

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE RESULT ANNOUNCEMENT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2017

The Board of Directors (the “**Board**”) of Ziwo Holdings Ltd. (the “**Company**”, and together with its subsidiaries, collectively the “**Group**”) refers to the Results Announcement released on 14 August 2017 (“**Results Announcement**”). The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 22 August 2017 (each, a “**SGX Query**”) as follows:

SGX Query 1

1. We refer to the Land Use Rights and the Building (the “Written-off Assets”) which are used for the Company’s existing business. It was disclosed in the announcement that “...the value of intangible asset of RMB 13.8 million in Land Use Rights and the carrying cost of RMB 14.7 million for Building will be written off. The write off is in accordance with FRS 36 & FRS 16, whereby the expected future cash flows from the use of such assets cannot generate sufficient cash to cover its book value. There is also no fair value to the Building and Land Use Rights in this reporting period. Accordingly, the impairment loss has been recognized in the income statement”.

Please disclose the following:

- a. Further information on the Written-off Assets, including the following:
 - i. For property, plant and equipment written off which amounted to RMB 14.7 million in 2Q2017, please provide specific details of each of the fixed assets and amounts written-off; and
 - ii. For Land Use Rights, please disclose the size of the land and property, the acquisition price and amounts paid for Land Use Rights and for construction, the tenure of the Land Use Rights and the current use of the Land Use Rights and Building;
- b. The supporting bases and justifications of the Board as to:
 - i. Why the expected future cash flows from the use of the Written-off Assets cannot generate sufficient cash to cover its book value; and
 - ii. Why there is no fair value to the Building and Land Use Rights in this reporting period.
- c. As land use rights and construction of buildings are real estate assets, value in use would not be an appropriate measure of the value of the assets and such methodology to write down the value to NIL would be prejudicial to the interest of the Company and its shareholders as a whole. Please provide a confirmation from the Audit Committee that it will commission a proper valuation of the real estate conducted by an accredited reputable valuer under international valuation standards or a valuer accredited by Singapore Institute of Surveyors and Valuers who have expertise in valuation of similar properties in the relevant segment.

SGX Query 2

2. It was also disclosed that “To mitigate losses, the Company has to cease and discontinue the Company’s existing business and seek a buyer for its existing business. Going forward, the existing business will be held as assets for sale in the interim pending disposal”.

In view that the Land Use Rights and the Building have been fully written-off, please discuss how the Company intends to seek a buyer for its existing business.

Company’s Response to SGX Query 1 & 2

As reported in the group’s FY2015 and FY2016 Annual Report, the Group has land use rights over certain plots of land in the PRC. The land use rights were acquired in prior years under the name of the subsidiaries - Zhihe (Fujian) Technology Co., Ltd. and Quanzhou Yixiang Textile Co., Ltd., are located at Western Section, Qingmeng Zone, Economy and Technology Development Zone, Quanzhou City, Fujian Province, the PRC respectively.

The land use rights are not transferable and have a remaining tenure of 38 to 44 years as at 31 December 2016.

In the Company’s announcement dated 13 July 2017, the Directors have proposed the cessation of the existing business. The Company will be convening an extraordinary general meeting to seek shareholders’ approval for the same.

With the proposed cessation of the existing business, a test for recoverability was performed to the carrying value of the assets. As the test for recoverability identifies the impairment, the asset’s fair value is measured relying primarily on the discounted cash flow methodology.

Furthermore, the business has been suffering losses for the past two years; As stated in the 2Q2017 announcement Section 8(b)(iii), the operating entity resorted to requesting advances from the director Mr. Ting Chun Yuen for working capital to continue operations. In other words, this business needs new capital to remain in operations and it generates negative cash flows.

The Company is in no position to continue funding a loss-making entity and therefore the management believes it is in the best interest of the company and its shareholders that it ceases operations in this existing business.

In light of the proposed cessation of the existing business and the non-transferable nature of the land use rights, there is unlikely any recovery in this area which further provides the basis of the impairment (write off).

As such, the property, plant and equipment (the building) of RMB 14.7 which sits on the non-transferable land is also deemed to be unrecoverable and henceforth the basis of the impairment (write off) in 2Q2017.

There is no valuation done nor any comparable sales noted in this period, hence, there is no reliable market value determined for the land use rights or the building in this reporting period.

Subject to the approval of Shareholders for the cessation of the existing business, the Company shall seek to obtain a valuation of the existing business and subsequently seek a buyer.

SGX Query 3

3. We note that “Other operating expenses also comprise of the allowance for impairment of trade receivables of RMB 5.8 million in 2Q2017”.

Please provide the following:

- a. A breakdown of trade receivables and other receivables;
- b. Ageing schedule of trade receivables up to 3 years and disclose up to how long is the longest debt outstanding;
- c. Ageing schedule of other receivables;
- d. For trade receivables, please disclose the nature of the underlying transaction and payment terms of the contracts; and
- e. Reason(s) for the significant balance of trade and other receivables.

Company’s Response to SGX Query 3

The Company wishes to clarify that the allowance for impairment of trade receivables amounting to RMB 5.8 million in 2Q2017 was a net amount and an impairment allowance made as part of the Company’s quarterly assessment of trade receivables based on the Group’s policy. In accordance with the Group’s policy, trade receivables that are outstanding for more than 6 months but less than a year are impaired at 50%. Trade receivables that have been outstanding for a year and above are fully impaired. The allowance for impairment of trade receivables amounting to RMB 5.8 million in 2Q2017 represented additional net impairment from the movement in the balance as at 31 March 2017 after assessing the ageing of the trade receivables in accordance with our Group’s policy.

