
QUERIES FROM THE SINGAPORE EXCHANGE LIMITED ("SGX") ON THE UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016

The Board of Directors (the "**Board**") of China Jishan Holdings Limited (the "**Company**") and together with its subsidiaries, the "**Group**"), would like to provide the following information in response to the queries from the SGX regarding the unaudited financial statements of the Group for the financial period ended 30 September 2016 ("**3Q2016**"), which was announced on 10 November 2016:

SGX query 1

We refer to paragraph 1(b)(i) of the Results Announcement and note that 'Property, plant and equipment' has increased by 14.9% from RMB109.333 million to RMB125.655 million. Please provide the following information:-

- (a) Explain why the Company is acquiring 'Property, plant and equipment' when Revenue has decreased.
- (b) Provide the breakdown of 'Property, plant and equipment'.

The Company's response to query 1

- (a) Pursuant to the announcements in relation to the relocation released by the Company dated 27 March 2015, 21 May 2015, 11 August 2015 and 13 November 2015, in order for the Company to move into the Binhai Industrial Zone, the additions of property, plant and equipment are mainly for the construction of factory buildings as at 30 September 2016.

- (b) Please see the breakdown below:

	Construction in progress	buildings	Leasehold improvements	Plant and Machine ry	Motor vehicle s	Fixtures and equipme nt	Total
Carrying amount (RMB'000)							
1/1/2016	4,978	-	-	103,655	99	601	109,333
Addition	36,552	-	-	105	-	-	36,657
Depreciation	-	-	-	(18,365)	(10)	(149)	(18,524)
Disposals	-	-	-	(1,811)	-	-	(1,811)
30/09/2016	41,530	-	-	83,584	89	452	125,655

SGX query 2

We refer to paragraph 1(b)(i) of the Results Announcement and note that 'Other payables' has increased by 16.7% from RMB62.619 million to RMB73.083 million. Please provide the following information:-

- (a) Provide the breakdown of 'Other payables'.

- (b) If 'Other payables' of RMB73.083 million is due to advance rental, why is rental income not material.

The Company's response to query 2

- (a) Please see the breakdown below:

	Q42015 RMB'000	Q32016 RMB'000
Accrued employee benefits	2,087	450
Accrued expenses	1,722	1,244
Interest payable	663	663
Payables for property, plant and equipment acquired	1,887	7,559
Payable for land conversion fee and other related taxes	27,523	27,523
VAT payables	1,213	369
Cash at bank held in trust for a third party	6,568	1,455
Third parties (i)	20,956	33,820
	<u>62,619</u>	<u>73,083</u>

Note:

(i) mainly deposits received from lessees and advance rentals from lessees, increase mainly due to increase of rental advance of RMB12.0 million from lessees.

- (b) Other payables has increased by RM10.5 million, which was mainly due to the advance payment of rental. The rental income is material and accordingly, it has been disclosed as part of the Group's revenue. Please refer to the Company's response under 3(b)(iii).

SGX query 3

We refer to paragraph 8 of the results announcement. We note that the Company has rented out part of its factory space and plant and equipment of the "narrow width" division from 2Q2015 onwards as part of the Group's effort to reduce redundancy. Please provide the following information:-

- (a) On the statement "reduce redundancy" what is Company's staff strength with this arrangement and who bears the staff cost
- (b) On the statement "rented out part of its factory space and plant and equipment of the "narrow width" division, provide the following information: -
- (i) Provide details on the area of the factory space, total capacity, size, rental fee, identities of person rented out to (whether any business relationship or connection), what percentage of Company's facilities and capacity.
 - (ii) Elaborate on reason why is Company unable to operate the factory profitably but the lessee is able to do so.
 - (iii) Where is the income for this arrangement recognized.
 - (iv) Does Company have any manufacturing activity as its own.

The Company's response to query 3

- (a) After the Company leased out part of its factory space and plant and equipment of the "narrow width" division from 2Q 2015 onwards, the staff strength of the Company has been reduced from 1,200 persons to 350 persons. The lessees will bear their own staff cost.

