



**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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**RESPONSE TO SGX-ST QUERIES**

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The Board of Directors (the “**Board**”) of China Haida Ltd (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to make the following clarifications in response to the queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 21 April 2021 in relation to the unaudited financial statements for the financial year ended 31 December 2020 (the “**FY2020 Financial Results**”) released on 31 March 2021. The queries from the SGX-ST and the Company’s responses are set out below.

**Query 1:**

Please disclose a breakdown of the number of personnel who were involved in the preparation of the FY2020 Financial results (i.e. PRC and Singapore), whether they report to Xu Youcai and to state the extent of who had reviewed and approved these financial results for announcement.

**Company’s Response:**

The number of personnel who were involved in the preparation of the FY2020 Financial Results are as follows:

	Singapore Team	PRC Team
Number of personnel:	1	3
Composition of the team:	1 Finance Manager (joined in September 2020, following the resignation of the CFO)	1 Cashier, 1 Accountant and 1 Trade Receivable Accountant

Prior to the appointment of Mr Soh Yeow Hwa (“**Mr Soh**”) as the executive director of the Company in January 2021

The PRC Team reported to the General Manager of Jiangyin Litai Ornamental Materials Co., Ltd (“**Litai**”), Mr Zhang Qinyu, in terms of accounting matters of Litai. Mr Zhang Qinyu reviewed and approved the accounts of Litai for the financial year ended 31 December 2020 (“**FY2020**”). Prior to Mr Soh’s appointment, Mr Zhang Qinyu reported to Mr Xu Youcai during FY2020.

The Singapore Team reported to the Board in terms of accounting matters of the Company. The Board reviewed the financial statements of the Company and the Group and approved the financial results announcements.

Following the appointment of Mr Soh Yeow Hwa as the executive director of the Company in January

2021

The Singapore Team and the PRC Team report to Mr Soh.

In the course of preparing the FY2020 Financial Results

The Singapore Team and the PRC Team prepared the FY2020 Financial Results announcement on a best effort basis as information and supporting documents, especially those surrounding Litai's legal proceedings, were withheld by Mr Xu Youcai. For more information on the difficulties faced by the Audit Committee ("AC") and Board in finalising the FY2020 Financial Results announcement, please refer to the Introduction section of the FY2020 Financial Results.

As the Singapore Team has not been able to contact Mr Xu Youcai since April 2020, and due to the travel restrictions and quarantine measures in the PRC, the Company has, as a temporary measure appointed Mr Lai Shih-Wei ("**Mr Lai**") in March 2021 as the Company's representative to Litai and has given him a Power of Attorney to obtain the business license legal representation seal, company seal and cashers' seal, etc. of Litai (the "**Litai Seals**").

Mr Lai reports directly to the Singapore Team. He is a substantial shareholder of the Company, holding 11.86% interest in the Company. He holds a Taiwanese passport and has resided in Jiangyin City since 2002 due to several investments in the Jiangsu Province. Mr Lai has, through his hard work, managed to get access to Litai's premise and managed to obtain control over the Litai Seals in April 2021. Mr Lai has also formed a management team (made up of several existing employees of Litai) ("**New Litai Management**") in Litai to assist, on a best-efforts basis, in the protection of the Litai's assets. Despite Mr Lai's appointment, certain information is still being withheld by Mr Xu Youcai.

The Company is currently seeking legal advice on the legal liabilities of any new legal representative appointed by the Company to Litai in view of the enforcement cases by the PRC courts.

Query 2:

Please clarify the impact of COVID-19 on the capacity utilization of the operating plant. Please also disclose if the Company is resuming the other operating segments apart from the aluminum materials trading business. If not, to elaborate reasons why the Company has not resumed those operations even though the aluminum materials trading business is already operational in relation to the management of the COVID situation in the PRC.

