



**CHINA HAIDA LTD.**

(Incorporated in Singapore on 18 August 2004) Company Registration No. 200410428C

**24 Raffles Place, #20-03 Clifford Centre, Singapore 048621**

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## Introduction

As disclosed in the Introduction paragraph of HY2020 Financial Results announcement, the Singapore Finance Team (comprising the CFO, resigned on 15 September 2020, and the remaining contract staff on the Singapore Finance Team) has been unable to obtain all relevant and pertinent information, documents and/or explanations from Litai to accurately complete and finalise the HY2020 Financial Results and to address the issues (such as limitation of scope, impairment assessment of the property, plant and equipment and right-of-use assets of the Group, litigation and claims and going-concern) raised in the Disclaimer of Opinion by the Independent Auditor, Crowe Horwath First Trust LLP, for the audit of the financial statements of the Company and Company's wholly owned subsidiary, Jiangyin Litai Ornamental Materials Co., Ltd (the "Litai") (collectively, the "Group") for the financial year ended 31 December 2019. From 31 July 2020, the employees of Litai have been ordered not to return to work and Litai's operations have been temporarily halted. Litai finance team has since stopped reporting to the Singapore Finance Team. The following responses to SGX queries have been prepared based on the recollection of information provided by Litai finance team prior to the 31 July 2020. As such, certain information disclosed in the following responses may not be accurate and updated. **Shareholders and potential investors are advised to read or use the following responses with caution, especially having regard to the limitations and qualifications outlined above.** The Company will make further announcements as and when any material information relating to the responses below is subsequently available.

SGX Query 1:

**The Company qualified that the HY2020 Financial Results was not reviewed by the Board and the Singapore ID is unable to provide negative assurance confirmation pursuant to Listing Rule 705(5).**

**A) To disclose who was responsible for the preparation of the financial results and who approved the provision of the results to the Singapore ID.**

### Response to SGX queries:

The HY2020 Financial Results of the Group was prepared by the Singapore Finance Team, comprising of the Chief Financial Officer and her contract staff based in Singapore, using financial information provided by Litai finance team. Litai's finance team was led by Mr Zhang Qinyu, the General Manager of Litai. The usual practice was such that key financial information such as Litai's balance sheet, profit and loss statement and supporting schedules would be provided to the accountant of Litai to compile. The said accountant of Litai will then report to the Singapore Finance Team. The Singapore Finance Team will then request for photographs of certain source documents such as suppliers' invoices/bills to be provided as part of work done. The Singapore Finance Team has no issue with this arrangement up to 31 July 2020 and in fact, Litai's latest revised compiled balance sheet and profit and loss statement were provided to the Singapore Finance Team at the end of July 2020.

However, the CEO has since stopped reporting to the Board of Directors in Singapore despite repeated attempts to get him after the discovery of the freezing of the bank accounts of Litai and the interim court order involving Litai. During this period of time, the Singapore Finance Team was

also trying their level best to understand what has transpired in Litai which led to the freezing of certain bank accounts of Litai during the period from March to July 2020.

The support from Litai finance team however has become more intermittent and they took longer to respond to the Singapore Finance Team on their queries from July 2020 onwards. Unfortunately, due to the current COVID-19 situation, the Singapore Finance Team was unable to travel to Litai to ascertain the accuracy of the financial information provided by the Litai's finance team and could only rely on the information provided by Litai finance team. The Singapore Finance Team was also facing difficulties as they could not reach the CEO directly to confirm the accuracy and validity of the numbers given by the Litai finance team.

It was only on 12 August 2020 that the Singapore Finance Team became aware that the employees were asked not to go back to the office of Litai from 31 July 2020.

