

Financial Statements and Related Announcement::Auditor's Comments of Accounts

Issuer & Securities

Issuer/ Manager	ASIAPHOS LIMITED
Securities	ASIAPHOS LIMITED - SG2G24997246 - 5WV ASIAPHOS LIMITED W200323 - SG5DS5000008 - 1C9W
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Announcement Details

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For Financial Period Ended	31/12/2017
Attachments	AsiaPhos_Auditor Report Announcement.pdf Auditor Report.pdf extract.pdf Total size =565K

A. QUALIFIED OPINION BY INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

B. PRESENTATION OF SEGMENTAL REVENUE AND RESULTS FOR OPERATING SEGMENTS

Capitalised terms used herein, unless otherwise defined, shall have the definitions ascribed to them in the offer document dated 25 September 2013, and registered by the Singapore Exchange Securities Trading Limited acting as agent on behalf of the Monetary Authority of Singapore on 25 September 2013 and the Company's announcements dated 3 March 2017, 24 November 2017, 30 November 2017, 4 December 2017, 13 December 2017, 11 January 2018, 24 January 2018, 9 February 2018, 28 February 2018 and 16 March 2018.

A. QUALIFIED OPINION BY INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Pursuant to Rule 704(4) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalist, the board of directors (the "Board") of AsiaPhos Limited (the "Company", and together with its subsidiaries, the "Group") wishes to announce that the Company's independent auditor, Messrs Ernst & Young LLP (the "Independent Auditor"), has issued a qualified opinion in relation to the significant uncertainty with respect to the recoverable amount of the assets and directly associated liability of Mine 1, Mine 2 and Fengtai Mine, as it is subject to further negotiation with the relevant authorities in People's Republic of China in its independent auditor's report dated 28 March 2018 ("Independent Auditor's Report") for the financial statements of the Group ("Financial Statements") for the financial year ended 31 December 2017 ("FY2017").

As the Chinese Government has yet to finalise the compensation and negotiation is still ongoing, the Independent Auditors were unable to obtain sufficient appropriate audit evidence to determine if the assets of disposal group amounting to \$90,110,000 and liability of disposal group amounting to \$815,000 are carried at the lower of carrying amount or fair value less cost of disposal as at 31 December 2017. Consequently, they were also unable to determine whether adjustment is required to the cost of investment in subsidiaries amounting to \$78,036,000 in the Company's balance sheet as at 31 December 2017. Any adjustment to the carrying value of the disposal group would have a consequential effect on the results of the discontinued operation for the year ended 31 December 2017, and the carrying amounts of the Group's assets and liability of disposal group and cost of investment in subsidiaries in the Company's balance sheet as at 31 December 2017.

Except for the possible effects of the matter highlighted above, the accompanying consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

A copy of the Independent Auditor's Report is annexed to this announcement for shareholders' reference.



The Independent Auditor's Report and a complete set of the Financial Statements will also be found in the Company's annual report for FY2017, which will be despatched to shareholders in due course.

B. PRESENTATION OF SEGMENTAL REVENUE AND RESULTS FOR OPERATING SEGMENTS

In the results announcement for fourth quarter and financial year ended 31 December 2017 dated 28 February 2018 (the "Results Announcement"), the Group reported its segmental results and certain items in consolidated profit and loss statement (the "Disclosure Items"). The total of the segmental results and Disclosure Items in the Results Announcement shows the consolidated total for the Group (including continuing and discontinued operations).

To better reflect the results from the Group's continuing operations, the total of the segmental results and Disclosure Items shown in the Financial Statements (note 34) reflect only the total from continuing operations of the Group.

	Results Announcement		Financial Statements	
	FY2017	FY2016	FY2017	FY2016
	\$'000	\$'000	\$'000	\$'000
Revenue - external	51,075	34,345	44,085	23,558
Depreciation and amortisation expenses	(3,645)	(4,290)	(2,008)	(1,791)
Interest expense	(515)	(820)	(456)	(761)
Termination of services of employees	(101)	-	-	-
Segment profit/(loss) before tax	976	(1,931)	(34)	(4,130)

Save as disclosed above, there are no changes to the Group's consolidated statement of comprehensive income, balance sheet, consolidated statement of cash flows and statement of changes in equity for FY2016 and FY2017 as set out in the Results Announcement.