Company's Response:

The capacity utilization of the operating plants of Litai for FY2020 and FY2019 respectively are as follows:

	Capacity utilisation	
	FY2020	FY2019
(i) Aluminium Panel	9%	69%
(ii) Aluminium Composite Panel	6%	41%
(iii) Spray processing	2%	45%

COVID-19 has negative impact on the capacity utilization as a result of the lock-downs of Jiangyin city on several occasions. In view of the seriousness of the COVID-19 pandemic, the New Litai Management took a more prudent approach in resuming full operations in Litai. The New Litai Management had taken additional time to reassess its business processes such as the sourcing and pricing of certain raw materials from existing and new suppliers, production planning, identifying and clearance of slow-

moving inventory and controls over factory overheads. The New Litai Management is also seeking legal advice on, *inter alia*, the impact of the courts' enforcement orders and whether it can still use the production facilities. Barring unforeseen circumstances, Litai targets to resume the production of aluminium panels gradually in the second quarter of 2021, taking into consideration of potential issues arising from the use of Property, Plant and Equipment ("PPE") placed under courts' enforcements as disclosed in the Company's response to query 9 below.

The New Litai Management has informed the Company recently that the Aluminium Panel production line has been run by a manufacturer. The New Litai Management has not been able to obtain the rental agreement kept by Mr Xu. The Company will update shareholders via SGXNET as and when there are any material developments.

**Query 3:**

Please explain reason for the gross loss incurred from the trading business and to elaborate how the company will be able to operate as a going concern when gross loss scenario indicates that the Company is unable to cover the cost of sales.

**Company's Response:**

As explained in paragraph 8 A (ii) of the FY2020 Financial Results announcement (page 17), gross profit margin turned negative to -18.9% for FY2020 from 9.0% in FY2019 due primarily to higher absorption of fixed costs such as depreciation of machinery of RMB 4.2 million and water and electricity of RMB 2.0 million charged as costs of sales in FY2020 against lower production activities and certain slow-moving inventory were realized at prices below cost.

Barring any unforeseen circumstances, the New Litai Management hopes that gross profit margin will improve in FY2021 as a result of following actions:

- (i) Litai is able to source and negotiate for lower prices for certain raw materials with current and new suppliers;
- (ii) Improving the efficiencies of workers through better production planning;
- (iii) Substantial clearance of slow-moving inventory in FY2020; and
- (iv) Control in factory overheads.

**Query 4:**

Please provide a breakdown of the Other operating loss/income for FY2020 against FY2019 and explain the significant variances.

**Company's Response:**

Please refer to Part I 1(a)A (pages 3 and 4) of the FY2020 Financial Results for the breakdown and related explanations of Other Operating (Loss)/Income.

**Query 5:**

The Company incurred personal income tax expense of RMB1.1 million in FY2020. Please disclose the identity of the person and explain the background of the personal income tax expense. To provide explanation why is the Group paying for this person's personal income taxes.

**Company's Response:**

Details of personal income tax expenses incurred by Litai is as follows:

**The Group  
FY2020**

	<b>RMB'000</b>
(i) Xu Youcai	467
(ii) Guo Yun, a former director of the Company	209
(iii) All other employees of Litai	464
<b>Total</b>	<b>1,140</b>

Personal income tax relates to personal income taxes of the employees/workers of Litai. Under the requirements of the local government in Jiangyin, Litai is required make payments of the personal income tax of its employees to the government first, before reclaiming such amounts from the employees thereafter. During FY2020, Mr Xu Youcai approved expensing the personal income taxes of Litai's employees but did not seek repayment of these personal income taxes from said employees, including himself. The Board's consent was not sought by Mr Xu Youcai's prior to his unilateral decision to not seek repayment of these personal income taxes. The New Litai Management is looking into Mr Xu Youcai's aforesaid decision.

**Query 6:**

Impairment allowance made for Trade and other receivables amounted to RMB24.20 million and Advance payments to a related party (trade) amounted to RMB26.56 million:

Please disclose:

- (a) what is the total amount of advances made to the related party to-date and how the amounts have been reduced to RMB26.56 million. Please disclose the identity of the related party and the nature of the transaction and the reasons for making such a significant payment to related party.

**Company's Response:**

As at 31 December 2020 and as at 31 March 2021, the total amount of advances outstanding from the related party, Jiangyin Haida Caitu Co., Ltd. ("**Jiangyin Caitu**") was RMB 52.13 million.

