

NGSC LIMITED
(Company Registration No.196400100R)

RESPONSES TO QUESTIONS FROM SHAREHOLDERS AND SIAS

The Board of Directors of NGSC Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that the Company has received questions from shareholders and Securities Investors Association (Singapore) (“**SIAS**”) in advance of the Company’s Annual General Meeting to be held at 10.00 a.m. on 30 August 2021. The Company’s responses to the corresponding questions are set out below:

Question No. 1	<p>The company had earlier, on 3 December 2019, announced that it had received a Notification of Delisting from the SGX-ST as the company has not met the requirements under Rule 1314 of the Listing Manual for its removal from the Watch-list.</p> <p>On 11 July 2021, the company announced that it will seek the approval of shareholders of the company to effect the delisting proposal by way of a selective capital reduction exercise to be undertaken by the company pursuant to Section 78G of the Companies Act, Chapter 50 of Singapore.</p> <p>(i) Would the company help shareholders understand the (earlier) efforts by the board and by management to meet Rule 1314 of the Listing Manual?</p> <p>(ii) What were the main obstacles that prevented the group from meeting the requirements of Rule 1314?</p> <p>(iii) How effective were the directors at providing guidance to management that enhanced long-term shareholders’ value? Did the frequent changes to the board in the past 2-3 years impair the effectiveness of the board?</p> <p>(iv) What is the current board dynamics given that the board has not appointed a chairman since the cessation of the former chairman on 30 May 2019? How does the board ensure an appropriate balance of power, high levels of accountability and independent decision making?</p>
Company’s Response	<p>(i) Please refer to the Quarterly Update Announcements pursuant to Rule 1313 of the Listing Manual released by the Company for every quarter, for the efforts by the board and management to meet Rule 1314 of the Listing Manual.</p> <p>(ii) Please refer to the response in (i) above.</p> <p>(iii) The Directors have from time to time provided guidance to management keeping in view the Company’s interests. The Board had to appoint new Directors as and when Directors resigned in past 2-3 years to meet the requirements of Code of Corporate Governance 2018 and the Board is of the view that the changes did not impair the effectiveness of the board.</p> <p>(iv) The Executive Director of the Company, Dr Michael Kuan-Chi Sun (“Dr Michael Sun”), with the team of executive officers, is responsible for the day to day management of the Group’s operations. Dr Michael Sun meets other board members periodically, to enable the Board to perform its duties responsibly while not interfering with the flow of the Group’s operations.</p>
Question No. 2	<p>For the proposed Selective Capital Reduction, the price per participating share has been set at S\$0.00155. An aggregate sum of \$7.36 million will be returned to participating shareholders in cash, on the basis of S\$0.00155 for each Participating Share held.</p>

	<p>(i) Can the board elaborate further on the timeline of the proposed selective capital reduction?</p> <p>(ii) What are the remaining milestones, if any?</p> <p>The net asset value per share as at FY2021 was \$0.00158, following a loss of \$(24.1) million in FY2021. This was due to the additional impairment loss of \$24.07 million to profit or loss of the group’s joint venture, HUH Broadband Communication Company Limited.</p> <p>(iii) Would the independent directors provide shareholders with greater clarity on the operating status and the financing position of the joint venture? What was the level of involvement by the group (and by HughesNet China Holdings Limited) in the joint venture?</p> <p>(iv) How did the board, especially the independent directors, evaluate the prospects of the joint venture?</p> <p>As disclosed in Note 11 (page 79 – Investment in joint ventures), management is of the view that there is no basis for making a reliable estimate of the price, that is, fair value at which an orderly transaction to sell the asset would not be possible and therefore has used value in use as the recoverable amount. Accordingly, management has used the independent valuer’s value-in-use (VIU) valuation as its recoverable amount. However, the VIU valuation is based on management financial budget approved by the board covering a 2-year period. The use of the VIU valuation involved significant judgement in the forecast projection of sales and operating cash flows for the next two years. The VIU valuation included assumptions of terminal growth rate and weighted cost of capital (“WACC”).</p> <p>(v) Can the independent directors help shareholders better understand the rationale and the assumptions used in the VIU calculations? Why was a 2-year period used?</p> <p>(vi) How sensitive is the valuation of the joint venture to the terminal growth rate and WACC?</p>
<p>Company’s Response</p>	<p>(i) Please refer to the announcement of the Company dated 11 July 2021, where in it was stated in paragraph 9 that a circular to Shareholders setting out relevant information relating to the Selective Capital Reduction and containing the advice of the Independent Financial Adviser and the recommendation of the relevant Directors, together with the notice of the EGM to be convened to seek the approval of the Shareholders for the Selective Capital Reduction, will be despatched to Shareholders in due course. Accordingly, the time line of the proposed selective capital reduction will be set out in the circular to shareholders, which will be despatched to shareholders in due course.</p> <p>(ii) Please refer to (i) above.</p> <p>(iii)The Joint venture is in a net liability position and currently operating to sustain its operations. The level of involvement by the Group in the joint venture is that the Group only has economic benefit and does not involve in the operational control of the joint venture.</p> <p>(iv)The Board, especially the independent directors has independently appointed a valuer to assess the value of the joint venture, including any prospects and has come to a conclusion as per the report of the Group’s latest annual report FY2021 to determine the value in use as its recoverable amount. Please refer to paragraph 8 of the full year results announcement of the Company released on 30 May 2021 for more details on the valuation of joint venture.</p>

