Moody Technology Holdings Limited
滿地科技股份有限公司

(Incorporated in the Cayman Island with limited liability and continued in Bermuda with limited liability)
(Stock Code: 1400)
(Provisional Liquidators Appointed)
(For Restructuring Purposes)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Reference is made to the announcement of the annual results for the year ended 31 December 2018 (the "Announcement of **annual results**") of Moody Technology Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 27 March 2019 in relation to the annual results of the Group for the year ended 31 December 2018 and the annual report of the Company for the year ended 31 December 2018. Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the Announcement of annual results.

POSITION AND JUDGEMENT OF THE MANAGEMENT AND THE AUDITORS

The Company would like to supplement the position and judgement of the Group's management and the Auditors for the Disclaimer of Opinion as follows:

1. **Assessment on impairment losses of trade receivables and reversal of impairment losses of prepayment**

Trade receivables

The Group's management has assessed on individual basis for the recoverability of trade receivables from each of those customers which was based on the ageing of trade receivables, subsequent settlement, the history trading record of those customers and the negotiation status with the customer for the settlement. After the assessment of each customers, the Company recognised impairment losses of trade receivables of approximately RMB176,564,000 as at 31 December 2018.

The impairment loss of trade receivables for the year ended 31 December 2018 (RMB176.6 million) was determined based of the following main factors:

(a) The ageing of trade receivables

A summary of trade receivables with ageing analysis was prepared by the accounting department and report to the department manager and then to the executive directors of the Company. As at 31 December 2018, an ageing analysis of trade receivables was summarised as within 6 months, over 6 months but less than 12 months and over 12 months of approximately RMB30.9 million, RMB49.4 million and RMB132.1 million respectively. The managements are using such summary of trade receivables for the assessment of the recoverability as at 31 December 2018.

(b) Subsequent settlement

The directors also considered none of the trade receivables of over six months of RMB176.6 million were subsequently settled up to the reporting date.

(c) The historical trading records

The management would also take into consideration of the credit history, trading records and continuing settlement of such creditors for the impairment. Even if the particular trade receivables had slow and small amount recoverability pattern, those creditors with continuing steady trading orders and regular settlement, as the Company considered the creditors as continuing customers to carrying on the business with the Group.

(d) Negotiation status with the customer for the settlement

Finally, the Company took into consideration the negotiation status with the customers to work out a reasonable repayment schedule agreed with such customers . During the negotiation with the customers, the Company can understand more about the customers for any financial difficulty and/or the reason for the long outstanding trade receivables.

The impairment losses of trade receivables of approximately RMB176.6 million recognised for the year ended 31 December 2018, as such revenue recognised on or before 31 December 2017 was approximately RMB132.1 million and revenue recognised for the year ended 31 December 2018 was approximately RMB44.5 million respectively. In the early of 2018, the Group was continuing to carry out businesses with 7 customers who pay slowly and were carrying on business with the Group more than 3 years. As at 31 December 2018, such trade receivables of approximately RMB44.5 million were overdue more than 180 days and there were no further subsequent settlements up the date of the annual report 2018. After discussion with auditors of the Company and specially assessed on individual basis for the recoverability of those trade receivables of approximately RMB44.5 million in 2018, the Company prudently recognised such impairment losses.

In the early of 2018, the Company had reached repayment schedules with these customers who had slow and small amount recoverability pattern. The Company had considered and assessed the risks and future rewards to trade with these customers continuously, include: (i) the repayment schedules agreed; (ii) such continuing and stable sales enable the Group to maximize the production capacity which increase the Group's efficiently productivity and reduce average production costs; (iii) continuing selling to these customers can enable the Group to permeate market, which can enhance the Group's competitiveness in the market and enable the Group to have more bargain power over other clients and (iv) continuing to trade with these customers enable the Group to maintain trading relationship with these customers and push these customers to settle the outstanding receivables.

The Directors considered that trading with these customers enable the Group to achieve above objectives and enable the Group to maintain trading relationship with these customers and push these customers to settle the outstanding receivables, which can generate regular sales to increase the Group's revenue and profitability, therefore trading with these customers was fair and reasonable and in the interest of the Company and its shareholders.

In April 2018, these customers failed to settle the first payments under the repayment schedules agreed. After internal discussions and taking into consideration the settlement status of trade receivables in April 2018, the Group stopped to trade with those customers had slow and small amount recoverability pattern.

