



CHINA HAIDA LTD.

(Incorporated in Singapore on 18 August 2004)

Company Registration No. 200410428C

420 North Bridge Road #04-06 North Bridge Centre Singapore 188727

RESPONSE TO QUERIES RAISED BY SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

The board of directors (the "**Board**") of China Haida Ltd. (the "**Company**") refers to the Company's announcement of cessation on the retirement of Mr Soh Beng Keng as the Lead Independent Director of the Company released on 29 June 2020 and wishes to respond to the queries raised by Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 1 July 2020 below.

Prologue

The Company is baffled to receive the following questions from SGX-ST and notes that virtually all the questions raised (some are extraordinarily sensitive and personal) stem from or as a consequence of the retirement of a former independent director, Mr Soh Beng Keng ("**Mr Soh**") at the recent Annual General Meeting of the Company held on 29 June 2020 ("**Last AGM**"). The Company is of the view that such questions should have been raised earlier and prior to the retirement of Mr Soh on 29 June 2020 so that his input could be directly sought; after all, two rounds of queries had been raised by the SGX-ST since the publication of the Company's FY2019 Annual Report on 14 June 2020 which contains the pertinent information regarding the retirement of Mr Soh at the Last AGM.

The Company further understands from Mr Soh that on 30 June 2020 two senior representatives of SGX-ST held a telephone discussion with him regarding the circumstances surrounding his retirement at the Last AGM (although the Company is not privy to the details of such discussion). According to Mr Soh and to the best of his knowledge, he had satisfactorily addressed all SGX-ST's questions raised during the telephone conversation (some of them are nonetheless repeated below). Mr Soh also shared that the SGX-ST representatives did not intimate or suggest that further questions regarding his retirement would be raised subsequently.

The Company is of the opinion that these questions should be directed to and best addressed by Mr Soh given that they are rather personal, sensitive and onerous in nature. As Mr Soh is no longer a director of the Company, the Company has endeavoured to seek his feedback or comments on these questions so that we can comply with SGX-ST's request to the best of our ability. In this regard, the Company has managed to seek Mr Soh's consent to release the responses to most of the questions raised (save for Question 2). In passing, Mr Soh had remarked that SGX-ST should have posed these questions to him directly instead of using the Company as the forum to publish information of a private and personal nature.

SGX-ST's Query 1:

On 8 April 2020 the Company announced that its external auditors received qualified bank confirmations from the Bank of Communications and the Agricultural Bank of China in connection and that several bank accounts have been frozen due to a court order against its principal subsidiary, Jiangyin Litai Ornamental Materials Co., Ltd and the Group CEO, Mr Xu Youcai. The court order was for the purpose of preserving or freezing the assets of up to a sum of RMB 14 million. The court order was related to a legal dispute over some lending and borrowing affairs involving Mr Xu Youcai and entities under his control. The Company disclosed that Mr Xu Youcai has been uncontactable and as at 24 June 2020, all the PRC-based directors, including the Non-Executive Chairman (Ms Zhao Guiying) and Independent Director (Mr Wang Liangfa) are uncontactable as well.

On page 20 of the Annual Report announced on 14 June 2020, it was disclosed that Mr Soh Beng Keng, independent director and Chairman of the Audit Committee will not seek re-election at the forthcoming AGM of the Company. It was also disclosed on page 16 the Nominating Committee's view that Mr Soh Beng Keng "continues to be an **invaluable member of the AC** providing guidance to the Board in the **areas of financial management and key corporate governance issues**". Please elaborate on the following:

- (a) The specific advice(s) on corporate governance provided by Mr Soh Beng Keng that was deemed as invaluable;
- (b) The specific advice(s) given by Mr Soh Beng Keng in the areas of financial management and internal controls that were deemed as invaluable and whether these areas considered security over the bank accounts and procedures in relation to the tracking of interested person transactions; and
- (c) If there is good corporate governance practice in place, please elaborate why the CEO and almost all the board members are uncontactable by the Company.