	<p>(v) The 2-year forecast was prepared by the management of HUH Group based on its current operating conditions where it was unable to operate profitably as a result of insufficient working capital funding for new project acquisition, a net liability position which weakens its financial position to compete for new projects, and high fixed operating costs to maintain teams to service existing contracts on hand. HUH Group was unable to provide as an optimistic forecast beyond 2 years based on normal operation given the uncertainties in the financial outlook of the company.</p> <p>(vi) The valuer was prepared to apply various terminal growth rates and WACC to determine the VIU. However, given the financial and operational outlook of HUH Group as at 31 March 2021, the valuer concluded that the forecast of continued operating losses did not necessitate the use of terminal growth rates and WACC.</p>
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Question No. 3	<p>At the annual general meeting scheduled to be held on 30 August 2021, the company is proposing to shareholders to approve directors' fees of \$253,424.66 for the financial year ended 31 March 2021. This is a significant increase from \$183,661 in FY2020, or 38%.</p> <p>(i) What are the reasons for the 38% increase in directors' fees?</p> <p>The company has deviated from Provision 8.1 of the Code of Corporate Governance 2018 which requires listed companies to disclose in the annual report the policy and criteria for setting remuneration, as well as names, amounts and breakdown of remuneration of each individual director and the CEO.</p> <p>The company has stated that the remuneration of each individual director to the nearest thousand is not disclosed (as required by the CG Code 2018). This is because the board believes that the disclosure may be prejudicial to its business interests given the highly competitive marine business environment the group operates in (page 18).</p> <p>The remuneration of each individual director to the nearest thousand is not disclosed as the board believes that the disclosure may be prejudicial to its business interests given the highly competitive marine business environment the Group operates in.</p> <p>A summary compensation table of the directors' remuneration for the financial year ended 31 March 2021 is set out below:</p> <table border="1"> <thead> <tr> <th>Name of Director</th> <th>Directors' Fees (%)</th> <th>Salary (%)</th> <th>Total (%)</th> </tr> </thead> <tbody> <tr> <td>Below S\$250,000</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Mdm Sri Tjintawati Hartanto</td> <td>100</td> <td>-</td> <td>100</td> </tr> <tr> <td>Dr Michael Kuan-Chi Sun</td> <td>100</td> <td>-</td> <td>100</td> </tr> <tr> <td>Mr Lye Meng Yiau</td> <td>-</td> <td>100</td> <td>100</td> </tr> <tr> <td>Mr Chew Chin Wee</td> <td>100</td> <td>-</td> <td>100</td> </tr> <tr> <td>Mr Ong Tiang Lock</td> <td>100</td> <td>-</td> <td>100</td> </tr> <tr> <td>Ms Wang Xiao Zheng</td> <td>100</td> <td>-</td> <td>100</td> </tr> <tr> <td>Ms Ng Yoke Ping, Pauline</td> <td>100</td> <td>-</td> <td>100</td> </tr> </tbody> </table> <p>(Source: company annual report)</p> <p>However, for the financial year ended 31 March 2021, the directors who are due their fees are non-executive directors, except for Mr Lye Meng Yiau, the former managing director who resigned on 19 June 2020. The "threat" to the company's business interests appears to be minimal especially as the group does not have any operating business.</p> <p>In addition, the directors served on the board for different lengths due to appointment/cessation dates, with some as short as 6 months.</p> <p>(ii) Would the board consider disclosing the individual director's fees to meet the requirements of Provision 8.1 of the CG Code 2018?</p>	Name of Director	Directors' Fees (%)	Salary (%)	Total (%)	Below S\$250,000				Mdm Sri Tjintawati Hartanto	100	-	100	Dr Michael Kuan-Chi Sun	100	-	100	Mr Lye Meng Yiau	-	100	100	Mr Chew Chin Wee	100	-	100	Mr Ong Tiang Lock	100	-	100	Ms Wang Xiao Zheng	100	-	100	Ms Ng Yoke Ping, Pauline	100	-	100
