
EMPHASIS OF MATTER ON THE MATERIAL UNCERTAINTY RELATED TO GOING CONCERN BY INDEPENDENT AUDITOR ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

In compliance with Rule 704(4) of the Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”), the Board of Directors (the “**Board**”) of Jiutian Chemical Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that the Group’s Independent Auditor, Baker Tilly TFW LLP, had, without qualifying its audit opinion, included an emphasis of matter on the material uncertainty related to going concern in their audit report (the “**Independent Auditor’s Report**”) on the audited financial statements of the Company and its subsidiaries for the financial year ended 31 December 2019 (the “**FY2019 Audited Financial Statements**”).

During the financial year ended 31 December 2019, the Group and the Company reported net loss of RMB278,892,000 and RMB228,593,000 respectively. As at 31 December 2019, the Company’s current liabilities exceeded the current assets by RMB10,063,000 (31 December 2018: RMB9,717,000). These factors indicate the existence of a material uncertainty that may cast significant doubt on the Group’s and the Company’s ability to continue as going concerns and to realise their assets and discharge their liabilities in the ordinary course of business.

Having regard to the following measures undertaken by Management to improve the operational performance and financial position of the Group as well as the continuing financial support provided by Anyang Chemical Industry Group Co., Ltd. (“**Anhua**”), a subsidiary company of Henan Energy and Chemical Industry Group Co., Ltd. (“**HNEC**”) and a related party of the Group, there are reasonable grounds to believe that the Group and the Company have adequate resources to continue their operations as going concern. Accordingly, the Board is of the opinion that the Group and the Company will continue as a going concern.

The ability of the Group and the Company to continue as going concern is dependent on:

- (i) the continuing financial support from Anhua, a subsidiary company of HNEC and a related party of the Group. The details of the financial support which was provided to Anyang Jiutian Fine Chemical Co., Ltd. (“**Anyang Jiutian**”), a significant subsidiary company of the Group, are described in Note 24;
- (ii) the ability of the Group to generate sufficient cash flows from their operations to meet their current and future obligations; and
- (iii) the availability of credit facilities from the Group’s and the Company’s lenders over the next twelve months.

Management has taken the following measures to improve the Group’s operational performance and financial position:

- (i) sourced for new customers and held discussions with the Group’s major customers to seek higher sales volume and negotiate for better prices; and
- (ii) continuously seek improvements in the production efficiency of the Group’s production facilities through technological enhancements and system re-engineering in order to further reduce the costs of production.

A copy of the aforesaid Independent Auditor’s Report together with an extract of the relevant notes of the FY2019 Audited Financial Statements is annexed to this announcement for reference.

After considering the measures described above, the directors and the management believe that the Group and the Company have adequate resources to continue their operations as going concerns.

Additionally, the Board (i) is of the opinion that sufficient information has been disclosed for trading of the Company's securities to continue in an orderly manner; and (ii) confirmed that all material disclosures have been provided for trading of the Company's shares to continue.

Shareholders are advised to read the FY2019 Audited Financial Statements which will be released on SGXNET and despatched to them in due course as part of the Company's Annual Report for FY2019.

By Order of the Board

HAN LIANGUO
Non-Executive and Non-Independent Chairman
Date: 1 April 2020

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor") in accordance with Rules 226(2)(b) and 753(2) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalist.

This announcement has not been examined or approved by the SGX-ST. The SGX-ST 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 Ms Gillian Goh, Director, Head of Continuing Sponsorship (Mailing Address: 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318 and E-mail: sponsorship@ppcf.com.sg).

Extracted from the Independent Auditor's Report to the Audited Financial Statements of Jiutian Chemical Group Limited for the financial year ended 31 December 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JIUTIAN CHEMICAL GROUP LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Jiutian Chemical Group Limited (the "Company") and its subsidiary companies (the "Group") as set out on pages 12 to 64, which comprise the statements of financial position of the Group and the Company as at 31 December 2019, 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 and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)") 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 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for Opinion

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 opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 to the financial statements with respect to the Group's and the Company's ability to continue as going concerns. During the financial year ended 31 December 2019, the Group and the Company reported net loss of RMB278,892,000 and RMB228,593,000 respectively. At 31 December 2019, the Company's current liabilities exceeded the current assets by RMB10,063,000 (2018: RMB9,717,000).

These factors indicate the existence of a material uncertainty that may cast significant doubt about the Group's and the Company's ability to continue as going concerns and to realise their assets and discharge their liabilities in the ordinary course of business. Nevertheless, for the reasons disclosed in Note 3 to the financial statements, the Directors are of the view that it is appropriate for the financial statements of the Group and of the Company to be prepared on a going concern basis. Our opinion is not modified in respect of this matter.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
JIUTIAN CHEMICAL GROUP LIMITED (cont'd)**

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were 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 these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

1. Investment in associated companies

Description of key audit matter:

As disclosed in Note 17 to the financial statements, the carrying amount of the Group's and the Company's investment in associated companies is RMB71,749,000 (2018: RMB297,213,000) and RMB71,749,000 (2018: RMB339,709,000) respectively which accounted for approximately 6% (2018: 20%) and 22% (2018: 61%) respectively of the Group's and the Company's total assets as at 31 December 2019. The Group's result is affected by its share of losses from associated companies and impairment loss on investment in associated companies amounting to RMB146,772,000 and RMB78,692,000 respectively for the financial year ended 31 December 2019.