The Company's response:

- (a) Mr Soh had served the Company as an independent director since April 2007 and retired at the Last AGM. Over the past 13 years in office, Mr Soh had contributed significantly to the Company primarily in the areas of financial reporting and management and key corporate governance issues. It is impractical to set out all his contributions given his long tenure with the Company. In addition to dutifully and diligently discharging his duties as an independent director as already detailed in the Annual Report, some of the more recent specific and invaluable input or advice provided by Mr Soh include:
 - Advising and instructing the Company to forthwith apply to the SGX-ST for a trading halt when the irregularities (details of which were subsequently announced on 8 April 2020) were first made known to the AC.
 - Initiating and instructing the Group to closely monitor all future advances to a related party (Jiangyin Caitu) by requiring any advances amounting to RMB 1 million or above to be reported to and approved by the Group CFO in Singapore on the condition that there must be timely delivery of goods by the related party.
 - Suggesting to the former executive director, Mr Guo Yun, to secure a personal guarantee from Mr Xu (CEO) over the outstanding sums owed by the two major related parties although this was eventually turned down by the CEO.

- Consistently focussing on the status of collections from trade receivables and ensuring adequacy of impairment provision against these receivables at each AC and Board meeting.
 - Consciously reviewing all material announcements of the Company prior to their publication.
 - Engaging the external auditors on the changes in the accounting standards and their impacts on the financial reporting of the Group, especially during the transition from Financial Reporting Standards (FRS) to Singapore Financial Reporting Standards (International) (“**SFRS(I)**”) and when SFRS(I) 15 *Revenue from Contracts with Customers* and SFRS(I) 9 *Financial Instruments* were first implemented.
- (b) Please see responses to 1(a) above. As regards whether Mr Soh had offered any invaluable advice on the security over the bank accounts in the light of certain bank accounts being frozen as announced since April 2020, the Company notes that such freezing of the bank accounts of Jiangyin Litai was in all likelihood pursuant to some enforcement court orders in the PRC which is beyond Mr Soh (or any directors for that matter) except those who were involved in or responsible for the irregularities and/or had committed the wrongdoings which had culminated in the financial plight of the subsidiary.
- (c) It has only come to the attention of the Company that the CEO and other PRC based directors have become uncontactable since the revelation of the irregularities as announced on 8 April 2020 (As an aside, the Singapore resident IDs managed to speak briefly with the PRC resident ID, Mr Wang Liangfa recently although he did not seem to be well versed with the apparent irregularities and the current operational status of Jiangyin Litai. It was also noted that Mr Wang attended the Last AGM). The Singapore directors and management team were prepared to visit Jiangyin Litai and find out what had actually transpired but for the COVID-19 pandemic. While the Company notes with regret the unfortunate circumstances, it is unable to address the question of why the CEO and the other PRC directors are uncontactable (except for the Singapore resident IDs’ recent but brief conversation with Mr Wang) if they have deliberately chosen to do so for reasons that are only known to them. Additionally, it is axiomatic that no internal control system or corporate governance practice (no matter how well designed and implemented they are) will entirely preclude or obliterate all errors and irregularities (including fraud).

SGX-ST’s Query 2:

In the Cessation Notice announced on 29 June 2020, Mr Soh Beng Keng cited as the reason for his cessation to be “Due to retirement age and as part of the Board rejuvenation process and good corporate governance practice.” Please elaborate on the following:

- (a) As Mr Soh Beng Keng’s resignation is due to his retirement age, please advise whether he will also be resigning from his other directorship in the SGX listed issuer ISDN Holdings Limited due to his retirement age. If not, please elaborate why he has taken a different view in retirement age for both boards and his view why he is still suitable to act as a director of ISDN Holdings Limited despite his age when he is not able to do so for China Haida Ltd;
- (b) Mr Soh Beng Keng disclosed that he wished to step down from the Company’s board “as part of the Board rejuvenation process”. Please disclose why he did not deem it

- necessary to step off from the Company's Board at the its previous FY2018 AGM for the "Board rejuvenation process" then; and
- (c) Mr Soh Beng Keng believed that his cessation is "good corporate governance practice". Please provide Mr Soh Beng Keng's view and substantiate with details how it is "good corporate governance practice" to step off from the board before a new Independent Director resident in Singapore has been appointed in the midst of the discovery of serious issues over which the Audit Committee ("AC") felt an investigation was required. Please disclose the number of Independent directors resident in Singapore who remains on the Board and why Mr Soh Beng Keng is of the view that his cessation at this point in time is "good corporate governance practice".