The Singapore Finance Team wish to state for the record that they had on three separate occasions sent the HY2020 Financial Results for Board approval together with notice of meeting of Board of Directors dated 8 August 2020, 13 August 2020 and 27 August 2020, called for by the Independent Director, Mr Tang Chun Meng ("**Singapore ID**"). However, as there was no quorum due to the absence of other directors attending the board meetings, the HY2020 Financial Results were not approved *per se* by the Board. The Singapore Finance Team was however able to present the HY2020 Financial Results to the Singapore ID with the rider that they were unable to extract confirmation from CEO and they were not able to carry out the review work properly because of the intermittent support from the Litai finance team and the inability to travel to Litai due to the COVID-19 travel restrictions.

**B) To disclose who provided the source documents and information to the preparer of the financial results which were reviewed by the Singapore finance team and the Singapore ID.**

Response to SGX queries:

Please refer to the Company's response to (A) above.

**C) To disclose who prepared and approved the disclosures in the Introduction and Paragraph 10 of the Financial Results and the explanations in the MD&A.**

Response to SGX queries:

The Singapore Finance Team prepared the disclosures in the Introduction and Paragraph 10 of the Financial Results and the explanations in the MD&A on "best effort" basis. The Singapore Finance Team had on three separate occasions sent the HY2020 Financial Results for Board's approval together with notice of meeting of Board of Directors dated 8 August 2020, 13 August 2020 and 27 August 2020, called for by the Singapore ID. However, as there was no quorum due to the absence of other directors attending the board meetings, the Singapore Finance Team was not able to obtain Board's approval for the disclosures in the Introduction and Paragraph 10 of the Financial Results and the explanations in the MD&A.

**2. Please provide a breakdown of the increase in administrative expenses by 14.6% to RMB10.16 million when revenue fell 75.9% to RMB23.30 million. To provide breakdown and explain for the material variance against corresponding period.**

Response to SGX:

Administrative expenses	HY2020	HY2019	Variance	Note
	RMB'000	RMB'000	%	
Payroll	4,152	4,672	-11.13%	i
Directors' remuneration	460	777	-40.77%	ii
Directors' fees	239	241	-0.55%	
Individual tax	1,140	-	NM	iii
Amortisation of lease	151	151	0.00%	
Depreciation of office PPE	430	467	-7.85%	iv
Loss on disposal of PPE	181	-	NM	v
Exchange loss	50	33	48.79%	
External audit	279	369	-24.21%	vi
Internal audit	33	33	-	
Professional fees	1,071	167	539.97%	vii
Duties and property tax	393	413	-4.84%	
Repairs	136	67	103.89%	viii
Consumables	46	39	17.99%	
Listing expenses	204	174	17.27%	ix
Sewage service	143	145	-1.46%	
Bank charges	14	56	-75.00%	x
Insurance	59	75	-21.09%	xi
Office expenses	975	987	-1.15%	
	<u>10,158</u>	<u>8,865</u>		

Explanations:

i) Due to the decrease in turnover in HY2020, payroll expenses declined by 11.3% or RMB0.52 million. The percentage decline in payroll costs of 11.3% is less than the percentage decline in turnover of 75.9% mainly due to certain fixed payroll costs.

ii) Directors' remuneration declined by 40.77% or RMB0.3 million in HY2020 mainly due to the resignation of a former director, Mr Guo Yun, in January 2020.

iii) The Litai finance team has not provided information on individual tax of RMB1.14 million (see query 9).

iv) Lower depreciation of office PPE was recorded for HY2020 which was attributed mainly to certain assets which had been fully depreciated during the period under review.

v) Loss on disposal of PPE of RMB0.18 million in HY2020 was due to the disposal of a motor vehicle that was held in trust by the former director, Mr Guo Yun.

vi) Lower external audit fees were recorded in HY2020 mainly due to delay in the local statutory audit of Litai as a result of COVID-19. Litai has not made provision of related audit fees in HY2020 as amount is not material.

vii) Professional fees increased by 539.97% or RMB0.9 million mainly due to legal and professional costs related to legal proceedings against Litai as previously announced.

viii) Repairs costs increased by 103.89% or RMB0.07 million mainly due to more office repair work carried out in HY2020 prior to the outbreak of COVID-19 as compared to HY2019.

ix) Listing expenses increased by 17.27% or RMB0.03million mainly due to accruals made by Litai.

x) The decline in bank charges is mainly due to lesser bank transactions in HY2020 as a result of COVID-19.

xi) The decline in insurance expenses is mainly due to cost control.

