

HUAN HSIN HOLDINGS LTD

(Incorporated in the Republic of Singapore)
(Company Registration No.: 199509142R)
(the “Company”)

RESPONSES TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE COMPANY’S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Unless otherwise stated, all amounts converted from RMB into S\$ in this announcement shall be based on an indicative exchange rate of RMB1.00 : S\$0.20.

The board of directors (the “**Board**”) of the Company together with its subsidiaries (the “**Group**”), refers to its annual report for the financial year ended 31 December 2018 (“**FY2018**”) (“**FY2018 Annual Report**”). The Board would like to respond to the following queries raised by the Securities Investors Association (Singapore) (“**SIAS**”) as follows:

SIAS QUESTION 1

The Company has been placed on the SGX-ST watch-list since 5 March 2014 and was required to meet the financial exit criteria for removal from the watch-list by 4 March 2016.

While the Exchange had granted 3 extensions, it informed the company that the third extension of the exit deadline to 4 March 2019 would be the final extension.

Following the termination of the RTO, the company received a notification of delisting dated 19 December 2018 from the SGX-ST. The company’s appeal against the delisting has been rejected by SGX-ST.

The company or its controlling shareholder is to make an exit offer to the shareholders.

- (i) Given the delisting notification by SGX-ST, what are the individual and collective efforts by the independent directors to obtain an exit offer for the minority shareholders? Who is leading the discussion?
- (ii) Can the independent directors help shareholders understand who is in a better position to make an exit offer, the company or the controlling shareholder?
- (iii) Has any progress been made with the company/controlling shareholder?

The Company’s response to Question 1

- (i) The Company is currently in the midst of negotiating with a potential offeror, a corporate vehicle owned by some of the Company’s controlling shareholders, on the cash exit offer proposal (“**Exit Offer Proposal**”).

The Company and its relevant professional advisers are also in the midst of consulting the Securities Industries Council (the “**Council**”) to, among other things, seek various confirmations and rulings from the Council on the extent to which the Singapore Code on Take-overs and Mergers (“**Take-over Code**”) applies to the Exit Offer Proposal.

The Company, led by the Board and under the guidance of the relevant professional parties, is diligently involved in the discussions in relation to the Exit Offer Proposal.

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- (ii) As disclosed in the Company’s FY2018 Annual Report (page 29), the Group had net current liabilities of \$46,500,000, the Group’s capital deficiency amounted to \$74,696,000, and the Group recorded losses of \$2,468,000 for the financial year ended 31 December 2018. Therefore, it appears that the Company’s controlling shareholder(s) is/are in a better position to make an exit offer vis-à-vis the Company.
- (iii) Please see our response to (i) above. Pursuant to Rule 2 of the Take-over Code, the Company is required to maintain **absolute secrecy** before the Exit Offer Proposal is announced. The Company will continue to keep shareholders updated via announcements on the SGXNet as and when there are any material developments or updates on the Exit Offer Proposal.

SIAS QUESTION 2

One bright spark for the company is the proposed disposal of land use rights (“LURs”) in relation to the land and buildings located on top of the land in Weihai City, Shandong Province, the PRC to the local government for RMB92,423,777.00 (or approximately S\$18,484,755) in cash.

The transaction constitutes a major transaction and would require the approval of shareholders. The company has applied for a waiver to convene the extraordinary general meeting for the proposed disposal.

- (i) What are the conditions precedent, if any, other than the approval by shareholders?
- (ii) Is there a long stop date to the agreement with the village government?
- (iii) Can the board, especially the audit committee, help shareholders understand how it had selected the valuer, Cushman & Wakefield International Property Advisers (Shanghai) Co., Ltd. (“**Valuer B**”)? What was the scope agreed with the valuer? Does the valuer have the expertise and local knowledge to carry out a valuation of the group’s land use right in Weihai city, Shandong Province?
- (iv) Can the independent directors help shareholders understand the impact of the sale of the LURs on the group’s cash flow and liquidation value? How does that improve the chances and the quantum of a fair and reasonable exit offer by the company or by the controlling shareholder?