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Company's Response	<p>(i) The Remuneration Committee of the Company had recommended to the Board to increase the Directors Fees of each individual Director for financial year to reasonably compensate the Directors for the increased compliance requirements and risk exposure of a listed company director. Accordingly, the Board recommended the Directors Fees of S\$253,424.66 for FY2021 for shareholders' approval.</p> <p>(ii) The Director's fee for each individual Director is S\$50,000 per annum and is payable to each individual director proportionately for the number of days he or she was a Director of the Company during FY2021. Going forward, the Board will consider disclosing the individual director's fees in the annual reports of the Company.</p>
Question No. 4	<p>Refer to the following Company's announcements and Annual Reports:</p> <p>i) Dated 17 November 2020 and 26 April 2021 on the resignations of the Company's Independent Directors Mr. Ong Tiang Lock and Mr. Chew Chin Wee respectively, where a common reason for cessation was "Disagreement with the management's practice to favour a certain shareholder".</p> <p>ii) Dated 20 May 2021 on a representation from Ms. Ng Yoke Ping Pauline, another resigned Independent Director.</p> <p>a) Paragraph 4 referred to a certain individual as a director of TPG (the controlling shareholder of NGSC), also the Executive Director of HUH and a director of HCH".</p> <p>b) Paragraph 18.2 says "China UnifiedNet Holdings Limited (CUH), a wholly-owned subsidiary of NGSC, received a demand letter on 26 January 2021 from HCH Group Company Limited (HCH) for the advance of its proportionate shareholders' loan of US\$1.76 million. HCH is the joint venture partner that owns 45% of HUH".</p> <p>iii) Dated 18 May 2021 on the SGX Notice of Compliance that referred to</p> <p>a) Paragraph 17- a certain individual was the subject of a public reprimand issued by the Exchange on 20 October 2011, and is currently placed on the Directors' and Executive Officers' Watchlist of the Exchange".</p> <p>b) Paragraph 18-a certain individual is the sister of the Company's controlling shareholder, and was involved in past investigation conducted by E&Y Advisory Pte Ltd. into certain significant questionable transactions and cash transfers involving the Company, which was announced by the Company on 31 October 2014".</p> <p>iv) Dated 29 January 2021 under Announcement Reference No. SG210129OTHR7NVG and 11 February 2021 under Announcement Reference No. 210211OTHR6E17 on the Company's Quarterly Updates for quarters ending 30 September 2020 and 31 December 2020 respectively. Both announcements carry same contents as below:</p> <p>a) Heading #1, second to last paragraph of "Statement of Financial Position" that says - "At the Group level, other payables and an amount due to the joint venture amounting to approximately S\$1.9 million respectively. The amount due to the joint venture is recognized in the books of CUH, based on the legal opinion of an independent legal firm. Based on their assessment and opinion, the Company's legal advisors issued a report stating that there may be a possibility of liabilities that may bear on CUH the recognition of the liability is on account of a call for shareholders' loan by the JV entity pursuant to the Shareholders' Agreement."</p>