An analysis of the balance of advance payments to Jiangyin Caitu is as follows:

	<b>The Group</b>	
	<b>As at 31.12.2020 RMB'000</b>	<b>As at 31.12.2019 RMB'000</b>
Advance payments to Jiangyin Caitu (trade), gross	52,130	51,150
Less: Allowance for impairment loss made in FY2019	(25,575)	(25,575)
Less: Allowance for impairment loss made in FY2020	(26,555)	-
<b>Advance payments to Jiangyin Caitu (trade), net</b>	<b>-</b>	<b>25,575</b>

As at 31 December 2020 and 2019, the total amount of advances outstanding from Jiangyin Caitu was RMB 52.13 million and 51.15 million respectively. The Group made allowance for impairment losses of RMB26.5 million and RMB25.6 million on advances outstanding from Jiangyin Caitu in FY2020 and FY2019 respectively. Accordingly, as at 31 December 2020 and 2019, the net amount of advances outstanding from Jiangyin Caitu was reduced to nil and RMB 25.6 million respectively after the allowance for impairment loss.

Jiangyin Caitu was able to buy in bulk the aluminium sheets/raw materials from the major suppliers within the PRC. However, Litai on its own standing was unable to do so and hence, had to buy via Jiangyin Caitu. In order to secure its orders, Litai would make advance payments to Jiangyin Caitu for the purchase of raw materials. The shareholders' mandate had been obtained annually to approve this interested person transaction ("IPT") and the latest being obtained at the last AGM of the Company held on 29 June 2020.

Please refer to the Company's response to query 13 below for reasons for the significant outstanding amount of advance payments to Jiangyin Caitu.

- (b) when were these sales incurred, what were the actions taken to recover the trade and other receivables and what is the Board's policy in assessing the ability of customers to pay for goods/sales delivered by the Company.

**Company's Response:**

Trade receivables

The aging of the sales to these trade receivables can be found in Appendix 2 to the FY2020 Financial Results announcement and the period in which the sales of these receivables arose can be found in Appendix 1 to this announcement.

The actions taken by the trade receivable accountant and the sales teams of Litai to recover the trade receivables include the following:

- (i) The marketing department promptly reminded customers to pay in accordance with the contract for due receivables, and adopted multiple methods for collection of overdue receivables including, but not limited to, contacting the trade debtors regularly, visiting the trade debtors, sending trade debtors statement of accounts, sending letters of demand and seeking legal actions, etc; and
- (ii) For trade debtors with serious financial difficulties and are unable to repay, with the approval of the general manager, Litai will try to reach an agreement with such trade debtor for the overdue receivables to be paid off with non-cash assets such as inventories and fixed assets. The board of directors of Litai shall document such approval with the financial department informed of the situation and perform the necessary accounting treatments.

Litai's policy in approving sales transactions are as follows:

- (i) For overseas customers, Litai requires a deposit of 10% of the sales transaction and letters of credit (usually at destination) from the customers before the manufacture and delivery of goods; and
- (ii) For local customers in the PRC, Litai assesses the ability of the customers, prior to signing sales contracts and would grant credit terms as follows:
- (1) The following circumstances require an application for review and evaluation of new sales contract and credit terms:
- (A) New customers;
  - (B) An existing customer requesting for an increase in the credit limit;
  - (C) An existing customer requiring an increase in existing sales volume and value; and
  - (D) There are changes in the financial status of existing customers.
- (2) Review and evaluation of new sales contract and credit terms are carried out by the marketing personnel whereby information of the customer is obtained through the following main channels:
- (A) Company registration documents of the customer;
  - (B) Trade magazine;

- (C) Customer's business partners, debtors, and suppliers; and
- (D) Customer's employees, etc.

(3) Before signing the sales contract, the Group's credit department will investigate the potential customer's relevant information based on an objective evaluation of the financial strength of the customer. It is only after the Group's credit department is satisfied that the customer has ability to repay will any sale then take place.

#### Other receivables

Other debtors mainly include deposits for services, security deposits, and payment of personal income taxes on behalf of employees, etc. The actions taken by Litai to recover other debtors in the form of cash or performance of services depends on the nature of the other debtors and the related contracts (if any). In general, the finance department and other related departments will monitor other receivables as follows: contacting and visiting the other debtors regularly on the performance of services or the repayment of debts, sending letters of demand and seeking legal actions, etc.

- (c) the Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade and other receivables.

#### **Company's Response:**

The Board is of the opinion that the methodologies used to determine the value of the impairment of the trade and other receivables are consistent with the relevant accounting standards, and hence, reasonable. The Board will continue to be prudent in determining the value of impairment of the trade and other receivables.

