HUAN HSIN HOLDINGS LTD
Company registration No: 199509142R
Company Announcement

Response to Questions raised by USP Group Limited

In response to the questions and allegations raised by USP Group Limited ("USP") in its letter of 16 April 2015 and similarly raised at Huan Hsin Holdings Ltd's ("Huan Hsin") AGM and EGM held on 24 April 2015, the Board had rebutted and addressed the allegations and questions accordingly at the general meetings.

The Board lists below a summary of the response given at the AGM and EGM to provide clarity to all shareholders. For easier reference, the response is categorized in accordance to the questions raised in USP's letter:-

USP:
Poor performance of the Company and lack of clarity on future plans

Company's Response:
First of all, we would like to apologize for the Group's poor performance.

The continuing and persistent decline in PC shipments worldwide, the severe competition in the PC industry, coupled with the growing popularity of tablets and smartphones continued to have an adverse impact of the Group's performance over the past few years. In particular, the PC market as a whole, including the laptop segment, shrunk over 10% with only the tablet segment showing growth.

About 7 to 8 years ago, in anticipation of rising costs in China, the Group started the process of moving some of our manufacturing plants from higher-cost centres in Shanghai to lower-cost manufacturing cities such as Suzhou and Zhejiang. This strategic move was designed to reduce operating costs and improve overall competitiveness.

However, this could not offset the impact of declining sales due to sectoral weakness, resulting in the Group going into the red.

The Board had convened many Strategy Meetings in the past few years to review and strategise a turnaround for the Group.

As part of the turnaround strategy, the Group had decided to consolidate and streamline operations, sell off certain assets and subsidiaries to monetize some of our non-performing assets so as to improve working capital and reduce borrowings.

In the last financial year, the Group had closed two factories to further reduce operating costs.

Please note that closing factories, too, is a complex matter:-

- Due to the strict labour law in China, the Group needs to seek approval and consent from the relevant local municipal government authorities prior to closing any factory.

- If the identified factory had been in operation for less than 10 years, the Group has to repay, in full, all tax incentives enjoyed throughout its operational history to the relevant government authorities.
- This compensation usually involves a huge amount and will further erode the Group's working capital.

Hence, the Group will continue to trim its workforce and streamline operations to improve our competitiveness.

It would also be worthwhile for us to highlight that, as at 1 April 2015, the Shanghai municipal government has increased the minimum base salary from RMB1820 to RMB2020. But, the actual increase added up to more than 20%, after inclusion of compulsory employer's social security contributions. This increased labour cost could not be passed on to our customers.

To alleviate the tight working capital, both our Chairman and Managing Director had made personal interest-free loans to the Group since 2011. Todate, these interest-free personal loans have added up to S$30.7 million, none of which had been repaid. All proceeds from divestments of assets and subsidiaries last year had been used to pare down borrowings and increase working capital. They had also provided personal guarantees for third-party loans during the past few credit-tightening years.

The Group also explored product diversification but did not manage to find appropriate higher-yield high-volume product(s) that fit our core competencies and resources.

USP:
Remuneration of the Board not aligned with performance of the Company

Company's Response:
Since 2011, both our Chairman's and Managing Director's remuneration had not been increased.

In view of the Group's poor performance, our Independent Directors, too, had voluntarily taken a 6.4% cut in their fees in 2011, from S$235,000 in 2010. Their current fees of S$220,000 have remained unchanged since 2011.

Notwithstanding the cut in fees, the Independent Directors had, in fact, devoted even more time on Huan Hsin in view of the difficult years since then.

USP:
Composition of the Board and Management

Company's Response:
Although all the three Independent Directors have served the Group for more than nine years from the dates of their first appointments, the Board is of the view that they are still independent as they are capable of maintaining their objectivity and judgement at all times in carrying out their duties and responsibilities as Independent Directors. This opinion has also been included in the Group's FY2014 Annual Report.

When the Code of Corporate Governance was revised in 2012, the Board did review and discussed Board renewal. However, as the Group was already facing difficulties then, the Board decided that the Independent Directors, who had developed deep domain knowledge and familiarity with the business and management team of Huan Hsin, are even more valuable and should stay on to help steer it towards a turnaround.

When the Group returns to profitability, it is the Board's intention to review Board renewal again, and retire the Independent Directors progressively.

USP:
The Board to setup a special independent committee to review the viability of the Group's current core businesses and/or new businesses with a view to facilitating the removal of the Company from the Watch List by 5 March 2016; and pending the completion of the review, to monitor and supervise the use of proceeds received from the sale of assets and subsidiaries (including the proceeds from the Proposed Disposal).

Company's response:
As the Board, together with its three Independent Directors, had been actively reviewing the Group's strategies, with its most recent strategic meeting held in March 2015, there is no need for a separate independent committee.

Similarly, there is no need for further independent oversight of the use of proceeds received from divestments of assets and subsidiaries. All proceeds received todate, including proceeds to be received for the sale of Indeed Holdings Limited, have been and will be channeled towards reducing borrowings and improving working capital.

To reiterate: the Board is open and receptive to any new business proposal from USP as long as it is feasible and fair to all shareholders.

By Order of the Board
Huan Hsin Holdings Ltd

Hsu Hung Chun
Chairman
28 April 2015