	<p>b) Heading #2, second paragraph that says - "On 26 January 2021, CUH received a demand letter (Demand) from HCH Group Co. Ltd. (HCH) for the advance of its proportionate shareholders' loan of US\$1.76 million (Shareholders' Loan). This Demand was issued by HCH pursuant to the terms of the shareholders' agreement dated 5 March 2010 between, inter alia, CUH and HCH."</p> <p>v) Notes to the Financial Statements #15 found in both the FY2017 (page 73) and FY2018 (page 86) Annual Reports that says - "The Company will receive economic and monetary rights and benefits (including dividends and future proceeds arising from sale) in respect of a total of 384,800,220 ordinary shares in the Company (Settlement Shares). Such Settlement Shares will be held by a custodian nominated by the Company which will act under the sole direction and for the benefit of the Company".</p> <p>vi) Notes to the Financial Statements #22 (page 96) of the FY2021 Annual Report says - "This relates to the settlement agreement the Company entered into with Ban Joo Investment {Pte) Ltd. on 20 February 2017. Following this settlement agreement, management valued the 380 million NGSC shares at \$1.14 million based on its share price of \$0.003 cents as at 17 February 2017".</p> <p>vii) Footnote (2) to Notes to the Financial Statements #18 (page 94) of the FY2021 Annual report indicated accruals of \$0.8 million that relates to the provision of directors' fees.</p> <p>viii) Resolution #5 (page 114) of the FY2021 Annual Report calls for the approval of 5\$253,424.66 Directors' Fees for the FY2021.</p> <p>ix) Dated 11 July 2021 under Announcement Reference No. SG210711OTHR1FSJ on a proposed Selective Capital Reduction scheme:</p> <p>a) Paragraph #2.8.2 has the different NAV calculations from which the \$0.00155 cash is derived for each Participating Share in the initial Selective Capital Reduction ("SCR") scheme, was based on that at the Group level. At the Company level, the per share NAV is \$0.00197.</p> <p>b) Paragraph #4 on "Escrow Arrangement", where pursuant to the 18 May 2021 Notice of Compliance issued by SGX, the Company has committed to place 90% of its cash (\$11,918,583.90) into an escrow account.</p> <p>Query No. 1- Matter of the HCH demand on CUH</p> <p>Premised on above iv(b), it is clear that the Company, NGSC, is not a party to the shareholders' agreement that HCH is basing its demand on CUH. Above iv(a) also clearly manifested that "the Company's legal advisors issued a report stating that there may be a possibility of liabilities that may bear on CUH ... pursuant to the Shareholders' Agreement". Not on NGSC. Under the premise that the Management and the Board should at all times act in the best interest of the Company in general, and to the minority shareholders in particular with regards to the Independent Directors:</p> <p>Query I(a) - With NGSC not being a party to the Shareholders' Agreement, is there a legal ground for HCH's demand on CUH to be liability of NGSC?</p> <p>Premised on ii) and iii) above, would there be an issue of Conflict of Interest and a potential repeat of Interested Party Transaction as inferred in the SGX Notice of Compliance?</p> <p>Query I(b)-This is clearly a situation of throwing good money after bad, i.e. NGSC paying \$2.371 million to HCH on behalf of CUH, an insolvent limited liability BVI subsidiary whose value had been fully impaired and in which NGSC has no legal</p>
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	<p>obligation to pay on its behalf, on top of having already lost the full \$42 million acquisition cost of CUH, why would it not be a simple and straightforward legal process to wind up CUH? Or let HCH initiate legal proceedings against CUH and have HCH wind up CUH in the worst case?</p> <p>Query I(c)- Without any legal ground for HCH to have a claim on NGSC, should not the basis for the cash per Participating Share of the SCR scheme be the \$0.00197 NAV per share at the Company level, instead of the proposed \$0.00155 NAV per share at the Group level (please refer to ix(a) above), a 27% improvement?</p> <p>Query I(d)- The Company has on 25 May 2021 and again on 11 July 2021 (please refer to ix(b) above) committed to place 90% of its cash in an escrow account pursuant to a clear SGX directive of 18 May 2021. What is the reason for the delay, that until this date the Company has yet to meet that commitment?</p>
Company's Response	<p>1(a) The Company sought legal opinion/advice from a Hong Kong legal counsel, which confirmed the enforceability of the demand bearing on CUH, a wholly owned subsidiary of NGSC and NGSC has agreed to provide financial support to CUH. There is no issue of Conflict of Interest and no Interested Party Transaction.</p> <p>1(b) Please refer to 1(a) above.</p> <p>1(c) Please refer to 1(a) above.</p> <p>1(d) The Company is in the process of opening escrow account and appointing an escrow agent. The Company has been updating SGX from time to time on this and is acting as per SGX instructions.</p>
Question No. 5	<p>Matter of the Settlement Shares</p> <p>With reference to (v) and (vi) above, for all intent and purpose from a finance perspective, these Settlement Shares are effectively Treasury Shares and should rightfully be treated as such in any SCR scheme. When treated as Treasury Shares, the cash per Participating Share can be further improved by approximately another 6%.</p> <p>Query 2(a)- Who is the current custodian of the Settlement Shares?</p> <p>Query 2(b) - Again in the best interest of the Company in general and the minority shareholders in particular, why did the Management & Board not adopt this "Treasury Share" treatment in the initial SCR scheme proposed on 11 July 2021, thereby improving the cash to minority shareholders by 6%</p>
Company's Response	<p>(a) Please refer to the announcement of the Company released on 20 February 2017 in relation to the treatment of Settlement Shares. Treasury shares are only accounted when the Company acquires its own ordinary shares. Please refer to the announcement of the Company released on 11 July 2019 for the treatment of the Settlement Shares in the Re-issued FS for FY2017 and Re-issued for FS FY2018. Zico Trust is the custodian of the Settlement Shares.</p> <p>(b) Please refer to (a) above.</p>
Question No. 6	<p>Matter of Directors' Fees payable</p> <p>From (vii) and (viii) above, there is a difference of about \$546,575 for Directors' Fees payable to resigned directors of past fiscal years.</p> <p>Query 3(a) - With ample cash in the Company, why have these not been paid out?</p> <p>Query 3(b)- Please provide a breakdown of this \$546,575 as to the Fiscal Year(s) and aging.</p>