- (d) a breakdown of the Company's provision for Trade and other receivables (by aging buckets with longest period clearly specified in upper limit and jurisdiction)

#### **Company's Response:**

##### Trade receivables

A breakdown of the Company's provision for trade debtors (by aging buckets with longest period clearly specified in upper limit and jurisdiction) can be found in Appendix 2 to the FY2020 Financial Results announcement.

##### Other receivables

Please refer to Appendix 2 to this announcement for more information.

- (e) the aging analysis and assessment of the recoverability of any remaining trade receivables from these debtors which have not yet been impaired.

#### **Company's Response:**

Information on the aging analysis of the remaining trade receivables from these debtors of Litai which have not been impaired (by aging buckets with longest period clearly specified in upper limit and jurisdiction) can be found in Appendix 2 to the FY2020 Financial Results announcement.

For the remaining trade receivables which have not been impaired, the Group has made general provision for impairment loss of RMB24.0 million (based on 40% on the remaining unimpaired trade receivables of RMB60.1 million) and provision under the ECL (expected credit loss) model of RMB 7.3 million.

- (f) the percentage of doubtful trade receivables due from major customers (or five largest customers) of the Company.

**Company's Response:**

As at 31 December 2020, the percentage of doubtful trade receivables due from the five largest outstanding trade debtors (customers) over the total gross amount of trade debtors of the Litai is 4%.

**Query 7:**

The Company has RMB1.25 million cash and bank balances as at 31 Dec 2020.

- (a) Please 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.

**Company's Response:**

Please refer to Part I 1(b)(i), note 9 on pages 10 and 11 of the FY2020 Financial Results announcement. For ease of reference, we reproduce the breakdown set out in the FY2020 Financial Results announcement as follows:

	<b>The Group</b>	
	<b>As at 31.12.2020 RMB'000</b>	<b>As at 31.12.2019 RMB'000</b>
Frozen bank account balances	3,487	775
Bank account balances	476	10,754
Cash on hand and bank draft	771	7
	4,734	11,536
Less: Allowance for Impairment loss due to courts' enforcement cases	(3,487)	-
<b>Available cash and bank balances</b>	<b>1,247</b>	<b>11,536</b>

- (b) Please provide an update on the cash utilization since the date when the Company's securities were suspended.

**Company's Response:**

Please refer to Appendix 3 to this announcement for an update on the cash utilization of the Company for the period from April to December 2020.

- (c) Please elaborate what are the conditions for the funds to be released by the PRC Court.

**Company's Response:**

The Company is seeking legal advice to determine if the conditions for the PRC courts to release the assets seized by them will be dependent on the satisfaction of the litigation liabilities by the borrowers (the majority of which are related parties controlled by Mr Xu Youcai) of the respective financial loan agreements as disclosed in Appendices 1A and 1B to the FY2020 Financial Results announcement.

The Company has also engaged PRC lawyers to advise on the conditions and related legal actions to be taken by the Group to challenge the enforcement cases and for releasing of the

assets (including the frozen bank accounts) placed under the PRC courts' injunction. The Company will update shareholders via SGXNET as and when there are any material developments.

**Query 8:**

Given the Group's significant liabilities of RMB46.76 million and cash and bank balance of only RMB1.24 million and noting that the Company incurred losses of RMB181.45 million in FY2020, please disclose the Board's assessment of:

- (a) whether the Company's current assets are adequate to meet the Company's short-term liabilities of RMB46.76 million including its bases of assessment; and
- (b) how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

**Company's Response:**

In order to ensure that the Company would not face going concern issues and/or difficulties in meeting its obligations for the next 12 months, especially in payment of all the listing compliance costs such as audit fees, secretarial fees and listing fees etc, the Company has on 28 January 2021 entered into a loan agreement for the grant of a \$500,000 loan to the Company. Based on the Company's cashflow forecast and estimation of its current expenses and liabilities, the \$500,000 cash injection from the loan would enable the Company to meet its liabilities as and when due payable for the next 12 months.

In the Company's accounts, the Company has fully impaired its costs of investment in Litai. To the best of the Board's knowledge and based on the disclosure in the audited reports, the Company has not provided any form of corporate guarantee to Litai. Assuming the worst-case scenario and taking a conservative approach, the Company has fully written down its investment in Litai and would not be held responsible for the various litigation claims alleged against Litai.

