NOVO GROUP LTD.
新源控股有限公司*

(Incorporated in Singapore with limited liability)
(Company Registration No. 198902648H)

Hong Kong Stock Code: 1048
Singapore Stock Code: MR8

QUALIFIED OPINION AND EMPHASIS OF MATTERS BY AUDITORS IN RESPECT OF FINANCIAL STATEMENTS FOR FINANCIAL YEAR ENDED 30 APRIL 2016

The Board of Directors (the "**Board**") of Novo Group Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that the Company's independent auditor, Baker Tilly TFW LLP had issued their report on the financial statements of the Group for the financial year ended 30 April 2016 (the "**Audited Financial Statements**"), highlighting a qualified opinion and an emphasis of matters.

A copy of the Independent Auditor's Report and an extract of relevant part of Notes 2(a), 13, 16, 18, 23, 37 to the Audited Financial Statements are attached to this announcement for information.

Shareholders of the Company are advised to read the Audited Financial Statements in its annual report 2016, which will be despatched in due course.

By Order of the Board
Novo Group Ltd.
Zhu Jun
Executive Chairman and
Executive Director

Hong Kong, 30 August 2016

As at the date of this announcement, the Board comprises three executive Directors, being Mr. Zhu Jun, Mr. Chow Kin Wa and Ms. Wang Jianqiao and three independent non-executive Directors, being Mr. Tang Chi Loong, Mr. Foo Teck Leong and Mr.William Robert Majcher.

* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE COMPANY

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of NOVO GROUP LTD. (the "Company") and its subsidiaries (the "Group") as set out on pages 62 to 152, which comprise the statements of financial position of the Group and the Company as at 30 April 2016, and the consolidated income statement, 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 year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY 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 (the "Act") and Singapore Financial Reporting Standards, 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

BASIS FOR QUALIFIED OPINION

1. Property, plant and equipment

As disclosed in Note 16 to the financial statements, the Group's property, plant and equipment as at 30 April 2016 amounted to US$63,154,213 (2015: US$73,131,079). Management determined that no impairment is required on the Group's property, plant and equipment as their recoverable amounts exceed the net carrying values as at 30 April 2016.

Based on the information available to us, we are unable to obtain sufficient appropriate audit evidence to satisfy ourselves on the reasonableness of the key assumptions and inputs used in the determination of the recoverable amounts of the Group's property, plant and equipment. Consequently, we are unable to determine whether any adjustments in respect of the net carrying values of the Group's property, plant and equipment as at 30 April 2016 are necessary.

This matter was similarly included in the Basis for Disclaimer of Opinion paragraphs in our independent auditor's report on the financial statements for the financial year ended 30 April 2015 where we rendered a disclaimer of opinion on the financial statements.

In addition, a subsidiary, incorporated in The People's Republic of China, did not translate its property, plant and equipment as at 30 April 2016 into the Group's presentation currency using the closing rate at the end of the reporting period as required by FRS 21 The Effects of Changes in Foreign Exchange Rates. Had the aforementioned property, plant and equipment been translated in accordance with FRS 21, the Group's property, plant and equipment, currency translation reserve, net assets as at 30 April 2016 would decrease by US$4,207,500 respectively. The currency translation differences arising from consolidation and the total comprehensive loss for the financial year will also decrease by US$4,207,500 and increase by US$4,207,500 respectively.

2. **Investments in subsidiaries and amounts due from subsidiaries**

As disclosed in Note 18 to the financial statements, the Company's investments in subsidiaries and amounts due from subsidiaries are carried at cost amounting to US$79,463,169 (2015: US$79,460,123) and US$31,496,647 (2015: US$43,968,458) respectively. Management determined that no impairment is required on the Company's investments in subsidiaries and amounts due from subsidiaries as their recoverable amounts exceed the net carrying values as at 30 April 2016.

Based on the information available to us, we are unable to obtain sufficient appropriate audit evidence about the recoverable amounts of the Company's investments in subsidiaries and amounts due from subsidiaries as at 30 April 2016. Consequently, we are unable to determine whether any adjustments in respect of the net carrying values of the Company's investments in subsidiaries and amounts due from subsidiaries as at 30 April 2016 are necessary.

This matter was similarly included in the Basis for Disclaimer of Opinion paragraphs in our independent auditor's report on the financial statements for the financial year ended 30 April 2015 where we rendered a disclaimer of opinion on the financial statements.

QUALIFIED OPINION

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the 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 Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and the Company as at 30 April 2016 and the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year ended on that date.