**3.The Company made impairment in HY2020 amounting to RMB13.94 million due from related parties (trade) and RMB26.56 million advance payments to a related party (trade).**

**a.To disclose the identities of the related parties involved in the allowance made and disclose if these are interested persons.**

Response to SGX:

These related parties are as follows:

i) Allowance for due from related parties (trade):

Related parties (trade):	<u>RMB' million</u>
Jiangyin East-China Aluminium Technology Co., Ltd (" <b>Jiangyin East-China</b> ")	13.92
Jiangyin Comat	0.02
	<hr/>
	13.94

i) Allowance for advance payments to a related party (trade), Jiangyin Haida Caitu Co., Ltd. ("**Jiangyin Caitu**"), of RMB26.56 million.

The above related parties are interested persons. Information about these interested persons has been reproduced as follows based on our announcement dated 22nd April 2020 (see Company's responses to SGX-ST's Query 3):

Jiangyin East-China is 70%, 22% and 8% owned by Jiangsu Haida Technology Group Co., Ltd, ("**Jiangsu Haida Technology**"), China Delta Limited ("**China Delta**") and Forbury Investment Limited ("**Forbury**") respectively.

Jiangsu Haida Technology is owned by 2 shareholders - 52.17% owned by our CEO, Mr Xu Youcai and 47.83% owned Jiangyin Fu Aute International Co., Ltd. China Delta is a controlling shareholder

of the Company and is in aggregate 60% owned by our CEO, Mr Xu Youcai and 30% owned by our Non-Executive Chair, Ms Zhao Guiying.

Forbury is 100% by owned by a former Executive Director, Mr **Guo Yun** (who resigned on 15 January 2020).

Jiangyin Comat is 55%, 20% and 25% owned by Jiangysu Haida Technology, Xu Qiang (son of the CEO, Mr Xu Youcai) and Chen Yong respectively.

**Jiangyin Haida Caitu** is owned by 2 shareholders: Jiangsu Haida Technology (60%) and Ms Hu Xiuzhen (40%).

Accordingly, **Jiangyin East-China** and **Jiangyin Haida Caitu** are considered interested persons under the SGX Listing Rules.

**b.To explain whether these are IPTs and elaborate on the review procedures for these transactions and the basis of the AC for approving the transactions.**

Response to SGX:

These are IPTs whereby shareholders' approvals and mandates had been obtained during the Annual General Meetings held on 29 April 2019 and 29 June 2020.

As disclosed in our annual report for FY2019 (page 35), the Board and Audit Committee ("**AC**") will review all IPTs to be entered to ensure that the relevant rules under Chapter 9 of the Listing Manual of the SGX-ST are complied with.

According to the Terms of Reference for Audit Committee, the AC shall review all IPTs and RPTs. Specifically, the AC shall:

- a) Review IPTs and RPTs to ensure that they are on normal commercial terms, and that they do not prejudice the interests of the Company or its minority shareholders.
- b) Determine methods or procedures for checking that the transaction prices are adequate for transactions to be carried out on normal commercial terms, and that they will not prejudice the Company or its minority shareholders.
- c) Subject to a specific mandate, direct management to present the rationale, cost-benefit analysis and other details relating to IPTs and RPTs.
- d) Receive reports from management and internal audit regarding IPTs and RPTs.
- e) Ensure proper disclosure and reporting to shareholders on IPTs as required by the SGX-ST Listing Manual.
- f) Ensure proper disclosure and reporting in the annual report on RPTs as required by the accounting standards.

