

HU AN CABLE HOLDINGS LTD.
(Incorporated in Singapore)
(Company Registration Number: 200810320N)

RESPONSE TO QUERIES FROM THE SINGAPORE STOCK EXCHANGE SECURITIES TRADING LIMITED (“SGX-ST”) ON ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (“FY2015”)

Unless otherwise defined herein, all capitalised terms used in this announcement shall bear the same meanings ascribed to them in the Company’s annual report for the financial year ended 31 December 2015 as announced via SGXNET on 15 June 2021.

Hu An Cable Holdings Ltd. (the “**Company**” and its subsidiaries, the “**Group**”) would like to respond to the queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 25 June 2021 in relation to the Annual Report for the financial year ended 31 December 2015 as follows (“**SGX Queries**”):

SGX Query 1 - Page 28

“In particular, for the year ended 31 December 2015, the Current Board and the AC are unable to provide an opinion on whether Group’s Internal Controls were adequate. The Company does not have a Chief Financial Officer or its equivalent. The Current Board had received a letter signed by the Executive Chairman of the Company as the sole signatory indicating that the management of the Company and the Group do not believe that as at 31 December 2015, (a) the financial records had been properly maintained and the financial statements give a true and fair view of the Company’s operations and finances; and (b) the Company’s risk management and internal control systems were effective.”

SGX: If the company does not have a CFO or equivalent, who in the finance department prepared the financial statements and liaised with the auditors for the completion of the audit? Provide the basis for the Executive Chairman’s opinion, and elaborate on how he arrived at the opinion in providing the signed letter.

Company’s Response:

The preparation of the financial statements, and the liaison with the auditors for the completion of the audit for FY2015 was carried out by a Ms Cheong Kuei Jung, who was engaged as the Financial Controller of the Company from June 2017 to October 2018, and who was the person in charge of the finance department at the material time when the financial statements were prepared based on the records and data left behind by the management and finance personnel who were with the Group in FY2015.. Subsequent to the resignation of Ms Cheong Kuei Jung, the Executive Chairman followed up with the provision of further information with the auditors when required by the auditors. The lack of source records for FY2015 and the disclaimer of opinion by the auditors of the financial statements for FY2015, as well as the conviction of Dai by the PRC court (details of which are provided below), forms the basis of the Executive Chairman’s opinion.

The Company wishes to set out the following paragraph which was set out in the Company’s announcement dated 7 May 2021 titled “Directors’ Statement and Audited Consolidated Financial Statements for FY2015”, at part 2 of the section “Notes to the Consolidated Financial Statements for the financial year ended 31 December 2015” (pages 14 and 15) (“**Auditors’ Report**”):

“The consolidated financial statements of the Group for the year ended 31 December 2015 were drawn up based on records and data left behind by the management and finance personnel who were with the Group in FY2015 (collectively the “Previous Management”). A PRC court in the trial of the ex-CEO, Mr Dai Zhixiang [sic] (“Dai”), found that Dai had fabricated accounting records and falsified accounts at the PRC subsidiaries’ level. The present Directors, who are the incumbent Directors at the date of issuance of this report, do not believe that the consolidated financial statements of the Group prepared on the aforesaid basis gives a true and fair view of the financial performances, changes in equity and cash flows of the Group for FY2015 in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the “Act”) and Singapore Financial Reporting Standards save that the closing balances in the balance sheets of the Group and the Company and statements of changes in equity of the Company were drawn up so as to give a true and fair view of the financial positions of the Group and the Company as at 31 December 2015 due to the deemed disposal and de-recognition of the PRC subsidiaries. The present Directors are unable to restate the accounts for prior years or to prepare the accounts for FY2015 independent from the records and data left behind by the Previous Management as (i) the PRC court has also found that Dai has instigated and directed the destruction of the servers hosting the necessary financial data; (ii) the PRC subsidiaries have been wound up; and (iii) Dai has been sentenced to 15 years’ jail on 31 August 2018. [emphasis added]

The present Directors have resolved to proceed with the issuance of this set of financial statements notwithstanding the uncertainties so that the Company may move forward with its financial reporting for subsequent reporting periods following FY2015, without which the Company would be unable to do so. This was done after assessing the uncertainties that this may have on the financial figures to be reported in subsequent reporting periods after FY2015, taking note that the source of such uncertainties (i.e. the PRC subsidiaries) have been de-recognised in FY2015.”

