



ZICO HOLDINGS INC.

Incorporated in Labuan, Malaysia

Company Registration No. LL07968

RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ("SGX-ST") ON 14 OCTOBER 2019 REGARDING THE FINANCIALS OF ZICO HOLDINGS INC.

The board of directors ("**Board**") of ZICO Holdings Inc. ("**Company**", and together with its subsidiaries and associated companies, the "**Group**") refers to the Company's announcement on 14 August 2019 on its unaudited results for the second quarter ended 30 June 2019 and its annual report 2018.

SGX-ST Query 1: A significant portion of the Group's total assets comprises trade and other receivables (RM110m as at 30 Jun 2019). The trade and other receivables have been increasing y-o-y (RM97m as at 31 Dec 2018; RM75m as at 31 Dec 2017) and is also a key audit matter in the Annual Report 2018.

a) What is the nature of the receivables (i.e. what services were provided by the Group)?

Company's Response:

The Group's services are listed out on page 2 of the Company's annual report 2018 ("**AR**").

The Group's receivables have not remained static and as some payments are made to settle prior receivables, new invoices have been issued for fresh services provided.

b) What is the statutory auditor's assessment on collectability of the receivables?

Company's Response:

The statutory auditor has performed the procedures below in relation to the recoverability of trade and other receivables as indicated in their Key Audit Matters of their audit report. (Please refer to page 60 of the AR.)

- 1) Tested the aging of trade receivables at year end on a sample basis;
- 2) Assessed the completeness and accuracy of data used in calculating the expected credit losses;
- 3) Verified that expected credit losses have been calculated appropriately in accordance with IFRS 9;
- 4) Evaluated the reasonableness of historical balances, loss rates and other information within the calculation;

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- 5) Evaluated the appropriateness of adjustments for forward looking information to historical balances, loss rates and other information;
- 6) Verified the mathematical accuracy of the calculation;
- 7) Obtained written undertakings of payment from ZICOlaw network firms on the balances whereby payments are substantially expected to be received in 2019; and
- 8) Tested subsequent settlement of trade and other receivables after the balance sheet date on a sample basis.

The statutory auditor has found the judgement and assumptions made by the Company's Management in determining the loss allowance for trade receivables to be supportable based on the audit procedures the Company has performed.

c) Breakdown of trade receivables by geographical segment.

The breakdown of trade receivables by geographical segment as at 30 June 2019 as follow:

Company's Response:

As at 30 Jun 2019	
RECEIVABLES BY GEOGRAPHICAL AREA	
Malaysia	51%
Singapore	10%
Others	39%
TOTAL	100%

d) Breakdown of trade receivables by business segment.

Company's Response:

The breakdown of trade receivables by business segment as at 30 June 2019 is as follow:

As at 30.6.2019	%
Advisory and Transactional Services Segment	36%
Management, Support Services and Licensing Services Segment	64%
	100%

- e) Noted from the Annual Report 2018 that the trade receivables are unsecured and are generally on 90 days' credit terms. Were the receivables outstanding as at 31 Dec 2018 collected subsequent to year end? What is the percentage of receivables collected since year end?**

Company's Response:

Yes, the percentage of collection collected since year-end is 38.5%.

- f) Is there any proposed impairment for the receivables? If so, would the Group have a going concern issue?**

Company's Response:

The Management has reviewed the receivables and performed the impairment assessment periodically as per the Group's policy stated in pages 86 to 87 of the AR. The Group has also adopted IFRS 9 in FY2018 and there was a loss allowance of RM2.2 million recognized. The details are tabulated in note 34.1 on page 152 of the AR. Secondly, Management has assessed that trade receivables from ZICOLaw network firms of RM56.7 million as at 31 December 2018 are collectible based on historical trend as well as the undertakings secured. Henceforth, the Company's Management has assessed that there is immaterial loss allowance relating to these receivables.

The Board has assessed the findings of the Company's Management, and is of the view that the Group will not have an issue of going concern.

- g) In the Annual Report 2018, it is stated that 'Include in trade and other receivables from third parties are receivable amounting to RM38,789,000 subjected to an interest charge of 4% per annum'. What is the nature of these receivables? Have these receivables been collected?**

Company's Response:

These receivables relate to fees and royalties chargeable under the relevant business agreements for business support services, regional management services and licensing services to the ZICOLaw network. Please refer to page 2 of the Company's annual report of 2018.

