INDEPENDENT AUDITOR'S REPORT

To the Members of Mencast Holdings Ltd

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the accompanying financial statements of Mencast Holdings Ltd (the "**Company**") and its subsidiary corporations (the "**Group**") which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on page 49 to 117.

We do not express an opinion on the accompanying financial statements of the Group and the balance sheet of the Company. Because of the significance of the matter 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

As disclosed in Note 2.1 to the financial statements, in preparing the financial statements, the Board of Directors have considered the operations of the Group and the Company as going concerns notwithstanding that the Group and the Company incurred a net loss of $80,664,000 and $18,103,000 for the financial year ended 31 December 2017 respectively (2016: $26,370,000 and $2,961,000) and as at that date, the Group and the Company are in net current liabilities position of $166,787,000 and $7,660,000 respectively (2016: Net current assets position of $5,843,000 and $47,669,000). Furthermore, as disclosed in Note 22 to the financial statements, the Group has breached certain financial covenant clauses on most of its loan agreements.

The above conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's and the Company's abilities to continue as going concerns. Nevertheless, the Board of Directors believes that the use of the going concern assumption in the preparation of the financial statements for the financial year ended 31 December 2017 is still appropriate after taking into consideration the following measures and assumptions:

(a) During the financial year, the Group appointed a financial advisor to carry out a review of the financial position of the Group and to assist the Group in developing alternative options and solutions in formulating a debt restructuring plan which will include, among others, moratorium of loan principal repayment for a certain period and longer repayment terms. As at the date of the financial statements, the Group has commenced and is in the midst of discussion with its banks.

(b) The Group is in discussions and/or looking for potential parties in respect of its assets divestment plan to pare down its borrowings.

(c) The Group is able to generate positive cash flow from operations for the next twelve months. With a moratorium of loan principal repayment, the Group would have sufficient cash to meet its other obligations as and when they fall due for the next twelve months.

INDEPENDENT AUDITOR'S REPORT

To the Members of Mencast Holdings Ltd

Basis for Disclaimer of Opinion (continued)

In the event that the Group and the Company are 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 balance sheet. 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. The financial statements do not include any adjustment which may arise from these uncertainties.

The ability of the Group and of the Company to continue as going concerns depends on the successful outcome of the measures and assumptions set out above which cannot be determined at present. As at the date of this report, certain banks have indicated that they will need more information before deciding on the proposed debt restructuring plan. As such, we are unable to obtain sufficient audit evidence to form an opinion as to the appropriateness of the use of going concern basis in the preparation of the accompanying financial statements of the Group and the Company.

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 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Group's 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.

INDEPENDENT AUDITOR'S REPORT

To the Members of Mencast Holdings Ltd

Report on Other Legal and Regulatory Requirements

In our opinion, except for those matters described in the *Basis for Disclaimer of Opinion* section of our report, 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 director on the audit resulting in this independent auditor's report is Low See Lien.

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants

Singapore

4 April 2018

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern

In preparing the financial statements, the Board of Directors have considered the operations of the Group and the Company as going concerns notwithstanding that the Group and the Company incurred a net loss of $80,664,000 and $18,103,000 for the financial year ended 31 December 2017 respectively (2016: $26,370,000 and $2,961,000) and as at that date, the Group and the Company are in net current liabilities position of $166,787,000 and $7,660,000 respectively (2016: Net current assets position of $5,843,000 and $47,669,000) and has also breached certain financial covenants for most of its loan agreements.

The above conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's and the Company's abilities to continue as going concerns. Nevertheless, the Board of Directors believes that the use of the going concern assumption in the preparation of the financial statements for the financial year ended 31 December 2017 is still appropriate after taking into consideration the following assumptions and measures:

(a) During the financial year, the Group appointed a financial advisor to carry out a review of the financial position of the Group and to assist the Group in developing alternative options and solutions in formulating a debt restructuring plan which will include, among others, moratorium of loan principal repayment for a certain period and longer repayment terms. As at the date of the financial statements, the Group has commenced and is in the midst of discussion with its banks.

(b) The Group is in discussions and/or looking for potential parties in respect of its assets divestment plan to pare down its borrowings.

(c) The Group is able to generate positive cash flow from operations for the next twelve months. With a moratorium of loan principal repayment, the Group would have sufficient cash to meet its other obligations as and when they fall due for the next twelve months.

In the event that the Group and the Company are 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 balance sheet. 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. The financial statements do not include any adjustment which may arise from these uncertainties.

2.2 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Revenue is presented, net of goods and services tax, rebates and discounts, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

(a) *Sale of goods*

Revenue from sale of goods is recognised when the Group has delivered the products to the customer, the customer has accepted the products and the collectability of the related receivables is reasonably assured.