



CHINA HAIDA LTD.

(Incorporated in Singapore on 18 August 2004)

Company Registration No. 200410428C

420 North Bridge Road #04-06 North Bridge Centre Singapore 188727

RESPONSE TO QUERIES RAISED BY SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE UNAUDITED FULL YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The board of directors (the "**Board**") of China Haida Ltd. (the "**Company**", together with its subsidiary, the "**Group**") refers to the Company's Unaudited Full Year Financial Statements and Dividend Announcement for the financial year ended 31 December 2019 released on 15 April 2020 and wishes to respond to the queries raised by Singapore Exchange Securities Trading Limited ("**SGX-ST**") as follows:-

SGX-ST's Query 1:

We refer to the Company's announcement on the freezing of Company's bank accounts and interim court order made on 8 April 2020. The Company disclosed that an interim court order dated 28 November 2019 was issued pursuant to an application filed by Zhang Kun against Mr Xu Youcai (the CEO of the Company) and Jiangyin Litai, in connection with legal dispute over lending/borrowing affairs.

- a. To provide details of these lending/borrowing affairs and explain how the Company is involved;
- b. To disclose the relationship between Zhang Kun and the Company, its directors, substantial shareholders, its key management and/or their respective associates.
- c. To explain why the Company failed to promptly disclose the material court order issued by Sichuan Longquanyi District People's Court on 28 November 2019.
- d. To provide Audit Committee's views on the situation of the Company and whether a special investigation should be commissioned to investigate circumstances surrounding the lending/borrowing affairs which led to the court order and the sufficiency of the Group's internal controls.

The Company's response:

For convenience, unless otherwise stated, we adopt the same terminology used in the Company's Announcement dated 8 April 2020 ("**8 April Announcement**").

- a. As stated in the 8 April Announcement, among other things, the Company was (and is still) trying to enquire of the details of the main dispute allegedly relating to some lending/borrowing affairs, and of how and why Jiangyin Litai was involved in the main dispute and named as one of the 12 respondents in the ICO.
- b. As alluded to in the 8 Apr Announcement and to the best knowledge and information of the Company, the Company and Jiangyin Litai do not have any business relationship with Zhang Kun. Equally, the two independent directors (Messrs Soh Beng Keng and Tang Chun Meng) and the key management in Singapore (represented by Group CFO, Ms Chan Lai Yoke) also confirm that they have no relationship with Zhang Kun. The Company is however unable to confirm whether the other directors (including the CEO and the former Executive Director, Mr Guo Yun) or any substantial shareholders or their respective associates have any relationship with Zhang Kun.
- c. As stated in the 8 Apr Announcement, the Company was only made aware of and given a copy of the ICO upon its immediate enquiry of Jiangyin Litai when it was informed by its auditors of the “qualified” bank confirmation replies received from BCHX and ABOCHS. More specifically, the ICO (albeit issued on 28 November 2019) was only transmitted by Jiangyin Litai to the Company on 1 April 2020 without any clarifications. Thereafter, the Company had been following up with Jiangyin Litai for clarifications, and save for the representation from Jiangyin Litai that it does not have any business relationship with Zhang Kun, there was no other helpful or relevant information given. On 3 April 2020, the Audit Committee (“**AC**”) was consulted and it immediately instructed the Company to make a request for trading halt on the same day pending the release of the 8 April Announcement.
- d. The AC is taking a serious view of the situation encountered by the Company as described in the 8 April Announcement. The AC has since ensured that all material announcements relating to this matter were made timely despite the trading of the Company’s shares is presently being suspended. To recapitulate, upon being notified of the ICO on 3 April 2020, the AC immediately instructed the Company to request a trading halt with the SGX-ST on the same day pending the material announcement that was subsequently released on 8 April 2020. The AC also concomitantly instructed the Company to seek legal advice from a PRC law firm with a view to performing some background searches and collating basic facts relating to the ICO and the alleged underlying dispute; understanding the circumstances under which Jiangyin Litai was being involved in the alleged legal dispute as briefly mentioned in the ICO; the possible reasons for the freezing of Jiangyin Litai’s bank accounts; and exploring the legal options available to the Company. A kick-off conference call with the PRC counsel was held on 17 April 2020. In the interim, the AC and management will continue to contact the Group CEO via electronic communication means.

While the AC believes that a special investigation is necessary to inquire into the circumstances giving rise to the freezing of bank accounts and ICO, it must be carefully planned and executed especially in view of the existing COVID-19 conditions and the practical difficulty of contacting and locating the Group CEO. In fact, the AC is of the view that having instructed the PRC law firm is a critical preliminary to a practical and meaningful investigation under the current circumstances. The Company will provide further updates on this matter in due course should there be any material development.