The Company's response:

The Company was informed by Mr Soh that he had specifically addressed Questions 2(a) to (c) with the two senior representatives of SGX-ST during the telephone conversation held between them on 30 June 2020. Additionally, he is of the view that he had made the requisite disclosure of the reasons for his retirement in the Notice of Cessation that was announced by the Company on 29 June 2020. Further, he noted that responses to these questions may entail private and confidential information relating to him as well as another listed company. Nevertheless, he would like to invite the SGX-ST to contact him directly if they would like to seek further clarifications from him.

In relation to a sub-question within Question 2(c), the Company confirms that at present, Mr Tang Chun Meng is the only independent director resident in Singapore who remains on the Board.

SGX-ST's Query 3:

In the Company's announcement on 22 April 2020, it was reported that the AC "believes a special investigation is necessary to inquire into the circumstances giving rise to the freezing of bank accounts and interim court order". Please disclose how the resignation at this critical time of Mr Soh Beng Keng, who is the AC Chairman and Lead Independent Director, is in the best interest of the Company taking into account the serious concerns noted by the external auditors of the situation since April 2020 and the critical condition faced by the Company of uncontactable Board members.

The Company's response:

Please see response to Question 5(d) below.

SGX-ST's Query 4:

We also note that the Nominating Committee ("NC"), where Mr Soh Beng Keng is a member, has decided that it is appropriate to nominate the missing Mr Xu Youcai as the Executive Director at the recent AGM for re-election despite their disclosure that Mr Xu Youcai remains uncontactable and the Company was unable to provide the information required to be disclosed for directors standing for re-election in Appendix 7.4.1 of the SGX Listing Manual. As such, please disclose whether shareholders were given sufficient information to make an informed voting decision on the re-election of Mr Xu Youcai which was recommended by the NC. Please elaborate on the corporate governance advice given by Mr Soh Beng Keng in his

role and responsibilities as a member of the NC in recommending Mr Xu's re-election at the Company's recent AGM.

The Company's response:

We believe this question had previously been addressed in the Company's Announcement dated 24 June 2020. For your convenience, we reproduce our previous response below.

"The Nominating Committee (NC)'s recommendation for Mr Xu's election at the forthcoming AGM of the Company was made pursuant to the new Rule 720(5) of the SGX-ST Mainboard Listing Rules. Rule 720(5) stipulates that "*An issuer must have all directors submit themselves for re-nomination and re-appointment at least once every three years.*" As Mr Xu has never been subject to any rotation, retirement, re-appointment or re-election for past years, the Company Secretary has advised the NC that Mr Xu should be submitted for re-election or reappointment at the forthcoming AGM in compliance with Rule 720(5).

Concomitant to Rule 720(5), the Company would also have to comply with Rule 720(6) in providing the prescribed information (including questions (a) to (k) specified therein) as set out in Appendix 7.4.1 that is required of the candidate that is proposed for re-appointment or re-election. However, as Mr Xu was/ is still uncontactable, it is simply impossible and inappropriate for the Company to address questions (a) to (k) as the answers to which would only be known to Mr Xu himself. Hence, the Company was also constrained to comply with Rule 720(6) by providing such prescribed information that is within its knowledge, possession and belief. Having regard also to the principle of caveat emptor within the disclosure-based regime, such constraints and other pertinent information have been duly disclosed in the FY2019 Annual Report to assist shareholders in making their most appropriate decision in such unfortunate circumstances.

In arriving at such a peculiarly difficult decision, the NC was also cognisant that as of the latest practicable date more than 50% of the Company's shares were in the hands of public. Should these "public" shareholders feel disgruntled at the current state of disclosure pertaining to Mr Xu, they are at liberty to exercise their right to vote against the proposed resolution of re-electing Mr Xu as a director of the Company."