The significant losses in associated companies is considered an indication that the non-financial assets of the associated companies and consequently, the Group's and Company's investment in associated companies may need to be impaired. Any impairment of the associated companies' non-financial assets will have a significant adverse impact on the share of losses from associated companies and impairment loss on the investment in associated companies. Management performed an impairment assessment of the associated companies' non-financial assets and the Group's and Company's investment in the associated companies based on the discounted cash flow projections of the cash generating units to determine the value-in-use of the associated companies.

We considered this is to be a key audit matter because of the significance of these investments and the element of judgement and estimates applied by management in forecasting and discounting future cash flows for the impairment assessment of the non-financial assets of the associated companies and the Company's investment in associated companies as disclosed in Note 3 to the financial statements.

Our procedures to address the key audit matter:

We evaluated the independence, objectivity, capabilities and competence of the component auditor of the associated companies. We also engaged in continuous communications with the component auditor throughout the audit and reviewed information and document provided by the component auditor to satisfy our group audit requirements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
JIUTIAN CHEMICAL GROUP LIMITED (cont'd)**

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

Key Audit Matters (cont'd)

1. Investment in associated companies (cont'd)

Our procedures to address the key audit matter (cont'd):

We evaluated the sufficiency and appropriateness of the audit work performed and evidence obtained by the component auditor on the impairment loss on the associated companies' non-financial assets and the corresponding impact on the share of results of associated companies. For the impairment assessment of investment in associated companies, we have obtained value-in-use calculations from management and assessed the reasonableness of the key assumptions and inputs applied by management by comparing the cash flow's projection against recent performances and trends. This include obtaining an understanding of management's sale and costs management strategies. We performed sensitivity analysis on forecast sale volume, gross profit margin and discount rates assumption in the value-in-use calculations. We involved our valuation specialists in assessing the reasonableness of the discount rate used.

We have assessed the adequacy and appropriateness of the disclosures made in the financial statements.

2. Amount due from associated company

Description of key audit matter:

As disclosed in Note 12 to the financial statements, the Group has non-trade amount due from associated company, Anyang Jiujiu amounting to RMB145,000,000 (2018: RMB145,442,000) and contributes 12% (2018: 10%) to the Group's total assets as at 31 December 2019. The non-trade amount was advanced to Anyang Jiujiu for the construction of its manufacturing plants. A loss allowance of RMB17,893,000 was recognised during the financial year.

The impairment assessment of the non-trade amount due from associated company is considered a key audit matter as the non-trade receivables form a material portion of the Group's assets and any impairment of the amount due from associated company will have a significant adverse impact on the Group's financial results. Management has assessed the financial position, credit risk of the counterparty and the reliability of the corporate guarantee provided by a related party in determining if the amount due from Anyang Jiujiu need to be impaired.

Our procedures to address the key audit matter:

We have obtained an understanding of management's impairment assessment of amount due from associated company. We assessed the reasonableness of management's judgement and assumptions applied in its credit loss assessment and basis for relying on the corporate guarantee provided by a related party. We have also evaluated the adequacy and appropriateness of the disclosures made in the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
JIUTIAN CHEMICAL GROUP LIMITED (cont'd)**

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

Key Audit Matters (cont'd)

3. Impairment review of the Group's property, plant and equipment and land use rights

Description of key audit matter:

As disclosed in Note 3, Note 15 and Note 14 to the financial statements, the Group's property, plant and equipment of RMB208,433,000 (2018: RMB289,073,000) after deducting accumulated impairment losses of RMB145,634,000 (2018: RMB95,483,000) and land use rights of RMB3,980,000 (2018: RMB4,624,000) respectively, which in aggregate accounted for approximately 18% (2018: 20%) of the Group's total assets as at 31 December 2019. An impairment loss of RMB50,207,000 on the Group's property, plant and equipment was recognised during the financial year.

Impairment review of property, plant and equipment and land use rights is considered to be a key audit matter due to the significance of the assets to the Group's consolidated financial position, and the estimation involved in the determination of the value in use of the cash generating unit ("CGUs"). The estimation relates to the forecast sales volume, gross profit margin and discount rates and results of the CGUs that are affected by expected future market and economic conditions and the discount rates applied to future cash flow projections as disclosed in Note 3 to the financial statements.

Our procedures to address the key audit matter:

We obtained an understanding of management's impairment assessment process. We assessed the key inputs and assumptions applied by management with a focus on forecast sales volume and appropriateness of discount rate and gross profit margin. We also compared current year actual results to prior year forecast where relevant, to assess the reasonableness of the estimates made. We assessed the sensitivity of the key estimates on the impairment assessment, based on reasonably possible changes in the key estimates. We involved our valuation specialists in assessing the reasonableness of the discount rate used.

