Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of Innopac Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") as set out on pages 26 to 80, which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 30 June 2018, and the consolidated statement of 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 period from 1 January 2017 to 30 June 2018, 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 balance sheet 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

1. <u>Recoverability of available-for-sale investment - Sawyer Falls Co. LLC ("SFC")</u>

   As disclosed in Note 13 to the financial statements, included in the Group's and the Company's balance sheets is an available-for-sale investment, SFC, amounting to $4,600,000 as at 30 June 2018.

   Management determined that no impairment loss is required on the Group's and the Company's available-for-sale investment for the current financial period. Based on the information available to us, we are unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the recoverable amount of the investment in SFC and to determine whether any adjustments in respect of the net carrying amount of the Group's and the Company's available-for-sale investments as at 30 June 2018 is necessary.

2. <u>Recoverability of other receivables — amount due from former non-controlling shareholder of Dezhou Sheng Rong Gas Co Ltd ("Sheng Rong")</u>

   As disclosed in Note 16 to the financial statements, included in the Group's other receivables as at 30 June 2018 is an amount of $2,300,000 due from a former non-controlling shareholder of Sheng Rong.

   The recoverability of the amount due from the former non-controlling shareholder of Sheng Rong is dependent on the realisation of the assigned debt and the property already transferred and other properties yet to be transferred to the Group as full settlement of the amount outstanding or through the proposed disposal of Extera Pte Ltd (holding company of Sheng Rong) as disclosed in Note 36 to the financial statements. We are unable to obtain sufficient appropriate audit evidence to satisfy ourselves regarding the certainty, including timing, of the recoverability of the aforesaid amount as well as the appropriateness of the classification of the outstanding other receivables as current assets. Consequently, we are unable to determine whether any adjustments to the financial statements of the Group were necessary. We are also unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the recoverable amount of the investment in the subsidiary (holding company of Sheng Rong) of $2,317,000 as carried on the Company's balance sheet as at 30 June 2018 (Note 9) and to determine whether any adjustments in respect of the net carrying amount as at 30 June 2018 is necessary.

   The independent auditor's report for the financial year ended 31 December 2016 contained a similar disclaimer of opinion, among others, on being unable to determine whether any adjustments to other receivables of $2,300,000 due from a former non-controlling shareholder of the Group is required. Our report on the current period's financial statements of the Group is also modified because of the possible effect of these matters on the comparability of the current period's figures and the corresponding figures.

3. <u>Appropriateness of going concern assumption</u>

   As disclosed in Note 3(a)(i) to the financial statements, the Group incurred a loss of $9,760,000 (31.12.2016: $3,361,000) and a total comprehensive loss of $9,494,000 (31.12.2016: $3,533,000) for the financial period from 1 January 2017 to 30 June 2018. As at 30 June 2018, the Group's and the Company's current liabilities exceeded current assets by $11,339,000 (31.12.2016: $10,029,000) and $4,835,000 (31.12.2016: $5,487,000) respectively. 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 and therefore they may not be able to realise their assets and discharge their liabilities in the normal course of business.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF INNOPAC HOLDINGS LIMITED

Report on the Audit of the Financial Statements (cont'd)

Basis for Disclaimer of Opinion **(cont'd)**

3. Appropriateness of going concern assumption (cont'd)

Nevertheless, in the preparation of the financial statements, the directors believe that the use of going concern assumption is appropriate after taking into consideration the loan to the Company of up to $2,500,000 announced on 8 October 2018 on SGXNet to meet working capital requirements and obligations over the next 12 months and the assumptions that the (i) proposed sale of the Company's entire shareholding interests in certain non-core assets for a total sale consideration of $100,000; and (ii) proposed placement of 8,400,000,000 new ordinary shares of the Company, at an issue price of $0.001 per share which will raise up to $8,400,000 in total gross proceeds will be completed. The proposed sale of the Company's entire shareholding interests in certain non-core assets and the proposed placement are inter-dependent and are subject to the approval of shareholders at an extraordinary general meeting [Note 3(a)(i) and Note 36].

The financial statements did not include any adjustments that may result in the event that the Group and the Company is unable to continue as a going concern. In the event that 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 ordinary 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 ordinary course of business and at amounts which could differ from the amounts at which they are currently recorded in the balance sheets. In addition, the Group and the Company may have to provide for further liabilities which may arise, and to reclassify non-current assets as current assets and non-current liabilities as current liabilities. No such adjustments have been made to the financial statements. The validity of the going concern basis on which the financial statements are prepared is dependent on certain assumptions and the successful outcome of the Group's and the Company's various efforts as disclosed above, in Note 3(a)(i) and Note 36 to the financial statements, the outcome of which are uncertain at the date of this report.