- (b) (i) As at the date of this announcement, the Company has rented out 52,768 sqm of its factory space, at an aggregate monthly rental fee of RMB 1,749,999, to 3 individuals who are in the printing and dyeing industry, Mr. Dai Yuefeng, Mr. Li Ji Ming and Mr. Shen Jiamin. All 3 individuals are unrelated to the directors and controlling shareholders of the Company. The total floor area rented out is 52.0% of the total floor area and 73.0% of the Company's total facilities' capacity.
- (ii) The reasons are as follows:
 - a) The lessees operate on a smaller scale. Thus, it is easier for them to control and manage the operational costs.
 - b) The lessees have no financial leverages from banks. As such, they can save on the finance costs.
- (iii) The rental income is recognized as revenue, in the income statement.
- (iv) Yes, the Company still operates its "extra width" printing and dyeing and fabric processing segment.

SGX query 4

We refer to paragraph 8 of the results announcement. We note the statement "rental income for 3Q2016 reduced from RMB5.5 million to RMB2.7 million was mainly due to no rental will be charged during the period of relocation of factory". Please explain why no rental when premises are rented out.

The Company's response to query 4

The lessees were renting the factory space, plant and machineries at the old factory in Kebei Industrial area. As the relocation of the plant and machineries from old factory in Kebei Industrial area to the new factory in Binhai Industrial Zone will resulting in dismantling of the existing plant and machineries in the old factory and installation of the same in the new factory, there will be some downtime which will result in the lessees being unable to undertake any production and thus, there will be no income generated during the relocation. In this regard, it has been agreed that there will be no rental charges during the relevant period.

SGX query 5

We refer to paragraph 8 of the results announcement. We note that the higher operating income in 3Q2015 as compared to 3Q2016 was mainly due to gain on disposal of excess pollution quota of RMB4.8 million in 3Q2015 where there is no such gain in 3Q2016. Please provide the following information:-

- (a) Elaborate on "disposal of excess pollution quota" and how is amount of gain derived.
- (b) Explain "disposal of excess pollution quota" refers to disposal to whom.

The Company's response to query 5

- (a) Pursuant to PRC law, all enterprises that directly or indirectly discharge industrial and medical sewage shall obtain the relevant pollutant discharge licence from the Shaoxing Country Environment Protection Bureau (绍兴县环境保护局). The enterprise shall discharge the pollutants in conformity with the provisions on the pollutant discharge licence which include, *inter alia*, the type, the density and the amount of the pollutants (i.e. the pollution quota). The purpose of the quota is to restrict the discharge of pollutants and protect the environment through the given quota. Based on the above, as companies in the printing and dyeing industry discharge industrial sewage and atmospheric pollutants, the Group needs to obtain and operate with a pollutant discharge licence. Based on the Group's current production, the quota granted to the Group is in excess, so the Group disposed of the excess pollution quota to other enterprises in need to obtain the gain.

- (b) In 2015, the Group disposed of the excess pollution quota to an unrelated third party, Shaoxing County Shengmiao Zhenfang Co., Ltd (绍兴县圣苗针纺有限公司), for a consideration of RMB 4.8 million.

SGX query 6

We refer to paragraph 8 of the results announcement. We note that Property, plant and equipment increased by RMB16.3 million mainly due to addition of property, plant and equipment. Please provide the following information:-

- (a) What is the increase in capacity? What is total capacity? What is the utilization?
(b) When will the new capacity start operating?
(c) What is total cost of new capacity and how is it funded?

The Company's response to query 6

- (a) As the Group needs to build the new factory in the Binhai Industrial Zone due to the relocation, the main increase in property, plant and machineries are mainly due to the addition of factory buildings in the Binhai Industrial Zone. There is no increase in capacity.
(b) The Group does not increase the plant and machineries for the productions purposes, therefore there is no new capacity. However, the new factory starts its operations at end of October 2016.
(c) There is no cost of new capacity as this is the relocation of the factory with no addition to plant and machineries for productions.

BY ORDER OF THE BOARD

Xiao Ziliang
Executive Director/ Chief Executive Officer

24 November 2016