

NOVO GROUP LTD.

Registration No. 198902648H

Incorporated in the Republic of Singapore

REPLY TO SGX QUERY

In response to the query raised by the Singapore Exchange Securities Trading Limited ("SGX-ST") in its email dated 28 August 2015, the Board of Directors of Novo Group Ltd. (the "Company" or "Novo" and together with its subsidiaries, the "Group") would like to provide the following disclosures:-

SGX's Queries:-

1. By reference to the Company's email to the SGX-ST of 18 August 2015.
2. Please disclose the Company's replies of 18 August 2015 and point 3. below in SGXNet announcement as soon as practicable.
3. The Company's response that, "No impairment provided on Novo's company level, the impairment loss provided is in relation to Novo Overseas Holdings Pte. Ltd. ("NOH")'s company level and such impairment at the subsidiary level has no effect on the financial position at the Group overall level".
 - a. Please provide details of the inter-companies transfer;
 - b. Please explain the reason as to why the impairment loss is provided at NOH's company level instead of at Novo's company level, given that the total receivables from the subsidiaries amounted to US\$43,968,458 as at the end of the reporting period; and
 - c. Please explain what is the amount of impairment loss provided in relation to NOH's company level.

(A) The Company's reply on 18 August 2015:-

1. Please reply on the following clarifications:-
 - a. It is stated, "The financial statements have been prepared on a going concern basis as the Directors are satisfied that: (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 end of the reporting period...". Please clarify:-
 - (i) the identity of the immediate and ultimate holding company;

The Company's responses as follows:-

NEW PAGE INVESTMENTS LIMITED ("New Page") is the immediate and ultimate holding company of the Company, which is owned as to 70% by Mr. Yu Wing Keung, Dicky ("Mr. Yu") and as to 30% by Mr. Chow Kin Wa ("Mr. Chow").

- (ii) what is the form of financial support from the immediate and ultimate holding company, for example, whether it is an undertaking of financial support; and

The Company's responses as follows:-

New Page has signed an undertaking letter confirming to provide financial support to the Company for daily operation needs for the period from 1 May 2015 to 30 April 2016.

- (iii) how is the Board satisfied that the immediate and ultimate holding company has sufficient financial resources.

The Company's responses as follows:-

The Board has received an undertaking letter from New Page, who confirmed to provide financial support to the Company for daily operation needs for the period from 1 May 2015 to 30 April 2016.

The Board has been assured by Mr. Yu and Mr Chow (who together hold the entire shareholding of New Page) that New Page has sufficient resources as they are collectively holding an aggregate of approximately 55% of the total issued shares in the capital of the Company. In addition, a bank is considering providing financial assistance to the Group if New Page pledges its shareholding in the Company to the bank, pursuant to a letter issued by the bank dated 27 July 2015.

- b. It is stated, "During the financial year, a subsidiary within the tinplate manufacturing segment has suspended its operations and yet to resume its operations as of the date of this report. The property, plant and equipment relating to this subsidiary amount to US\$58,527,696".

- (i) Please name the subsidiary and carrying amount of the subsidiary;

The Company's responses as follows:-

The name of subsidiary is Novowell ETP Limited ("NWETP") located in the Republic of China (the "PRC"). The carrying amount of NWETP as at 30 April 2015 is USD(5,499,219).

- (ii) Please clarify as to whether there has been any impairment testing performed on the property, plant and equipment of the Group, including those used by the subsidiary which has suspended its operations; and

The Company's responses as follows:-

The Group has performed impairment test on the property, plant and equipment as at 30 April 2015, but the Group has not recognised any impairment loss for the year ended 30 April 2015 based on the reasons set out in the next paragraph.

- (iii) the reason(s) as to why no provision is required for the amounts relating to the property, plant and equipment, notwithstanding that the subsidiary has suspended operations.

The Company's responses as follows:-

The Board is of the opinion that no provision is made as management is of the opinion that the recoverable amount is higher than the carrying amount.