BY ORDER OF THE BOARD

Simon Ong Eng Hock
 Executive Director
 AsiaPhos Limited
 28 March 2018

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, ("Sponsor"), Asian Corporate Advisors Pte. Ltd., for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("Exchange"). The Sponsor has not independently verified the contents of this announcement including the correctness of any of the figures used, statements or opinions made.

This announcement has not been examined or approved by the Exchange and the exchange assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr. Liao H.K..
 Telephone number: 6221 0271



**Independent Auditor's Report
For the financial year ended 31 December 2017**

Independent Auditor's Report to the Members of AsiaPhos Limited

Report on the audit of the financial statements

Qualified Opinion

We have audited the financial statements of AsiaPhos Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2017, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income 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.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Qualified Opinion

The assets and directly associated liability of Mine 1, Mine 2 and Fengtai Mine, (collectively, the "Mining Assets") were reclassified as assets and liability of disposal group in the Group's consolidated balance sheet as at 31 December 2017 and its results have been reclassified as discontinued operation on the Group's consolidated statement of comprehensive income statement for the year ended 31 December 2017. Further details are provided in Note 2, Note 4.1 (a), Note 4.2 (d) and Note 9 to the financial statements.

The directors are of the view that the fair value less costs of disposal of the Mining Assets is higher than their carrying amounts as at 31 December 2017. However, there exists significant uncertainties with respect to the recoverable amount of the disposal group as it is subject to further negotiation with the relevant authorities in the People's Republic of China ("PRC"). Based on the information available to us, we were unable to obtain sufficient appropriate audit evidence to determine if the assets of disposal group amounting to \$90,110,000 and liability of disposal group amounting to \$815,000 are carried at the lower of carrying amount or fair value less cost of disposal as at 31 December 2017. Consequently, we were also unable to determine whether adjustment is required to the cost of investment in subsidiaries amounting to \$78,036,000 in the Company's balance sheet as at 31 December 2017. Any adjustment would have a consequential effect on the results of the discontinued operation for the year ended 31 December 2017, and the carrying amounts of the Group's assets and liability of disposal group and cost of investment in subsidiaries in the Company's balance sheet as at 31 December 2017.

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Independent Auditor's Report
For the financial year ended 31 December 2017**

Independent Auditor's Report to the Members of AsiaPhos Limited

Other information

Management is responsible for the other information. The other information comprises the information included in the Group's annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate audit evidence to determine if the disposal group is carried at the lower of carrying amount or fair value less cost of disposal as at 31 December 2017. Consequently, we were also unable to determine whether adjustment is required to the cost of investment in subsidiaries in the Company's balance sheet as at 31 December 2017. Accordingly, we were unable to conclude whether or not the other information is materially misstated with respect to these matters.

Key audit matter

Key audit matter is those matter that, in our professional judgement, was of most significance in our audit of the financial statements of the current period. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

We have fulfilled our responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to the matter below. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

**Independent Auditor's Report
For the financial year ended 31 December 2017**

Independent Auditor's Report to the Members of AsiaPhos Limited

Key audit matter (cont'd)

Area of focus

Impairment assessment of the Group's plant and machinery relating to downstream segment

The Group recorded certain plant and machinery relating to the downstream segment of \$2,599,000, which constitute 9% of the total non-current assets as at 31 December 2017.

Management has identified that the non-production of a downstream chemical indicated potential impairment of the above mentioned plant and machinery pertaining to the downstream segment.

Accordingly, management has performed impairment assessment on the plant and machinery, and measured the recoverable amount of the asset based on value-in-use method using discounted cash flows.

The impairment assessment was significant to our audit due to the significant management judgement involved in making certain assumptions and estimates in the impairment assessment which are affected by expected future market and economic conditions.

Based on the outcome of this impairment test, management has assessed that no impairment loss is required.

How our audit addressed the matter

We reviewed management's process in the assessment of whether there is an indication that the plant and machinery relating to downstream segment may be impaired and their estimation of the recoverable amount of the asset.