In light of the uncertainties described above, we are unable to conclude as to the appropriateness of the use of the going concern assumption in the preparation of these financial statements. Consequently, we are unable to determine whether any adjustments in respect of the Group's and the Company's financial statements for the financial period from 1 January 2017 to 30 June 2018 are necessary.

4. Opening balances

Another independent auditor was engaged to audit the financial statements for the financial year ended 31 December 2016 whose report dated 8 April 2017 contained a disclaimer of opinion on those financial statements. The basis for disclaimer of opinion on the financial statements is disclosed in Note 35 of the financial statements.

The independent auditor, among other matters raised, expressed that they were not able to obtain sufficient appropriate audit evidence to satisfy themselves as to the recoverable amount of the investment in Malaysian Microalgae Enterprise Sdn. Bhd. ("Malaysian Microalgae") in the Group's and the Company's balance sheets as at 31 December 2016. As disclosed in Note 12 to the financial statements, an impairment loss of $5,998,000 was subsequently recognised by the Group and the Company during the current financial period ended 30 June 2018 to fully write down its investment in Malaysian Microalgae in the Group's and the Company's balance sheets.

In view of the above and the matters described in the basis for disclaimer of opinion paragraphs on the financial statements for the financial year ended 31 December 2016, we are unable to determine whether the opening balances as at 1 January 2017 are fairly stated.

Since the opening balances as at 1 January 2017 entered into the determination of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial period from 1 January 2017 to 30 June 2018, we are unable to determine whether adjustments might have been found necessary in respect of the Group's and the Company's financial statements for the financial period from 1 January 2017 to 30 June 2018. We are also unable to determine whether any adjustment might have been found necessary in respect of the impairment loss on the investment in Malaysian Microalgae taken to profit or loss in the financial period ended 30 June 2018.

Our report on the current financial period's financial statements of the Group and the Company is also modified because of the possible effects of these matters on the comparability of the current period's figures and the corresponding figures.

Report on the Audit of the Financial Statements (cont'd)

Other Matter

The financial statements for the financial year ended 31 December 2016 were audited by another auditor whose report dated 8 April 2017 expressed a disclaimer of opinion on those financial statements as detailed in Note 35 to 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 Singapore Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore (the "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.

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 balance sheet and statement of changes in equity of the Company in accordance with Singapore Standards on Auditing ("SSAs") 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 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 by 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 Gilbert Lee Chee Sum.

Baker Tilly TFW LLP
Public Accountants and
Chartered Accountants
Singapore

12 October 2018

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's and the Company's accounting policies, management made judgements, estimates and assumptions about the carrying amounts of assets and liabilities that were not readily apparent from other sources. The estimates and associated assumptions were based on historical experience and other factors that were considered to be reasonable under the circumstances. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a) *Critical judgments made in applying the accounting policies*

The following are the critical judgements, apart from those involving estimations that management has made in the process of applying the Group's and the Company's accounting policies and that have significant effects on the amounts recognised in the financial statements:

(i) Going concern

The Group incurred a total loss of $9,760,000 (31.12.2016: $3,361,000) and a total comprehensive loss of $9,494,000 (31.12.2016: $3,533,000) for the financial period ended 30 Jun 2018. As at 30 Jun 2018, the Group's and the Company's current liabilities exceeded current assets by $11,339,000 (31.12.2016: $10,029,000) and $4,835,000 (31.12.2016: $5,487,000) respectively. 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 and therefore they may not be able to realise their assets and discharge their liabilities in the normal course of business.

Nevertheless, in the preparation of the financial statements, management believes that the use of the going concern assumption is appropriate after taking into consideration the following factors:

The Group's net current liability position of $11,339,000 as at 30 Jun 2018 is a result of classifying $12,339,000 owing by two subsidiaries to a single creditor as current liabilities in the Group's balance sheet (Note 19). This creditor had not demanded settlement in the past four financial years. However, on 1 Jun 2018, the Company received a letter of demand from the solicitor acting for the creditor claiming $14,689,000 from the Company. The Company had been advised by its lawyers and denies this claim and its validity. The Group is in communication with the creditor and the Board is optimistic that an amicable settlement can be reached.

