

Issuer: 8Telecom International Holdings Co. Ltd.

Security: 8Telecom International Holdings Co. Ltd.

Meeting details:

Date: 29 August 2017

Time: 9.00 a.m.

Venue: Raffles Country Club 450 Jalan Ahmad Ibrahim Singapore 639932

Company Description

8Telecom International Holdings Co. Ltd., an investment holding company, provides telecommunication infrastructure solutions in the People's Republic of China. It operates in five segments: Telecommunications Pipes, Telecommunications Engineering Services, Telecommunications and Other Towers, Property, and Others. The company designs, manufactures, distributes, and installs telecommunication pipes, and telecommunication and other towers, as well as other related products; and offers installation services for various telecommunications engineering products, as well as develops, sells, and rents commercial properties, including office properties. It also sells and installs communications materials; and manufactures and sells underground telecommunications pipes and telecommunications equipment. In addition, the company engages in the provision of development and consultation services of computer science; and manufacture, sale, and set up of plastics and other related products, as well as PVC pipes. Further, it is involved in the provision of telecommunication technology consulting services; and design and development of network communications integrated systems, as well as property management activities. The company was founded in 1997 and is based in Hangzhou, the People's Republic of China. 8Telecom International Holdings Co. Ltd. is a subsidiary of Manfaith Investments Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=AZG)

Q1. The group's entire shareholding interest of East Jade International Limited and Aim Tech Network Investment Limited were disposed of on 21 July 2016.

For the financial year ended 31 December 2015, based on IFRS 10 Consolidated Financial Statements, the group's 51% stake in Arete M was accounted for as an associate due to the following reasons (as provided by the company):

- The Company does not control the relevant activities of Arete M; and
- The Company only has 1 representative on the Board of Directors of Arete M while the previous majority shareholders of Arete M has 3 members on the Board of Directors.

On 1 May 2016, the group consolidated the results of Arete M as of 1 May 2016, (page 3). In Note 18 (page 70 - Investments in an associated company), it was disclosed that "the director assessed and concluded that the group has obtained control to direct the relevant activities of Arete through the Group's 51% ownership interest and voting rights in Arete M".

- a) Can the company explain how it controls the "relevant activities of Arete M"?**
- b) What is the company's representation on the board of Arete M?**

As part of the transaction to purchase the stake in Arete M, the company has also been granted a put option over all the Sale Shares held by Company by the each of sellers jointly and severally pursuant to which the Company has the right, at any time where any specified event occurs to require each of the sellers to purchase from the Company the Put Option Shares during the period of twenty months commencing from the date of completion of the acquisition of the Sale Shares, at the aggregate consideration of S\$2,150,000.

A specified event means, with respect to Arete, any of the following:-

- i. Net profit after tax of less than S\$500,000 for the financial year ending 31 December 2015; and
- ii. Net profit after tax of less than S\$1,500,000 for the financial year ending 31 December 2016.

- c) Can the company update shareholders on the net profit after tax of Arete M for the financial year ending 31 December 2015 and for the financial year ending 31 December 2016?**

It was further disclosed in Note 18(b) that "during the current financial year, the Group decided not to exercise the put option granted" (page 70).

- d) If the financial targets (as defined by the specified event above) have not been met, what are the reasons/considerations that led to the board deciding not to exercise the put option?**

Q2. In Principle 3 of the Corporate Governance Report (page 14), it was disclosed that:

At the date of this Report, the Company does not have a Chairman and Chief Executive Officer. The Company intends to appoint a Chairman and Chief Executive Officer at a later date.

- a) Can the board let shareholders know what has caused the delay of the appointment of the Chairman of the board? How soon does the board expect a Chief Executive Officer to be appointed?**

As at the date of the annual report, the company has an executive director, Ms. Zhang Wen, who joined the company on 12 May 2017. Ms. Zhang's profile, as extracted from the company's annual report, is shown below.

