

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA HAIDA LTD.

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of China Haida Ltd. (the "Company") and its subsidiary (the "Group"), as set out on pages 12 to 65, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2020, 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 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 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. Opening balances

For the financial year ended 31 December 2019 ("FY 2019"), we expressed a disclaimer of opinion on the prior year financial statements due to the limitation of scope to complete our audit procedures of the Group's sole operating subsidiary ("Subsidiary"). Supporting documents relating to transactions in December 2019 and up to the date of our report were not made available to us. We were also unable to obtain confirmation replies, or perform alternative audit procedures that we considered necessary, from 5 of the Subsidiary's bank accounts in the People's Republic of China ("PRC"), all of the related parties, and certain of the Subsidiary's trade receivables and trade payables. In addition, the Group's Chief Executive Officer, Mr. Xu Youcai ("CEO Xu") was uncontactable to seek clarifications on matters regarding the Subsidiary's litigations and enforcement proceedings (as described in item 2), defaults in bank loans and impairment assessment of various financial and non-financial assets.

Accordingly, we were unable to obtain sufficient and appropriate audit evidence on:

- (a) the existence, completeness and accuracy of transactions that occurred during the FY2019 and balances recorded as of that date;
- (b) the existence and recoverability of balances due from related parties;
- (c) the impairment assessment of property, plant and equipment and right-of-use assets of the Group and investment in the Subsidiary of the Company; and
- (d) whether all significant subsequent events and transactions have been adequately adjusted or disclosed in these financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA HAIDA LTD. (Continued)**

Report on the Audit of the Financial Statements (Continued)

Basis for Disclaimer of Opinion (Continued)

1. Opening balances (Continued)

In view of the above matters that remain unresolved (as evidenced by further developments described below), we are unable to determine whether the opening balances as at 1 January 2020 are fairly stated. Since the opening balances as at 1 January 2020 entered into the determination of the financial performance, changes in equity and cash flows of the Group for the financial year ended 31 December 2020, we are unable to determine whether adjustments might have been necessary in respect of the Group's financial statements and the Company's statement of financial position for the financial year ended 31 December 2020.

2. Litigations and enforcement proceedings

During the FY 2019, the Subsidiary was involved in various litigations and enforcement proceedings in the PRC, together with CEO Xu and several of his controlled entities, and 2 of the bank accounts had been consequently frozen, as disclosed in our disclaimer of opinion for FY 2019.

As announced by the Company in various announcements during 2020 and in February 2021, the Board of Directors appointed a PRC legal counsel to investigate into these legal disputes. Based on the legal report dated 25 February 2021, the following were highlighted:

- (a) Two enforcement proceedings had been brought about by a PRC bank naming the Subsidiary as co-defendants along with CEO Xu and other related parties. As disclosed in Note 31(B), the PRC bank was granted court judgement to seize certain assets pledged as security ("Pledged Assets") for defaulted loans of RMB 102,500,000 granted to CEO Xu and his related parties. Based on available information, the Pledged Assets include certain key operating assets of the Subsidiary, comprising certain leasehold buildings, right-of-use assets, plant and machinery, and inventories. However, the detailed extent of these Pledged Assets is still undetermined.

Consequently, the Board of Directors made a full impairment on the entire carrying amounts of all non-financial assets comprising property, plant and equipment of RMB34,691,000, right-of-use assets of RMB9,911,000 and inventories of RMB3,710,000 as at 31 December 2020.

- (b) Several arbitration or court judgements were filed against the Subsidiary, along with CEO Xu and other related parties. Based on the court judgements and management's estimates of the claims made against the Subsidiary, the Group recognised a total provision of RMB15,811,000 during the year, as disclosed in Note 20 to the financial statements.
- (c) As disclosed in Note 31(C), there were several on-going enforcements proceedings involving the Subsidiary as co-defendants for which no provisions had been made by the Group as at 31 December 2020, due to limited information on the details of these claims and the Board of Directors is unable to estimate the full extent of these claims attributable to the Subsidiary.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA HAIDA LTD. (Continued)**

Report on the Audit of the Financial Statements (Continued)

Basis for Disclaimer of Opinion (Continued)

2. Litigations and enforcement proceedings (Continued)

Due to the various legal disputes, all of the Subsidiary's bank accounts in the PRC are inaccessible and the Group recognised full impairment loss on the bank balances aggregating to RMB 3,487,000 (Note 25 and Note 31A). The total impairment loss, recognised as other expenses, on these Pledged Assets and bank balances amounted to RMB51,799,000 (Note 25) for the current financial year.

