



CHINA HAIDA LTD.

(Incorporated in Singapore on 18 August 2004)

Company Registration No. 200410428C

24 Raffles Place #20-03 Clifford Centre Singapore 048621

RESPONSE TO SGX-ST QUERIES

The Board of Directors (the "**Board**") of China Haida Ltd (the "**Company**") and together with its subsidiaries, the "**Group**") wishes to make the following responses to the queries raised by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 22 June 2021 in relation to the annual report for the financial year ended 31 December 2020 ("**FY2020**") released on 14 June 2021 (the "**Annual Report 2020**"). The queries from the SGX-ST and the Company's responses are set out below.

Query 1:

Provision 9.2 of the Code states that "The Board requires and discloses in the company's annual report that it has received assurance from:

- a. the CEO and the CFO that the financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances; and
- b. the CEO and other key management personnel who are responsible, regarding the adequacy and effectiveness of the company's risk management and internal control systems."

We note that the Company had not complied with the Provision 9.2 of the Code as the former CFO and management were unable to provide the assurance that the financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances as well as the adequacy and effectiveness of the company's risk management and internal control systems.

Please clarify how the practices the Company had adopted are consistent with the intent of Principle 9 of the Code, which requires the Board to be responsible for the governance of risk and ensuring that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders. To also disclose if steps are being taken to remove the legal representative for the Board to safeguard the assets of the Group.

Company's Response:

On Principle 9 of the Code of Corporate Governance 2018

The Board is of the view that the Group had managed to remain compliant with Principle 9 of the Code of Corporate Governance 2018 (the "**Code**") until Mr Xu Youcai ("**Mr Xu**") had unilaterally caused Jiangyin Litai Ornamental Materials Co., Ltd ("**Litai**") to provide corporate guarantees without knowledge or approval from the Board by purposefully circumventing and disregarding the existing internal policies and procedures in place. Mr Xu's actions resulted in litigation and enforcement proceedings being brought against Litai, details of which have been disclosed by the Company via SGXNET as and when there are material updates. Information

and details relating to such litigation and enforcement proceedings had been withheld by Mr Xu and the Company had to do its own investigations, as well as engage GFE Law Office (“**GFE**”), a law firm registered by the Guangdong Provincial Department of Justice in the People’s Republic of China (the “**PRC**”), to perform searches on legal and enforcement proceedings to which Litai and/or Mr Xu may be a defendant.

As disclosed in the Company’s previous announcements, including those released on 8 April 2020, 15 April 2020, 22 April 2020 and 20 May 2020, 20 July 2020 and 31 March 2021, Mr Xu has not been responsive to queries and requests raised by the Company. Mr Xu remains uncontactable to date.

In light of the issues highlighted in the preceding paragraphs, the Company has taken a series of progressive measures to proactively strengthen its risk management and internal controls, particularly since January 2021. As disclosed in page 28 of the Annual Report 2020, the Company has already put in place a new management team in Litai helmed by the Company’s Executive Director, Mr Soh Yeow Hwa (“**Mr Soh**”) and all employees (including the new management team in Litai) are briefed on the Group’s internal controls and measures to ensure strict adherence to and compliance of the same.

Further, the Company had also managed to obtain possession over the business license legal representation seal, company seal and cashiers’ seal, etc. of Litai (the “**Litai Seals**”) through Mr Lai Shih-Wei, as disclosed in the Company’s announcement released on 27 April 2021.

Recently, the offices of three (3) former Directors, Mr Xu, Mdm Zhao Guiying and Mr Wang Liangfa were vacated on 9 June 2021. In connection with the foregoing, Mr Xu also ceased to be the Chief Executive Officer of the Company on the same day. Notwithstanding these former Directors having been suspended from their respective duties since 21 January 2021, the Company had proceeded to vacate their respective offices to formalise the fact that these errant individuals have no right to bind the Company through their actions in any way, shape or form.

Lastly, internal audit on the Company remains ongoing and the Company intends to work together with its internal auditors (“**IA**”) to further strengthen its risk management and internal control procedures. More details regarding the IA can be found in the Company’s response to Query 3 below.

On the legal representative of Jiangyin Litai Ornamental Materials Co., Ltd

While Mr Xu is currently still the legal representative of the Litai, as mentioned above, the Company already has possession of the Litai Seals.

Through having possession of and control over the Litai Seals, the new management team of Litai (which reports to the Board) has control over all the bank accounts of Litai as banking transactions (including transfers and withdrawals) on corporate accounts will require affixing of the company seal, the finance seal and the legal representation seal. There is also no concept of authorised signatories in the context of Litai’s corporate accounts and as such, no one individual is able to approve banking transactions on Litai’s bank accounts without the Litai Seals, which are in the possession of the new management team of Litai. Despite the control over the Litai Seals, please note that as disclosed in the Company’s previous announcements, all the bank accounts of Litai remain frozen at this juncture due to the courts’ enforcement cases and no transactions can be carried on these accounts at this juncture.