The Company’s response to Question 2

- (i) Pursuant to the tripartite state-owned land use right recovery agreement (“**Recovery Agreement**”) dated 22 November 2018 that was prepared pursuant to the prescribed form issued by the Chinese local government, there are no specific conditions precedent to completion of the proposed disposal of land use rights in relation to the land and buildings located on top of the land in Weihai City, the People’s Republic of China (“**PRC**”), by the Company’s wholly owned subsidiary, Shandong Dong Hsin Electronics Co., Ltd (山东东鑫电子有限公司) (the “**Proposed Disposal**”).

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- (ii) Pursuant to the Recovery Agreement, there is no specific long stop date to the Proposed Disposal.
- (iii) Valuer B, as defined in the Company’s announcement dated 22 November 2018, is the Shanghai subsidiary of Cushman & Wakefield Inc. (“**Cushman & Wakefield**”). As disclosed on their company website, Cushman & Wakefield is a leading global real estate services firm listed on the New York Stock Exchange. In 2017, it recorded a revenue of \$6.9 billion across its core services of property, facilities and project management, leasing, capital markets and valuation. It is one of the largest firms in the industry, with approximately 400 offices across 70 countries. Cushman & Wakefield first established its presence in the PRC via the opening of its Beijing office in 1997, followed by its Shanghai office in 2000, and now has approximately 20 offices in Greater China. In the recent Euromoney Real Estate Survey 2018, Cushman & Wakefield won a myriad of awards, including world’s No. 1 overall Commercial Real Estate Advisor & Consultant, top Advisor & Consultant in China and world’s No. 1 in Research and Property Valuation. Cushman & Wakefield’s landmark real estate projects in China include the Pufa Tower in Shanghai, the CR Qianhai Building in Shenzhen, 8 Park Avenue in Shanghai and Aroma Garden (High Zone) in Shanghai. Given its knowledge, track record, market reputation and expertise, the Company therefore selected and commissioned Valuer B to issue an independent valuation report on all the properties held by the Group in the PRC.

For more information on Valuer B, please visit the web links below:

- <https://www.cushmanwakefield.com.cn/en/about-us.html>;
 - <http://www.cushmanwakefield.sg/en-gb/about-us/company-history>;
 - <http://www.cushmanwakefield.com/en/news/2018/10/euromoney-names-cw-worlds-no-1-cre-advisor>;
 - <http://ir.cushmanwakefield.com/news/press-release-details/2019/Cushman--Wakefield-represents-CapitaLand-in-acquisition-of-Pufa-Tower-in-Shanghai/default.aspx>;
 - <https://www.cushmanwakefield.com.cn/en/china-property.html>
- (iv) As previously disclosed in the Company’s announcement dated 22 November 2018 (pages 2, 3 and 5) and the Company’s FY2018 Annual Report (page 3), the consideration payable by the Purchasers for the Proposed Disposal is RMB92,423,777 (or approximately S\$18,484,755) (“**Consideration**”) in cash. After deducting the estimated expenses in connection with the Proposed Disposal of approximately RMB123,777 (or approximately S\$24,755), the net gain on the Proposed Disposal is approximately RMB49,954,192 (or approximately S\$9,990,839). The Group intends to use the net proceeds from the Proposed Disposal for general working capital purposes, and to improve its cash flow position. The proceeds received for the Proposed Disposal to date has led to a 528% increase in other operating income to S\$15.1 million for FY2018 from S\$2.4 million for the financial year ended 31 December 2017. For more information, please refer to Company’s announcement dated 22 November 2018 and the Company’s FY2018 Annual Report.

As reasoned above, the Company is unable to comment on whether the Proposed Disposal will improve the chances and quantum of a fair and reasonable exit offer by the Company or its controlling shareholders. However, the Company wishes to highlight that, as previously disclosed in Company’s announcement dated 1 March 2019, its application for a waiver to

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convene an extraordinary general meeting (“**EGM Waiver Application**”) to seek shareholders’ approval in relation to the Proposed Disposal, being a major transaction, is conditional upon a reasonable cash exit offer being made by the Company. The Company will continue to keep shareholders updated via announcements on the SGXNet as and when there are any material developments or updates in this regard.