The receivables amounting to RM38,789,000 (reflected in page 130 of the AR) are part of these receivables from the ZICOLaw network firms, and are past due more than 1 year and RM5.3 million has been collected as of 30 June 2019. Nevertheless, these receivables have not remained static. Whilst some payments have been used to settle prior receivables, new invoices have been issued in relation to fresh services provided.

- h) In the Annual Report 2018, it is stated that 'the non-trade receivables from third parties, associates and subsidiaries represent advances for operating activities which are unsecured, interest free, repayable on demand and expected to be settled in cash'. What are these 'advances for operating activities'? Why are these advances interest free? Have these receivables been collected?**

Company's Response:

Included in the current non-trade receivables as at 31 December 2018, RM8.4 million out of RM9.1 million was owing by ZICOLaw Network Firms, whereby there is a repayment plan for settlement of these receivables. As for the advances to associates, it was made to finance expansion of services where we believe has potential for enhancing the Group's range of services. It has taken longer than expected to mature and generate profitability. However, the Company is confident that the advances are recoverable. The advances to associates were intended for short-term purposes and hence, no interest was being charged.

SGX-ST QUERY 2: In respect of the Goodwill amount, is there any need for impairment? What is the Board's assessment? What is the statutory auditor's assessment?

Company's Response:

The statutory auditor has performed the following procedures to evaluate the Group's impairment assessment as per page 60 of the AR:

- 1) Assessed the appropriateness of the valuation methodology used;
- 2) Assessed the appropriateness of key assumptions based on our knowledge of the business. We involved our valuation specialists to assist in the assessment of the appropriateness of the methodology used to compute the discount rate used by management;
- 3) Performed sensitivity analyses on the key assumptions where we adjusted the discount rates and growth rates in revenue and cost of services rendered as these are the key assumptions to which the valuation models are the most sensitive;
- 4) Tested source data to supporting evidence on a sample basis, such as historical performance, management's expectations of market developments, approved budgets and considered the reasonableness of these budgets; and
- 5) Evaluated the comparison between the recoverable amounts based on the value-in-use model and the carrying value of the CGU in which goodwill is attributable to.

The statutory auditor has found the assumptions and estimates made by the Company's Management to be reasonable based on the audit procedures the Company has performed.

Upon completion of the proposed disposal of the Company's ZICO BPO Pte Ltd and Finova Singapore Pte Ltd ("Sale Subsidiaries") (as announced by the Company on 9 October 2019) (the "Proposed Disposal"), the carrying goodwill amount in connection to the Sale Subsidiaries will be reversed out in computing the gain or loss on disposal.

SGX-ST QUERY 3: A significant portion of the Group's total liabilities comprises interest-bearing liabilities. What are the purposes of these interest-bearing liabilities?

Company's Response:

The interest bearing liabilities are banking facilities comprising revolving credit, overdraft and term loans taken out for working capital requirements. The breakdown is tabulated in Note 27 of the audited accounts or page 139 of the AR.

SGX-ST QUERY 4: The Group's gearing ratio is 0.52 as at 31 Dec 2018. Is this comparable to its peers and entities of same risk profile as the Group?

Company's Response:

Yes. It is comparable to other peers but the Group intends to reduce its gearing further by utilizing RM6 million of the proceeds from the Proposed Disposal to reduce gearing further. Gearing as at 30 June 2019 is

0.45 (RM57.5 million) and will be further reduced post utilization of the proceeds from the Proposed Disposal to at least 0.41. (Reduced loan balance of RM51.5 million pro-forma on 30 June 2019 equity attributable to owners of the parent of RM125.1 million.)

SGX-ST QUERY 5: Is the Group generating sufficient cashflow for its ongoing operations?

Company's Response:

Based on page 68 of the AR, the Group is generating sufficient cash flow whereby net cash provided by operating activities is positive RM4.0 million. However in H1 2019, the same line item is negative RM4.4 million due to a slowdown in the general economies in Singapore and Malaysia, being the principal regions that the Group operates in, with a consequential slowdown in the Group's collection of trade receivables. The Group is taking immediate steps to strengthen its cash position.

The Proposed Disposal will provide immediate cash for working capital requirements.

BY ORDER OF THE BOARD

Chew Seng Kok

Managing Director

17 October 2019

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, Asian Corporate Advisors Pte. Ltd. (the "Sponsor"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "Exchange"). The Sponsor has not independently verified the contents of this announcement including the correctness of any of the figures used, statements or opinions made.

This announcement has not been examined or approved by the Exchange and the Exchange assumes no responsibility for the contents of this announcement including the correctness of any of the statements or opinions made or reports contained in this announcement.

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