SGX Query 2 – Page 31

“In FY2015, the Company outsourced its internal audit function to an independent third party accounting firm, Messrs. One e-Risk Services Pte Ltd (the “IA”). The IA meets the professional standards set out in the Code and reported directly to the AC. To the best of the knowledge of the Current Board, based on information presently available, the IA was carried out on Hu An Electric (Singapore) Pte Ltd for FY2015.”

SGX: Disclose the track record, resources, expertise and experience of One e-Risk Services Pte Ltd in the area of internal audit, when it was incorporated, the size of the firm, and when it was first appointed as IA. Disclose details and identity of the partner in charge of the IA, and provide details of their track record and experience in performing IA of SGX-listed issuers. Disclose the internal control weaknesses noted by the IA in its IA report.

Company’s Response:

One e-Risk Services Pte Ltd was incorporated in 2007 and is a full-resourced service provider of internal audit, corporate governance and risk management services.

As the engagement of the IA took place in or prior to 2015, further details of the IA are not available to the current management due to the absence of records from 2015 and earlier and the change in management since then. The Company will contact the IA to obtain such information and release a further announcement when this information is available. In addition to approaching the IA for their track record, resources, expertise and experience in the area of internal audit, when it was incorporated, the size of the firm, details and identity of the partner in charge of the IA, and provide

details of their track record and experience in performing IA of SGX-listed issuers the Company will also clarify with the IA when they were first appointed. However, the Company notes that the annual report for FY2010 stated that the Company had outsourced its internal audit function to an independent third party accounting firm, but the name of this party was not mentioned in such annual report.

The following were the internal control weaknesses identified by the IA in its June 2015 report on Hu An Electric (Singapore) Pte Ltd:

- (a) That the numbering of sales invoices and credit notes were not sequential but restarted every calendar month;
- (b) That credit limits granted to customers were not in accordance with pre-set authority limits, and that there were two customers having a variance in the credit limits and credit periods actually approved and what was reflected in the customer credit system;
- (c) That stocktaking policy did not include frequency of stock count, personnel responsible and percentage of stock take to be covered for certain types of stock counts, as well as the sampling approach to be taken during monthly stocktake;
- (d) That there was no evidence that certain monthly stock count carried out were reviewed by the finance manager, and that stock variance detected were not investigated;
- (e) That there was no system of periodic checks of petty cash, that petty cash actually held was approximately S\$308 above the limit of S\$2,000, that there was no upper limit set on certain authority limits for cash payments, that the authority limits were in excess of operational requirements and that prior approvals were not obtained for certain cash expenses; and
- (f) That purchase and payment controls did not set out procedures for partial payments nor the approval authorities, that there was no requirement for purchase orders for certain types of purchases, that certain purchase orders were not approved in accordance with the required authority limits, and that certain payments to suppliers were not approved in accordance with the authority limits.

SGX Query 3 – Page 37

“The present Directors are unable to restate the accounts for prior years or to prepare the accounts for FY2015 independent from the records and data left behind by the Previous Management as (i) the PRC court has also found that Dai has instigated and directed the destruction of the servers hosting the necessary financial data; (ii) the PRC subsidiaries have been wound up; and (iii) Dai has been sentenced to 15 years’ jail on 31 August 2018.”

SGX: Provide full details of the charges against Dai which resulted in his sentence of 15 years’ jail. Quantify the amounts that were involved in relation to each of the charges. Provide details and name of the PRC court which meted out the sentence, and the jail in which he has been incarcerated. Disclose what caused the winding up of these PRC subsidiaries, when they were initiated and completed, who appointed the liquidator, and the name of the liquidator.

Company’s Response:

The PRC court that meted out the sentence to Dai is the Yixing People’s Court (宜兴市人民法院) in the first instance, and the Jiangsu, Wuxi Intermediate People’s Court (江苏省无锡市中级人民法院) on

appeal. Dai is incarcerated in the PRC, but the Company is not aware of which jail he is incarcerated in.