SIAS QUESTION 3

All three non-executive directors are long tenured independent directors who have served on the board since 1997 / 2004.

Mr Lim Hock Beng, being the lead independent director, was appointed to the board on 16 May 1997 and serves as the chairman of the audit committee and a member of the nominating and remuneration committees.

Mr Lau Ping Sum, Pearce, was appointed to the board on 28 May 1997. He is an independent non-executive director and serves as the chairman of the remuneration committee and a member of the audit and nominating committees.

Mr Chew Heng Ching was appointed to the board on 25 August 2004. He is an independent non-executive director and serves as the chairman of the nominating committee and a member of the audit and remuneration committees. In addition, Mr Chew is the Founding President of the Singapore Institute of Directors and was the Past Chairman of its Governing Council (page 5).

In assessing the performance of the board, the nominating committee has stated the following:

The Board has implemented a process carried out by the NC for assessing the effectiveness of the Board as a whole. For the year under review, the NC has evaluated and discussed the results of the Board’s performance and effectiveness as a whole and that of each of its board committees and individual directors.

- (i) Would the nominating committee (NC) share the key findings of the effectiveness assessment that was carried out? How effective was the board as a whole, and of each of its board committee?
- (ii) As two independent directors are been on the board for over 21 years and one director for over 14 years and, can the independent directors individually help shareholders how they have contributed to the board and to the effectiveness of the board?

What critical roles did they play in shaping the corporate strategy and direction of the group?

How did the directors review management’s plan in light of emerging trends, the competitive environment, the opportunities and risks of the business and business practices in the industry?

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How did the directors oversee the business and affairs of the group, establish with management the strategies and financial objectives and provided guidance and monitored the performance of management?

These are the principal functions of the board as listed in the company’s Corporate Governance report.

The Company’s response to Question 3

- (i) In the Nominating Committee’s (“**NC**”) evaluation of the Board’s performance for FY2018, overall, the NC was satisfied with the effectiveness of the Board in relation to its debate and decision-making, conduct of meetings, corporate strategy and planning process, and review and publication of the Group’s financial reporting, amongst other things.

In the NC’s evaluation of the Board Committees’ performance for FY2018, overall, the NC was satisfied with the Audit Committee’s, NC’s and Remuneration Committee’s (collectively, the “**Board Committees**” and each a “**Board Committee**”) performance of its functions of assessment of the Company’s external and internal auditors, Board review and compensation framework respectively, amongst other things.

- (ii) In Board and Board Committee meetings all these years, Mr Lim Hock Beng, Mr Lau Ping Sum, Pearce and Mr Chew Heng Ching (collectively, the “**Independent Directors**”) have constantly challenged the Management on their business strategies, ensuring they have been fully discussed and examined and take into account the long-term interests of the shareholders, employees, customers, suppliers and communities in which the Group conducts business. The Independent Directors also help to develop proposals on business strategy and review the performance of Management.

The Independent Directors continue to provide stability to the Board and contribute positively to the debates and decision-making that takes place at Board and Board Committee meetings. In turn, the Group has benefited greatly from its Independent Directors who have, over time, gained insight and experience with respect to the Group, its business, the markets and the industry. Their extensive experience and familiarity with the Group’s business and Management team has also proved invaluable to the Group, both in its previous efforts to exit the watch-list through the sourcing of potential assets for completion of the proposed subscription and proposed reverse takeover, as well as the Group’s current corporate restructuring exercise, including the Proposed Disposal, in light of the financial difficulties faced by it.

Since the Company was notified by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) of the rejection of its appeal against delisting on 1 March 2019, the Independent Directors have also been actively involved in discussions with respect to the submission of the Exit Offer Proposal.

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In view of the circumstances, in particular the delisting directive from SGX-ST, the suspension of trading of the Company’s securities, and the ongoing discussions on the Exit Offer Proposal, the Company is of the view that to retain the services of the Independent Directors at this critical juncture serves the best interests of the Group and its shareholders.

By Order of the Board

Hsu Hung Chun
Chairman

23 April 2019