EMPHASIS OF MATTERS

We draw your attention to the following disclosures in the notes to the financial statements:

Going concern

We draw attention to Note 2(a) to the financial statements with respect to the Group's and the Company's ability to continue as going concerns. The Group incurred a net loss from continuing operations of US$16,019,142 (2015:US$20,338,181) and reported net cash outflows from operating activities of US$5,952,764 (2015: US$6,653,336), and the Company incurred net loss of US$1,202,737 (2015: US$810,411). At 30 April 2016, the Group's and the Company's current liabilities exceeded the current assets by US$23,498,828 (2015: US$55,920,042) and US$1,038,299 (2015: US$12,304,327) respectively.

As disclosed in Note 16 to the financial statements, a subsidiary within the tinplate manufacturing segment has suspended its operations since the previous financial year ended 30 April 2015 and yet to resume its operations as of the date of this report. The Group also breached the covenants clauses of certain borrowings and defaulted on the repayment of instalments of certain borrowings on their respective due dates during the financial year as disclosed in Note 23 to the financial statements. Management is in negotiations with the bank on the refinancing of the bank loan amounting to US$15,500,000 as at 30 April 2016. The Group also has several on-going litigations as at 30 April 2016 as disclosed in Note 30(c) to the financial statements.

These factors indicate the existence of material uncertainties 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, the directors of the Company believe that the use of the going concern assumption in the preparation and presentation of the financial statements for the financial year ended 30 April 2016 is appropriate after taking into consideration the following factors:

(i) The continuing financial support from the immediate and ultimate holding company to procure the necessary finance and support for a period of not less than twelve months from the date of this report;

(ii) Management has prepared a cash flow forecast and is of the view that the Group will have sufficient cash resources to satisfy its working capital requirements and to meet its obligations as and when they fall due; and

(iii) As disclosed in Note 37 to the financial statements, subsequent to 30 April 2016:

    (a) On 23 June 2016, the Company's wholly-owned subsidiary, Novo Commodities Limited has completed the disposal of a leasehold property in Hong Kong with net carrying value of US$4,888,738 as at 30 April 2016 at the consideration of approximately US$9,010,000 (HK$70,280,000). The expected gain on the disposal of the leasehold property is approximately US$4,121,262; and

(b) On 1 August 2016, the Company has successfully completed the placing of an aggregate of 20,680,000 ordinary shares in the Company at HK$2.32 per ordinary share, with aggregate net proceeds of approximately US$6,008,000 (HK$46,860,000).

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. No such adjustments have been made in these financial statements.

Disposal group assets classified as held-for-sale

We draw attention that a subsidiary made an advance of US$5,601,568 to a related party during the current financial year and the advance remained outstanding at the date of this report. As disclosed in Note 13 to the financial statements, this subsidiary has been classified as discontinued operations and disposal group classified as held-for-sale as at 30 April 2016. Accordingly, as at 30 April 2016, the outstanding non-trade advance of US$5,601,568 was included in trade and other receivables of the disposal group assets classified as held-for-sale as disclosed in Note 13(iii)(c) to the financial statements.

Our opinion is not further qualified in respect of the above matters.

Report on Other Legal and Regulatory Requirements

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries corporations incorporated in Singapore of which we are the independent auditor have been properly kept in accordance with the provisions of the Act.

Baker Tilly TFW LLP
Public Accountants and Chartered Accountants
Singapore
30 August 2016

Extracted from relevant part of Notes 2(a), 13, 16, 18, 23, 37 to the Audited Financial Statements of Novo Group Ltd. for the financial year ended 30 April 2016 (audited)

NOTE 2(A) – GOING CONCERN

The Group incurred a net loss from continuing operations of US$16,019,142 (2015: US$20,338,181) and reported net cash outflows from operating activities of US$5,952,764 (2015: US$6,653,336), and the Company incurred net loss of US$1,202,737 (2015: US$810,411). At 30 April 2016, the Group's and the Company's current liabilities exceeded the current assets by US$23,498,828 (2015: US$55,920,042) and US$1,038,299 (2015: US$12,304,327) respectively.

As disclosed in Note 16, a subsidiary within the tinplate manufacturing segment has suspended its operations since the previous financial year ended 30 April 2015 and yet to resume its operations as of the date when these financial statements were approved for issue by the Board of Directors. The Group also breached the covenants clauses of certain borrowings and defaulted on the repayment of instalments of certain borrowings on their respective due dates during the financial year as disclosed in Note 23. Management is in negotiations with the bank on the refinancing of the bank loan amounting to US$15,500,000 as at 30 April 2016. The Group also has several on-going litigations as at 30 April 2016 as disclosed in Note 30(c).