The Company did not have access to the charge sheets by the Chinese prosecutors in relation to the criminal charges levied against Dai. However, based on information provided in a Chinese language document dated 17 December 2018, as released on the website “China Judgements Online (中国裁判文书网)” accessed at <https://wenshu.court.gov.cn/>, and information provided in a Chinese language article on Dai’s sentence of 15 years’ jail as released on the website of the Chinese courts “www.chinacourt.org (中国法院网)” accessed at <https://www.chinacourt.org/index.shtml>, the charges against Dai include, *inter alia*:

- (a) From October 2010 to August 2011, Dai has abused his position as the legal representative and chairman of Wuxi Hu An Wire and Cable Co., Ltd (“Wuxi Hu An”) to misappropriate a total of RMB61,600,000 of Wuxi Hu An’s funds (including funds borrowed from others by Wuxi Hu An), over 7 separate occasions, by diverting the same to repaying his own debts through the accounts of Mai Le operation department, which were under Dai’s control;
- (b) On 21 January 2012, Dai misappropriated RMB2,000,000 by drawing out from the finance department the said sum which represented the proceeds from the negotiation of certain notes/bills;
- (c) In order to hide the tracks of misappropriated funds, Dai has since November 2011 directed others to falsify bank statements and misclassify sale proceeds received from customers of approximately RMB170,000,000 and proceeds received from banks from the negotiation of notes/bills of approximately RMB11,800,000 as payments or repayments received from Mai Le operation department, and has also directed Rui Baoyun and others to dispose of and destroy the server hosting the actual financial records of such transactions;
- (d) In order to fulfill the listing requirements of SGX-ST in 2009 in connection with the listing of the Company and its subsidiary, Wuxi Hu An, Dai has organized Rui Baoyun and other finance department staff to falsify the accounting records of Wuxi Hu An and created non-existing sales and profits at Wuxi Hu An;
- (e) Dai has also directed others to falsify seals of banks, and using the falsified seals have then falsified banking records relating to the PRC Subsidiaries in order to create the non-existing sales and profits, and to mislead Singapore auditors, involving sums totaling approximately RMB2.5 billion;
- (f) In order to fulfill the requirements for Shenhuan Cable Technology Co., Ltd. (“Shenhuan Cable”) to issue debt securities via private placement in the first half of 2012, Dai directed the accountants to falsify Shenhuan Cable’s balance sheet as of May 2012 and the profit and loss statement for January 2012 to May 2012 to show a profit when Shenhuan Cable was in fact suffering a loss, and Shenhuan Cable has in September 2012 issued an information memorandum containing material mis-statements in connection with its private placement debt securities and successfully raised RMB80,000,000;
- (g) Dai and his wife, Wu Shunmei, have also been adjudged to be liable to repay 2 personal debts totaling RMB47,000,000 in September 2015 and January 2017 respectively, and were later found to have hidden respectively assets valued at RMB7,838,482 and RMB13,673,860 from their creditors to avoid enforcement of the judgments.

The above information had been disclosed in the Company's announcement dated 13 May 2020 titled "Update to Shareholders".

As set out at part 11 of the section "Notes to the Consolidated Financial Statements for the financial year ended 31 December 2015" (page 44) of the Auditors' Report, the liquidation proceedings commenced on 12 November 2015. Despite efforts by the management of the Company to obtain more details of the liquidation of the PRC Subsidiaries, including approaching the relevant commerce bureaus, the Company was unable to obtain further official information about the liquidation including the reasons for the liquidation, other than to obtain a confirmation that the PRC Subsidiaries have been liquidated. Notwithstanding, in an unsigned draft report in the Company's records by Yuan Tai Law Offices, a law firm in the PRC, in relation to the status of the PRC Subsidiaries, it was stated that the reason for the liquidation is that the liabilities of the PRC Subsidiaries far exceed the assets, and they were not able to repay their debts as they fall due.

By Order of the Board

Gao Hong
Executive Chairman
29 June 2021