As stated in the Company's Report on Corporate Governance dated 3 April 2019, on account of the reports of the internal and external auditors and the various management controls put in place, the AC believes that the Group's internal controls were reasonably adequate and effective in safeguarding the Group's assets as well as addressing the material risks in the Group. Equally, it is also acknowledged that no cost effective internal control system will preclude all errors and irregularities as such a system is designed to manage and mitigate rather than eliminate the risks of failure, and can provide only reasonable but not absolute assurance against material misstatement or loss whether due to fraud or errors. The AC notes with great regret the matters as reported in the 8 April Announcement, and will endeavour to do all things that are necessary, pragmatic and appropriate in the circumstances with a view to safeguarding the interests of the Company.

SGX-ST's Query 2:

We refer to the Company's Full Year Results for Period Ended 31 December 2019 ("**FY2019 Financial Results**") announced on 15 April 2020. The Company stated in the "Prelude" of the FY2019 Financial Results that it "has been unable to obtain all relevant and pertinent information, documents and/or explanations from Litai to accurately complete and finalize the FY2019 Financial Results in a timely manner despite its numerous attempts to do so via telecommuting or electronic communication means." Please provide an update on whether it has since located its Group CEO and General Manager of Litai and the status of resumption of operations in its offices.

The Company's response:

Regretably, the Company is still not able to contact the Group CEO (Mr Xu Youcai) to date despite numerous attempts to do so via phone calls and text messages. The General Manager of Jiangyin Litai (Mr Zhang Qinyu) has been the main contact person attending to our queries. Although he was helpful and had tried his best to address our questions, he did not have all the answers or information to some of our questions, including those relating to the freezing of certain bank accounts of Jiangyin Litai and the ICO. In the circumstances, Mr Zhang had suggested that the Group CEO would be the appropriate person to address many of our unresolved queries.

Based on our last communication with Mr Zhang yesterday, he had represented that Jiangyin Litai has not fully resumed operations to date.

SGX-ST's Query 3:

The Company reported an increase of 1677.6% in impairment loss on financial asset to RMB48.3 million. This was attributed by the Company to, *inter alia*, an amount of RMB 13.818 million due from related parties (trade) and RMB 25.575 million advance payments to a related party (trade):-

- a. To disclose identity of the related parties (trade) and advance payments to a related party (trade). Please provide the respective aging of these debts.

- b. To disclose if the Company continues to engage in ongoing transactions with any of the parties listed above.
- c. To disclose how these related parties are associated with the directors, substantial shareholder or key management of the Group.
- d. To explain robustly what steps did the Company take in recovering the amount owed.
- e. To provide details of whether the Audit Committee had assessed the collectability of these amounts when the trades were undertaken and when these became uncollectible. Please disclose the steps taken to address these IPTs/related party transactions.

The Company's response:

- a. The related parties refer to Jiangyin East-China, Jiangyin Comat and Jiangyin Haida Caitu. For FY2019, the impairment charges of RMB13.818 million and RMB25.575 million were attributable to Jiangyin East-China and Jiangyin Haida Caitu respectively.

Details of ageing of the related parties (trade) balances as at 31 December 2019 is as follows :

Jiangyin East-China and Jiangyin Comat

(in RMB'000)						
Ageing	1-30days	31-90days	91-180days	181-365days	361-720days	Total
Jiangyin East-China	-	-	174	16,248	11,559	27,981
Jiangyin Comat	-	4	33	-	-	37
Total	-	4	207	16,248	11,559	28,018
<i>Less</i>						
Impairment allowance as at 31.12.2019						(13,991)
Net						<u>14,027</u>

Jiangyin Haida Caitu

(in RMB'000)						
Ageing	1-30days	31-90days	91-180days	181-365days	361-720days	Total
Gross balance	-	973	33,000	7,386	9,791	51,150
<i>Less</i>						
Impairment allowance as at 31.12.2019						(25,575)
Net						<u>25,575</u>

- b. Based on the accounting records of Jiangyin Litai, the Group has not been engaging in any major ongoing transactions with Jiangyin East-China and Jiangyin Comat since October 2019, and with Jiangyin Caitu since February 2020.

- c. **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%).

