

**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"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and 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. 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. Limitation of scope

As disclosed in Note 1 to the financial statements, the Company's sole operating subsidiary (the "Subsidiary") suffered disruptions as a result of the outbreak of COVID-19 pandemic in the PRC commencing December 2019 and has not fully resumed operations and work (in particular, its key management personnel and finance personnel) to date. Since then, responses and provision of information or documents from the Subsidiary had been extraordinarily slow, and were eventually not forthcoming, for reasons unknown to us, despite that the Subsidiary is presumably still in operation as disclosed in Note 2.

As of the date of this report, we were unable to complete our audit procedures, either physically or remotely, relating to transactions in December 2019 and up to the date of this report. We were also unable to obtain confirmation replies from 5 banks, all of the related parties, certain trade receivables and trade payables of the Subsidiary. We were also unable to perform alternative audit procedures to obtain information and explanations we considered necessary. In addition, as disclosed in Note 1, the management was unable to contact the Group's Chief Executive Officer, Mr. Xu Youcai ("CEO Xu") to seek clarifications on matters regarding the Subsidiary's on-going litigations, defaults in bank loans and impairment assessment of various financial and non-financial assets.

Based on the constraints referred to in the foregoing paragraphs, we were unable to satisfy ourselves with regards to the existence, completeness and accuracy of transactions that occurred during the financial year ended 31 December 2019 and balances recorded as of that date, including but not limited to items (a) and (b) described below.

In addition, up to the date of this report, we were unable to complete subsequent events review procedures that we consider necessary for the Subsidiary. Consequently, we were 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)

1. Limitation of scope (Continued)

(a) Existence and recoverability of balances due from the related parties of RMB79,167,000

The Group has an aggregate amount due from its related parties in which CEO Xu and members of his close family have controlling financial interests. The gross amount RMB79,167,000 (comprising trade receivables of RMB 28,017,000 and advances of RMB 51,150,000 as disclosed in Note 13 and Note 15 respectively), representing 45% of its total current assets (prior to impairment allowance) as at 31 December 2019.

We have neither received confirmation replies from these related parties nor able to perform alternative procedures to verify the existence and accuracy of the balances.

As disclosed in Note 31(iii), on the basis that the related parties have been slow in repayment and have demonstrated undue delay in fulfilling the purchase orders from the Subsidiary, management (with the absence of CEO Xu) made an allowance for impairment of 50% of the outstanding balances, resulting in a charge to the profit and loss of RMB 14,079,000 and RMB 25,575,000 for trade receivables and advances respectively for the year ended 31 December 2019. These charges made up 78% of the Group's loss for the current year.

In view of the on-going litigations and claims made against these related parties as discussed in matter (2) below and the constraints described in Note 1, we were not able to obtain sufficient appropriate audit evidence to ascertain the existence and the recoverability of the balances due from the related parties totalling RMB 39,513,000 as at 31 December 2019 (stated after impairment loss of RMB 39,654,000), including the appropriateness of the basis of the impairment losses made by the management.

(b) Impairment assessment of the property, plant and equipment and right-of-use assets of the Group and the investment in the Subsidiary of the Company

As at 31 December 2019, the carrying amounts of the Group's property, plant and equipment ('PPE') and right-of-use ('ROU') assets were RMB 39,781,000 and RMB 10,211,000 respectively, out of which 99% relates to the Subsidiary. The carrying amount of the Company's investment in the Subsidiary was RMB 122,500,000 as at 31 December 2019.

As disclosed in Note 9 to 11, the management was unable to perform an impairment assessment and estimate the appropriate quantum for such impairment (if any) due to the constraints described in Note 1. No allowance for impairment has been recorded as at 31 December 2019.

Consequently, we were not able to obtain sufficient appropriate audit evidence to conclude on the appropriateness of the carrying amounts of the Group's PPE and ROU assets and the Company's investment in the Subsidiary and if any adjustment to these carrying amounts as at 31 December 2019 were necessary.

**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 claims

As disclosed in Note 29, the Subsidiary was involved in various on-going litigations and enforcement proceedings in the PRC, together with the CEO Xu, and several of his controlled entities, including 2 of the related parties that the Subsidiary has significant transactions and balances with as disclosed in matter 1(a) above and in Note 28. The Board of Directors is in the process of seeking legal advice and has appointed a PRC legal counsel to investigate into these legal disputes. It is presently uncertain to determine the extent of these legal cases and no provision of liabilities have been made in these financial statements.

We were not able to obtain sufficient documentary evidence or satisfactory explanations from management to satisfy ourselves on the potential financial impact of these litigations and claims against the Subsidiary, and the completeness of such claims and any corresponding liabilities.

3. Going concern

As disclosed in Note 2 to the financial statements, the Group incurred a net loss for the year of RMB 50,809,000 and negative operating cash flows of RMB 5,358,000 for the financial year ended 31 December 2019. In addition to the litigations and enforcement proceedings in the PRC as described in matter (2) above, the Subsidiary has also defaulted on the repayment of its secured bank loans due on 26 November 2019 and 29 January 2020 (as disclosed in Note 19). At the date of this report, the management was unable to determine the full extent and impact of the legal cases, default on bank loans and completeness of its contingent liabilities due to constraints described in Note 1. These conditions indicate the existence of a material uncertainty 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 are dependent on the Subsidiary's ability to continue in operation and to maintain positive financial standing, and that the bank will not be taking any enforcement actions against the Subsidiary.

