

INTERNATIONAL HEALTHWAY CORPORATION LIMITED

Registration No.: 201304341E
(Incorporated in the Republic of Singapore)
(In receivership over charged shares in certain subsidiaries)

RESPONSE TO SGX QUERIES

The Board of Directors of International Healthway Corporation Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the queries (the “**Queries**”) from the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) in relation to the announcement made by the Company on 6 June 2016 titled “Material Differences between the Unaudited Financial Statements and the Published Financial Statements for the Financial Year Ended 31 December 2015” and wishes to respond to the Queries as set out below:

	Unaudited S\$'000	Audited S\$'000	Diff S\$'000	Notes to variance (extracted only key explanation from announcement)	Query/ Response
Other operating income	48,037	56,118	8,081	(1a) reclassify allowance for impairment of goodwill from “other operation income” to “administrative expenses” (+\$10m)	1
				(1b) additional allowance for impairment of other current assets (-\$14.3m)	2
				(1c) additional fair value gain for Malaysia and PRC properties (+\$11.2m)	3
Other current assets	22,801	1,839	(20,962)	(1b) additional allowance for impairment of other current assets (-\$14.3m)	2
				(7b) reclassify other payables to other current assets (-\$5.3m)	4
Trade and other payables	29,756	21,878	(7,878)	(7a) reclassify “amount due to related parties” to “other receivables” (-\$2.5m)	5
				(7b) reclassify other payables to other current assets (-\$5.3m)	4
Fair value gain on investment properties under development	(39,540)	(50,732)	(11,192)	(1a) allowance for impairment of goodwill from (-\$10m)	1
				(1b) additional allowance for impairment of other current assets (-\$14.3m)	2
				(1c) additional fair value gain for Malaysia and PRC properties (+\$11.2m)	3
Cash flow statement - Changes in working capital (Other current assets)	19,093	564	(18,529)	(10) reclassify deposit refunded for purchase of assets from “changes in working capital” to “investing activities”	5

- 1) **SGX Query: To provide more information on what the S\$10 million allowance for impairment of goodwill relates to.**

Company's response:

The S\$10 million allowance for impairment of goodwill relates to the goodwill pertaining to the Group's hospital in Wuxi ("**Wuxi Hospital**") which was acquired in 2013.

Note 17(a) of the audited financial statements, as attached herewith in Appendix A, sets out more information on this goodwill impairment allowance.

- 2) **SGX Query: To provide more information on the S\$14.3 million allowance for impairment of other current assets.**

Company's response:

The Company, through a wholly owned subsidiary, Kang Hui Maternity Centre Services Co., Ltd ("**KHMCS**") had signed several sales and purchase agreements ("**S&P Agreements**") with a third party vendor ("**Seller**") for the purchase of several buildings in Shanghai ("**Shanghai Buildings**") intended for a development project ("**Shanghai Project**").

In connection with the development of the Shanghai Project, the Group entered into a contract ("**Contract 1**") for the development of the Shanghai Project with a third-party construction company ("**Construction Company**") and in accordance with the terms of Contract 1, made an advance payment of S\$19.6 million as a deposit to the Construction Company ("**S\$19.6 million Advance Payment Made**"). This advance payment was recorded under "Other current assets" in the Preliminary Results. The Group also entered into another contract ("**Contract 2**") with the Construction Company to assist the Construction Company with the design of the Shanghai Project and in accordance with the terms of Contract 2, a deposit of S\$5.3 million was received by the Group from the Construction Company ("**S\$5.3 million Deposit Received**"). Such deposit was recorded under current "Trade and other payables" in the Preliminary Results. Accordingly, as at 31 December 2015, the net advance payment due from the Construction Company amounted to S\$14.3 million.

In 2014, the Seller initiated legal proceedings against KHMCS and in FY2015, the Seller obtained the Chinese Court's judgement to allow it to terminate the S&P Agreements. Consequently, the Shanghai Project and all contracts in relation thereto were terminated ("**Termination**").

Following the Termination, the Group sought to recover the net advance payment of S\$14.3 million due from the Construction Company. Recovery actions are currently in progress. However, based on the latest available financial information of the Construction Company extracted from ACRA after the release of the Preliminary Results, the Management is not confident of a full recovery and accordingly, an impairment allowance of S\$14.3 million, representing the Group's net exposure to the Construction Company, was provided for in the Published Financial Statements in agreement with the auditors.

3) **SGX Query: How was the fair value gain of S\$11.2 million arrived at, in view of the auditors' disclaimer that it is unable to obtain sufficient audit evidence regarding the estimates and assumptions on fair value of PRC properties?**

Company's response:

In February 2016, when the Preliminary Results were announced, the fair value gain for all of the Group's properties were based on draft valuation reports from the independent valuers engaged by IHC. During the course of finalising their valuation reports and through further discussions with management and external auditors, these valuers have revised their draft reports ("**Final Valuation Reports**").

The additional fair value gains of S\$11.2 million noted in the Published Financial Statements were adjustments made to the Preliminary Results to ensure that they are aligned to the reported values included in the Final Valuation Reports. The S\$11.2 million consists of the additional fair value gain of Malaysia property of S\$8.2 million and PRC properties of S\$3.0 million.

The auditors' disclaimer has no relevance to the recognition of this fair value gain adjustment as the adjustments were made to ensure that IHC accounts for the carrying value of its properties in accordance with the reported value as included in the Final Valuation Reports.