As an update, it is noted that the proposed resolution of re-election of Mr Xu Youcai as a director (i.e. Resolution 2) was **duly carried** at the Last AGM with 44,685,560 shares voting *for* (representing 99.41%) and 265,000 shares voting *against* (representing 0.59%). Of the 44,685,560 shares voted in favour of the resolution, 44,675,560 shares came from a nominee company purportedly representing two major shareholders comprising Forbury Investments Limited (a company controlled by former executive director, Mr Guo Yun) and Lai Shih-Wei (see List of Substantial Shareholders and their shareholdings as disclosed at page 95 of the Annual Report). Accordingly, the Company is legally bound by the wish of these major shareholders who had cast their votes in favour of re-electing Mr Xu (even though he remains uncontactable) at the Last AGM.

SGX-ST's Query 5:

Listing Rule 221 requires the Company to have at least 2 independent directors resident in Singapore. We note that the Company has not appointed any replacement independent director resident in Singapore. Notwithstanding the uncertainty of whether the Company will eventually be able to appoint a new independent director resident in Singapore, Mr Soh Beng

Keng has decided to resign instead of waiting for the Company appoint a new director to replace him. In view of this, please:

- (a) elaborate on how many members of the NC remain and how many are still functional and contactable;
- (b) elaborate on the nominating process for the appointment of the new independent director resident in Singapore that will be undertaken by the Company;
- (c) whether the Company has identified any suitable candidates for the appointment and when will the appointment be announced; and
- (d) demonstrate how Mr Soh Beng Keng's cessation at this point in time before a new Singapore based ID and AC Chairman has been appointed is in the best interest of the Company noting the AC's views that a special investigation is necessary and noting that the Company may have difficulties in appointing a new Independent Director resident in Singapore taking into the serious issues of concerns that have just been announced by the Company.

The Company's response:

As a preliminary point, we note that Listing Rule 221 of the SGX-ST Mainboard Listing Rules ("LRs") stipulates that "A foreign issuer must have at least two independent directors, resident in Singapore." (emphasis added). The LRs further define a "foreign issuer" as "an issuer incorporated or otherwise established outside Singapore". (emphasis added). As the Company was incorporated in Singapore, it is, by definition, not a "foreign issuer" pursuant to the LRs. Accordingly, with respect, Listing Rule 221 is not applicable to the Company. Nevertheless, it is the intention of the Company to appoint another independent director who is resident in Singapore ("**Singapore Resident ID**").

In addition, we wish to clarify that Mr Soh did not resign as a director of the Company. He merely retired as a director of the Company pursuant to Article 107¹ of the Company's Constitution which sets out the rules of rotation and retirement of directors. We also note that the requirements of Article 107 is similar to the new Listing Rule 720(5). On the other hand, the procedural rules governing the resignation of directors are set out in Article 104(1) of the Company's Constitution which are different from those stipulated by Article 107. As Mr Soh did not seek re-election at the Last AGM, his office was naturally vacated at the conclusion of that AGM. The fact of his retirement at the Last AGM as required by Article 107 of the Company's Constitution and his intention of not seeking re-election had been duly disclosed in the Report on Corporate Governance and the Notice of the Last AGM, all contained within the FY2019 Annual Report of the Company which was uploaded on SGXNet on 14 June 2020.

- (a) After the retirement of Mr Soh at the Last AGM, the NC would now have two members comprising Mr Tang Chun Meng (a Singapore Resident ID) and Mr Wang Liangfa (a China resident ID). The Company has managed to contact Mr Wang recently and in fact, Mr Wang had also attended the Last AGM.