Prepayments

After the assessment on individual basis for the recoverability of each prepayment and the opening balance for impairment of prepayment had recognised previously, the management of the Company compared with the balance of prepayments as at 31 December 2018, the movement with the suppliers for the year ended 31 December 2018 and the balance of the provision of the impairment of the prepayments recognised previously. The management of the Company had identified there were partial settlement made by suppliers for the year ended 31 December 2018 and no further provision was required as at 31 December 2018. Therefore, the Company had recognised a reversal of impairment losses of prepayment of approximately RMB10.9 million after reviewing the balance of the prepayments as at 31 December 2018.

The auditors were satisfied the balance of trade receivables and prepayments as at 31 December 2018 were properly recorded as at 31 December 2018.

The Company has taken the following actions for the settlement of the outstanding account receivables and prepayments:

(a) Staff of the trade department has communicated with the outstanding account receivables and prepayments on the progress of any repayment schedule. However, the majority of the long aged outstanding account receivables and prepayments could not afford to make any repayment up to the reporting date.

(b) Staff of the trade department and the executive directors consulted with the PRC legal advisors to issue the letters to those outstanding account receivables and prepayments. However, the majority of the long aged outstanding account receivables and prepayments did not give feedback.

(c) For those outstanding account receivables and prepayments who were unable to contact, the managements used other means such as engaging private investigators and looking for any connection with the companies and/or its founders/directors/senior management to attempt communication. The executive directors could only find a few of such receivables and still could not locate the majority of such receivables.

(d) Staff of the trade department and executive directors has convened regular meetings on the progress of following up the settlement of the outstanding account receivables and prepayments. This is a continuous procedure even though the current follow-up action is not satisfactory.

2. Investment accounted for using equity method

The Company had acquired the associate in 2016, as the associate is one of the key investment enterprises in Hubei Province, specialised in manufacture of cotton yarn, weaving products, and finished fabric products. Acquisition of the equity interests of the associate would facilitate vertical integration, enhance the Group's production scale, formulate industry concentration and market forces so as to capture larger market share. The location of the associate is very close to a main factory held by the wholly own subsidiary of the Company, Fengtai Hubei Textile Co., Limited ("Fengtai"). After the acquisition of the associate, the Company has appointed Mr. Lin Qingxiong, an executive director of the Company to oversee or monitor the operation of the associate.

Details of the works performed by the directors of the Company before investment in the associate are as follows: (i) due diligence was performed for the associate, including the financial, operation, legality and detail of customers; (ii) background search on the associate; (iii) independent business valuation performed by an independent professional; and (iv) site visit of the associate and communication with the management of the associate to understand the associate's operation.

To the best knowledge of the Directors and having made all reasonable enquiries, the remaining 50% shareholders of the associate are Hou Shiyuan, Jiang Shanzuo and How Qingzhi who are holding 15%, 25% and 10% equity interest of the associate respectively, are third parties independent of and not connected with the Directors, chief executive or substantial shareholder(s) of the Company or any of its subsidiaries or any of their associates.

During the year ended 31 December 2018, an impairment losses of goodwill of investment in an associate of approximately RMB909,000 and share of losses of an associate of approximately RMB70.6 million was recognised which was mainly due to the suspension of the associate’s production and that the associate recorded the impairment losses of asset of approximately RMB184.9 million according to the unaudited financial information of the associate during the year ended 31 December 2018. The management of the Group had frequently held meetings with the management of the associate to understand the operation and financial information of the associate, so they were aware of the situation of the associate which led to the suspension of the operation of the associate. The Company did not carry out any independent valuation of the associate to assess its fair value as at 31 December 2018 as the executive directors considered that the associate had already suspended the production and as the majority of staff of administrative and finance department left, it became difficult to access the full information for any independent professional valuation.

The Company obtained the unaudited financial information of the associate directly from the accounting department of the associate and assessed the unaudited financial information of the associate to consider the residual value of the associate to assess the carrying amount of the investment in an associate and recognised the losses of an associate during the year. To ensure the unaudited financial information of the associate is fair and reasonable, (i) the financial staff in Fengtai had visited the factory to perform internal assessment of the unaudited financial information and (ii) the management of the Group had frequently held meetings with the management and accounting team of the associate to understand the operation and financial information. Based on the above assessment, the Directors consider that the unaudited financial information of the associate is true and fair, therefore, the carrying amount of the investment in an associate and share of losses of an associate are true and fair according to the unaudited financial information.

