

**DISCLAIMER OF OPINION BY INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS
FOR FINANCIAL YEAR ENDED 31 DECEMBER 2017**

The Board of Directors ("**Board**") of Debao Property Development Ltd. ("**Company**") and together with its subsidiaries, the "**Group**") wishes to announce that the independent auditor of the Company, Deloitte & Touche LLP ("**Deloitte**"), has issued a disclaimer of opinion in respect of its Independent Auditor's Report ("**Auditors' Report**") for the financial statements of the Group for the financial year ended 31 December 2017 ("**FY2017**"). The Board's responses to the key bases for the disclaimer of opinion are set out below:

(a) Legal matter – court's verdict on the acts of bribery

The Board had, during its meeting on 9 May 2018, agreed to the request of Deloitte to appoint a third party audit firm to review the consolidated financial statements for FY2017 of the Group ("**FY2017 Financial Statements**") for any undisclosed acts of bribery ("**Independent Review**"). Ernst & Young (China) Advisory Limited ("**EY (China)**") was appointed on 26 June 2018 to carry out the Independent Review, the scope of which was agreed upon by Deloitte. EY (China) issued a fact finding report dated 9 November 2018 ("**IR Report**") after the Independent Review was completed.

Based on the IR Report, Mr Yuan Le Sheng ("**YLS**") did not disclose the results of the judgement from the Foshan Nanhai People's Court dated 13 February 2018 passed against Foshan Nanhai Debao Property Development Co., Ltd and YLS relating to the acts of bribery ("**Judgement**") to Deloitte as he was considering an appeal, which, in his view, may result in a different outcome. YLS discussed the appeal with his defense lawyer on the day of receiving the Judgement, but no further instructions were given to the defense lawyer by YLS or the management of the Company since then.

The Company had on 13 April 2018 released an announcement to inform shareholders of the Company ("**Shareholders**") of the Judgement.

Subsequently, as announced on 19 April 2018, the following changes were made to the Board:

- (i) YLS had ceased to be the Executive Chairman and Chief Executive Officer of the Company with effect from 19 April 2018;
- (ii) Zhong Yuzhao was appointed as the Chief Executive Officer of the Company with effect from 19 April 2018; and
- (iii) Yuan Jiajun had ceased to be an alternate Director to YLS and was appointed as Executive Director with effect from 19 April 2018.

The Group has removed YLS as one of the authorised bank signatories for all of the Company's subsidiaries save for a bank account of the Company's subsidiary in Hong Kong, which is pending closure.

(b) Payment to political party in Malaysia

The scope of the IR Report includes payments made by the Company's subsidiaries to a political party in Malaysia which had been identified by Deloitte. The IR Report indicated that no other similar payment was made to a political party in Malaysia other than those identified by Deloitte.

Further to the review of the IR Report by Deloitte, Deloitte made enquiries in relation to the IR Report. The Company had responded to the enquiries to the best of their knowledge.

The IR Report did not indicate any inconsistent information and explanation provided to Deloitte. The Board is, accordingly, of the view that the opinion "*We, therefore, are not in a position to complete our audit and express any opinion on the financial statements.*" is unfair to the management of the Company.

A copy of the aforesaid Auditors' Report is annexed to this announcement for further information.

Shareholders are advised to read this announcement in conjunction with the Auditors' Report and the FY2017 Financial Statements, which can be found in the Company's Annual Report for FY2017 ("**FY2017 Annual Report**"). The FY2017 Annual Report will be released on SGXNET and despatched to Shareholders in due course.

By Order of the Board

Zhong Yuzhao
Executive Director and CEO
12 November 2018

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DEBAO PROPERTY DEVELOPMENT LTD.

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the accompanying financial statements of Debao Property Development Ltd. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at December 31, 2017, and the consolidated statement of profit or loss and 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 year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 44 to 106.

We do not express an opinion on the accompanying consolidated financial statements of the Group and the statement of financial position and 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

Legal matter – court's verdict on the acts of bribery

As disclosed in Note 42(a) to the financial statements, the CEO of the Group, was on October 16, 2016 requested by the People's Procuratorate of Nanhai District, Foshan City, Guangdong Province, the People's Republic of China to assist in an investigation on a Chinese official of Foshan City.

During the audit of the financial statements for the year ended December 31, 2016, management represented to us that the focus of the investigation was on transactions relating to a construction contract which was awarded by a subsidiary of the Group to a construction company owned by an associate of this Chinese official. At that time, management had assessed whether the award of the construction contract was in accordance with the Group's policies and processes and that the pricing terms were comparable with market rates. Management concluded that the said construction contract was in compliance with the Group's policies and processes and the price was comparable to market rate.

Our audit procedures during the current year revealed that in December 2017, there was a court hearing in Nanhai District People's Court in relation to the abovementioned matter and in February 2018, the subsidiary and the CEO, as the legal representative of the subsidiary were found guilty of an act of bribery by the court. The subsidiary was fined RMB2,000,000 and the CEO was sentenced to either an imprisonment of two (2) years or three (3) years of probation in lieu of imprisonment. These important developments were not disclosed to us, even though we made specific enquiries with management on the status of the investigation during the course of current year's audit, including at the Audit Committee meeting held on February 28, 2018 to approve the announcement of the Group's full year results.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DEBAO PROPERTY DEVELOPMENT LTD.

Payment to political party in Malaysia

As at December 31, 2017, included in the advances from non-controlling interests (Note 24), is a balance of RM3,000,000 (RMB4,715,700) for a purported payment made by a minority shareholder on behalf of the Group to a political party in Malaysia. This amount was recorded as an administrative expense for the year ended December 31, 2017. The related expense and amount payable were subsequently reversed from the Group's accounting records in May 2018.

After we raised our concerns to the Board of Directors and the Audit Committee, the Board of Directors engaged an independent professional accounting firm to perform certain agreed upon procedures amongst others, the above matters. We made enquiries on their findings report dated November 9, 2018. Whilst the Company responded to our enquiries, the findings report and the Company's responses did not adequately address our matters of concern as communicated to the Board of Directors and Audit Committee. Accordingly, we have not been able to obtain sufficient appropriate audit evidence as to whether there are any matters or issues that would have an impact on the financial statements.

In addition to the abovementioned matters, we have concerns over the inconsistent information and explanations that have been provided to us during the course of our audit with regards to the legal matter. In particular, the court hearing which took place in December 2017 and subsequent court verdict which was announced in February 2018 were not disclosed to us, even though specific enquiry was made on the status of the investigation at the audit committee meeting on February 28, 2018.

We are of the view that there is no basis for us to conclude on the matters of concern set out in the findings report and we also have concern on the reliability of the representations from the key management personnel based on the facts stated above. Accordingly, there is no proper basis for us to conclude that the financial statements are fairly stated for the year ended December 31, 2017. We, therefore, are not in a position to complete our audit and express any opinion on the financial statements. We do not have any alternative means to complete our audit at the date of the report. Arising from the above matters and concerns, we do not know if there is any further impact on the 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 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 directors' responsibilities include overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DEBAO PROPERTY DEVELOPMENT LTD.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company 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 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.

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 Mr Tsia Chee Wah.

Deloitte & Touche LLP
Public Accountants and
Chartered Accountants
Singapore

November 12, 2018