

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 24 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 30 August 2017 (each, a “**SGX Query**”) as follows:

- 1) **Please provide the Company’s response to the following SGX queries which were raised previously but had not been addressed. Outstanding parts of the previous queries which have not been addressed are emphasized in bold and underlined.**

SGX Query 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. 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.

Company's Response to SGX Query 1

	Building	Land Use Rights
	RMB'000	RMB'000
Cost	80,303	51,390
Accumulated Depreciation	(17,101)	-
Accumulated Amortisation	-	(2,926)
Impairment	(47,407)	(34,357)
Net Book Value as at 31.12.2016	15,796	14,107
Depreciation for first half 2017	(1,064)	-
Amortisation for first half 2017		(268)
Net Book Value as at 30.6.2017	14,732	13,839
Write off in 2Q2017	14,732	13,839

	Commencement of Land Use Rights	Expiry of Land Use Rights	Current Use	Land Size in sqm	Costs RMB'000
Land 1	20/10/2014	20/10/2054	Industrial	31,028.50	6,709
Land 2*	29/07/2008	30/06/2057	Industrial	14,634.80	4,000
Land 3	01/01/2014	26/10/2060	Industrial	18,439.30	15,881
Total Costs					26,590

The above stated land is not in use by the Group due to the cessation of business.

As reported in our Annual Report FY2016, the land use rights have a carrying value of RMB 51,390 million.

* The original cost of Land 2 was RMB 4 million but was recognised at the fair value of RMB 28.8 million on 5 October 2010 when Zhihe (Fujian) Import and Export Trading Co., Ltd acquired 100% equity interest in Quanzhou Yi Xiang Textile Co., Ltd. as part of business combination in accordance with FRS 28 and FRS 102.

In compliance with Rule 704(18)(c) and after the receipt of approval from Shareholders for the cessation of the existing business, the Audit Committee will commission a 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.

Whilst the Company has contacted these valuers in preparation for engaging them for the above valuation, the Company has not engaged any valuers to commence the valuation process for two reasons (1) any engagement will require the Company to pay a non-refundable deposit amounting to 50% of the valuer's professional fees; and (2) there is no certainty Shareholders will vote in favour of the cessation of the existing business.

SGX Query 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** (as at 30 June 2017);
- b. **Ageing schedule of other receivables**; and
- c. **For trade receivables, please disclose the nature of the underlying transaction and payment terms of the contracts.**

Company's Response to SGX Query 3

	RMB'000
Trade Receivables	76,821
Impairment for Trade Receivables	(48,091)
	28,730
Other Receivables	
Advance to staff	116
Deposits & Prepayments	203
VAT	2,456
Exports Tax Rebate	231
Advance payment to supplier for purchase of new equipment	28,040
	31,046
Total Trade & Other Receivables as at 30.6.2017	59,776

None of the other receivables are aged more than 180 days.

The underlying transactions from trade receivables are trade in nature. The Trade Receivables have credit terms of between 30 - 90 days.

SGX Query 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:

d. Can the Company pursue a refund of the deposit paid?

Company’s Response to SGX Query 7

The board is currently evaluating its options in relation to the new equipment vis-à-vis the refund for the deposit paid for the same.

2) We refer to the Company’s response to SGX Query 1 & 2.

- i. It was stated that “*Furthermore, the business has been suffering losses for the past two years*” and “*... this business needs new capital to remain in operations and it generates negative cash flows*”. Please disclose the historical (past 2 financial years) financial performance of the existing business to substantiate the aforementioned statements.
- ii. The value of intangible asset of RMB 13.8 million in Land Use Rights and the carrying cost of RMB 14.7 million for the Building, amounting to an aggregate of **RMB 27.8 million**, had been written off to **NIL**. Why are the Company’s Land Use Rights not transferable when such Land Use Rights can be sold with the government’s approval in other cases?

Company’s Response to SGX Query 1 & 2

As reported in the Company’s annual report for FY2016 and 2015, the total comprehensive losses for the past 2 financial years were as follows:

	2016 RMB ‘000	2015 RMB ‘000
Loss for the year, representing total comprehensive loss for the year	155,226	281,753

We understand that on a case by case basis, a buyer may submit an application to the government for the transfer of the Land Use Rights. However, it would not be prudent for the Company to assume that the Land Use Rights are freely transferrable, henceforth the decision for the write off.

3) We refer to the Company's response to SGX Query 5 & 6.

- i. It was stated that *"the Audit Committee has reviewed and taken in the view of the Company's auditors"*. Please clarify what the view of the Company's auditors was in respect to. Was it in relation to the specific write-offs (of the Land Use Rights and Building) and impairment of trade receivables? Please provide details.
- ii. Please also disclose the Audit Committee's views in respect of the methodology applied to the impairment of trade receivables and how it has satisfied itself regarding the reasonableness and veracity of the impairments of trade receivables amounting to RMB 5.8 million in 2Q2017.

Company's Response to SGX Query 5 & 6

The auditor's view was that the Company should perform the test of recoverability before proceeding with the specific write offs in respect of of the Land Use Rights and Building. In relation to the impairment of trade receivables, there has been no change in the company's policy in respect of the write-offs and impairment test since our last audited financial statements, which have been audited by our Company's auditors, RT LLP who have agreed with the management on such policy."

The trade receivables were impaired in accordance with the Company's accounting policies. In the event of deviations from the policy or when there are material bad debts, it will be submitted to the AC for discussion and approval. The management is also required to explain to the AC on any material adjustments to the trade receivables.

The Audit Committee undertakes a rigorous review of the trade receivables quarterly, by monitoring the rate of collection from customers who in particular have large accounts receivables outstanding for some time, and whether they have been making part payments periodically. AC also raised questions where certain accounts receivables have been outstanding for an extended period of time, and whether customers with significant amounts owing are major customers of the Group and if the Group is still supplying goods to them. Management is required to update the AC on the actions taken by the Group on specific debtors, including whether visits have been made to these debtors to chase up on a debt or to ascertain whether they are still carrying on business. Management is also reminded by the AC to step up collection efforts during this downturn and be vigilant if any of its larger customers may be facing financial difficulties.

4) We refer to the Company's response to SGX Query 9.

- i. It was stated that *"... the monies were advanced as and when needed to meet urgent working capital requirement in the ordinary course of business"*. Please provide a breakdown on the usage of these advances from the Company's director, Mr. Ting Chun Yuen, for "working capital" purposes.
- ii. Have the terms of these advances been reviewed and/or approved by the Audit Committee in accordance with the Company's interested person transaction policy?

Company's Response to SGX Query 9

The RMB 11 million advances from Mr. Ting are used were used to meet the urgent capital requirement in the ordinary course of business. The breakdown as follows:

Summarized Cash Flow

Description	RMB '000
Advance from Mr. Ting	11,000
Receipt of Accounts Receivable	7,487
Operating expenses including trade payables	(19,181)

There are no terms dictated for the advances. The advances had no specific disbursement date as it is not a loan and the monies were advanced to keep the Company afloat. There is no interest payable on the advances, and thus the amount at risk to the Company is nil. Since the risk to the Company is nil, the Audit Committee is of the view that the advances are not prejudicial to the interests of the Company.