ATTILAN GROUP LIMITED
(Incorporated in Singapore)
(Company Registration Number: 199906459N)

REPLY TO SGX QUERY

In response to the SGX's queries dated 22 August 2017 for clarification on the unaudited results for the Second Quarter and Half Year Ended 30 June 2017, the Board of Directors (the "Board") of Attilan Group Limited (the "Company") wishes to announce the following:-

SGX's Query 1:

It is stated on page 10 of the financial statements, "For Q2 FY2017, revenue increased by 21% or by S$0.1 million from S$0.4 million in Q2 FY2016 to S$0.5 million in Q2 FY2017."

Please elaborate on the factors and explain the reason(s) for the increase in revenue in Q2 FY2017. Please provide a breakdown of the Company's revenue by business segment in comparison with the same reporting period of the previous financial year.

The Company's responses:

The increase in revenue in Q2 FY2017 was mainly due to the increase in revenue from its pre-school segment from HOL International Pte Ltd. The pre-school centre was officially opened and commenced operation on 10 June 2016 at 10 Hoe Chiang Road, #01-03 Keppel Towers, Singapore 089315.

A breakdown of the Company's revenue by business segments is as follows:

	Q2 FY2017 S$'000	Q2 FY2016 S$'000
Investment management	376	406
Pre-school	127	8
Media sales	2	3
	505	417

SGX's Query 2:

Costs of sales fell 84% from S$0.4 million to S$0.06 million. On page 10, the Company explained that that "cost of sales in 2Q FY2017 was due mainly to the amortization of Hi-5 House of Learning license fee". Please:

(i) Provide a breakdown of cost of sales in 2Q FY2017 and 2Q FY2016 and elaborate on the individual items with material variances of 10% or more;

(ii) Explain the factors which resulted in the decrease in cost of sales by 84% despite the increase in revenue in 2Q FY2017 by 21% to S$0.50 million,

(iii) Provide details on media content license fee, amortization fee and the acquisition and amortization policy for the media content business.

The Company's responses:

(i) A breakdown of the costs of sales in 2Q FY2017 and 2Q FY2016 is as follows:

	Q2 FY2017 S$'000	Q2 FY2016 S$'000	Variance %
Purchase of media content	30	4	nm
Purchase of pre-school material	10	22	-54%
Amortization of content aggregation	-	382	nm
Amortization of Hi-5 license fee	25	-	nm
	65	408	-84%

nm = not meaningful

The increase in the costs of purchase of media content was mainly due to the transcoding expenses of the media content and the decrease of purchase of pre-school material was mainly due to the decrease in the expensed off item in relation to the school equipment. The decrease of amortization of content aggregation was mainly due to the recognition of full impairment losses for the second quarter for the financial year 2016. The increase in the amortization of license fee was mainly due to the amortization of Hi-5 House of Learning license fee.

(ii) Please refer to (i) above.

(iii) Acquired content license fees are initially capitalized at cost and subsequently carried at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method to allocate the cost of the content license fees over their estimated useful lives over their estimated useful lives of two to six years.

Costs of producing media content are initially capitalized at cost and subsequently carried at cost less accumulated amortization and accumulated impairment losses. Amortization begins when the production has been completed and is ready for distribution. Amortization is calculated using the straight-line method to allocate the cost of the production fees over their estimated useful lives based on the contract period that the production is expected to generate cash inflows.

SGX's Query 3:

It is stated on page 10 of the financial statements that "Other income decreased by approximately S$7.6 million in Q2 FY2017 as compared to Q2 FY2016 due mainly to waiver of loan and interest payment recognized in Q2FY2016."

Please provide:

(i) A breakdown of other income amounting to S$0.23 million in 2Q FY2017;

(ii) Details on the loan and interest payment that were waived in Q2 FY2016 amounting to S$6.26 million and the reasons for the waiver of the loan;

(iii) Clarification on the reason(s) why there is no waiver of loan and interest payment for Q2 FY2017; and

(iv) Explanation on the reason(s) for the remaining decrease in other income of S$1.34 million, as other income had decreased by S$7.6 million of which S$6.26 million was attributed to the waiver of loans and interest payment recognized in 2Q FY2016.