In order to address the going concern issue facing Litai in meeting its obligations for the next 12 months, the Group appointed Mr Lai and the New Litai Management to collect the trade receivables of Litai to settle some of its liabilities. As disclosed on page 9 under note 5 of the FY2020 Financial Results announcement, the trade and bill receivables of Litai was a net amount of RMB34.2 million after allowance for impairment was made. The New Litai Management is of the opinion that this RMB34.2 million has reasonable chances of being collected. As of to date, there is no court enforcement ruling to seize the trade and bill receivables. Out of the RMB34.2 million receivable, the New Litai Management is cautiously optimistic that approximately RMB25 million can be collected. Once the RMB25 million is collected, the New Litai Management would endeavour to settle a substantial portion of Litai's liabilities and work out debt repayment plans with other creditors of Litai to settle the remaining liabilities.

**Query 9:**

The Company had decided to fully impair its entire value of PPE amounting to RMB34.69 million.

- (a) Please disclose the details of PPE which have been pledged as securities for the short-term bank loans, now involved in court litigation cases.

**Company's Response:**

Details of PPE that have been pledged as securities for short-term bank loan of Litai, now involved in courts' litigation cases are as follows:



	<b>The Group</b>
	<b>As at</b>
	<b>31.12.2020</b>
	<b>RMB'million</b>
Net carrying value of:	
(i) Leasehold buildings - mainly used by Litai as office, administrative and storage purposes	2.73
Sub-Total	<hr/> 2.73
Less: Allowance for impairment loss due to courts' enforcement cases	(2.73)
Total	<hr/> - <hr/>

- (b) Please elaborate if these are operating assets which are critical to the operations of the Group and whether the businesses can continue if these assets are fully seized by the bank due to default of loans.

**Company's Response:**

The PPE that have been pledged as securities for short-term bank loan of Litai, now involved in courts' litigation cases, are mainly used by Litai as office, administrative and storage purposes.

The Company is seeking legal advice to confirm whether the injunctions issued by the PRC courts on these assets restrict the assets from being sold or transferred to other parties. Paragraph 5 of the Opinion of the Supreme People's Court No 35 (2019) issued by the Supreme People's Court of PRC provides that "where the workshops, machinery equipment, and other production materials of an enterprise subject to enforcement are seized and the continuous use of such production materials by the person subject to enforcement has no significant impacts on the value of the property, the people's court shall permit such use". For further information, please refer to <http://lawinfochina.com/display.aspx?id=32312&lib=law>. Accordingly, the Company is seeking legal advice to confirm that Litai can still use these assets to carry on its business until these assets are ordered to be sold or disposed by the PRC courts.

The Company has engaged PRC lawyers to advise on the use of such assets, and the conditions and related legal actions to be taken by the Group to challenge the enforcement cases and for releasing of the assets (including the frozen bank accounts) placed under the PRC courts' injunction. The Company will update shareholders via SGXNET as and when there are any material developments.

- (c) Please provide details of what are the remaining assets of the group should these assets be foreclosed.

**Company's Response:**

As disclosed in paragraph 1(b)(i) Note 1(b) of the FY2020 Financial Results announcement, the Company noted from detailed court's rulings under cases (2020) 苏 0213 执 4847 号 and (2020) 苏 0213 执 4846 号 which indicated that Litai has provided securities under pledge numbers 苏 (2017) 江阴不动产证明 No.0014712 (legal rights to buildings), No.0014720 and No.0014721 (land-use rights). As information and documents of these pledges were withheld by Mr Xu Youcai, the Company does not have much information about the pledges. The Company is not aware of the nature of these pledges and whether approval has been sought prior to the assets being pledged as securities to secure loans for the two related parties. The Company has also noted from the two detailed court rulings that Litai's assets, including machineries and inventory,

were made available by the court to the enforcement applicant. The Company also noted from detailed court's rulings for other litigation cases that PPE such as motor vehicles were seized by the courts for other enforcement applicants. Nevertheless, while information about the assets pledged (as per the enforcement cases above) were not available to the Company, the Company has, on 31 March 2021, on grounds of prudence, provided for allowance for impairment loss due to enforced courts' cases based on the net book value of the PPE. However, the remaining PPE of the Group (listed in table below) may not be necessarily be placed under PRC courts' enforcement cases (or injunctions).