These factors indicate the existence of material uncertainties 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, the Directors of the Company believe that the use of the going concern assumption in the preparation and presentation of the financial statements for the financial year ended 30 April 2016 is appropriate after taking into consideration the following factors:

(i) The continuing financial support from the immediate and ultimate holding company to procure the necessary finance and support for a period of not less than twelve months from the date when these financial statements were approved for issue by the Board of Directors;

(ii) Management has prepared a cash flow forecast and is of the view that the Group will have sufficient cash resources to satisfy its working capital requirements and to meet its obligations as and when they fall due; and

(iii) As disclosed in Note 37, subsequent to 30 April 2016:

  a. On 23 June 2016, the Company's wholly-owned subsidiary, Novo Commodities Limited had completed the disposal of a leasehold property in Hong Kong with net carrying value of US$4,888,738 as at 30 April 2016 at the consideration of approximately US$9,010,000 (HK$70,280,000). The expected gain on the disposal of the leasehold property is approximately US$4,121,262; and

  b. On 1 August 2016, the Company has successfully completed the placing of an aggregate of 20,680,000 ordinary shares in the Company at HK$2.32 per ordinary share, with aggregate net proceeds of approximately US$6,008,000 (HK$46,860,000).

(iv) The banking facilities from their bankers for their working capital requirements for the next twelve months will be available as and when required; and

(v) The Group and the Company are able to generate sufficient cash flows from their operations to meet their current and future obligations.

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

(i) Adopting a disciplined capital allocation and constantly review capital expenditure plans thoroughly so to manage a balanced project portfolio to mitigate risks and optimise profitability for all existing projects;

(ii) Strengthening current customers' base with a focus on high growth potential markets in food and beverage sector, and strengthen customer relationship by providing quality products and services and engineering solutions to customers;

(iii) Continuously seeking 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;

(iv) Focusing on cost reduction while exploring all the opportunities to increase the sales volume of trading business and tinplate products, so to achieve operational efficiency by fully utilise the capacity of the tinplate manufacturing plant; and

(v) Enhancing the research and development capabilities with the aims to expand the expertise in tinplate production, improving tinplate quality and bolster manufacturing capabilities by adding high-margin products to the product portfolio.

After considering the measures taken described above, the Group and the Company believe that they have adequate resources and can cut cost 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.

NOTE 13 – DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE

On 28 April 2016, the Group entered into an equity transfer agreement ("**Equity Transfer Agreement**") to sell TIANJIN SHIFA (which previously contributed to the tinplate processing segment of the Group), the entire assets and liabilities relating to TIANJIN SHIFA have been presented as disposal group classified as held-for-sale in the statements of financial position, and the entire financial performance of TIANJIN SHIFA were presented in a single amount separately on the consolidated income statement of the Group as "Discontinued Operations". In addition, the Group has re-presented the financial performance of TIANJIN SHIFA as "Discontinued Operations" for the financial year ended 30 April 2015 and the comparative figures have been restated accordingly.

The completion did not take place within 15 days from the date of Equity Transfer Agreement as stipulated in the Equity Transfer Agreement as at the date when these financial statements were approved for issue by the Board of Directors. The Sellers and the Purchaser are still in the midst of completing the necessary administrative proceedings to convert TIANJIN SHIFA from sino-foreign joint venture to PRC enterprise in order for transferring the ownership of TIANJIN SHIFA from the Sellers to the Purchaser. The Group confirmed that they are in a solid contractual position with the Purchaser to proceed and complete the transaction.

(iii)(c) Included in trade and other receivables are trade and non-trade amount owing by a related party amounted to US$5,070,112 and US$5,601,568 respectively. TIANJIN SHIFA made an interest-free advance of US$5,601,568 to a related party during the current financial year and the advance remained outstanding at the date of these financial statements were approved for issue by the Board of Directors. The related party refers to a company controlled by an entity having a significant influence on a subsidiary.

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land and buildings	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Renovation	Construction work-in-progress	Total
	US$	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*
2016							
Cost							
At 1.5.2015	16,507,945	56,714,155	712,419	1,088,734	146,803	4,517,775	79,687,831
Additions	28,318	408,941	46,743	–	45,186	1,962,844	2,492,032
Disposals/written off	–	–	(181)	(143,692)	–	–	(143,873)
Reclassified as property held-for-sale	(5,807,561)	–	–	–	–	–	(5,807,561)
Reclassified as held-for-sale	(3,559,209)	(366,152)	(36,122)	(142,078)	–	(1,869,299)	(5,972,860)
Currency translation differences	(571,893)	1,154,112	(30,081)	(38,886)	(1,660)	(348,418)	163,174
At 30.4.2016	6,597,600	57,911,056	692,778	764,078	190,329	4,262,902	70,418,743
Accumulated depreciation							
At 1.5.2015	1,770,480	3,401,996	440,264	818,721	125,291	–	6,556,752
Depreciation charge	584,658	1,970,925	120,650	145,676	17,826	–	2,839,735
Disposals/written off	–	–	(86)	(128,923)	–	–	(129,009)
Reclassified as property held-for-sale	(918,823)	–	–	–	–	–	(918,823)
Reclassified as held-for-sale	(630,303)	(77,517)	(18,884)	(81,441)	–	–	(808,145)
Currency translation differences	(53,361)	(171,169)	(15,147)	(35,122)	(1,181)	–	(275,980)
At 30.4.2016	752,651	5,124,235	526,797	718,911	141,936	–	7,264,530
Net carrying value							
At 30.4.2016	5,844,949	52,786,821	165,981	45,167	48,393	4,262,902	63,154,213