It is presently uncertain to determine the extent of these legal disputes. Consequently, we have not been able to obtain sufficient appropriate audit evidence to conclude on (a) the appropriateness of the quantum of the impairment of Pledged Assets, and (b) the adequacy of provisions for litigations and claims against the Subsidiary.

3. Limitation of scope

As of the date of this report, we are unable to complete our audit procedures, either physically or remotely, relating to transactions during the financial year ended 31 December 2020 and up to the date of this report due to the lack of supporting documents provided to us. Based on the foregoing paragraphs, we are unable to satisfy ourselves as to the existence, completeness and accuracy of transactions that occurred during the financial year ended 31 December 2020 and balances recorded as of that date, during the period under the management of CEO Xu, including, but not limited to items (a) to (f) described below.

(a) Existence and recoverability of amount due from related parties

The Group's recorded gross amount owing from related parties (companies in which CEO Xu and members of his close family have controlling financial interests) totalling RMB80,138,000 as at 31 December 2020, comprising trade receivable and advance payments of RMB28,008,000 and RMB52,130,000 (2019: RMB28,017,000 and RMB51,150,000) as disclosed in Note 13 and Note 15 respectively. These related parties were also named as co-defendants in several litigations and enforcement proceedings as mentioned in item (2) above.

Management represents that as at the date of this report, these related parties are currently filing for bankruptcy reorganisation in the PRC Courts. Accordingly, management has fully impaired the remaining balance due from related parties, thereby recognising RMB 40,484,000 (2019: RMB39,565,000) in the profit or loss (Note 23) during the current financial year.

The above balances are mainly brought forward balances with limited transactions during the year, both of which we are unable to verify due to the limitation of information and documents provided to us during the course of audit for the current year and FY 2019 (as mentioned in item 1 above). While recoveries from these related parties remain highly uncertain due to litigation issues with CEO Xu and his controlled entities, we are unable to evaluate the appropriateness of the basis of full impairment losses made by the management.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA HAIDA LTD. (Continued)**

Report on the Audit of the Financial Statements (Continued)

Basis for Disclaimer of Opinion (Continued)

3. Limitation of scope (Continued)

(b) Existence and recoverability of trade receivables

As at 31 December 2020, the Group's gross balance due from trade receivables was RMB86,535,000, out of which an impairment of RMB 33,558,000 had been recognised as at 1 January 2020. On the basis that the trade receivables have been long outstanding, the management made an impairment charge of RMB 24,080,000, as disclosed in Note 33(iii)(A) using an estimated credit loss rate of 40%, resulting in net balance due from trade receivables of RMB28,897,000 (Note 13).

We have neither received confirmation replies from the trade receivables nor have we been able to perform alternative procedures to verify the existence and accuracy of the balances and movement during the year. In light of the litigations and enforcement proceedings as mentioned in item (2) and the lack of supporting documents, including the limitation of scope in performing subsequent events review as detailed in (f) below, we are unable to obtain adequate appropriate audit evidence to conclude on the existence and accuracy of the gross amount recorded, adequacy and appropriateness of impairment losses recognised by the management, including the appropriateness of disclosures in Note 33(iii) to the financial statements.

(c) Existence and completeness of bank balances, inventories and trade and other payables

As at 31 December 2020, the Group reported cash and bank balances of RMB4,734,000 (prior to the impairment of bank balances of RMB3,487,000, as stated in item 2 above) of which RMB4,258,000 was attributable to the Subsidiary. We are unable to obtain confirmation replies from all of the Subsidiary's bank accounts in the PRC and we are unable to perform alternative audit procedures to obtain information and explanations we considered necessary. Further, we are unable to perform procedures to ascertain the existence of the cash balances held by the Subsidiary of RMB771,000 as at 31 December 2020.

Management did not perform an annual physical inventory count as at 31 December 2020 and we are unable to perform alternative procedures that we considered necessary to verify the existence and completeness of the costs of inventories reported as at 31 December 2020 of RMB7,601,000, which was prior to the following:

- (i) Write down of inventories to net realisable values of RMB3,891,000 in the profit or loss (Note 25), of which we were unable to substantiate the veracity of such losses; and
- (ii) Impairment of the remaining carrying amount of RMB3,710,000 (as part of the Pledged Assets as stated in item 2 above).