¹ Article 107 states that "At the Annual General Meeting in every year one-third of the Directors for the time being (other than the Managing Director), or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office Provided Always that all Directors (except the Managing Director) shall retire from office at least once every three years. (emphasis added)

- (b) The nominating process for appointing any new Singapore Resident ID would generally entail the identification of potential candidates, reviewing their resumes and supporting documents (including obtaining various declarations and disclosure statements) and performing informal background checks to assess their appropriateness and suitability having regard to the academic or professional qualifications, working experience, skills and knowledge, and experience as a listed company director, among others. The NC would then shortlist the suitable candidate(s) after deliberations prior to recommending the same to the Board for approval. Once the Board has approved the candidate(s), the Company would then make the necessary announcement via SGXNet.
- (c) The Company had in or around end May 2020 identified an individual (for convenience and privacy reasons, we will address him as “Mr X”) as a suitable Singapore ID candidate who also possesses experience as an independent director in some listed companies. As the time of identification of Mr X and of getting all the relevant declarations including his consent to act as director was very close to the deadline for giving Notice of the Last AGM (i.e. 14 June 2020), the NC had proposed the motion of appointing of Mr X be included in the Notice of the Last AGM. As the PRC directors were not contactable, Mr Soh sought assistance from former Executive Director, Mr Guo Yun who was then in Singapore, to reach out to them. However, subsequently, Mr Soh was informed by Mr Guo that he (Mr Guo) and other substantial shareholders would not support the proposal of appointing Mr X as they would like to appoint a PRC-based director as a new independent director in due course. Further, Mr Guo intimated that should such proposed resolution (i.e. appointment of Mr X) be put up at the Last AGM, the major shareholders would certainly vote against it. As such, the Company relayed the message to Mr X and sought to confirm with him whether he was still keen to be nominated as a candidate and be subject to shareholders’ approval at the Last AGM. Unfortunately, Mr X indicated that he preferred not to be nominated for appointment at the Last AGM to avoid any embarrassment of not being voted in. As such, the nomination of Mr X as a Singapore Resident ID did not materialise. As a matter of fact, the Company noted that a total of 44,950,560 shares were cast at the Last AGM, of which 44,675,560 shares came from a nominee company purportedly representing two major shareholders comprising Forbury Investments Limited (a company controlled by former executive director, Mr Guo Yun) and Lai Shih-Wei (see List of Substantial Shareholders and their shareholdings as disclosed at page 95 of the Annual Report).

In view of the above, while the NC is certainly keen to identify a suitable candidate as a Singapore Resident ID, it envisages legal and practical difficulties in appointing any new and suitable candidate to be a director of the Company without the blessing or endorsement of the PRC directors-cum-shareholders. In this regard, the NC noted that the aggregate equity interest held by the three major PRC-based shareholders (viz. China Delta Limited (controlled by Mr Xu), Forbury Investments Limited (controlled by Mr Guo) and Lai Shih-Wei) in the Company is approximately 46.7% (see List of Substantial Shareholders and their shareholdings as disclosed at page 95 of the Annual Report).

- (d) As adverted to above, Mr Soh ceased to be a director of the Company by the process of retirement pursuant to Article 107 of the Company’s Constitution (as opposed to resignation). His reasons for not seeking re-election had been stated in the Notice of Cessation as announced on 29 June 2020.

The Company is of the view that it is inappropriate to comment or advise on whether Mr Soh's retirement at the Last AGM is in the best interest of the Company as this is a question involving esoteric legal issues which should not be expounded via the SGXNet forum. The Company notes that Mr Soh had been a director of the Company for more than 13 years. During his tenure, the Group had generally been in compliance with the relevant laws, rules and regulations until April 2020 when the apparent irregularities were brought to light and announced. The Company, with the assistance and guidance of Mr Soh, had been working very hard to comply with the Listing Rules even though it was unable to gain access to all the pertinent information and relevant personnel (particularly the CEO). The Singapore directors and management would have visited the PRC subsidiary to inquire of the apparent irregularities but for the COVID-19 pandemic.

As much as the Company would like Mr Soh to remain as a director, it is the right or prerogative of Mr Soh (or any directors for that matter) to retire and not seek re-election at any AGM, or to resign before or after the AGM, subject to the relevant statutory requirements of the Companies Act (Cap. 50) and the regulations of the Company's Constitution. The Company is equally of the view that Mr Soh's contributions for the past 13 years should not be written off as a consequence of his retirement at the Last AGM.

By Order of the Board

Tang Chun Meng
Independent Director
3 July 2020