Trade Receivables - Net (RMB’000)	Under 180 Days	180 Days	7-12 Mths	> 12 Months	2 Years	3 Years
	17,217	2,700	17,623	3,928	11,784	23,568

Allowance For Impairment	RMB’000
Outstanding amount > 12 Months (100% impaired)	39,280
Outstanding amount 7-12 Months (50% impaired)	8,811
Total Impairment balance	48,091
Less: Balance b/f	42,313
Additional impairment Charge	5,778

SGX Query 4

4. Please disclose if the Board had sought any independent professional advice (such as opinions from an international accounting firm) on the reasonableness of the write-offs and impairment discussed above. Please disclose the identity and track record of the professionals where applicable.

Company’s Response to SGX Query 4

There has been no change in the company’s policy in respect of the write-offs and impairment test since our last audited financial statement, which has been audited by our Company’s auditors, RT LLP who have agreed with the management on such policy.

SGX Query 5

5. Please provide the Audit Committee’s views on the methodologies of write-offs and impairments applied.

SGX Query 6

6. Please explain how the Audit Committee members had satisfied themselves regarding the reasonableness and veracity of the write-offs and impairment discussed above.

Company's Response to SGX Query 5 & 6

Yes, the Audit Committee has reviewed and taken in the view of the Company's auditors. The Audit Committee has reviewed the methodology, assumptions, veracity and reasonableness of the write offs. The Audit Committee and the Board are of the opinion that the Group should proceed with the write off of the land use rights of RMB 13.389 million and building of RMB 14.732 million.

SGX Query 7

7. It was disclosed on Page 11 that "included in other receivables is a deposit amounting to RMB 28.0 million for purchase of new equipment".

Please disclose the following:

- a. When did the Company pay the deposit for the purchase of this new equipment?
- b. What equipment is this?
- c. To whom was the deposit paid to?
- d. Can the Company pursue a refund of the deposit paid?
- e. In view of the declining existing business of the Company, please explain why this purchase was made.

Company's Response to SGX Query 7

In the Company's announcement dated 8 September 2016 and the notes to our Annual Report FY2016, the Company paid the deposit to Beijing Chonglee Machinery Engineering Co. Ltd in 2015 for the construction of the production line. Due to the adverse economic conditions, the Company did not proceed with the installation. The board is currently evaluating its options in relation to the said equipment.

SGX Query 8

8. It was also disclosed on Page 11 that "other current assets comprise mainly prepaid expenses and it has decreased by approximately RMB 0.5 million during the quarter". Please provide a breakdown of these prepaid expenses.

Company's Response to SGX Query 8

Prepaid expenses include rental deposits and prepaid advertising cost. There is no further incurrence of advertising cost expected.

SGX Query 9

9. Trade and other payable increased by approximately RMB 12.5 million to RMB 32.8 million as at 30 June 2017. It was disclosed on Page 11 that "the increase is a result of amount owing to director (Mr. Ting Chun Yuen) of approximately RMB 11 million for the funding of working capital requirements of Zhihe (Fujian) Technology Co., Ltd".

- a. When was this loan entered into?
- b. Is this an interested person transaction? Please provide details.
- c. Please provide the breakdown on the use of loan proceeds.

Company's Response to SGX Query 9

There is no specific disbursement date as it is not a loan and the monies were advanced as and when needed to meet urgent working capital requirement in the ordinary course of business. There is no interest payable on the advance, and thus the amount at risk to the Company is nil.

SGX Query 10

10. We refer to the disclosure on the use of proceeds from the placement shares on Page 12. It was stated that "as at 30 June 2017, the Company issued placement requests for a total of RMB 2.95 million...".

We note that the 2 placement requests made on 22 May 2017 were for an aggregate consideration of S\$400,000. Please clarify how the proceeds of RMB 2.95 million were derived. Please provide a detailed breakdown of the S\$1.03 million of proceeds which were utilized for operating expenses.

Company's Response to SGX Query 10

The derivation of the proceeds of RMB 2.95 million and the detailed breakdown of the utilization of the RMB 1.03 million of proceeds are as follows:

Description	RMB'000	RMB'000
Placement Request on 22 May 2017	1,967	
Placement Request on 23 June 2017	984	
Total Placement Requests		2,951
<u>Share issue cost</u>		
SGX Listing Fee	157	
Legal and other fees	64	221
Net Proceeds from Placement Requests		2,730
<u>Use of proceeds</u>		
Operating Expenses (Professional fee, Administrative expenses, Salaries, etc.)	510	
Director Fees	516	1,026
Balance as at 30 June 2017		1,704

SGX Query 11

11. We refer to the disclosure for Paragraph 9 regarding a forecast or prospect statement which has been previously disclosed to shareholders.

Please disclose if the 2Q2017 financial performance of the Group was in line with the disclosure made in Paragraph 10 of the 1Q2017 results announcement, which stated that "The Group continues to experience the effects of the persistent slowdown in the manufacturing industry in China... Group revenue and gross profit margin are likely to be further affected". Please explain any variances.

Company's Response to SGX Query 11

Yes. There are no variances in the Company's outlook in the near term.

BY ORDER OF THE BOARD

Yap Lian Seng
Company Secretary

24 August 2017