In addition, as per announcement dated 22 Apr 2020, for good measures, the AC had also instructed the Group to closely monitor all future advances to Jiangyin Caitu by requiring any

advances of RMB 1 million or above to be reported to and approved by the Group CFO in Singapore on the condition that there must be timely delivery of raw materials by Jiangyin Caitu.

**c. To produce evidence where a basis of comparison were used to determine whether the prices and terms offered to the related parties are no more favorable than those extended to unrelated third parties.**

Response to SGX:

As the employees of Litai have been ordered not to return to work and Litai's operations have been temporarily suspended since 31 July 2020, the Singapore Finance Team has not been able to obtain the necessary information from Litai finance team for such analysis. Furthermore, we wish to add that matters relating to such IPT are typically tabled at board meetings. Unfortunately, there were no board meetings due to the absence of quorum as set out in the Company's response above. However, the Company shall make related announcement when information becomes available.

**d. To provide a breakdown of the these amounts by financial year.**

**i) Aging of due from related parties (trade):**

Ageing	RMB' million		
	181 to 360 days	361 to 720 days	Total
Jiangyin East-China	6.95	21.03	27.98
Jiangyin Comat	0.04	-	0.04
			28.02
		Less: allowance for impairment	28.02
			-

**ii) Aging of advance payments to a related party (trade), Jiangyin Haida Caitu Co., Ltd. ('Jiangyin Caitu') of RMB52.13 million.**

Response to SGX:

Ageing*	RMB' million		
	91-180 days	181 to 360 days	361 to 720 days
Jiangyin Caitu	0.98	33.97	17.18
			52.13
		Less: allowance for impairment	52.13
			-

**4. Please provide a breakdown of the impairment of RMB6.12 million in relation to other receivables, deposits and prepayments for HY2020.**

Response to SGX:

As per announcement dated 7 September 2020, the impairment of RMB6.12 million is related to the judicial funds deduction (“司法扣划”) of RMB6.1 million by Sichuan Longquanyi District People’s Court which may be related to court proceedings as announced by the Company on 8 April 2020, 15 April 2020, 22 April 2020, 20 May 2020, 17 June 2020 and 22 July 2020. This amount has been treated as other debtors by the Litai finance team. As of the date of the announcement of the HY2020 financial results, the Company does not have evidence that the amount is refundable. Accordingly, allowance for impairment has been fully provided.

**5.The Company has RMB5.49 million cash and bank balances as at 30 June 2020.****a.To provide a breakdown of the cash that is being frozen in PRC bank accounts by the Court and the funds that is available to the Company for general working capital purposes.**Response to SGX:i) PRC bank accounts

	Balance as at 30 Jun 200 RMB’000
Frozen bank accounts (20 bank accounts)	4,161
Active bank accounts (3 bank accounts)	9
	4,170

Based on telecommunications with Litai finance team (prior to 31 July 2020), Litai’s cash at bank that was frozen by the court amounted to RMB4.16 million as of 30 June 2020.

ii) Singapore bank account

As of 30 June 2020, the funds that is available to the Company for general working capital purposes amounted to RMB1.28 million.

**b.To elaborate what are the conditions for the funds to be released by the PRC Court.**

Despite the numerous requests made by the Singapore ID to the other directors of the and supervisor of Litai to obtain full and detailed explanations and supporting documents on the pending legal suits and enforcement proceedings, the other directors of the board and supervisor of Litai has not provided any information. As such, the Company is not able to provide information on the conditions for the funds to be released by the PRC Court. Whilst it has been contemplated by the Singapore ID to appoint professionals in China to ascertain more about the situation in Litai, the Singapore ID could not do so due to the absence of quorum for the board meetings called and set out in the Company’s response above.