Further, we have not been able to ascertain the existence and completeness of trade payables of RMB12,537,000 as at reporting date, as we are unable to perform circularisation procedures, or alternative procedures, due to the Subsidiary's involvement in various on-going litigations and enforcement proceedings in the PRC. In addition, we are unable to ascertain the completeness of other payables and accruals amounting to RMB5,652,000 as reported by the Subsidiary, due to the lack of supporting information provided to us.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA HAIDA LTD. (Continued)**

Report on the Audit of the Financial Statements (Continued)

Basis for Disclaimer of Opinion (Continued)

3. Limitation of scope (Continued)

(d) Income and expenses recorded during the financial year

The Group recognised revenue and cost of sales amounting to RMB 30,668,000 and RMB 36,463,000 respectively for the current financial year. However, we are unable to complete our audit procedures over the occurrence, accuracy and completeness of such amounts recorded due to incomplete accounting records made available to us.

In addition, an impairment charge of RMB9,560,000 was made in relation to other receivables and deposits, of which we are unable to obtain supporting documents. Further, the Group recognised the following losses during the year, based on CEO Xu's unilateral approval, including, but not limited to, (i) losses arising from sales of inventories and scraps amounting to RMB5,510,000 and RMB3,590,000 respectively (Note 25), and (ii) payment of personal income taxes of CEO Xu, a previous director and other employees of RMB1,140,000. We are unable to obtain necessary supporting documents substantiating these transactions, as well as explanations from the management on the basis and rationale to enter into these sales transactions resulting in significant losses and the approval of these payments. Consequently, we are unable to satisfy ourselves as to the occurrence, accuracy and completeness of the income and expenses recognised during 31 December 2020.

(e) Impairment of investment in the Subsidiary of the Company

In view of item 2 above, the Board of Directors made a full impairment on the Company's cost of investment in the Subsidiary of RMB118,448,000 as at 31 December 2020 due to lack of clarity over the extent of the claims made against the Subsidiary as one of the numerous co-defendants in those legal proceedings. We are not able to obtain sufficient appropriate audit evidence to conclude on the appropriateness of the basis of full impairment of the Company's carrying amount of investment in the Subsidiary, in the absence of an impairment assessment to ascertain the Subsidiary's recoverable amount using fair value less costs of disposal or discounted cashflows to determine the Subsidiary's value in use.

(f) Subsequent events

Up to the date of this report, we are unable to complete subsequent events review procedures that we consider necessary for the Subsidiary. Consequently, we are unable to ascertain whether all significant subsequent events and transactions have been adequately adjusted or disclosed in these financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA HAIDA LTD. (Continued)**

Report on the Audit of the Financial Statements (Continued)

Basis for Disclaimer of Opinion (Continued)

4. Going concern assumption

As disclosed in Note 2 to the financial statements, the Group and the Company are in net liabilities positions of RMB8,845,000 and RMB2,692,000 (2019: net assets of RMB172,602,000 and RMB124,299,000) respectively, and the Group incurred a net loss for the year of RMB181,419,000 (2019: RMB50,809,000) for the financial year ended 31 December 2020. Further, the Group's revenue derived from the sales of aluminum panels and spray-painting services declined substantially by 85% to RMB 30,668,000 (2019: RMB207,783,000).

In addition to the litigations and enforcement proceedings in the PRC as described in item (2) above, the Subsidiary has also defaulted on the repayment of two bank loans amounting to an aggregate of RMB11,429,000, as disclosed in Note 19, and the bank has taken enforcement actions against the Subsidiary. At the date of this report, the Board of Directors is unable to determine the full extent and financial impact of these legal cases. These conditions indicate the existence of multiple material uncertainties which may cast significant doubt on the ability of the Group and the Company to continue as going concerns.

As disclosed in Note 2 to the financial statements, the Directors have prepared the financial statements on a going concern basis on the assumptions that the new business ventures, including the joint venture agreement to supply and install aluminium products as announced on 25 May 2021, together with fund raising activities, will enable the Group and the Company to generate positive and sufficient cashflows 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 these assumptions. Accordingly, we are not able to satisfy ourselves as to the appropriateness of the use of the going concern assumption in the preparation of these financial statements.

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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA HAIDA LTD. (Continued)**

Report on the Audit of the Financial Statements (Continued)

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.

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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA HAIDA LTD. (Continued)**

Report on the Audit of the Financial Statements (Continued)

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 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

14 June 2021