We have also assessed the adequacy and appropriateness of the disclosures made in the financial statements.

4. Impairment review of the Company's investment in subsidiary companies

Description of key audit matter:

As disclosed in Note 16 to the financial statements, the carrying amount of the Company's investment in subsidiary companies as at 31 December 2019 is RMB257,736,000 (2018: RMB218,023,000). There are indicators that the carrying amounts may not be recoverable or impairment loss recognised in prior periods may no longer exist or may have decreased. Management performed an impairment assessment on the investment in subsidiary companies based on the discounted cash flow projections to determine the value-in-use. The value in use calculations involve management's assessment of future cash flow projections of the business, and the appropriate discount rates applied to the future cash flow projections. Arising from the impairment assessment, a reversal of impairment loss of RMB39,713,000 was recognised in the Company's profit or loss during the financial year.

We focus on this area due to the significance of the investment to the Company's statement of financial position as well as the significant estimates and assumptions involved in management's assessment of the value in use.

Extracted from the Independent Auditor's Report to the Audited Financial Statements of Jiutian Chemical Group Limited for the financial year ended 31 December 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JIUTIAN CHEMICAL GROUP LIMITED (cont'd)

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

Key Audit Matters (cont'd)

4. Impairment review of the Company's investment in subsidiary companies (cont'd)

Our procedures to address the key audit matter:

Our procedures included reviewing management's assessment of the existence of impairment indicators or if the impairment loss recognised in prior years may no longer exist or may have decreased. For investments where there are indications, we assessed the key inputs and assumptions applied by management in their impairment assessments with a focus on forecast revenue, gross profit margin and appropriateness of discount rate. We also compared current year actual results to prior year forecast where relevant, to assess the reasonableness of the estimates made. We assessed the sensitivity of the key estimates on the impairment assessment, based on reasonably possible changes in the key estimates. We involved our valuation specialists in assessing the reasonableness of the discount rate used.

We have also evaluated the adequacy and appropriateness of the disclosures made in the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report 2019, 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. We have nothing to report in this regard.

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 SFRS(I), 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 TO THE MEMBERS OF
JIUTIAN CHEMICAL GROUP LIMITED (cont'd)**

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

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 scepticism 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.

Extracted from the Independent Auditor's Report to the Audited Financial Statements of Jiutian Chemical Group Limited for the financial year ended 31 December 2019

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
JIUTIAN CHEMICAL GROUP LIMITED (cont'd)**

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

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

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.

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 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 Ong Kian Guan.

Baker Tilly TFW LLP
Public Accountants and
Chartered Accountants
Singapore

1 April 2020

**JIUTIAN CHEMICAL GROUP LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2019**

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustments to the carrying amount of the asset or liability affected in the future.

Critical accounting judgements

Going concern assumption

During the financial year ended 31 December 2019, the Group and the Company reported net loss of RMB278,892,000 and RMB228,593,000 respectively. At 31 December 2019, the Company's current liabilities exceeded the current assets by RMB10,063,000 (2018: RMB9,717,000). These factors indicate the existence of a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as going concerns and to realise their assets and discharge their liabilities in the ordinary course of business.

The ability of the Group and the Company to continue as going concerns is dependent on:

- (i) the continuing financial support from Anyang Chemical Industry Group Co., Ltd. ("Anhua"), a subsidiary company of Henan Energy and Chemical Industry Group Co., Ltd. ("HNEC") and a related party of the Group. The details of the financial support which was provided to Anyang Jiutian Fine Chemical Co., Ltd. ("Anyang Jiutian"), a significant subsidiary company of the Group, are described in Note 24;
- (ii) the ability of the Group to generate sufficient cash flows from their operations to meet their current and future obligations; and
- (iii) the availability of credit facilities from the Group's and the Company's lenders over the next twelve months.

Management has taken the following measures to improve the Group's operational performance and financial position:

- (i) sourced for new customers and held discussions with the Group's major customers to seek higher sales volume and negotiate for better prices; and
- (ii) continuously seek improvements in the production efficiency of the Group's production facilities through technological enhancements and system re-engineering in order to further reduce the costs of production.

After considering the measures described above, the directors and the management believe that the Group and the Company have adequate resources to continue their operations as going concerns.

For these reasons, the financial statements have been prepared on the assumptions that the Group and the Company will continue as going concerns. If 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 realise their assets and discharge their 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

provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

**JIUTIAN CHEMICAL GROUP LIMITED AND ITS SUBSIDIARY COMPANIES
NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2019**

24 Related party transactions

Financial support from Anhua

On 31 December 2019, Anyang Jiutian secured a letter of continuing financial support from Anhua for a period of 2 years, which Anhua had agreed to defer the payments of trade and other payables owing to them till Anyang Jiutian is able to settle its other liabilities. In addition, Anhua will extend credit period when Anyang Jiutian has cash flow problems and agreed to supply the raw materials to Anyang Jiutian for the financial years ended 31 December 2020 and 31 December 2021.