**c.To provide an update on the cash utilization since the date when the Company's securities were suspended.**

## Cash utilisation of the Company for the period from 1 April 2020 to 30 June 2020

	RMB'000
Payroll related	219
External auditors	280
Internal auditors	37
Office & carpark rental	65
Directors' remuneration (withholding tax)	230
Directors fees	668
Legal & professionals	670
AGM expenses	40
Office expenses	16
Other expenses	27
I.T. maintenance supplier	7
Office warehousing	24
Listing costs	94
	<u>2,377</u>

**6. Please provide the identity of the subsidiary which the Company had invested in and explain reason why the Company has made full impairment amounting to RMB119.10 million in the investment.**

Response to SGX:

The Company's wholly-owned subsidiary (and the only subsidiary) is Jiangyin Litai Ornamental Materials Co., Ltd ("Litai").

The Singapore Finance Team has made full impairment of RMB119.10 million in the investment of this subsidiary on grounds of prudence given the current economic situation, business environment, court proceedings and going-concern surrounding Litai.

**7. The Company provided an analysis of trade receivables as at 30 June 2020 where gross trade receivables (third parties) amounted to RMB89.92 million and impairment allowance amounted to RMB33.56 million.**

**a. To provide a breakdown of the financial year in which these trade receivables were incurred.**

Response to SGX:

Please refer to Appendix A for more information.

**b.To explain reasons why the Company is making these provisions amounting to RMB33.56 million, whether there is veracity of the debtors owing to the Company.**

Response to SGX:

As detailed in Appendix 1, allowance for impairment has been made for impaired customers amounted to RMB26.27 million and allowance for impairment under Expected Credit Losses (“ECL”) model amounted to RMB7.3 million.

The Singapore ID had on three separate occasions called for board meeting to discuss and approve the HY2020 Financial Results (including the intention to discuss the veracity of the trade debtors). However, due to the absence of other directors attending the board meeting, the Singapore ID (as well as the Singapore Finance Team) was not able to obtain any explanation on the veracity of the trade debtors.

As the employees of Litai have been ordered not to return to work and Litai’s operations have been temporarily halted since 31 July 2020, the Singapore Finance Team has not yet been able to obtain the related information from Litai finance team. However, the Company shall make related announcement when information becomes available.

**8.The Company stated that Jiangyin Caitu had not been fulfilling the orders from Litai during the period under review.**

**a.To explain since when had Jiangyin Caitu stopped fulfilling orders from Litai and why did the directors still recommended to seek approval for the IPT mandate despite the non-fulfilment by Jiangyin Caitu.**

Response to SGX:

Prior to the Group’s AGM, the Singapore ID had checked with the management of Litai and was informed by Chen Wei, the director of Litai that Jiangyin Caitu was simply requesting for a delay in fulfilling the Group’s order in light of the COVID-19 situation. The directors accepted Chen Wei’s explanation and taking into account the fact that Jiangyin Caitu has always fulfilled the Group’s order with no major issue in the past as well as the COVID-19 situation.

Furthermore, the directors also took into consideration that the procurement of a renewed IPT mandate will enhance the ability of the Group to pursue business opportunities which are time-sensitive in nature, and will eliminate the need (pursuant to the materiality thresholds imposed under Chapter 9 of the Listing Manual) for the Company to announce such transactions, or, to announce and convene separate general meetings as and when potential transaction with the specified classes of Interested Persons arise to seek shareholders’ prior approval for the entry by the relevant company in the Group into such transactions. This will substantially reduce the expenses associated with the convening of general meetings on an ad hoc basis considerably, improve administrative efficacy and allow human resources and time to be channelled towards attaining other corporate objectives. Further, the AC was of the view that without the IPT mandate, it may be extremely time consuming and inefficient and/or disproportionately onerous to review, announce and/or seek shareholders’ approvals of every recurrent IPT that has triggered the requisite thresholds should the apparent irregularities be eventually resolved and Jiangyin Litai



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resume its normal operations (which invariably requires the engagement of the recurrent IPTs as adverted to above).