We obtained the value-in-use assessment prepared by management and assessed the reasonableness of the key assumptions and estimates used, focusing on revenue, costs and appropriateness of growth rates to historical trends, in addition to checking the mathematical accuracy of underlying calculations.

Given the complexity involved, our internal valuation specialists assisted us in reviewing the reasonableness of the discount rate used by management.

We also assessed the adequacy of the disclosures in Note 12 of 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 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.

**Independent Auditor's Report
For the financial year ended 31 December 2017**

Independent Auditor's Report to the Members of AsiaPhos Limited

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Independent Auditor's Report
For the financial year ended 31 December 2017**

Independent Auditor's Report to the Members of AsiaPhos Limited

Auditor's responsibilities for the audit of the financial statements

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, 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 Philip Ling Soon Hwa.

Ernst & Young LLP
Public Accountants and
Chartered Accountants

28 March 2018

2. Discontinued operation and assets of disposal group

As disclosed in the Group's announcements dated 24 November 2017, 30 November 2017, 4 December 2017 and 9 February 2018, the Group is currently in discussion with the Sichuan Provincial Government on the Mianzhu City Government's request for the Group to provide a letter of undertaking to *inter alia*, vacate and rehabilitate its mining site in respect of Mine 2 and the Fengtai mine and the non-renewal of the Mine 1 mining license.

Following discussion with the Sichuan Provincial Government on 30 November 2017 to dispose of Mine 1, Mine 2 and Fengtai mine, collectively ("the Mining Assets"), by sale or otherwise to the Sichuan Provincial Government, the directors are of the view that the Mining Assets are (i) available for immediate sale; (ii) the disposal is highly probable as the Sichuan Provincial Government has indicated its preference for an amicable settlement; and (iii) the Mining Assets are genuinely disposed, not abandoned.

Accordingly, the assets and directly associated liability of the Mining Assets were presented as assets of disposal group and liability directly associated with disposal group on the Group's consolidated balance sheet. Arising thereon, the results of the Group's upstream segment have been reclassified as discontinued operation on the Group's consolidated statement of comprehensive income statement. Comparatives were re-presented to conform with FY2017's presentation.

The Chinese Government has yet to finalise the compensation amount. Based on an independent valuation report of the Mining Assets, the directors are of the view that the fair value less costs of disposal of the Mining Assets is higher than their respective carrying amounts as at 31 December 2017. Accordingly, no impairment was identified for the Mining Assets for year ended 31 December 2017.

As at the date of this report, the Group is still in negotiations with the Sichuan Provincial Government for a settlement in relation to the above matter.

4.1 **Judgements made in applying accounting policies**

(a) **Assets and liability of disposal group**

As disclosed in the Group's announcements dated 24 November 2017, 30 November 2017, 4 December 2017 and 9 February 2018, the Group is in discussion with the Sichuan Provincial Government on the Mianzhu City Government's request for the Group to provide a letter of undertaking to *inter alia*, vacate and rehabilitate its mining site in respect of Mine 2 and the Fengtai mine and the non-renewal of the Mine 1 mining license. The Group's lawyers have advised that the requests may be a prelude to formal negotiations on the withdrawal of the mining and exploration licenses.

All mining related property, plant and equipment, mining properties, goodwill and mining deposits were reclassified as "assets of disposal group" in current assets on the consolidated balance sheet as at 31 December 2017, as the Group is of the view that these assets are available for immediate disposal, by sale or otherwise, in their present condition and a settlement agreement with the Sichuan Provincial Government is highly probable as it has indicated its preference for an amicable settlement. No provision for impairment has been identified as based on independent valuation, the fair value of the mining and exploration licenses are higher than the carrying value of these assets.

Provision for rehabilitation were reclassified to "liability held for disposal" in current liabilities on the consolidated balance sheet as at 31 December 2017, as the provision is directly associated to the disposal group and the Group is of the view that the cost of rehabilitation will be deducted from the settlement proceeds.

4.2 **Key sources of estimation uncertainty**

(d) **Impairment of assets of disposal group**

Assets of disposal group includes all mining related property, plant and equipment, mining properties, goodwill and mining deposits.

