

# Independent auditor's report to the members of Foreland Fabrictech Holdings Limited

## Report on the Audit of the Financial statements

### Disclaimer of Opinion

We were engaged to audit the financial statements of Foreland Fabrictech Holdings Limited (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 31 December 2016, 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 consolidated 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

#### The Group

1. Auditor's report on the financial statements for the financial years ended 31 December 2014 ("FY2014") and 2015 ("FY2015")

The auditor's reports dated 25 January 2017 on the financial statements for the financial years ended 31 December 2014 and 2015 contained a disclaimer of opinion because we were unable to:

- ascertain the veracity and validity of the compensation claim of RMB 282,992,774 in a subsidiary, Fulian Knitting Co., Limited ("Fulian" incorporated in the People's Republic of China ("PRC")), since the financial year ended 31 December 2013 and its consequential impact on retained profits carried forward as well as its impact on income taxes and on the consolidated statement of cash flows of the Group for FY2014 and FY2015;
- obtain sufficient appropriate evidence to assess the recoverable amount of the Group's land use rights and property, plant and equipment of Fulian for FY2014 and FY2015;
- obtain the documentary evidence on the cost incurred for the land use rights of the Group in Fulian for FY2014 and FY2015;
- ascertain the appropriateness of the impairment made on the investment in Fulian by the Company, and determine the recoverable amount owed by Fulian to the Company for FY2014 and FY2015;
- obtain sufficient evidence concerning the validity and existence of account receivables, account payables, cash and cash equivalents and inventories of Fulian for FY2014 and FY2015; and
- ascertain the appropriateness of the use of the going concern assumption of the Group and the Company for FY2015.

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## Basis for Disclaimer of Opinion (Cont'd)

### The Group (Cont'd)

1. Auditor's report on the financial statements for the financial years ended 31 December 2014 ("FY2014") and 2015 ("FY2015") (Cont'd)

The auditor's report on the financial statements for the financial year ended 31 December 2013 which were issued by other auditors in their report dated 5 August 2014 contained a disclaimer of opinion relating to the appropriateness of the going concern assumption of the Group and the Company and on the inability to obtain sufficient appropriate audit evidence as to whether the provision for customer claim of RMB 282,992,774 and the corresponding expense are fairly and reasonably stated in the Group's financial statements for the year ended 31 December 2013. In addition, the other auditors were not able to obtain appropriate audit evidence on the bank balance and fixed deposits of Fulian totalling RMB 292,298,253 that were included in the Group's cash and cash equivalents as at 31 December 2013.

The above matters have not been resolved during the financial year ended 31 December 2016. In view of the matters discussed above, we were unable to determine the effects of the adjustments and/or the extent of disclosure, if any, that were required to be made to the opening balances that were brought forward into the prior period's financial statements, as well as to the corresponding period's figures. Any adjustment to opening balances would have consequential effects on the current year and/or prior period's figures and consequently, our opinion on the financial statements for the financial year ended 31 December 2016 was qualified because of this limitation of audit scope.

2. Litigation information and judgements enforcement

As discussed in Note 29(c) to the financial statements, on 9 May 2018, the Company's lawyers in the PRC issued a legal due diligence report on Fulian, which disclosed a total of 26 court proceedings among other judgment enforcements against the subsidiary, Fulian, and such proceedings were not reflected in the financial statements of the Group for the financial year ended 31 December 2016 and/or in prior years to the extent applicable. In addition, as discussed in Note 29(c)(iv) to the financial statements, the legal due diligence reported that certain land use rights belonging to Fulian had been seized by the Quanzhou People's Intermediate Court on 26 November 2012 and by the Xiamen People's Intermediate Court for judgment enforcement. The reported seizure of certain of the land use rights of Fulian put into question whether the land use rights of Fulian amounting to RMB 21,126,000 (2015: RMB 21,617,000) as at 31 December 2016 had existed on the statement of financial position of the Group. As disclosed in Note 29(c)(iv), certain movable assets of Fulian were reported to be mortgaged to third parties, the extent of the impact of the mortgaged movable assets on the property, plant and equipment of the Group including its existence and any liabilities arising thereof could not be ascertained.

On 9 July 2018, the Company announced that both the Company and its wholly-owned subsidiary, Fujian Jinjiang Fulian Knitting Co., Ltd. ("Fulian"), received a Court Enforcement Notice ("Notice") from Fujian Jinjiang People's Court ("Court") arising from an undisclosed legal suit (that commenced in 2013) arising from a dispute involving a private lending and guarantee agreement ("Agreement") over RMB 7 million entered into by the Company, Fulian, Mr. Tsoi Kin Chit ("Tsoi") (former Director and Executive Chairman of the Company), Mr. Cai Fengquan, and 泉州星皓机械有限公司 with Hong Youling previously. The current Board is not aware of the Agreement.