Additionally, the Company has been advised by GFE that any new legal representative appointed by Litai to replace Mr Xu Youcai will face the risks of: (i) being restricted, by the respective courts’ orders, from travelling out of the PRC; and (ii) being issued a “Consumption Restriction Order” (限制消费令) by the respective courts.

The Company is in the process of seeking further legal advice from GFE on the change in the legal representative of Litai.

Query 2:

Listing Rule 704 provides, *inter alia*, that an issuer must announce any material adjustments to its preliminary full-year results made subsequently by auditors. We note that there are material variances in the values for net cash (used in) from investing activities and financing activities, in the Company's full-year financial statements announced on 31 March 2021 and the Annual Report. Please explain the reason for the material variances and why the Company has not made an announcement in this regard.

Company's Response:

Please find below a table quantifying the variances between the unaudited financial results announcement for FY2020 released by the Company on 31 March 2021 ("**Unaudited Financial Statements 2020**") and the audited financial statements for FY2020 dated 14 June 2021 (the "**Audited Financial Statements 2020**").

	Unaudited financial results announcement dated 31 March 2021 (RMB'000) (A)	Audited financial statements, dated 14 June 2021 (RMB'000) (B)	Variance (RMB'000) (A)-(B)	As a percentage of total assets per audited financial statements (%)
Net cash generated from investing activities	351	351	-	-(2)
Net cash used in financing activities	(2,514)	(1,601)	(913) ⁽¹⁾	2.41% ⁽²⁾
Cash and cash equivalents at the beginning of the year	11,536	10,623	913 ⁽¹⁾	2.41% ⁽²⁾

Notes:

(1) - Variance is mainly due to treatment of deposits pledged of RMB913,000 by the Company's external auditors as a deduction from cash and cash equivalents at the beginning of the year. The Company has included this amount of RMB915,000 as repayment of short-term bank loans. Please refer to Note 16 of Audited Financial Statements 2020 on page 74 of the Annual Report 2020 for related information.

(2) - This is calculated based as a percentage of total assets of RMB37,915,000 per Audited Financial Statements 2020 dated 14 June 2021.

As the variance of net cash generated from investing activities and used in financial activities between that disclosed as per the Unaudited Financial Statements 2020 and that as disclosed per the Audited Financial Statements 2020 (expressed as a percentage of the total assets of RMB 37,915,000 per the Audited Financial Statements 2020) are both below 3% and the net effect from the variance is nil on the cash flows which arose solely due to a reclassification done by the Company's external auditors, the Board was of the view that such variances would not be considered material.

Accordingly, no announcement was made on the variance between the Unaudited Financial Statements 2020 and the Audited Financial Statements 2020, which were not material in the Board's opinion.

Query 3:

Listing Rule 1207(10C) requires the Audit Committee's comments on whether the internal audit function is independent, effective and adequately resourced. The Company disclosed that "the AC is satisfied that the internal audit function is adequately resourced and has appropriate standing within the Group."

- a. The Company disclosed that it has outsourced its internal audit function to an external professional firm. To disclose the name of the firm and the professional in charge of the internal audit of the Group.

Company's Response:

The internal audit function is outsourced to an international audit and advisory firm, Mazars LLP. The internal audit team is led by Mr. Chester Liew, Head - Risk Consulting. Mr. Chester Liew has over 20 years of internal audit experience, and has undertaken such internal audit work for various listed companies on the Singapore Exchange.

- b. Please provide the AC's confirmation as to whether and how the internal audit function is independent and effective. To also disclose the internal auditing standards applied by the Internal Auditor when reviewing the internal controls of the Group.

Company's Response:

For the financial year under review, the Audit Committee ("**AC**") is satisfied with the independence of the IA, whereby IA is given direct access to the AC, had met at least once with the AC without the presence of Management and the IA has unrestricted access to documents / records based on the areas in scope. The selected outsource internal audit is based on internal auditing standards aligned with the best practice of Institute of Internal Auditors.

- c. To provide specific details of material deficiencies noted in the internal controls by the internal auditors.

Company's Response:

The Board wishes to highlight that the IA have not reported any high-risk findings to date, and the internal audit is expected to complete on or around July 2021. The IA will be making the necessary recommendations to address the key findings and propose areas for improvement in the Group's risk management and internal control policies and procedures when the internal audit has been completed.

The AC will ensure that Management devise clear action plans to remedy any material deficiencies identified and implement the recommendations of the IA. The AC has also instructed the IA to conduct follow-up reviews from time to time.

BY ORDER OF THE BOARD

24 June 2021