NOTE 18 – INVESTMENT S IN SUBSIDIARIES (RELEVANT PART ONLY)

	Company	
	2016	2015
	US$	*US$*
Unquoted equity shares, at cost		
Balance at beginning of financial year	**79,460,123**	79,460,123
Acquisition of a new subsidiary	**3,046**	–
Balance at end of financial year	**79,463,169**	79,460,123
Amounts due from subsidiaries	**31,496,647**	43,968,458
	110,959,816	123,428,581

Management determined that owing to the nature of the activities of the subsidiaries, the amounts due from subsidiaries are quasi-equity in nature, non-interest bearing and are therefore included in the investments in subsidiaries. The quasi-equity loan have no repayment terms and accordingly, the amounts are stated at cost.

NOTE 23 – BORROWINGS (RELEVANT PART ONLY)

(i) Bank loan

During the financial year, the Group has breached certain covenants clauses in the loan agreement, including but not limited to the financial condition, financial testing, financial covenants and etc. In addition, the Group has failed to make payments of certain instalments of the bank loan on their respective due dates.

On 25 November 2015, the Group has obtained a waiver letter from the bank. The Group has fulfilled all the conditions as required by the bank on 8 December 2015, including payment of approximately US$9,769,000 (HK$76,200,000) to the bank. By virtue of the provisions contained in the waiver letter, the bank waived the breaches of the covenants clauses under the loan agreement and has executed a deed of release of the guarantee dated 8 December 2015 in favour of the Company.

At the end of the reporting period, the total bank loan outstanding amounting to US$15,500,000 (2015: US$22,750,000) are presented as current liabilities as at 30 April 2016. Management is in negotiations with the bank on the refinancing of the bank loan.

(ii) Working capital loans

The Group's certain working capital loans are subject to covenant clauses, whereby the Group is required to meet certain key financial ratios. As at 30 April 2015, a subsidiary breached the financial covenants to maintain the required minimum sales target requirement and maximum Debt-Asset ratio of the said subsidiary.

In addition, the Group also defaulted on the repayment of working capital loans amounting to US$7,854,000 on the respective due dates during the financial year ended 30 April 2015. The balances of these defaulted working capital loans remaining outstanding as at 30 April 2015 amounted to US$6,542,683 and are presented as current liabilities as at 30 April 2015.

During the financial year ended 30 April 2016, the working capital loans of US$6,542,683 were fully settled by the Group.

NOTE 37 – SUBSEQUENT EVENTS (RELEVANT PART ONLY)

(i) On 28 April 2016, the Company announced that a wholly-owned subsidiary, Novo Commodities Limited had entered into a preliminary sale and purchase agreement with Loong Full Limited (the "Purchaser") in respect of the proposed disposal of Unit 9, 10 and 11 on the 11th Floor, China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road, Central, Hong Kong (the "Property") with net carrying value of US$4,888,738 as at 30 April 2016 at the consideration of approximately US$9,010,000 (HK$70,280,000). The expected gain on the disposal of the Property is approximately US$4,121,262. The proposed disposal of the Property completed on 23 June 2016.

(iii) On 5 July 2016, the Company and Fortune (HK) Securities Limited (the "Placing Agent") entered into a placing agreement pursuant to which the Company has appointed the Placing Agent to procure, on a best endeavour basis, Placees to subscribe for up to 34,160,000 Placing Shares (which represents approximately 20.00% of the existing issued shares of the Company as at the end of the reporting period) at the Placing Price of HK$2.32 per Placing Share.

On 25 July 2016, as advised by the Placing Agent, the Placing was under-subscribed by 13,480,000 Placing Shares. An aggregate of 20,680,000 Placing Shares were placed to not less than six Placees at the Placing Price of HK$2.32 per Placing Share.

On 1 August 2016, the Company has successfully completed the placing of an aggregate of 20,680,000 ordinary shares in the Company at HK$2.32 per ordinary share, with aggregate net proceeds of approximately US$6,008,000 (HK$46,860,000), which will be utilised for the purpose of funding potential business expansion or development when opportunities arise. Alternatively, the Company may use the net proceeds from the Placing for general working capital purposes.