As at the date of this report, due to the limitation of scope as disclosed in matter (1) above, we have not been able to obtain sufficient audit evidence to satisfy ourselves as to the full extent and impact of the litigations on the Group's operations and liquidity position, and that any of the above assumptions will be realised. Accordingly, we were unable to satisfy ourselves as to the appropriateness of the going concern basis of accounting used in the preparation of 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

2 June 2020

Extract from financial statements of the Group

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China Haida Ltd. (the “Company”) is a limited liability company domiciled and incorporated in Singapore and is listed on the Singapore Exchange Securities Trading Limited. The address of the Company’s registered office and principal place of business is 420 North Bridge Road, #04-06 North Bridge Centre, Singapore 188727. The address of the principal place of business of its subsidiary is at 388 Qinfeng Lu, Huashi Town, Jiangyin City, Jiangsu Province, the People’s Republic of China (“PRC”) 214421.

The principal activity of the Company is investment holding. The principal activities of its subsidiary are discussed in Note 10.

The global outbreak of the novel coronavirus (COVID-19) has caused unprecedented business, economic, financial and social disruptions to many entities and individuals around the world. To the best of its knowledge, the Company’s sole and wholly-owned subsidiary, Jiangyin Litai Ornamental Materials Co., Ltd (the “Subsidiary”) is also not spared from such disruptions and has not fully resumed operations and work (in particular, its key management personnel and finance personnel) to date. Responses and provision of information or documents from the Subsidiary had been extraordinarily slow, and were eventually not forthcoming. Neither is the Group’s CEO contactable to date.

Consequently, the Company has been unable to procure all pertinent information, documents and/or explanations from the Subsidiary to accurately prepare the financial statements of the Group for the year ended 31 December 2019 (“FY 2019”) despite numerous attempts to do so via electronic communication means. Neither is the Company’s personnel able to visit Litai to physically access and obtain the requisite information and documents due to the current travel restrictions to China during this pandemic period. Nonetheless, the Company is constrained to prepare these financial statements to be laid before the forthcoming Annual General Meeting of the Company to be held on 29 June 2020 (which is an unprecedentedly extended deadline by the regulators as a result of COVID-19) so as to avoid any further non-compliances with the relevant laws and regulations in Singapore. Any further delay in issuing these financial statements would only serve to diminish its value, for timely reporting and prompt disclosures is a key hallmark of a disclosure-based regime. In preparing these financial statements, the management has therefore applied its best judgments and estimates having regard to all the pertinent information available as of the date of these financial statements.

The financial statements for the financial year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 2 June 2020.

2. FUNDAMENTAL ACCOUNTING CONCEPT

The Group recorded a net loss for the year of RMB 50,809,000 and negative operating cash flows of RMB 5,358,000 for the financial year ended 31 December 2019 (“FY 2019”) (2018: RMB 21,659,000 and RMB 27,040,000 respectively). The net loss was largely due to the substantial allowances of RMB 39,565,000 made against the amounts due from related parties during FY 2019 (Notes 13 and 15).

In addition, the Subsidiary defaulted on the repayment of a secured bank loan of RMB 6,943,000 which was due and payable on 26 November 2019, and subsequent to the year-end, the Subsidiary defaulted on another secured bank loan of RMB 7,000,000 which was due on 29 January 2020 (Note 19).

The Subsidiary was also involved in various on-going litigation and enforcement proceedings in the PRC, as disclosed in Note 29.

Extract from financial statements of the Group (Continued)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. FUNDAMENTAL ACCOUNTING CONCEPT (Continued)

The facts and circumstances above indicate the existence of material uncertainties that may cast significant doubts over the ability of the Group to continue as a going concern. Notwithstanding this, the accompanying financial statements have been prepared on a going concern basis on the following grounds:

- (i) The Subsidiary is still in operation based on its management accounts made up to March 2020 and the verbal confirmation of a director of the Subsidiary although it was scaled down due mainly to COVID-19;
- (ii) The Group would still maintain a positive financial standing (specifically, a positive net current assets and net assets positions) even if the full financial effects of the remaining balances due from related parties (Notes 13 and 15) and of the litigation proceedings (see Note 29) have been notionally provided for as at 31 December 2019;
- (iii) The bank has not taken any enforcement actions against the Subsidiary despite its default in repaying the outstanding balances of RMB13.9 million as at 31 December 2019 in full on their respective maturity dates (see Note 19). In this regard, it is also noted that the outstanding balances due to the bank amounted to approximately RMB 11.4 million as at 31 March 2020, thereby purporting that there was a net partial repayment of bank loans of approximately RMB2.5 million in the first quarter of 2020; and
- (iv) It is premature and inappropriate at this juncture to prepare these financial statements on any alternative accounting basis other than the going concern basis.

In the event if the Group and the Company is unable to continue in operational existence for the foreseeable future, the Group and the Company 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 statements of financial position. In addition, the Group and the Company may have to reclassify non-current assets as current assets, and to provide for further liabilities which may arise. No such adjustments have been made to the financial statements.