Based on the understanding of Mr. Lin Qingxiong, in June 2018, the sale manager of the associate was resigned, hereafter the six main customers of the associate ceased to trade with the associate in August 2018, which have significant impact on the sales and operation of the associate. The associate recorded a revenue from the six main customers of approximately RMB99 million for the year ended 31 December 2018, representing approximately 72% of total sales. Most of trade receivables of the associate was overdue and there was no settlement due from the main customers since May 2018. Hereafter, the associate was unable to maintain the operation and meet its obligation to third parties as they fell due without sufficient funds and continuing financial support. Regarding preventing the associate's operation being suspended, the management of the Company had frequently held meetings with the management of the associate and discussed with the them to improve the performance and financial position of the associate. The management of the Company and the associate also visited the local bank for negotiation of the renewal or extension of the overdue borrowings of the associate. The associate was unable to settle the outstanding borrowing due to the local bank in the PRC and it was ordered by the court in the PRC (case number: (2018) 鄂 1127 民初 2333 号) to suspend its operation in November 2018 until the full settlement of the outstanding indebtedness.

The Company will closely monitor the current development of the associate and attend the meetings between the associate and local bank, government to safeguard the residual value of the associate to protect the Group's interest in the associate.

The auditors were satisfied the balance of investment in an associate as at 31 December 2018 were properly recorded as at 31 December 2018.

3. Going concern assumptions

According to C.1.3. of Appendix 14 of the Listing Rules, our Company is required to disclose the supporting assumptions in relation to the going concern issue in the Corporate Governance Report. Page 32 of the annual report for the year ended 31 December 2018 has mentioned the assumptions under the underlying "Going Concern Issue" in the Corporate Governance Report. The directors prepared the consolidated financial statements on a going concern basis without any working capital forecast. The directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on going concern basis, the validity of which depends on the Group will be (i) able to successfully negotiate and agree with the creditors to renew or extend the existing borrowings; (ii) other possible settlement will be successfully negotiated and agreed with the creditors; (iii) complete the debt and/or equity financing to meet its liabilities as they fall due in the foreseeable future and (iv) the Group's operations are on normal growing basis.

As at the date of announcement, there were overdue secured bank borrowings and overdue unsecured bonds of approximately RMB133.7 million and RMB234.2 million respectively. The Group's overdue bank borrowings were secured by its property, plant and equipment, leasehold land, land use right and inventories with effective interest rate ranging from 5.64% to 14.58% per annum. The Group's overdue unsecured bonds included short term bonds of approximately RMB115.5 million due to 35 independent third parties and long term bonds of approximately RMB118.7 million due to 1 financial institutor with effective interest rate ranging from 1.5% to 24% per annum. Both overdue secured bank borrowings and unsecured bonds will be settled by cash.

As at the date of announcement, the secured bank borrowings were overdue by the Group due to temporary shortage of funds and is subject to a penalty interest of 6% to 8% of approximately RMB711,000 per month during the overdue period. The Group was still negotiating with the local bank on the feasible ways to resolve the debt status. There were few creditors of approximately RMB24.5 million which were willing to renew or extend the overdue bonds due to 13 independent third parties. The Company will continue to negotiate with the holders of remaining overdue bonds for settlement. Regarding the overdue borrowings and the nearly expired borrowing, the Company will continue to negotiate with such creditors to renew or extend the existing borrowings and/or other possible settlement. As at 30 June 2019, the total assets and the total liabilities of the Company amounted to RMB582,768,000 and RMB1,102,430,000 respectively, resulting in a net liability of RMB519,662,000, and accordingly the Company does not have sufficient assets to cover its total indebtedness. In light of this, the Company is in the process of carrying out a financial restructuring plan in respect of all of the Company's total indebtedness.

To facilitate the Company's financial restructuring plan, on 10 October 2019, a winding up petition together with the application for the appointment (the ''JPL Application'') of TANG Chung Wah and KAN Lap Kee of Shinewing Specialist Advisory Services Limited and Edward Alexander Niles Whittaker of R&H Services Limited be appointed as joint and several provisional liquidators of the Company (together ''JPLs'') on light touch approach for restructuring purpose was presented and filed with the Supreme Court of Bermuda (the ''Bermuda Court'') by the Company's Bermuda Counsel, Conyers Dill & Pearman at the request of the Company.