The Company's responses:

(i) A breakdown of other income is as follows:

	Q2 FY2017 S$'000
Fair value gain on financial liability	42
Foreign exchange gain	164
Rental income	24
	230

(ii) One of the Group's subsidiary entered into an unwinding agreement with the bank for a term loan facility of S$6.62 million as disclosed in Note 28(b)(ii) of the Company's annual report for FY2015. The agreement was amended subsequently on 26 November 2013, 31 March 2014, 31 March 2015 and 5 June 2015. It was further amended and restated by unwinding agreements dated 12 June 2015 and 1 September 2015. Further, in or around May 2016, the subsidiary obtained a full waiver of the loan principal and interest payable through the exchange of the proceeds from the sale of quoted equity shares which were mortgaged to the term loan. The Company has made the relevant disclosure in Note 29(a) of the Company's annual report for FY2016 ("**Annual Report 2016**").

(iii) There is no waiver of loan and interest payment for Q2 FY2017 as the said loan has been fully settled in May 2016.

(iv) The remaining decrease in other income of S$1.34 million was mainly due to the decrease in fair value gain on financial liability of S$1.06 million and gain on disposal of financial asset of S$0.44 million, offset against the increase in foreign exchange gain of S$0.16 million.

SGX's Query 4:

Share of loss of associated company fell from a loss of S$1.9 million in 2Q FY2016 to S$0.3 million in 2Q FY2017. The Company explained that this was due to "the reversal of impairment of S$0.4 million according to the market value of the quoted equity share and share of loss of associated company of S$0.7 million". Please:

(i) Disclose the identity of the associated company where the market value of quoted equity share resulted in a reversal of impairment of S$0.4 million;

(ii) Explain why the aforementioned associated company is recorded at market value of its shares instead of equity accounted as an associated company; and

(iii) Disclose the identity of and elaborate on the reasons for the share of loss of associated company of S$0.7 million and explain the factors which resulted in the reduction of share of loss.

The Company's responses:

(i) The name of the associated company is Chaswood Resources Holdings Ltd..

(ii) As disclosed in Note 27 of Annual Report 2016, the assignment of the Group's Economic Rights on the 33.27% effective interest in investment in Chaswood Resources Holdings Ltd. ("**Chaswood Shares**") to a former subsidiary. The assignment entitles the former subsidiary to the right to participate in the proceeds arising from future sale, disposal and realization of the Chaswood Shares.

Based on Singapore Financial Reporting Standards 39, the Company is required to assess the fair value of the quoted debt instruments and derivative liability being designated as financial liability on quarterly basis.

Investment in associated company is tested for impairment whenever there is any evidence or indication that these assets may be impaired. The recoverable amount was determined based on fair value less costs of disposal, which is the market price of the quoted equity shares.

(iii) The reduction of share of loss was mainly due to the share of loss of Chaswood Resources Holdings Ltd. during the period and the reversal of impairment according to the market value of the quoted equity shares as at 30 June 2017.

SGX's Query 5:

It is stated on page 11 of the financial statements, that "The other current assets comprised of prepayments, deposit paid and the amount due from a former subsidiary amounting to S$2.4 million represents the estimated fair value of the counter indemnity recoverable from the former subsidiary pursuant to the financial guarantee." Please:

(i) Provide breakdown of the material items in other current assets amounting to S$3.14 million as at 31 December 2016 and S$3.77 million as at 30 June 2017 respectively;

(ii) Identify the former subsidiary;

(iii) Provide a background/circumstance which led to having a counter indemnity from the former subsidiary pursuant to the financial guarantee. What is the original amount of the financial guarantee, who was the financial guarantee provided to and why was the financial guarantee required? Has there been any previous write-off/impairment of the financial guarantee and if so please quantify;

(iv) Elaborate on the amount and reasons for prepayments and to whom were these prepayments made;

(v) Elaborate on the amount and reasons for deposits and to whom were these deposits made and for what;

(vi) Trades and other payables increased by S$1.1 million from S$8.9 million as at 31 December 2016 to S$10.0 million as at 30 June 2017. However cost of sales decreased by 84% to S$0.14 million and administrative expenses increased by 5% or S$0.1 million in 1H FY2017. Please:

(a) Provide a breakdown between trade payables and other payables;

(b) Elaborate on the increase in trade payables if applicable; and

(c) Provide details of items in other payables and explain the nature of the contract that resulted in other payables.