The auditor's disclaimer is restricted to the PRC properties and they have no issue with the valuation of the Malaysia property.

The valuation of the PRC properties was performed by an external independent valuer, Savills Valuation and Professional Services ("**Savills**") – an internationally recognised and established real estate valuer with significant worldwide presence and extensive experience and presence in China.

The management has sought to validate Savills' conclusions on the fair values of the PRC properties to ensure that they are reasonable and acceptable for inclusion in the financial statements. Therefore, further independent valuation reports were obtained from another two internationally and locally renowned qualified independent valuers, namely Colliers International (Hong Kong) Limited ("**Colliers**") and 江苏中大土地房地产评估有限公司 ("**Jiangsu Zhongda**"). The independent valuation reports of Colliers and Jiangsu Zhongda has concluded in higher fair values for the PRC properties of the Group compared to that of Savills'. Notwithstanding the higher valuation amounts from Colliers and Jiangsu Zhongda, the Group has adopted the valuation amounts of Savills as they have been the Group's independent valuer for these PRC properties since our listing in 2013. .

- 4) SGX Query: What do the “other payables” of S\$5.3 million relates to? Why is there a need to reclassify other payables to other current assets?**

Company’s response:

It relates to the S\$5.3 million Deposit Received as set out in the response to question 2. In the Preliminary Results, the S\$19.6 million Advance Payment Made and S\$5.3 million Deposit Received were separately classified under Other Current Assets and Trade and Other Payables (Current) respectively. In the Published Financial Statements, these items were net off, resulting in a net advance payment of S\$14.3 million due from the Construction Company being recorded under Other Current Assets (i.e. S\$5.3 million Deposit Received was “reclassified” to Other Current Assets and netted off with the existing S\$19.6 million Advance Payment Made). However, the S\$14.3 million has been impaired in its entirety, as further elaborated in the answer to question 2.

- 5) SGX Query: Why is there a need to reclassify “amount due to related parties” to “other receivables”?**

Company’s response:

In the Preliminary Results, “Amount due from related parties” amounting to S\$2.5 million (pertaining to guarantee fees income receivables from the group of related parties) were recorded under Other Current assets while the “Amount due to related parties” amounting to S\$2.5 million (being largely advances from the same group of related parties) were recorded as Trade and Other Payables.

In the Published Financial Statements, these items, in agreement with the auditors, were netted off and zeroed (i.e. S\$2.5 million “Amount due to related parties” was “reclassified” to “Amount due from related parties”) as these amounts relates to the same group of related parties.

- 6) SGX Query: Was the deposit refunded to the Company as the acquisition did not proceed?**

Company’s response:

Yes. The deposit previously paid to the seller for acquisition of Shanghai buildings is refunded as the acquisition did not proceed, further details of which are set out in the response to question 2 above.

Extract of Note 17(a)**17. Intangible assets****(a) Goodwill arising on consolidation**

	<u>Group</u>	
	2015	2014
	S\$'000	S\$'000
<i>Cost</i>		
Beginning of financial year	45,924	43,121
Acquisition of a subsidiary (Note 34)	398	
Impairment charge (Note 5)	(10,000)	-
Currency translation differences	999	2,803
End of financial year	37,321	45,924

Impairment test for goodwill

Goodwill is wholly allocated to the Group's cash-generating unit ("CGU"), identified as Wuxi Hospital in the People's Republic of China.

The recoverable amount of the CGU was determined based on value-in-use. Cash flow projections used in the value-in-use calculations were based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using the estimated growth rates stated below. The long-term growth rate did not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	People's Republic of <u>China</u> %
2015	
Gross margin ¹	25 – 29
Growth rate ²	
- Revenue growth rate from 2016 to 2020	9
- Terminal growth rate from 2021	3.5
Discount rate ³	11
2014	
Gross margin ¹	32
Growth rate ²	
- Revenue growth rate from 2015 to 2019	11 - 13
- Revenue growth rate from 2020 to 2031	5
- Terminal growth rate from 2032	3
Discount rate ³	13.75

¹ Budgeted gross margin

² Weighted average growth rate used to extrapolate cash flows

³ Pre-tax discount rate applied to the pre-tax cash flow projections

17. Intangible assets (continued)

These assumptions were used for the analysis of the Wuxi Hospital CGU. Management determined budgeted gross margin based on past performance and its expectations of market developments. The weighted average growth rates used were consistent with forecasts included in industry reports. The discount rate used was pre-tax and reflected specific risks relating to the relevant segment.

As a result of the value-in-use calculations prepared by management, an impairment charge amounting to S\$10,000,000 (2014: Nil) was recorded against the Wuxi Hospital CGU and included within “administrative expenses” in the statement of comprehensive income. The impairment charge arose as a result of the current economic environment in China.

If the estimated growth rates of revenue used in the value-in-use calculation for this CGU had been 10% lower than management’s estimates at 31 December 2015, the Group would have recognised a further impairment charge on goodwill amounting to S\$2,795,000.

BY ORDER OF THE BOARD

Lim Beng Choo
Executive Director

22 June 2016

*This announcement has been prepared by International Healthway Corporation Limited (the “**Company**”) and its contents have been reviewed by PrimePartners Corporate Finance Pte. Ltd. (the “**Sponsor**”), for compliance with the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) Listing Manual Section B: Rules of Catalyst. The Sponsor has not verified the contents of this announcement. This announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this announcement, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement.*

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