Under the JPL Application, the board ("Board") of directors of the Company shall continue to manage the Company's affairs in all respects and exercise the powers conferred upon it by the Company's Memorandum of Association and Bye-laws, provided always that, should the JPLs consider at any time that the Board is not acting in the best interests of the Company and its creditors and shareholders, the JPLs shall have the power to report same to the Bermuda Court and seek such directions from the Bermuda Court as the JPLs are advised are appropriate. The Board believes that the appointment of JPLs is essential and desirable for the Company's financial restructuring in order to maximize the prospects of the financial restructuring being successful and to provide a moratorium to avoid a disorderly insolvency liquidation of the Company and its subsidiaries by any of the creditors who have threatened to commence liquidation proceedings. Accordingly, the Board believes it is in the interests of the Company, its shareholders and creditors that JPLs are appointed in respect of the Company pursuant to the JPL Application.

The JPL Application was heard before the Bermuda Court on 24 October 2019 at 9:30 a.m. (Bermuda time). The Bermuda Court made the orders as sought by the Company under the JPL Application, inter alia, the JPL was appointed on a light touch approach for restructuring purpose. The winding up petition will be heard before the Bermuda Court on 29 November 2019 at 9:30 a.m. (Bermuda time).

Viewpoint of the audit committee

The Company's audit committee had reviewed the annual result for the year ended 31 December 2018 which are prepared in accordance with International Financial Reporting Standards and agreed with the management's position concerning major judgmental areas, in particular on the following aspects:

- adoption of going concern with major assumptions and basis is appropriate;

- the balance of trade receivables, prepayments and investment in an associate were properly recorded as at 31 December 2018; and

- disclaimer of opinion was resulted from scope limitation on the balance of trade receivables, prepayments and investment in an associate as at 31 December 2017.

Regarding satisfying the opening balance of trade receivables, prepayments and investment in an associate as at 31 December 2017, the auditors was required to perform all necessary audit procedures to obtain sufficient audit evidence, including but not limited to internal documents, external documents and confirmations. The Company found it difficult to provide sufficient external documents and external confirmations of which the auditors requested those audit evidence to be backed up by very strong written evidence as the Company was unable to reach some of the suppliers and customers.

During the audit for the year ended 31 December 2018, the Company's audit committee had discussed with the auditors regarding the annual result for the year ended 31 December 2018 and the basis for disclaimer of opinion mainly regarding the limitation scope on opening balances, the consequential effect on the Group's financial performance and cash flow due to the opening balances and the basis on a going concern.

Sufficiency of audit evidence and audit modification

Opening balances and corresponding figures

Zhonghui ANDA CPA Limited, the predecessor auditor did not express an opinion on the 2017 financial statements in the auditors' report dated 29 March 2018 in respect of the audit of the consolidated financial statements of the Group for the year ended 31 December 2017. The disclaimer of opinion was resulted from scope limitation based on reasons summarized in the basis for disclaimer of opinion paragraphs therein.

World Link CPA Limited, the auditors needed to obtain sufficient appropriate audit evidence regarding the opening balances and corresponding figures. However, in view of above, the opening balance brought forward with the disclaimer opinion from the preceding auditors. There were no alternative audit procedures to satisfy themselves as to whether the opening balances and corresponding figures were free from material misstatement.

The auditors were unable to obtain sufficient and appropriate audit evidence in respect of the balance of trade and other receivables, investment in an associate as at 31 December 2017 as it was the opening balance and corresponding figures brought forward with the disclaimer opinion from the preceding auditors.

The auditors needed sufficient and appropriate evidence to measure the opening balance of trade and other receivables and investment in an associate, the amounts of impairment losses of trade receivables, impairment losses of goodwill of investment in an associate, share of losses of an associate and reversal of impairment losses of prepayments. The Group provided the basis for making the impairment and related adjustments as well as the accounting records for how to reach the balance of the trade and other receivables. However, due to the opening balance brought forward with the disclaimer opinion from the preceding auditors, the auditors were of the view it was not sufficient to satisfy themselves whether such balances were properly recorded.