Details of remaining PPE of Litai whereby allowance for impairment loss due to PRC courts' cases has been made are as follows:

	<b>The Group As at 31.12.2020 RMB'million</b>
Net carrying value of:	
(i) Leasehold buildings - office, factory, warehouse, dormitory, others	14.69
(ii) Machinery and equipment - factory	16.91
(iii) Motor vehicles	0.31
(iv) Others	0.05
Sub-Total	<hr/> 31.96
Less: Allowance for impairment loss due to courts' enforcement cases	(31.96)
Total	<hr/> - <hr/>

The Company has engaged PRC lawyers to advise on the use of such assets, and the conditions and related legal actions to be taken by the Group challenge the enforcement cases and for releasing of the assets (including the frozen bank accounts) placed under the PRC courts' injunction. The Company will update shareholders via SGXNET as and when there are any material developments.

- (d) Please disclose for each of these assets where the sales of RMB30.67 million in FY2020 been generated.

**Company's Response:**

The management of Litai believes that the PPE that are important in generating sales of RMB 30.7 million in FY2020 are as follows:

	<b>The Group As at 31.12.2020 RMB'million</b>
Net carrying value of:	
(i) Leasehold buildings - office, factory, warehouse, dormitory, others	14.69
(ii) Machinery and equipment - factory	16.91
Sub-Total	<hr/> 31.60
Less: Allowance for impairment loss due to courts' enforcement cases	(31.60)
	<hr/>

Total

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The Company has, on 31 March 2021, on grounds of prudence, provided for allowance for impairment loss due to enforced courts' cases based on the net book value of these PPE. However, the remaining PPE of the Group (listed in table above) may not be necessarily be placed under PRC courts' enforcement cases (or injunctions).

**Query 10:**

The Company made full impairment in the value of its investment in a subsidiary amounting to RMB118.45 million.

- (a) Please disclose the assets and value of these assets prior to the allowance for impairment.
- (b) Please provide justification for the full impairment and substantiate with data.

**Company's Response:**

- (a) As at 31 December 2020, the cost of investment in subsidiary, Litai, was RMB 118.45 million.
- (b) The Company has made full impairment on the cost of investment in subsidiary on grounds of prudence after taking into consideration of the legal enforcement cases surrounding the subsidiary. The Company has engaged PRC lawyers to advise on related legal actions to be taken by the Group to challenge the enforcement cases surrounding Litai and for releasing of its assets (Including the frozen bank accounts) placed under the PRC courts' injunction. The Company will update shareholders via SGXNET as and when there are any material developments.

**Query 11:**

Please explain how was the Net Realizable Value of the inventory determined? To provide the basis for the value attributed and the value of the impairment determined. To explain if any valuation undertaken to support the value?

**Company's Response:**

The management of Litai reviewed the list of inventory as at 30 September 2020 and provided allowance for write down in inventory to net realisable value of RMB 3.89 million based on approximately 50% of the value of inventory, identified as slow moving. There was no third-party valuation taken in valuing the inventory to net realisable value as the costs of performing such valuation would outweigh the benefits.

**Query 12:**

Please disclose the basis for the impairment the receivable debts for each of the material debtors, amounting to total of RMB28.90 million and whether these entities are still operating.

**Company's Response:**

As at 31 December 2020, trade receivables, net of allowance for impairment loss, was RMB 28.9 million.

The basis for allowance for impairment loss on trade receivables has been disclosed in Appendix 2 to the FY2020 Financial Results announcement. As at 31 December 2020, the total allowance for impairment loss on trade receivables amounted to RMB57.6 million as follows:

**The  
Group  
As at**

	<b>31.12.2020</b>
	<b>RMB'000</b>
Allowance for impairment loss on trade receivables	
(i) Allowance on specifically impaired trade receivables	26,389
(ii) Allowance based on ECL model	7,284
(iii) Allowance based on 40% of trade receivables without impairment	23,965
<b>Total</b>	<b>57,638</b>

**Query 13:**

The Company made full impairment of the advance payments to Jiangyin Caitu amounting to RMB52.13 million.

- (a) Please disclose the size of Jiangyin Caitu's operations, revenue and paid up capital; the identities of its controlling shareholder(s) and director(s).

**Company's Response:**

Based on information obtained from domain www.tianyancha.com (“天眼查”) on 22 April 2021, the paid-up capital of Jiangyin Caitu was RMB 42.8 million with shareholdings as follows:

	<b>Percentage of Shareholdings</b>
(i) Jiangsu Haida Technology Group Limited <sup>(1)</sup> (“Jiangsu Haida”)	60%
(ii) Hu Xiuzhen	40%
<b>Total</b>	<b>100%</b>

Note:

(1) - Jiangsu Haida is 58.75% held by Mr Xu Youcai.