Per FRS36 of accounting standard in Singapore, the indication of impairment as below:

- Significant decrease in the market value of an asset
- Significant change in the extent or manner in which an asset is used
- Significant adverse change in legal factors or in the business climate that affects the value of an asset
- Accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset
- Projection or forecast that demonstrates continuing losses associated with an asset
- Obsolescence or damage

On the other hand, if the recoverable amount of assets is higher than the carrying amount, then no impairment loss should be recognised. The recoverable amount should be determined by comparing fair value less costs to sell with the value-in-use, whichever is higher. The value in use is the present value of projected future cash flow from the assets.

The Group has appointed 泰州中兴房地产估计资产评估有限公司 to perform a valuation on the assets held by NWETP on 10 September 2014. Per the said valuation report, the total valued amount of property, plant and equipment is RMB476,666,700 including tax, which is significantly higher than the carrying amount of RMB403,663,407 (Such amount includes 'Land Use Right'), which shows no significant decrease in the market value of assets.

The management does not consider the suspension of NWETP would have a material impact to the Group's financial performance and hence no indication of impairment loss, for the following reasons:

- (a) The suspension was intended to be only temporary and is motivated by a lack of sufficient funding in the short term for running the production at a large enough scale to make it profitable. NWETP has not in recent years been a material contributor to the Company's profit and loss or cash flow.
- (b) The production facility, workforce and management team remain intact.
- (c) The Company is in the process of active discussions with a number of parties to raise funds through financing and/or strategic and/or investment options and is confident that NWETP's operation can be immediately resumed once additional funding comes in, which is expected soon.
- (d) As disclosed in the Company's announcement dated 29 June 2015, NWETP has successfully awarded exemption on anti-dumping tax and premium quality certificate from Malaysia. The temporary suspension of tinsplate production enables the Company to consolidate and restructure the core product items in order to tailor for key targeted markets in South East Asia, especially Malaysia, Thailand and Philippines.

At 30 April 2015, the Group made a forecast to the temporarily suspended subsidiary to estimate the present value of projected future cash flow from the assets, and considered the value-in-use is still higher than the carrying amount of asset held.

For these reasons, the management considered there is no significant decrease in the market value of an asset and the recoverable value is higher than the carrying amount of assets held, accordingly the Group has not made any provision for impairment of property, plant and equipment.

- c. It is stated, "At the end of the reporting period, management considered that total receivables from subsidiaries amounting to US\$43,968,458 are quasi-equity loans, and reclassified them from trade and other receivables (Note 21) and included in investments in subsidiaries. The quasi-equity loans have no repayment terms and are repayable only when cash flows of the subsidiaries permit. Accordingly, the amounts are stated at cost."
- (i) please provide the Board's assessment of the recoverability of the total receivables from subsidiaries amounting to US\$43,968,458 which are quasi-equity loans; and

The Company's responses as follows:-

Based on best estimation and assessment of the management, the total receivables from subsidiaries amounting to US\$43,968,458 are relating to inter-companies transfer. Considering most of the subsidiaries have incurred net loss after tax as at 30 April 2015, the management expects that such amount cannot be collected in a short term. However, the management will keep constant attention and review to try to reduce the inter-co balances.

- (ii) please clarify as to whether there has been any impairment testing performed on (a) the carrying value of the subsidiaries and (b) the US\$43,968,458 quasi-equity loans.

The Company's responses as follows:-

According to FRS36 of accounting standard requirement in Singapore, the Group agreed with the view of the auditor to perform testing on the provisions of impairment loss on cost of investment and receivables from the subsidiaries.

No impairment provided on Novo's company level, the impairment loss provided is in relation to NOH's company level and such impairment at the subsidiary level has no effect on the financial position at the Group overall level.