The Company's responses:

(i) A breakdown of other current assets is as follows:

	30 June 2017 S$'000	31 December 2016 S$'000
Tremendous Asia Management Inc.	2,472	2,355
Related company	644	-
Prepayment	252	423
Deposit	88	88
Others	311	279
	3,767	3,145

(ii) Tremendous Asia Management Inc. ("**TAMI**") (formerly known as Asiasons Management II Inc.), was the former subsidiary of the Company, and was disposed in May 2014.

(iii) The Company refers to its announcements dated 17 January 2017 and 19 January 2017. Turf Group Holdings Limited ("**Turf Group**") which was an entity wholly owned by a fund known as Dragonrider Opportunity Fund II L.P. ("**DOFII**"). DOFII was managed by TAMI. In 2014, Turf Group entered into an agreement with Philip Asia Pacific Opportunity Fund Ltd. ("Creditor") in relation to subscription of redeemable secured notes of up to a sum of US$5,000,000 ("Subscription"). In connection with the Subscription, the Company has provided a corporate guarantee to the Creditor in January 2014.

The counter indemnity was given by TAMI, which is a wholly-owned subsidiary of Tremendous Asset Partners Ltd. Under the terms of the counter indemnity, in consideration of the Company continuing to be the guarantor under the corporate guarantee, TAMI irrevocably and unconditionally undertakes to indemnity the Company against all or any losses and/or damages that the Company may incur or suffer as a result of being a guarantor for the corporate guarantee.

Please refer to the Company's announcements 17 January 2017 and 19 January 2017 for more information on the counter indemnity.

There has not been any previous write-off or impairment of the financial guarantee contracts.

(iv) The prepayment was in relation to management fees arising from GIP fund amounting to S$0.22 million which paid to Monz Investment Ltd.

(v) The deposit of S$0.09 million was derived from the rental of premises.

(vi)(a) A breakdown of trade payables and other payables is as follows:

	30 June 2017 S$'000
<u>Trade payables</u>	
Third parties	558
<u>Other payables</u>	
Third parties	2,502
Former subsidiaries	3,593
Related parties	432
Deposits received	496
Deferred revenue	388
Accruals & Provisions	2,059
	10,028

(vi)(b) The slight decrease in trade payable mainly due to payment made to suppliers during the period.

(vi)(c) The amounts due to former subsidiaries and related parties were unsecured, non-trade in nature, interest free and repayable on demand.

The amounts due to third parties included S$1.29 million which are unsecured, non-trade in nature and bears interest of 10% per annum and are repayable on demand.

<u>SGX's Query 6:</u>

Financial guarantee contracts amounted to S$32.8 million as at 30 June 2017. Please:

(i) Provide a breakdown of the financial guarantee contracts, including the following:

(a) quantifying the amount guaranteed under each contract;

(b) disclosing the entity to whom the guarantee was given; and

(c) disclosing the entity guaranteed and its relationship with the Company and the reason why the Company guaranteed that entity's debts;

(ii) Disclose the status of the repayments made by the guaranteed entity towards their liabilities;

(iii) Disclose the amounts provided by the Company with respect to the guarantee (if applicable) for each contract; and

(iv) Provide the termination date of each of the guaranteed contract.

The Company's responses:

(i) A breakdown of the financial guarantee contracts is as follows:

	30 June 2017 S$'000
Put option investors[(1)]	24,500
Phillip Asia Opportunity Fund Ltd.[(2)]	8,320
	32,820

Note:

(1) As Company has disclosed in its announcement on 6 July 2017, between January 2013 and April 2014, the Company has entered into various option agreements with certain investors whereby the Company had granted to the Investors a right to require the Company to acquire all the preference shares held by the Investors in TAP Venture Fund I Pte. Ltd.

(2) The Company refers to its announcements dated 17 January 2017 and 19 January 2017. Turf Group Holdings Limited ("**Turf Group**") which was an entity wholly owned by a fund known as Dragonrider Opportunity Fund II L.P. ("**DOFII**"). DOFII was managed by TAMI. In 2014, Turf Group entered into an agreement with Philip Asia Pacific Opportunity Fund Ltd. ("Creditor") in relation to subscription of redeemable secured notes of up to a sum of US$5,000,000 ("Subscription"). In connection with the Subscription, the Company has provided a corporate guarantee to the Creditor in January 2014.

(ii) The total amount of S$32.8 million remains unpaid as at 24 Aug 2017.

(iii) Please refer to (i) above.

(iv) There are no termination dates under each of the guaranteed contract.

BY ORDER OF THE BOARD

Datuk Jared Lim Chih Li
Managing Director
24 August 2017