- d. Steps taken by the Group in recovering the amounts owed are summarised as follows:

Jiangyin East-China

In view of the substantial outstanding balance and delay in payments from Jiangyin East-China, the Group has virtually ceased its provision of spray-painting services and sale of paints to Jiangyin East-China (being the two major trading activities the Group had with the related party) since October 2019. The Group has also been repeatedly chasing for the outstanding amount.

Jiangyin Caitu

As the balance due from Jiangyin Caitu stems mainly from the advances paid to it by the Group for purchase of raw materials, the Group has been chasing for the prompt delivery of such goods ordered so that the outstanding amount could be reduced accordingly. In addition, the Company had in December 2019 formally notified Jiangyin Litai to report to and seek prior approval of the Group CFO in Singapore for any payments (save for the ordinary recurring payments such as salaries, taxes, government provident funds and utilities) that is RMB 1 million or more.

- e. The AC has assessed the collectability of the related party balances having regard to, among others, their past payment records, the identities of their controlling shareholders, their trading track records with the Group, the reputation of the two entities, as well as their subsequent collections and/or deliveries (as the case may be). The transactions with these related parties were also mandated and approved by the shareholders at the last AGM.

For good measure, 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.

Since FY 2019, the AC had been informed of a general slowdown in the Chinese economy affecting innumerable entities across a multitude of industries in China due mainly to the China-US trade tension. Slow and delayed payments (whether by related or unrelated parties) were expected and such trends have, to a large extent, become a business norm in China. The AC believes that it had done what was appropriate and pragmatic with regard to the collectibility of related party balances at the material time. However, the business and economic environment in China (and indeed globally) has been further worsened since the outbreak of COVID-19 pandemic early this year. As much as the AC would like to procure all relevant information and explanations regarding the related party balances to more accurately and fairly evaluate their collectability, it was constrained to make a rough estimate of impairment allowances approximating 50% of the outstanding balances owing from the related parties on grounds of prudence and as a result of the limitations delineated in the prelude to the FY2019 Financial Results Announcement dated 15 April 2020.

SGX-ST's Query 4:

The Company also reported that the impairment loss on financial asset was also attributable to an increase of RMB8.4 million in allowance for trade receivables (third parties) to RMB 33.6 million. Please provide the aging of when sales of these RMB33.6 million debts were incurred, the identity and the status of these major customers and whether these customers are still in operation.

The Company's response:

The impairment loss allowance balance of RMB33.6 million as at 31 December 2019 comprises specific credit impairment allowance against certain customers (net of write-backs) of RMB26.3 million and expected credit loss ("ECL") impairment allowance of RMB7.3 million.

Please see Appendix 1 to this reply for the ageing analysis of those customers against which the specific credit impairment allowance was provided. The Group no longer trades with these credit-impaired customers.

For the purpose of estimating and computing the ECL impairment loss allowance, the Group had (i) used qualitative and quantitative information like geographical locations, profile of customers and historical repayment trends to group customers with similar characteristics; and (ii) applied probability of default from external rating agencies and historical loss rates, where available and applicable. There was therefore no specific customer ageing analysis for the purpose of estimating the ECL impairment allowance.

SGX-ST's Query 5:

The Company reported that Litai received RMB425,000 worth of grants from the treasury payment center/office of Jiangyin City of which RMB229,000 was used to promote its business overseas and the remainder was used to support local charitable organization. To disclose:

- a. The nature and the names of grants awarded;
- b. The identities of the charity organizations and a breakdown of the donations to each of them.
- c. If the internal or external auditor had verified and reviewed these receipts of grants and payments to charitable organizations and their comments arising from these reviews.

The Company's response:

- a. The names of the grants awarded to Jiangyin Litai are as follows:
 - RMB229,000 was awarded by 江阴市财政国库集中支付中心 – 国际贸易补贴款 to encourage Jiangyin Litai to promote its business in the overseas market.
 - RMB196,000 was an incentive or subsidy awarded by 江阴市华士镇财政所 – 慈善返还款 to support local charitable organisations.
- b. Jiangyin Litai donated a sum of RMB400,000 to 慈善冠名基金（江阴市慈善总会） in FY2018. In FY2019, the Jiangyin Huashi Town Treasury Department awarded an incentive or subsidy of RMB196,000 (see (a) above) to Jiangyin Litai in view of the donations it made in FY2018.
- c. We understand that the external auditors had mainly performed general analytical review procedures for such items and did not specifically vouch to the grant receipts and payments to charitable organizations as the amounts involved were below their audit materiality thresholds. On the other hand, the internal auditors did not perform any work on these items as that was not within their latest engagement job scope.

By Order of the Board

Soh Beng Keng
Lead Independent Director
22 April 2020