The Company has on 6 Oct 2018 entered into a loan agreement with Joy Maker International Limited (the "Lender") (the "Loan Agreement"). Pursuant to the Loan Agreement, the Lender has agreed to lend up to $2,500,000 to the Company (the "Loan"), subject to the terms and on conditions as set out in the Loan Agreement as announced on 8 Oct 2018. The Loan of up to $2,500,000 is adequate to meet the Group's and the Company's working capital requirements and obligations over the next 12 months (Note 36).

Further to the Loan, the Company made a separate announcement on 9 Oct 2018 that it had also entered into two separate but inter-conditional agreements on 6 Oct 2018 relating to the (i) proposed sale of the Company's entire shareholding interests in certain non-core assets for a total sale consideration of $100,000 ("Proposed Disposal"); and (ii) proposed placement of 8,400,000,000 new ordinary shares of the Company, at an issue price of $0.001 per share which will raise up to $8,400,000 in total gross proceeds ("Proposed Placement"). The Proposed Disposal and Proposed Placement are subject to shareholders' approval at an extraordinary general meeting to be convened in due course. Upon approval and subsequent completion of both the Proposed Disposal and Proposed Placement, the Company will receive total gross proceeds of $8,500,000 which will significantly improve and strengthen the Company's financial position going forward (Note 36).

Assuming that the proposed transactions announced on 9 Oct 2018 were completed on 30 Jun 2018, the Group's total loss would be $1,357,000 and the total comprehensive loss would be $1,091,000. The Group's and the Company's current net liability position would have reversed into a net current asset position of $5,643,000 and $2,850,000 respectively. Therefore, the directors are of the view that the Group and the Company are going concerns.

The Group and the Company maintain that it is a going concern in view of the loan of $2,500,000 announced on 8 Oct 2018 which will enable the Group and the Company to meet its obligations as and when they fall due over the next 12 months; and the Proposed Disposal and the Proposed Placement will result in the Group and the Company having net current assets positions.

13. Available-for-sale-investments (cont'd)

Investment in SFC

SFC is a special purpose vehicle company and owns only the rights to net proceeds of 85 finished lots of property in Falling Water District, Pierce County, Washington. As at 30 Jun 2018, the Company owns 67% (31.12.2016: 67%) equity interest in SFC.

Although the Company acquired and holds more than 50% equity interest in SFC, this investment has been classified as an available-for-sale investment instead of investment in subsidiary or investment in associate as the Company has no power to exercise control or significant influence in its financial and operating policy decisions as defined in FRS 28 *Investments in Associates and Joint Ventures*, FRS 110 *Consolidated Financial Statements* and FRS 111 *Joint Arrangements*.

On 23 Apr 2002, SFC entered into a Vacant Land Sale and Purchase Agreement ("VLSPA") to sell the Falling Water raw land to Capri Investment L.L.C for the consideration of US$3,500,000 and the entitlement of net proceeds from the sale of 85 finished lots from the property, less the customary costs of sale and closing costs as well as, the traffic, park schools mitigation fees and related utility fees allocable to each of the lots.

On 26 Feb 2004, the Company, SFC and its members entered into an agreement whereby SFC agreed to distribute the net proceeds from the first 35 lots of the 85 lots that SFC is entitled to under the VLSPA to the Company as settlement of promissory notes issued by SFC to the Company. It was also agreed on 16 Mar 2004, that the Company will be entitled to a further 25 lots without any deductions for the creditors of SFC or advances made by members of SFC after the date of the VLSPA. Consequently, the Company has a right to receive the net proceeds from the sale of 60 finished lots.

13. Available-for-sale-investments

	Group and Company	
	1.1.2017 to 30.6.2018	1.1.2016 to 31.12.2016
	$'000	$'000
Cost		
As at 1 Jan	**17,852**	17,852
Disposal	**(1,542)**	–
	16,310	17,852
Less: Allowance for impairment	**(11,710)**	(11,710)
As at 30 Jun/31 Dec	**4,600**	6,142

Available-for-sale investments comprise the following:

	Group and Company	
	30.6.2018	31.12.2016
	$'000	$'000
Investment in unquoted shares [Note (i)]	**4,600**	4,600
Investment in unquoted shares [Notes (ii) and (iii)]	**–**	1,542
	4,600	6,142

(i) Represents carrying amount of the Group's and the Company's equity investment in SFC, which has rights to receive net proceeds from the sale of 60 finished lots (based on 67% share of investment) of land situated at Falling Water, Pierce County, Washington State, United States of America amounting to $4,600,000;

