

NOVO GROUP LTD.

Registration No. 198902648H

Incorporated in the Republic of Singapore

REPLY TO SGX QUERY

In response to the queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) in its email dated 31 August 2016, the Board of Directors (“**Board**”) of Novo Group Ltd. (the “**Company**”) and together with its subsidiaries, the “**Group**”) would like to provide the following disclosures in connection with the announcement on 30 August 2016 regarding auditor’s comments on the Company’s financial statements for the financial year ended 30 April 2016 (“**FY2016**”) (the “**Announcement**”):-

SGX’s Queries:-

Query 1: Listing Rule 1303(3) states that where the issuer is unable to continue as a going concern or unable to demonstrate to the SGX-ST and its shareholders that it is able to do so, trading of the listed securities of the issuer may be suspended. We note the auditors’ emphasis of matter regarding the Group’s ability to continue as a going concern. In this regard, please disclose the Board’s confirmation as to whether sufficient information has been disclosed by the Company to enable trading to continue in an orderly manner.

The Company’s responses to Query 1 are as follows:

The Board considers that all material disclosures have been properly provided for the trading of the Company’s securities to continue in an orderly manner pursuant to the Listing Manual of the SGX-ST.

The Board is of the view 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 30 August 2016;
- (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) 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).
- (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 as to manage a balanced project portfolio to mitigate risks and optimise profitability for all existing projects;
- (ii) Strengthening current customer 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.

The Annual Report which contains the full financial statements of the Group for the financial year ended 30 April 2016 has been uploaded on the websites of the Hong Kong Exchanges and Clearing Limited, SGX-ST and the Company on 30 August 2016.

Query 2: It was disclosed in the Announcement that a subsidiary had made an advance of US\$5.6 million to a related party during the current financial year and the advance remained outstanding as at 30 April 2016. The advance was subsequently included in the disposal group and classified as held-for-sale, as disclosed in Note 13 to the financial statements for FY2016. In this regard, please disclose:

- (a) the identity of the related party;

The Company's responses to Query 2(a) are as follows:

The subsidiary referred to in Query 2 is Tianjin Shifa Novo Technology Development Limited ("Tianjin Shifa Novo"). During the financial year ended 30 April 2016 and before the completion of the Disposal (as defined below), the Company owned 50% of the equity interest in Tianjin Shifa Novo and the remaining 50% was owned by 天津渤海輕工投資集團有限公司 ("JV Partner"). The JV Partner is a state-owned enterprise in China. The related party to whom the advance was made is 天津万事达印铁包装容器有限公司, which is also a state-owned enterprise in China and a related company of the JV Partner. As announced by the Company on 28 April 2016, the Company has entered into an equity transfer agreement, pursuant to which they have agreed to sell and transfer all its equity interest in Tianjin Shifa Novo to 天津市寶奕金屬製品有限公司 (the "Disposal").

- (b) any connections (including any business relationship) between the related party, its directors and substantial shareholders (if applicable) with the Company, its directors and substantial shareholders (if any);

The Company's responses to Query 2(b) are as follows:

None of the directors of the Company is a director or shareholder of the JV Partner or its related company, 天津万事达印铁包装容器有限公司.

None of the JV Partner or its related company, 天津万事达印铁包装容器有限公司, and their respective shareholders is a controlling shareholder of the Company.

- (c) the rationale and the nature of the advance of US\$5.6 million to the related party;

The Company's responses to Query 2(c) are as follows:

Following the execution of the said equity transfer agreement on 28 April 2016, as disclosed in the Company's Annual Report 2016, the JV Partner (being a state-owned enterprise in China) and 天津市寶奕金屬製品有限公司 has to comply with the necessary administrative proceedings under the laws of China in order to complete the share transfer. Meanwhile, the JV Partner has taken over the operations and control of Tianjin Shifa Novo and no longer furnishes the financial information of Tianjin Shifa Novo to the Group. As reflected in the Company's Annual Report 2016, the advance of US\$5.6 million was regarded as receivables except for those related to trade receivables (such as prepayment and other receivables).

- (d) the Company's opinion as to whether it faces any difficulty in receiving the advance from the related party.

The Company's responses to Query 2(d) are as follows:

Upon completion of the Disposal, the Group will no longer hold any interest in Tianjin Shifa Novo. Hence the collection of such advance will be made between the JV Partner, 天津市寶奕金屬製品有限公司, Tianjin Shifa Novo and the related party.

Query 3: it was disclosed in the Announcement that the auditors are unable to obtain sufficient appropriate audit evidence about the recoverable amounts of (i) the US\$63 million of the Group's property, plant and equipment, (ii) the US\$79 million of investment in subsidiaries, and (iii) the US\$31 million due from subsidiaries as at 30 April 2016. 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 FRS21 The Effects of Changes in Foreign Exchange Rates. In this regard, please disclose:

- (a) details of the methodology used in determination of the recoverable amounts of (i) the Group's property, plant and equipment; (ii) the Group's investment in subsidiaries; and (iii) the amount due from subsidiaries (collectively, the "Assets");

The Company's responses to Query 3(a) are as follows:

The Group has assessed whether there are any indicators of impairment for property, plant and equipment and land use rights, investment in subsidiaries and amount due from subsidiaries in accordance with FRS36 of accounting standard in Singapore. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. In determining whether investments in subsidiaries has impaired would require an estimation of the value-in-use of those investments.

Where value-in-use calculations are undertaken, the management has estimated the expected future cash flows from the asset or cash-generating unit and has chosen a suitable discount rate in order to calculate the present value of those cash flows. These value-in-use calculations would require the use of considerable judgments, estimates and assumptions. Changes in these assumptions and estimates could have a material effect on the determination of the recoverable amount of the property, plant and equipment and land use rights and investment in subsidiaries and amount due from subsidiaries.

- (b) the Board's opinion as to whether the key assumptions and inputs used in determination of the recoverable amount of the Assets are reasonable; and

The Company's responses to Query 3(b) are as follows:

Since early 2015, a PRC subsidiary within the tinsplate manufacturing segment has suspended its operations and yet to resume its operations. The Group intends to resume the tinsplate manufacturing business after restructuring of the existing credit facilities. The property, plant

and equipment and land use rights relating to this PRC subsidiary amounted to US\$60,817,939 (2015: US\$61,195,047).

In view of the above, management carried out a review of the recoverable amount of these property, plant and equipment and land use rights during the financial year. The recoverable amounts of property, plant and equipment and land use rights are determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the sales volume, gross profit margin and discount rates. The sales volume and gross profit margin are based on past performances and expectations developments in the market. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to their industry.

The Group's value-in-use calculations used cash flow forecasts derived from the most recent financial budgets approved by management covering a five year-period. Cash flows beyond the five-year period were extrapolated using estimated growth rate of 3%, which does not exceed the average long-term growth rate for the relevant industry. The pre-tax rate used to discount the cash flow forecasts is 18.41%.

Based on management's assessment, no allowance for impairment loss on property, plant and equipment and land use rights is necessary at the end of the reporting period. In addition, management believes that no reasonably possible changes in any of the key assumptions would cause the carrying amounts of property, plant and equipment and land use rights, thus the investment in subsidiary and amount due from subsidiary to materially exceed its recoverable amounts.

- (c) an explanation for the deviation from the requirements of FRS 21.

The Company's responses to Query 3(c) are as follows:

The foreign exchange translation difference was caused by the foreign exchange rate erroneously used.

BY ORDER OF THE BOARD

Zhu Jun
Executive Chairman and Executive Director
4 September 2016