# Independent auditor's report to the members of Foreland Fabrictech Holdings Limited

## Basis for Disclaimer of Opinion (Cont'd)

### The Group (Cont'd)

#### 2. Litigation information and judgements enforcement (Cont'd)

According to the Notice:

- the Company and Fulian are required to perform the obligations as enforced in the legal documents;
- double payment of the interest charged and/or late payment charges incurred for late payment of the loan amount; and
- payment of legal costs incurred for the issuance of the Notice. Further to the Notice, the Court has taken measures to impose certain expenditure restrictions on the Company and Fulian.

Based on preliminary communication with a PRC law firm, there is a possibility to challenge the effectiveness of guarantee provided in name of the Company. The Company was not notified of the aforementioned legal suit and hence was not given a proper chance to defend itself in the Court. Notwithstanding these legal proceedings, the Board of directors of the Company are of the view that they have no impact to the Company or the Group as none of the entities within the Group have issued any undertakings or commitments to the third parties on behalf of the subsidiary, Fulian, nor is the Group exposed to any contingent liabilities related to the undertakings of Fulian as at 31 December 2016 and as of the date of this report. The Company is exploring various options and is in discussion with potential investors.

The impact of the court proceedings and enforcement judgments including the above Notice pertaining to the undisclosed legal suit (that commenced in 2013) against Fulian and land use right seizures of Fulian on the financial statements of the Group for the year ended 31 December 2016 and/or in prior years could not be ascertained as we were unable to perform the necessary procedures to verify and/or corroborate the nature of these items due to limitation of scope.

#### 3. Consolidation of Fulian

We draw your attention to the assets of Fulian that were consolidated into the financial statements of the Group as at 31 December 2016, whether these represent valid assets of the Group and valid claims on the inventory and trade and other receivables. We were unable to ascertain the veracity and validity of these assets and transactions as we were denied access to the books and records of Fulian.

We were unable to determine whether the inventories and trade and other receivables are realisable and collectible to repay the trade and other payables. On 6 June 2018, we visited Fulian's plant located in the PRC but were not allowed access by Tsoi. No operations were carried out in the plant as observed from outside the plant and the plant was seen to be in a dilapidated state and appears to be abandoned. On the basis that the plant and machinery had been idle and abandoned, there could be indications of impairment as at 31 December 2016 but the extent of impairment loss, if any, could not be ascertained.

# Independent auditor's report to the members of Foreland Fabrictech Holdings Limited (Cont'd)

## Basis for Disclaimer of Opinion (Cont'd)

### The Group (Cont'd)

#### 3. Consolidation of Fulian (Cont'd)

On this basis and in connection with the legal due diligence on Fulian as discussed in Note 29(c), we were unable to determine the existence of the property, plant and equipment, whether these assets including certain land use rights that were reported to be seized have been disposed of or the manner in which the assets were disposed of and whether the disposal was properly authorised. With regard to the trade and other payables of Fulian, we were unable to ascertain whether there is a valid claim against Fulian. We have also been unable to ascertain the existence of the bank balances of Fulian as we were unable to carry out bank confirmation procedure. The financial statements do not include any adjustments that would be necessary if these assets do not exist or are not recoverable. Similarly, we have been unable to perform the necessary audit procedures to ascertain the appropriateness of the amounts of the revenue and expenses transactions of Fulian and any associated liabilities or contingent liabilities as we were denied access to their books and records.

Due to limitation of scope, we were unable to carry out procedures necessary to satisfy ourselves as to the validity and appropriateness of the financial statements of a subsidiary, Fulian, that were included and consolidated into the financial statements of the Group for the financial year ended 31 December 2016 ("FY2016"). As disclosed in Note 29 to the financial statements, the aggregate amount of revenue and net loss for the year ended 31 December 2016 and aggregate current assets, non-current assets and current liabilities as at 31 December 2016 of Fulian that were included and consolidated into the consolidated financial statements of the Company were approximately RMB 11,038,000 (2015: RMB 60,244,000), RMB 13,371,000 (2015: RMB 2,638,000), RMB 12,842,000 (2015: RMB 20,311,000), RMB 82,173,000 (2015: RMB 89,172,000), RMB 52,672,000 (2015: RMB 53,769,000) respectively.