- d. It is stated, "In addition, the Group also defaulted on the repayment of working capital loans amounting to US\$7,854,000 on the respective due dates. 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. Subsequent to the end of the reporting period, working capital loans of US\$3,271,342 has been repaid and the remaining balance of US\$3,271,341 are still outstanding as at the date of this report." Please clarify:-
- (i) how the Board is satisfied that the Company will be able to repay/fulfill its financial obligation for the remaining outstanding working capital loans amounting to US\$3,271,341; and

The Company's responses as follows:-

The balance of the working capital loan of US\$3,271,341 was due to Bank of China Xinhua Taizhou PRC ("BOC") which has given its verbal confirmation to a Board member of the Company that it has internally extended the deadline for repayment of such balance of the working capital loan to 15 September 2015 in order to give more time to the Group to raise additional funds to resume its operation to normal, upon which time such balance of working capital loan will be officially re-financed.

- (ii) what are the consequences of defaulting on the repayment of working capital loans.

The Company's responses as follows:-

The working capital loan was overdue but not categorised as a default as BOC has given its verbal confirmation to a Board member that it has internally extended the deadline for repayment of such balance of the working capital loan to 15 September 2015 as mentioned in the preceding paragraph.

2. Please confirm if the Company has complied with Listing Rule 704(22).

Listing Rule 704(22) states that, "Any breach of any loan covenants or any notice received from principal bankers or from the trustee of any debenture holders to demand repayment of loans granted to the issuer or any of its subsidiaries which, in the opinion of the issuer's directors, would result in the issuer facing a cash flow problem."

The Company's responses as follows:-

The management was aware of the breach during the month of February 2015 and had weekly/monthly updates with the banks. The breach was minor in nature. In the view of the management all the banks were kept well informed and agreed to grant waivers subject to confirmation of final figures with the auditor. At all times, the management understood that the banks did not intend to demand immediate repayment of outstanding loans. As such the breach was merely technical in nature. Therefore the Company considered Rule 704(22) was not triggered at the time of the breach.

As disclosed on Page 116 of the Company's annual report, subsequent to the end of the reporting period, the Group did in fact obtain the bank waivers in relation to the breach of financial covenants for the year financial year ended 30 April 2015. The banks also agreed not to demand immediate payment as a consequence of the above-mentioned breach.

As disclosed on Page 117 of the Company's annual report, working capital loans of US\$3,271,342 have been repaid and the remaining balance of US\$3,271,341 is not due as at 18 April 2015. The bank has given verbal waiver and granted an extension of time to the Group to repay the balance of the working capital loan.

For reasons above, the management did not consider the breach of financial covenants may cause any immediate repayment by the relevant banks and does not have any material impact on the Company's financial performance and the Company took the view that it does not constitute the Company's price sensitive information pursuant to the Listing Manual.

(B) The Company's reply on point 3:-

- a. Please provide details of the inter-companies transfer;

The Company's responses as follows:-

The inter-companies transfer relating to the loans and advances to subsidiaries for their operating and investing activities.

- b. Please explain the reason as to why the impairment loss is provided at the NOH's company level instead of at Novo's company level, given that the total receivables from the subsidiaries amounted to US\$43,968,458 as at the end of the reporting period; and

The Company's responses as follows:-

Impairment assessment is made on entity by entity basis.

For NOH, we have assessed the expected recoverable amounts (using discounted cash flows method) from all receivables/subsidiaries and noted that an amount of US\$777,000 due from 2 subsidiaries may not be recoverable as these subsidiaries have ceased their operations.

For the Company, we have also assessed the expected recoverable amounts from all receivables/subsidiaries using discounted cash flows method. Based on the impairment test performed, in particularly in respect of the receivables from NOH, which is performed on NOH group basis (i.e. NOH and all its subsidiaries), the expected recoverable amounts from all receivables/subsidiaries are higher than their respective carrying values of receivable balances. Thus, no impairment is required.

- c. Please explain what is the amount of impairment loss provided in relation to NOH's company level.

The Company's responses as follows:-

The amount of impairment loss provided in relation to NOH's company level is USD777,000.

BY ORDER OF THE BOARD

Yu Wing Keung, Dicky
Executive Chairman
2 September 2015