Mr Xu Youcai is the only director of Jiangyin Caitu.

As disclosed in the Company's response to query 5 of the SGX-ST's queries announced on 16 August 2019, the Company noted that the revenue of Jiangyin Caitu was approximately RMB15 billion in 2018.

The Company is not able to obtain information about the revenue of Jiangyin Caitu for FY2019 and FY2020 from Mr Xu Youcai or any other public domain.

- (b) Please explain why the Company made such a significant advance payment of RMB52.13 million to Jiangyin Caitu which is now fully impaired.

**Company's Response:**

As disclosed in response to query 6 (a) above, Jiangyin Caitu was able to buy in bulk the aluminium sheets/raw materials from the major suppliers within the PRC. However, Litai on its own standing was unable to do so and hence, had to buy via Jiangyin Caitu. In order to secure its orders, Litai would make advance payments to Jiangyin Caitu for the purchase of raw

materials. The shareholders' mandate had been obtained annually to approve this IPT and the latest being obtained at the last AGM of the Company held on 29 June 2020.

As disclosed in the Company's response to query 5 of the SGX-ST's queries announced on 16 August 2019, as at 30 June 2019, Litai had outstanding advancement to Jiangyin Caitu totaled RMB 40.3 million for the purchase of raw materials to fulfil backlog orders of approximately RMB55 million and anticipated future demands to be delivered to customers in the second half of 2019. In addition, the increase in advance payment is also due to the delays in receiving raw materials from the supplier as the supplier is currently in the process of upgrading its production facilities and hence delivery of raw materials ordered would be expected to be received only in the next three months or later after June 2019. The increase in advance payment for purchase of raw materials was to ensure that Litai is able to fulfil its obligations to meet the customers' demands taking into consideration the supplier lead time of 2-3 months and the production lead time of another 2-3 months to manufacture the aluminium panels. However, Jiangyin Caitu has been slow in fulfilling the orders. For the period from 1 July to 31 December 2019, Jiangyin Caitu delivered approximately RMB 11.2 million of products and services to Litai.

As at 31 December 2020, the advancements to Jiangyin Caitu amounted to RMB52.1 million (31 December 2019: RMB 51.15 million).

- (c) Please disclose the period when Jiangyin Caitu ceased fulfilling orders from Jiangyin Litai and reasons for the non-fulfilment of orders. Please explain why the Company continued to transact with Jiangyin Caitu despite these non-fulfilment of orders in the past.

**Company's Response:**

The Company wish to state for the record that Jiangyin Caitu has delayed in fulfilling orders from Jiangyin Litai since January 2020. These has been announced by the Company in earlier announcements. It was only in 16 March 2021 that the Company realised from information obtained from domain [www.tianyancha.com](http://www.tianyancha.com) (“天眼查”) on 22 April 2021 that there were two applications had been made on 9 February 2021 and 30 March 2021 to Jiangyin People's Court (江阴人民法院) to put Jiangyin Caitu under bankruptcy review. The Company also note at that point in time that there were several enforced litigation cases against Jiangyin Caitu in the PRC. Accordingly, the Company then re-classify the delayed order to non-fulfillment. Prior to 16 March 2021, Management had deemed it as a delayed fulfillment of orders which Jiangyin Caitu had previously managed to fulfill in the past and hence, the Company continued to transact with Jiangyin Caitu at the material time.

- (d) Please disclose the exact dates of when the advance payments of RMB52.13 million were made.

**Company's Response:**

Movement in advance payments amounting to RMB52.13 million are set out in Appendix 4 to this announcement.

- (e) Please elaborate on the internal controls that have been put in place by the Board and the AC to ensure that advance payments were not made to entities that have no operations or financial ability to deliver the significant of goods that would have been represented by the payments advanced.

**Company's Response:**

The Board wishes to state for the record that the transactions between Jiangyin Caitu and Litai are interested party transactions for which a general mandate has been obtained by the Company at the general meetings (“IPT Mandate”).