	<p>Query 3(c)- For amounts of over 180 days aging, it appears that the company has no intention to pay out, should not these then be adjusted accordingly in the NAV calculation for any SCR scheme, thereby improving further the cash per share for the minority shareholders?</p>
Company's Response	<p>(a) The Company will be paying the Directors' fees payable to resigned directors after the forthcoming AGM to be held on 30 August 2021.</p> <p>(b) Please see (a) above. It is not in the best interests of the Company to disclose breakdown and aging.</p> <p>(c) Please see (a) above.</p>
Question No. 7	<p>Matter of fairness and best interest of the 74% minority shareholders</p> <p>The initial Selective Capital Reduction scheme proposed and presumably endorsed by the Management and current Board on 11 July 2021 was based on a NAV calculation that is manifestly favourable to the Controlling Shareholder and to the detriment of the over 10,000 minority shareholders, in all respect validates the common view expressed by the three (3) recently resigned Independent Directors in (i) and (ii) above, that Management is favourably predisposed to certain shareholder. Will the current Board in general and the two (2) sitting Independent Directors in particular give the issues raised in the above three (3) queries all due consideration and thereby substantially improve the calculations for the SCR scheme, with the best interest of the minority 74% ahead of the Controlling Shareholder?</p>
Company's Response	<p>Please refer to the announcement of the Company dated 11 July 2021 ("Announcement").</p> <p>In paragraph 2.8 of the Announcement, it was stated that for the purposes of the Selective Capital Reduction the pro forma financial effects have been prepared based on the following bases and assumptions assuming that the selective capital reduction was completed on 1 April 2020.</p> <p>In paragraph 9 of the Announcement, it was stated that a circular to Shareholders (the "Circular") setting out relevant information relating to the Selective Capital Reduction and containing the advice of the Independent Financial Adviser and the recommendation of the relevant Directors, together with the notice of the EGM (the "Notice of EGM") to be convened to seek the approval of the Shareholders for the Selective Capital Reduction, will be despatched to Shareholders in due course.</p> <p>The draft Circular will be submitted to SGX for their clearance before sending to Shareholders.</p>

The Board would like to thank the shareholders and SIAS for taking out time to submit the questions and their interest in the Company.

BY ORDER OF THE BOARD

Michael Kuan-Chi Sun
Executive Director
27 August 2021