16. Other receivables and prepayments

	Group		Company	
	30.6.2018	31.12.2016	**30.6.2018**	31.12.2016
	$'000	$'000	**$'000**	$'000
Other receivables				
- third parties	**3,306**	3,399	**270**	342
- joint ventures	**34**	3	**13**	3
Allowance for impairment	**(1,070)**	(1,036)	**(282)**	(269)
	2,270	2,366	**1**	76
Amounts due from subsidiaries	**–**	–	**29,251**	29,266
Allowance for impairment	**–**	–	**(26,600)**	(26,539)
	–	–	**2,651**	2,727
Deposits	**34**	36	**31**	33
Prepayments	**6**	30	**–**	10
	2,310	2,432	**2,683**	2,846

Other receivables include an amount of $2,300,000 (equivalent to RMB11,000,000) due from the former non-controlling shareholder of Sheng Rong. In 2015, the former non-controlling shareholder had agreed to pay Sheng Rong RMB11,000,000 pursuant to the recovery of payments made by Sheng Rong for the CNG station by transferring four properties in the PRC totalling $1,000,000 (equivalent to RMB5,000,000) and assignment of debts totalling $1,300,000 (equivalent to RMB6,000,000) and also to transfer its 10% equity interest in Sheng Rong to an unrelated third party nominated by Sheng Rong. The receivables are personally guaranteed by the owner of the former non-controlling shareholder. The assignment of debt totalling $1,300,000 (equivalent to RMB6,000,000) have been transferred to Sheng Rong and one property of $100,000 (equivalent to RMB500,000) has been transferred to Sheng Rong's trustee in 2015. In May 2016, Sheng Rong initiated legal action against the former non-controlling shareholder of Sheng Rong and owners of properties (which are pledged as collaterals for the receivables) for enforcement of recovery of the receivables. In Dec 2016, the Chinese Court ruled in favour of Sheng Rong's application and required the various parties to fulfill their obligations and a penalty payment for the delay in transfer of the properties to Sheng Rong. The former non-controlling shareholder appealed the Court's award of the late payment penalty to Sheng Rong in Jan 2017. In Jun 2017, the Chinese (Appeal) Court reaffirmed the first Court decision on the transfer of the properties and the 10% equity interest in Sheng Rong but dismissed the penalty payment awarded to Sheng Rong. The former non-controlling shareholder's 10% equity interest in Sheng Rong had been transferred to an unrelated third party shortly after the Jun 2017 Court decision. Three out of four properties have yet to be transferred as at 30 Jun 2018.

As at 30 Jun 2018, the assignment of debts totalling $1,300,000 (equivalent to RMB6,000,000) and only one property worth $100,000 (equivalent to RMB500,000) have been transferred to Sheng Rong and a trustee appointed by the Group respectively.

Other receivables and amounts due from subsidiaries are interest-free, unsecured and repayable on demand.

Movements in allowance for impairment on other receivables are as follows:

	Group		Company	
	1.1.2017 to 30.6.2018	1.1.2016 to 31.12.2016	**1.1.2017 to 30.6.2018**	1.1.2016 to 31.12.2016
	$'000	$'000	**$'000**	$'000
As at 1 Jan	**1,036**	153	**269**	–
Addition	**33**	883	**13**	269
Foreign currency translation differences	**1**	–	**–**	–
As at 30 Jun/31 Dec	**1,070**	1,036	**282**	269

16. Other receivables and prepayments (cont'd)

An allowance for impairment is made for estimated irrecoverable amounts from other receivables and amount due from subsidiaries and determined by reference to the financial position and repayment capability of the other receivables and subsidiaries.

Other receivables which are aged less than one financial year are not considered as past due.

Movements in allowance for impairment on amounts due from subsidiaries are as follows:

	Company	
	1.1.2017 to 30.6.2018	1.1.2016 to 31.12.2016
	$'000	$'000
As at 1 Jan	**26,539**	27,786
Addition	**65**	272
Written off	**–**	(1,450)
Write back	**(4)**	(69)
As at 30 Jun/31 Dec	**26,600**	26,539

Amount due from subsidiaries that are individually determined to be impaired at the balance sheet date relate to subsidiaries that have been suffering financial difficulties.

Other receivables and prepayments are denominated in the following currencies:

	Group		Company	
	30.6.2018	31.12.2016	**30.6.2018**	31.12.2016
	$'000	$'000	**$'000**	$'000
Singapore dollar	**33**	122	**2,683**	2,846
Chinese renminbi	**2,275**	2,309	**–**	–
Malaysian ringgit	**2**	1	**–**	–
	2,310	2,432	**2,683**	2,846