Based on independent valuation of the mining assets, the fair value of the relevant assets is greater than their carrying value. Based on independent legal opinion, the settlement amount to be paid by a host state to an investor in the event of expropriation is based on the fair market value of the asset/(s) immediately before the expropriation event. Inevitably, uncertainties exist with respect to the recoverable amount as it is subjected to further negotiations and PRC laws.

The directors, based on currently available information, are of the opinion that the fair value less cost to sell is higher than the carrying amount of the assets held for disposal. Accordingly, no impairment loss was recorded in the consolidated income statement for FY2017. The carrying amount of assets of disposal group as at 31 December 2017 was \$90,110,000 (2016: Nil).

9. Discontinued operation and disposal group

The Company announced on 24 November 2017, 30 November 2017, 4 December 2017 and 9 February 2018 that the Group is in discussion with the Sichuan Provincial Government on the Mianzhu City Government's request for the Group to provide a letter of undertaking to *inter alia*, vacate and rehabilitate its mining sites in respect of Mine 2 and the Fengtai mine and the non-renewal of the Mine 1 mining license. The Group's lawyers have advised that the request may be a prelude to formal negotiations on the withdrawal of the exploration licenses.

In accordance with FRS 105 *Non-current assets held for sale and discontinued operations*, all mining related property, plant and equipment, mining properties, goodwill, mining deposits and levy have been reclassified as "assets of disposal group" in current assets on the consolidated balance sheet as at 31 December 2017, as the directors are of the view that the value of these assets are to be recovered via a sale transaction or otherwise and (i) they are available for immediate sale in their present condition and (ii) a settlement agreement with the Sichuan Provincial Government is highly probable as the Sichuan Provincial Government has indicated its preference for an amicable settlement. Provision for rehabilitation was reclassified as "liability of disposal group" in current liabilities on the consolidated balance sheet as at 31 December 2017 as the provision is directly associated with the disposal group and the directors are of the view that the cost of rehabilitation will be deducted from the settlement proceeds. The results from mining operations are presented separately on the consolidated income statement as "Discontinued operation".

Immediately before the classification to assets of disposal group, the recoverable amount was estimated for the mining assets. Based on independent valuation of the mining assets, the fair value of the relevant assets is greater than their carrying value. No impairment loss was identified for FY2017.

Based on legal advice received, the Company is entitled to seek compensation in international arbitration based on the fair market value of the asset/(s) immediately before the expropriation event. Accordingly, based on independent valuation report of the affected assets, the directors are of the opinion that the fair market value less cost of disposal is higher than the carrying amount of the assets and liability of disposal group.

As at the date of this report, the Group is still in negotiations with the Sichuan Provincial Government for a settlement in relation to the above matter.

9. Discontinued operation and disposal group (cont'd)

Balance sheet disclosures

Group	Mining properties \$'000 (Note 10)	Mining related property, plant and equipment \$'000 (Note 12)	Goodwill \$'000 (Note 16)	Deposits for rehabilitation and mining levy \$'000 (Note 14)	Total \$'000
Assets of disposal group					
At 30 November 2017	65,261	12,283	12,249	251	90,044
Currency realignment	3	62	–	1	66
At 31 December 2017	65,264	12,345	12,249	252	90,110

Group	Provision for rehabilitation \$'000 (Note 29)	Total \$'000
Liability of disposal group:		
At 30 November 2017	811	811
Currency realignment	4	4
At 31 December 2017	815	815
Net assets of disposal group		89,295

Income statement disclosures:

The results of discontinued operation for the years ended 31 December are as follows:

	Group	
	2017 \$'000	2016 \$'000
Revenue	6,990	10,787
Cost of sales	(4,949)	(7,835)
Gross profit	2,041	2,952
Other income	19	13
Selling and distribution costs	(33)	(58)
General and administrative costs	(952)	(649)
Finance costs	(65)	(59)
Profit before tax from discontinued operation	1,010	2,199
Taxation	(256)	(437)
Profit from discontinued operation, net of tax	754	1,762

9. Discontinued operation and disposal group (cont'd)

Cash flow statement disclosures:

The cash flows attributable to the disposal group are as follows:

	Group	
	2017	2016
	\$'000	\$'000
Operating	308	4,398
Investing	(1,833)	(3,277)
Financing	61	50
Net cash (outflows)/inflows	(1,464)	1,171