As disclosed in the IPT Mandate, the Group will monitor any transactions between Jiangyin Caitu and Litai as follows:

- (i) where the value of the transaction is less than 5% of the latest audited net tangible assets of the Group, it will be reviewed and approved by a non-interested executive director. in the event where all executive directors have an interest, whether directly or indirectly, in the transaction, it will be reviewed and approved by the AC and the Board;
- (ii) where the value of the transaction is equal to or exceeds 5% of the latest audited net tangible assets of the Group, it will be reviewed and approved by the AC and the Board; and
- (iii) where the aggregate value of all transactions with the same interested person in the current financial year is equal to or exceeds 5% of the latest audited net tangible assets of the Group, the latest and all future transactions equal to or above S\$100,000 will be reviewed and approved by the AC and the Board.

As a basis of comparison to determine whether the prices and terms offered by an interested person are fair and reasonable, where applicable, when purchasing from such interested person, the prices and terms of one other competitive offer from a third party supplier, contemporaneous in time, will be obtained for comparison, taking into account all pertinent factors including but not limited to price, quality, delivery time, rebates or discounts accorded for bulk purchases and track record to ensure that the interests of the minority shareholders are not disadvantaged.

In cases where it is not possible to obtain comparables from other unrelated third parties, the AC will consider whether the pricing or fees charged under the transactions are in accordance with the usual business practices and pricing policies and are consistent with the usual costs related to such transactions to determine whether the relevant transactions are undertaken at arm's length and on normal commercial terms.

Accordingly, all transactions entered between Jiangyin Caitu and Litai have been and will be reviewed by the AC at least half yearly to ensure that they are carried out at arm's length and in accordance with the policies and procedures relating to IPTs as set out above. For the review, all relevant non-quantitative factors will also be taken into account.

In the half yearly review of transactions between Jiangyin Caitu and Litai, the AC had reviewed and assessed the advance payments made to Jiangyin Caitu and have made the necessary queries to the Litai Management on the recoverability of the advance payments to Jiangyin Caitu. The Board and the AC were assured by the management of Litai at the material time that Jiangyin Caitu was simply requesting for a delay in fulfilling the Group's order in light of the COVID-19 situation. The Board and the AC then had no reason to suspect that Jiangyin Caitu will not be able to deliver the orders as Jiangyin Caitu have always managed to fulfil orders from Litai in the past.

The Board noted that the Company's auditors, in their audit of the Company's FY2018 financials, has adopted the following approach as follows to verify such advance payments:

1. Review management's process of identifying related parties.
2. Obtain direct confirmation on related parties transactions during the year and balances as at year end.
3. Understand the nature of advances to a related party and sales to a related party and assess the recoverability.
4. Make specific inquiries of management with respect to the existence of related party transactions; to assess that disclosure requirement has been met in accordance to the revised SFRS (I) 24; and to assess the completeness of the related party disclosures under the revised SFRS (I) 24.
5. Inspect underlying documentation in support of the transactions, understand the business rationale for the related party transactions, assess whether there are indications of fraud and determine that the transaction has been appropriately accounted for and disclosed.

6. Communicate with those charged with governance about significant matters identified during audit in connection with related parties.
7. Assess transactions during the year to ascertain compliance to the interested party transactions mandate and to test transactions at arm's length basis.

Based on the auditor's work findings for FY2018, Jiangyin Caitu had been fulfilling the delivery orders, the AC and the Board were of the opinion that the advance payments to Jiangyin Caitu were in order.

For FY2019, the AC noted the sharp increase in advance payments to Jiangyin Caitu and has raised queries and had instructed the Group on the action to be taken to mitigate the risk from the large exposure from the advance payments to Jiangyin Caitu. As disclosed in Appendix 4 to this announcement, which sets out the advance payment schedule to Jiangyin Caitu, the Board has, after January 2020, determined, as a matter of prudence, not to make any further advanced payments to Jiangyin Caitu.

The Board and AC, is of opinion, that to the best of their efforts and knowledge at the material time, they have performed the necessary checks and queries with regards to the advance payments to Jiangyin Caitu. Going forward, the AC would recommend closer monitoring of any advance payments to any related party in the Group.

- (f) Please explain whether the AC had raised queries against the missing fulfillment of orders by Jiangyin Caitu during the periodic review of IPTs and if so, how was the AC satisfied that the advances would not be prejudicial to the Company and its minority shareholders.

**Company's Response:**

Please see the Company's response query 13(e) above.

**BY ORDER OF THE BOARD**

27 April 2021