Regarding satisfying the opening balance of trade receivables, prepayments and investment in an associate as at 31 December 2017, the auditors was required to perform all necessary audit procedures to obtain sufficient audit evidence, including but not limited to internal documents, external documents and confirmations. The Company found difficult to provide (i) sufficient external agreements with the suppliers given that some of them were lost due to the change of management of the Group; (ii) all transaction documents with the clients and suppliers for the year ended 31 December 2017; (iii) sufficient external confirmation with clients and suppliers as at 31 December 2017 and (iv) detailed financial documents of associate for the year ended 31 December 2017 due to the non-cooperation of the management of the associate, of which the auditors requested those audit evidence to be backed up by satisfactory written evidence. The Company was unable to provide such documents as due to unable to reach some suppliers and customers.

The auditors were unable to obtain sufficient and appropriate audit evidence in respect of the balance of investment in the associate as at 31 December 2017 as it was the opening balance and corresponding figures brought forward with the disclaimer opinion from the preceding auditors. For the related impairment losses of goodwill and the share of loss of the associate, the Company provided the bases for determining the amount of impairment losses of goodwill upon the suspension of the business of the associate but, due to the opening balance brought forward with the disclaimer opinion from the preceding auditors, the auditors were unsatisfied that the information provided to be sufficient. Upon suspension of the business of the associate, the key personnel of the finance department of the associate has left the associate and therefore no sufficient explanation on the accounting treatment could be provided with very strong evidence to back up as well. That made it difficult for the auditors to form a satisfied opinion on the share of losses of an associate.

For the opening balances and corresponding figures for the financial year ending 31 December 2019, World Link CPA Limited will not further form disclaimer opinion on trade and other receivables, prepayment and the investment in an associate as the ending balances for the financial year ended 31 December 2018 were audited. The audit qualification for the balance of trade and receivables and prepayments can be removed for the year ending 31 December 2019.

As the goodwill of investment in associate and investment in an associate were fully written off by the full impairment in the financial year ended 31 December 2018, it is expected that there will be no further disclaimer opinion in this regard for the financial statement for the year ending 31 December 2019.

For the balances of trade and receivables and prepayments to the suppliers of the raw materials, the balances brought forward from the financial year ended 31 December 2018 had already net off with the impairment of trade receivables and prepayments with ageing problem. The Company will pay attention on the ageing of the trade and other receivables to minimize the possibility of impairment again in the financial year ending 31 December 2019.

For the going concern, the Company's profitability for the financial year ended 31 December 2018 has been improved and expects that the financial results for the financial year ending 31 December 2019 will be further improved. The Company is now negotiating with the bond holders and the institutional lenders on the feasible ways to resolve the debt status such as extension of due date or settlement of outstanding indebtedness by installments. The Company is also finding all possible ways to raise further equity and/or debt financing to improve the financial status of the Group as well. The Company is in the process of carrying out a financial restructuring plan in respect of all of the Company's total indebtedness.

Working capital forecast

In late 2018 the Company commenced to prepare the working capital forecast. The first step is to discuss with the auditors. The Company planned to prepare a cash flow forecast to demonstrate the going concern status of the Company on its liquidity position for the next 12 months. However, the Company found it difficult to prepare a cash flow forecast with sufficient written evidence to the satisfaction of the auditors given that it does not have sufficient audit evidence, including but not limited to internal documents, external documents and confirmations to support the assumptions adopted in the cash flow forecast.

The Company will base on the funding need for the next twelve months, consider to place new shares by general mandate and/or specific mandate if necessary. In the same time, the Company will negotiate with the existing bond holders on any feasible schedule to alleviate the Company's financial burden and releases the difficult position of the bond holders and the Company expects to compromise a solution within 2019. The Company is also negotiating with the institutional lenders on the existing and overdue credit lines to further extend the deadline and/or other methods. The Company will consider to any possible ways to issue the equity and/or debt financing in order to sustain the existing business of the Group.

This supplemental announcement has been reviewed by the auditors of the Company.

Further announcement(s) will be made by the Company to keep its shareholders and investors informed of any significant development in due course.

By Order of the Board of
Moody Technology Holdings Limited
(Provisional Liquidators Appointed)
(For Restructuring Purposes)
Wu Jianxiong
Chairman and executive Director

Hong Kong, 4 November 2019

As of the date of this announcement, the executive Directors are Mr. Wu Jianxiong, Mr. Lin Qinxiong and Mr. Lin Guoqin; and the independent non-executive Directors are Mr. Lin Yugang, Mr. Chow Yun Cheung and Mr. Liu Junting.