit evidence to conclude on the adequacy of impairment loss recognised on investment in NF for FY2019 and the appropriateness of the Company's carrying amount of investment in subsidiaries as at 31 January 2019.

Basis for Disclaimer of Opinion (Continued)

2. Limitation of scope (Continued)

(f) Review of subsequent events

Due to the lack of certain supporting documents and several changes in the composition of the Board of Directors and management team, and in view of the long lapse of time between the reporting date and the date of our report, we are unable to complete subsequent events review procedures that we consider necessary for the Group. Consequently, we are unable to ascertain whether all significant subsequent events and transactions have been adequately adjusted for or disclosed in these financial statements.

3. Going concern assumption

As disclosed in Note 2(b) to the financial statements, the Group incurred a net loss for the year of $6,571,000 and negative operating cash flows of $1,798,000 for FY2019. The Group's cash and cash equivalents amounted to $1,367,000 as at 31 January 2019. As disclosed in Note 10 to the financial statements, two subsidiaries of the Group have breached certain bank covenants and defaulted on the repayment of bank loans amounting to an aggregate of $3,400,000 as at 31 January 2019. Consequently, the banks issued a letter of demand dated 27 August 2019 to one of the subsidiaries claiming repayment of $2,205,342 (which includes accrued interests and other charges arising from banking facilities granted to the subsidiary). Subsequently, in September 2021, the Group settled an outstanding bank loan amounting to approximately $2,200,000 As at the date of this report, the Group still owes the bank the remaining loan balance of approximately $1,000,000 and the Group is still in the process of finalising a repayment plan with the bank.

The above conditions, coupled with the matters highlighted above, indicate the existence of multiple material uncertainties which may cast significant doubts on the ability of the Group and the Company to continue as going concerns. As disclosed in Note 2(b) to the financial statements, the Board of Directors of the Company have prepared the financial statements on a going concern basis on the assumptions that the Company's principal subsidiary, NF, will generate positive and sufficient cashflows, together with potential fund-raising activities, to enable the Group and the Company to meet its obligations as and when they fall due for the next twelve months. As at the date of this report, due to the matters highlighted above, we have not been able to obtain sufficient audit evidence regarding the likely outcome of the Group's ability to finalise the repayment plan with the bank and of fund-raising activities. Accordingly, we are uncertain of the appropriateness of the use of the going concern assumption in the preparation of these financial statements

Basis for Disclaimer of Opinion (Continued)

3. Going concern assumption (Continued)

In the event the Group and the Company are unable to continue as going concerns, 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 recorded in the statements of financial position. In addition, the Group and the Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No such adjustments have been made to these financial statements.

Other Matter

The financial statements for the year ended 31 January 2018 were audited by another auditor whose report dated 3 May 2018 expressed an unqualified opinion on those financial statements.

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 Singapore Financial Reporting Standards (International), 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 an audit of 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.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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 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, because of the significance of the matters described 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 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 partner on the audit resulting in this independent auditor's report is Adeline Ng Cheah Chen.

Crowe Horwath First Trust LLP
Public Accountants and
Chartered Accountants
Singapore

16 December 2021