In light of the above, the directors recommended to seek approval for the IPT mandate

**b.To explain why did the directors not raise queries against the missing fulfillment of orders by Jiangyin Caitu during the periodic review of IPTs.**

Response to SGX:

Please refer to the Company's response at 8(a).

In addition, subsequent to July 2020, the Singapore ID had no further chance to do periodic review with the Litai as the employees were asked not to return to Litai's office since 31 July 2020. The Singapore ID had also on three separate occasions called for board meeting to discuss and approve the HY2020 Financial Results (including the intention to discuss the missing fulfilment of orders by Jiangyin Caitu). However, due to the absence of other directors attending the board meeting, the Singapore ID as well as the Singapore Finance Team were not able to obtain any explanation on the missing fulfilment of orders by Jiangyin Caitu.

**9.The Company incurred personal income tax expense of RMB1.1 million in HY2020.**

**a.To provide the identity of the person and explain the background of the personal income tax expense.**

**b.To explain why is the Group paying for this person's personal income taxes.**

Response to SGX:

As the employees of Litai have been ordered not to return to work and Litai's operations have been temporarily suspended since 31 July 2020, the Singapore Finance Team has not yet been able to obtain the related information from Litai finance team. However, the Company shall make related announcement when information becomes available.

Appendix 1											
Impairment of trade receivables - specific and ECL Model adjustment											
Ageing of impaired customers - Note 1	Total balance	Specific allowance	Past Due								
			As at 30.06.2020	As at 1.1.2020 & 30.06.2020							
					1-180days	181-360days	361-720days			721-1080days	abv 1080days
1 哈尔滨鑫海达商贸有限责任公司	824,368	824,368	-	-	-	70,281	754,087				
2 哈尔滨市东方墙业装饰有限公司	996,944	996,944	-	-	-	-	996,944				
3 北京江南海达商贸有限公司	961,990	961,990	-	-	-	-	961,990				
4 上海旻合商贸有限公司	1,490,482	1,490,482	-	-	640,835	849,647	-				
5 南京海利	600,990	600,990	-	-	-	-	600,990				
6 山东勇进集团有限公司	558,671	558,671	-	-	-	-	558,671				
7 江苏纯幕建材有限公司	1,330,000	1,330,000	-	-	-	-	1,330,000				
8 南京跨世纪装饰城海达装饰材料销售部	2,345,673	2,330,281	-	-	29,864	84,043	2,216,374				
9 张家港市金科幕墙材料有限公司	1,449,305	1,449,305	-	-	-	-	1,449,305				
10 青岛建设装饰集团有限公司	1,634,193	1,634,193	-	-	-	-	1,634,193				
11 临沂日月照明电器有限公司	1,731,863	1,731,863	-	-	-	-	1,731,863				
12 江阴昂润铝塑有限公司	1,212,291	1,212,291	-	24,120	-	1,188,171	-				
13 南京跨世纪装饰城海达装饰材料销售部	2,345,673	2,345,673	-	-	45,256	84,043	2,216,374				
14 宁夏国美商贸有限公司	3,690,189	3,494,566	82,700	547,120	1,415,621	1,449,125	-				
15 comprised of ard 120 customers with amounts <500k	5,313,088	5,313,088	-	-	138,588	514,340	4,660,160				
<b>List of impaired customers - Note 1</b>	<b>26,485,721</b>	<b>26,274,705</b>	<b>82,700</b>	<b>571,240</b>	<b>2,270,164</b>	<b>4,239,650</b>	<b>19,110,951</b>				
Balance of customers without impairment	63,434,489										
Total balance before allowance for impairment	89,920,210										
less impairment of trade receivables	(26,274,705)										
less ECL model adjustment	(7,283,733)										
Balance of trade receivables as at 30.06.2020, as reflected in balance sheet	56,361,772										