### The Company

#### 4. Limitation of scope – bank balances of the Company as at 31 December 2016

Due to limitation of scope, we were unable to ascertain the appropriateness of the bank balance of S\$177 (equivalent to RMB 853) (2015: RMB 814) as at 31 December 2016 held by the Company in a bank in the PRC as we were not able to obtain direct confirmation from the bank. Accordingly, we are unable to satisfy ourselves as to the existence, accuracy and completeness of the bank accounts and bank balances of the Company.

### The Group and the Company

#### 5. Appropriateness of going concern assumption

The Group incurred a loss of RMB 16,653,000 (2015: RMB 4,460,000) and recorded net cash outflows from its operating activities of RMB 568,000 (2015: RMB 2,032,000) for the year ended 31 December 2016. As at that date, the current liabilities exceeded the current assets of the Group and the Company by RMB 3,637,000 (2015: net current assets of RMB 6,056,000) and RMB 5,608,000 (2015: RMB 2,319,000) respectively.

# Independent auditor's report to the members of Foreland Fabrictech Holdings Limited (Cont'd)

## Basis for Disclaimer of Opinion (Cont'd)

### The Group and the Company

#### 5. Appropriateness of going concern assumption (Cont'd)

The Group incurred a loss of RMB 87,566,000 (2016: RMB 16,653,000) and recorded net cash outflows from its operating activities of RMB 1,233,000 (2016: RMB 568,000) for the year ended 31 December 2017. As at that date, the current liabilities exceeded the current assets of the Group and the Company by RMB 9,016,000 (2016: 3,637,000) and RMB 8,872,000 (2016: RMB 5,608,000) respectively.

The Group had recorded net losses of RMB 5,182,000 and recorded net cash outflows from its operating activities of RMB 1,320,000 in the financial year ended 31 December 2018, had deficits in its equity of RMB 14,192,000 and had net current liabilities of RMB 14,203,000 as at that date. The Company had deficits in its equity of RMB 11,557,000 at 31 December 2018 with net current liabilities of RMB 11,577,000 as at that date. Based on the latest unaudited management accounts as at 31 March 2019, the Group and the Company had net current liabilities of RMB 12,798,000 and RMB 12,476,000 and deficits in equity of RMB 12,781,000 and RMB 12,459,000 respectively. The Group had recorded an unaudited net loss of RMB 954,000 for the financial period ended 31 March 2019.

As stated in Note 30(d) to the financial statements, the Company has received a letter of demand from a creditor to repay S\$40,607 (RMB 198,649) that was included in trade and other payables as at 31 December 2016. The amount has not been paid as of the date of this report.

In addition, the Singapore Exchange – Securities Trading Limited (“SGX”) has on 29 May 2019 issued a notification of delisting date to the Company stating that the Company will be delisted from the Official List of the SGX-ST on 28 June 2019 owing to breach(es) of the SGX Listing Rules.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as going concerns. The ability of the Group and the Company to continue as going concerns is dependent on the following:

- i. the ability of the Company to obtain new funding from investors;
- ii. securing new business opportunities through acquisitions or injection of new businesses; and;
- iii. the generation of significant positive cash flow from the Group's operations.

The Company's directors are of the view that the going concern assumption is appropriate in the preparation of the Group's financial statements and statement of financial position of the Company as the directors will endeavour to obtain alternative financing arrangements including private placements to enable the Group and the Company to meet their obligations as and when they fall due.

We were not able to obtain sufficient appropriate audit evidence to satisfy ourselves as to the reliability of the assessment made by the Company. The appropriateness of the use of the going concern assumption is dependent on the ability of the Group and the Company to raise additional fund to repay the liabilities owing to creditors, to provide working capital and to generate sufficient cash flows for their requirements.

# **Independent auditor's report to the members of Foreland Fabrictech Holdings Limited (Cont'd)**

## **Responsibilities of Management and Directors for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards ("FRS"), and for such internal control as management determines is necessary to enable the preparation of these financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing the Group's and the Company's ability to continue as going concerns, 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 these financial statements in accordance with Singapore Standards of 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 to be kept by the Company have been properly kept.

# **Independent auditor's report to the members of Foreland Fabrictech Holdings Limited (Cont'd)**

## **Other Matter**

This report, including the opinion, has been prepared for and only for you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

The engagement partner on the audit resulting in this independent auditor's report is Chang Fook Kay.

Foo Kon Tan LLP  
Public Accountants and  
Chartered Accountants

Singapore, 14 June 2019