BOARD OF DIRECTORS

MS. ZHANG WEN

Ms. Zhang Wen joined the Company as Executive Director on 12 May 2017. She is the director of Carpe Diem Childcare Pte Ltd from 1st January 2016 to involve daily basis operation of the childcare centers. She operates 5 childcare centers in Singapore since year 2016. She is the executive director of SMT Excel Pte Ltd since 1st October 2012. She was working with Deloitte Singapore as Business Development Executive from September 2010 to October 2012.

(Source: Company Annual Report 2016)

- b) Can the company clarify if Ms. Zhang Wen is a full-time executive director of the company?**
- c) What are the roles and responsibilities of Ms. Zhang Wen? If Ms. Zhang Wen is not a full-time executive director of the company, can the company clarify how much time does Ms. Zhang commit to the matters of the company?**

Under Principle 9, it was also disclosed that “For FY2016 and up to the date of this Report, the Company did not have any key management personnel” (page 22).

- d) As there are no other key management personnel and Ms. Zhang Wen being the only executive director, does Ms. Zhang Wen oversee and control Arete M?**

Q3. In the Independent Auditor’s Report (page 34), the Independent Auditor has included a disclaimer of opinion, as follows:

“We do not express an opinion on the consolidated financial statements of 8Telecom International Holdings Co. Ltd. (the “Company”) and its subsidiaries (the “Group”) and the balance sheet of the Company. Because of the significance of the matters described in the “Basis for Disclaimer of Opinion” section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements”.

The basis for disclaimer of opinion is reproduced below.

Basis for Disclaimer of Opinion

As stated in Note 2.1 to the financial statements, the Group reported a net loss amounting to RMB133,015,000 for the financial year ended 31 December 2016. In addition, as at 31 December 2016, the Group’s current liabilities exceeded its current assets by RMB16,525,000 and its net liabilities amounted to RMB15,628,000. Furthermore, the Company’s current liabilities exceeded its current assets by RMB11,989,000 and its net liabilities amounted to RMB11,980,000 as at that date.

While the Group and the Company have embarked on various initiatives to raise funds to meet the operational needs, we were unable to obtain sufficient appropriate audit evidence regarding the likely outcome of the initiatives. We were therefore unable to conclude whether the use of the going concern assumption, which has been adopted for the preparation of the accompanying financial statements, is appropriate.

If the Group and Company are unable to continue as going concerns, several adjustments would have to be made to the accompanying financial statements. Assets may need to be realised other than in normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the financial statements. In addition, the Group and Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities. The accompanying financial statements do not reflect these adjustments.

(Source: Company Annual Report)

As seen in Note 32 (page 88 – Dividend), the company had paid out a special dividend of S\$0.9044 per share in FY2016 following the disposal of the subsidiaries. The special dividend was paid to the shareholders at RMB4.487 per ordinary shares of approximately RMB415,692,000 (approximately SGD83,780,000 with S\$0.9044 per share) on 25 July 2016. It represented 99% of the net proceeds from the disposal of subsidiaries.

As disclosed in the circular dated 19 February 2016, the special dividend was recommended by the then Non-Interested Directors, namely Mr. Yu ChunXiang, Mr. Chen Xiangjing, Mr. Lien Kait Long, Mr. Chen Jin and Mr. Cartel Yeo See Meng.

Following losses in FY2016, the company's current liabilities have exceeded its current assets by RMB11.99 million and its net liabilities amounted to RMB11.98 million as at 31 December 2016. The independent auditors have issued a Disclaimer of Opinion citing uncertainty over the group's going concern.

- a) **Shareholders would like to ask the board if it was prudent for the company to distribute 99% of the net proceeds from the disposal of the subsidiaries, leaving the company without sufficient working capital to continue as going concerns.**
- b) **What are the company's efforts to strengthen its financial position?**
- c) **What are the capital expenditure requirements for Arete M and how is the company going to fund the growth of Arete M?**