

8TELECOM INTERNATIONAL HOLDINGS CO. LTD.

(Incorporated in Bermuda)
(Company Registration No. 34713)
(the “Company”)

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (THE “SIAS”) ON THE ANNUAL REPORT

The Board of Directors (the “Board”) of 8Telecom International Holdings Co. Ltd (the “Company” and collectively with its subsidiaries, the “Group”) refers to the query raised by the SIAS on 23 August 2017 in response to the Company’s annual report for the financial year ended 31 December 2016 (“FY2016”), and appends the Company’s replies as follows:

Question 1

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 M, 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?**

Company's response to (a):

As the Company is a 51% shareholder of Arete M, the Company has the ability to appoint and remove any directors of Arete M. At this point in time, Mr Wilson Lim Tiong How, the Non-Independent Non-Executive Director of the Company, who is the Company's representative in Arete M, is also a director of Arete M. The Board is accordingly of the view that for the aforementioned reasons, the Company controls Arete M.

Company's response to (b):

As stated in the Company's response to (a) above, Mr Wilson Lim Tiong How, the Non-Independent Non-Executive Director of the Company, is a director of Arete M.

Company's response to (c):

The net loss after tax of Arete M for FY2016 is (\$967,006) and (\$239,435) for FY2015 respectively.

Company's response to (d):

Mr Wilson Lim and Ms Zhang Wen had been appointed to the Board on 9 May 2016 and 12 May 2017 respectively. The rest of the Board, being Mr Liu Yi, Ms Wang Zhejun and Ms Zhang Yuanyuan, had been appointed to the Board on 7 July 2017 (together with Mr Wilson Lim and Ms Zhang Wen, collectively, the "**Current Board**"). As the Current Board was only appointed after the decision was made by the previous Board in deciding not to exercise the put option, the Current Board is therefore not privy to the decision-making process of the previous Board. The Current Board however, understands from Mr Wilson Lim that one possible reason may be that the Company would have incurred significant indebtedness if it chose to exercise the put option at that point in time. The Current Board is currently in negotiations with the sellers with regards to extending the put option and will update shareholders accordingly.

Question 2

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.

"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."

- (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?**

Company’s response to (a):

As the Company recently disposed of East Jade International Limited and Aim Tech Network Investment Limited in 21 July 2016 and is currently sourcing for additional revenue streams, the Board wishes to wait until the Company’s situation is more settled before appointing a Chairman of the Board. There had previously been no such appointments as well due to cost considerations of the Board for the Company. Further, the Company had also suffered a lack of resources through the significant changes of the key officers and board members and accordingly, the Board has been focused on assisting the auditors of the Company with finalization of the Company’s financial results and audit report, as well we preparations for the Annual General Meeting held on 29 August 2017 (“**Audit and AGM Preparations**”).

In the same vein, as the Company is currently unconfirmed as to its new business opportunities and had up until now been preoccupied with the Audit and AGM Preparations, the Board wishes to wait until the Company’s situation is more settled before appointing a Chief Executive Officer. The Board hopes to appoint a Chairman of the Board and Chief Executive Officer by the end of this year.

Company’s response to (b):

Yes, Ms Zhang Wen was a full-time executive director of the Company. She has however, since been re-designated as a Non-Independent Non-Executive Director as announced by the Company on 15 September 2017. Please see our response in (c) below and the Company’s announcement on 15 September 2017 for further details.

Company’s response to (c):

As Executive Director, Ms Zhang Wen was in charge of managing the Company and having oversight of its business. Ms Zhang Wen had been sourcing for new business opportunities for the Company, however this has been to no avail. As she also wished to take on an executive role in another company, Ms Zhang Wen had therefore been re-designated as an Non-Independent Non-Executive Director as announced by the Company on 15 September 2017. Please see the Company’s announcement on 15 September 2017 for further details.

Company’s response to (d):

As stated in the response to Question 1, Mr Wilson Lim Tiong How is a director overseeing and controlling Arete M. Ms Zhang Wen does not oversee and control Arete M.

Question 3

In the Independent Auditors’ 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 set out in page 34 of the 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?**

Company’s response to (a):

As elaborated upon in Question 1(d), majority of the Current Board had been appointed after firstly, the decision as to the recommendation of the special dividend, and secondly, after the distribution of the special dividend. While the Current Board is not privy to the decision-making process of the previous Board, the Current Board wishes to refer to the Company’s circular dated 19 February 2016 in relation to the same (the “**Circular**”). The Board understands from the Circular that the rationale for the special dividend was to:

“allow Shareholders to realise the value of their Shares in the Company. Shareholders will after receiving the Proposed Dividend continue to hold Shares in the Company and gain from any subsequent capital appreciation in the Share price.”

The Board would also like to announce that the Company is in the midst of securing additional funding through shareholder loan or equity injection to support its working capital requirement in the near term. A substantial shareholder of the Group has also warranted and undertaken to the Board to continue to support the operations and day-to-day costs of the Company, as and when the Company requires funds. Accordingly, the Board is therefore of the view that the Company has sufficient working capital to continue as a going concern.

Company’s response to (b):

As previously stated, the Board is currently exploring new additional revenue streams. Further, as previously mentioned, the Company is in the midst of securing additional funding through shareholder loan or equity injection to support its working capital requirement in the near term.

Company's response to (c):

The Board anticipates that capital expenditure requirements for Arete M is \$1,400,000, based on the projects which Arete M tendered for. However, there is no certainty that Arete M will successfully clinch those tenders. The Company will, in any event, update the shareholders as and when necessary. In the event that Arete M requires more funds for the purposes of its capital expenditure requirements, it will seek additional investment or loans through the capital market or financial institution. As stated in the Annual Report FY2016, Arete M has secured a convertible loan of S\$1,500,000 from Edition Limited (the "**Investor**") which is interest-free, for a term of 12 months, and will support its working capital requirement in the near term. On and from the date of the Investor being registered as a shareholder of Arete M, the Investor shall have the right to make an additional equity investment of S\$1,000,000.

By Order of the Board

Wang Zhejun
Executive Director

15 September 2017