

**SHS HOLDINGS LTD.**  
(Company Registration Number 197502208Z)  
(Incorporated in the Republic of Singapore)

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**RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION  
(SINGAPORE) IN RESPECT OF THE COMPANY'S ANNUAL REPORT FOR THE  
FINANCIAL YEAR ENDED 31 DECEMBER 2019**

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The board of directors (the “**Board**”) of SHS Holdings Ltd. (the “**Company**”) and together with its subsidiaries, the “**Group**”) refers to the questions raised by the Securities Investors Association (Singapore) (“**SIAS**”) in respect of the Company’s annual report for the financial year ended 31 December 2019 (“**Annual Report 2019**”). The questions raised by SIAS and the Company’s corresponding responses are set out below:

***SIAS Query 1:***

**Q1.** In his statement (pages 6 and 7 of the annual report), the chairman discussed several important issues including how the group had been “laden with too many relatively gargantuan business development activities and complex projects” in quick succession. He also acknowledged that the group, through the joint venture partners, did not satisfactorily address issues as they happen and, in fact, the group’s competencies to directly manage some of these demands were found lacking.

The group has moved quickly in the past two years to correct these missteps, which include the disposal of 50MW solar power plant project in Ninh Thuan Province, Vietnam, completing the Bangladesh 50MW solar power plant project, scaling down new direct investments into solar power plants and the possible disposal of the modular construction business.

**(i) With the benefit of hindsight, can the board help shareholders understand how it might have under-estimated the challenges of going into the new businesses, in terms of the demand on human and financial capital to drive all these new businesses at the same time?**

***Company’s response:***

To put into proper perspective, we outline, in chronological order, SHS growth path in the nearly last two decades which were peppered with some major crisis.

Established in 1971, SHS Holdings Ltd., formerly See Hup Seng Limited, has grown from strength to strength into a diversified group today. With its anchoring expertise in corrosion prevention (“CP”) from day one, SHS diversified into the supply chain management of petroleum-derived products in 2007. Henceforth SHS has produced a proud string of commendable results till 2014 and continued to deliver value add results with the acquisition of structural steel and façade (“SSF”) in 2014 and divestment of the refined petroleum business in 2015.

In the year 2016, assessing the way ahead was going to be challenging with increasing global economic volatility, likely depressed oil prices and intensifying competition making the headlines which may impact the performance of the Group’s operations, namely CP and SSF

segments coupled with the loss of contribution from the refined petroleum business divested in 2015, SHS looked into developing new capabilities and markets earnestly.

Thus, as an extension of its structural steel engineering activities, our wholly-owned subsidiary Hetat Holdings Pte. Ltd., began to developing key competence in the area of Pre-fabrication, Pre-finished Volumetric Construction (“PPVC”) by going into a joint venture with an existing player in modular construction (which designs and build factory-produced, pre-engineered buildings units that are delivered to site and assembled as substantial elements of a building) in 2016/17.

At the same time, in the 2015 climate change conference held in Paris, governments around the world pledged to work together to reduce global warming. Thereby enhancing the prospects for various renewable energy options such as solar power generation. SHS made in-roads into the renewable energy sector such as the solar power business through its subsidiary, Sinenergy Pte Ltd incorporated in February 2015. In 2016, it completed a 4MW grid-tiered solar photovoltaic system on the rooftop of SATS Airfreight Terminals 5 and 6 at Singapore Changi Airport as well as a number of residential solar panel installations in Singapore. Henceforth, the Group accelerates its track record in solar energy to become one of its key growth engines.

On 30 December 2015, the Group announced that Hetat had accepted a letter of intent issued by the Bangladesh Power Development Board, a statutory body responsible for the generation and distribution of electricity in Bangladesh, for the proposed design, construction, operation and maintenance of a 50MW solar power plant at Sutiakhali, Mymensingh District, Bangladesh. In this venture, we are collaborating with the leading solar engineering, procurement and construction (EPC) solutions provider in Malaysia, Ditrolic Solar Technology. The project upon approval by shareholders in the extraordinary general meeting was scheduled to be completed by the second quarter of 2018 is expected to place the Group firmly into the renewable energy segment and boost the Group’s earnings stream.

At the same time, we also completed an extensive research into the opportunities and technical parameters surrounding the potential of harnessing solar energy in Vietnam, and the research presented Ninh Thuan in Vietnam as the most suitable and ideal location for such a project. This was also confirmed by the research provided to us by the Vietnamese authorities.

Thus, on 5 April 2017, SHS announced that its wholly-owned subsidiary, Sinenergy Holdings Pte Ltd, signed a memorandum of understanding (“MOU”) with the Ninh Thuan People’s Committee to develop a 300MW solar farm on agricultural land in Ninh Thuan Province, Vietnam (“NT Project”). This proposed investment is subject to a detailed feasibility study to be conducted; the subsequent issue of an investment licence from Ministry of Planning and Investment of the Socialist Republic of Vietnam, and the conclusion of a solar power policy and legislation to be ratified by the Vietnamese Government expected later this year, before the parties move ahead to sign an Implementation Agreement.

Therefore, from the above, it can be seen that the Group has been making strategic planning and changes in accordance with the changing and demanding operating environment. The Group has its fair share of successes as per the progressive results from 2007 to 2015. However, from the last three years’ experience, it is ever more aware of many likely pitfalls that may crop up despite in-depth study, research and planning on the one hand and the ability, commitment and alignment of interest of the JV partners on the other hand. The subsequent forays proved to be very capital intensive and have longer gestation period than expected. SHS aims to be more thorough and nimbler in its execution. It is still an art to have the right mix of human and financial capital in the face of the constantly changing landscape. Nevertheless, the Group is willing to make decisive, deft and timely decision when required such as “pull the plug” if deemed necessary.

For instance, although the NT Project continues to be an attractive investment, SHS decided, on 28 Dec 2018 to divest its interests since the planned external financing did not come to fruition. The divestment is in line with the Group's ongoing strategic review and objective of streamlining its investment activities in its solar business. The divestment increases the overall financial capacity and flexibility of the Group for further investments in solar and other business units.

**(ii) In approving the group's strategic objectives then, were there sufficient robust debate and due diligence carried out to allow the directors to constructively challenge management and help develop proposals on its expansion strategy?**

Company's response:

The Group has in place a robust investment process to ensure that all new businesses are carefully studied and researched by management before they are tabled for further debate and deliberation by the Board. The Group is open and transparent and does not hesitate to tap on the vast resources and experience of our executive and independent directors.

**(iii) Going forward, has the board made any changes to the board processes, including how it approves major investments and material acquisitions?**

Company's response:

Although the Group is satisfied with the current practice, it is mindful that we should be open to seek outside expertise and relevant professionals as and when is necessary to offer a different and constructive perspective.

Please read in conjunction with Company's response to Query 1 (ii)

## **SIAS Query 2:**

Can the board/management provide shareholders with better clarity on the following matters related to its continuing operations? Specifically:

**(i) Corrosion prevention (“CP”): Can management help shareholders understand how much of its revenue from CP was related to the marine and offshore sector? What are the opportunities in the other areas such as the construction and infrastructure industries?**

### Company’s response:

Our Corrosion Prevention Division is a leading corrosion prevention specialist in Singapore. With roots dating back to the early 1970s, we provide high quality and efficient corrosion prevention services to customers in the marine, oil and gas, civil construction and infrastructure industries. Over the years, we have enhanced our core competencies and moved up the value chain to establish a strong niche in specialised tank coating services and large-scale plant operations.

What is Corrosion Prevention?

Corrosion prevention (“CP”) lengthens the lifespan of metal structures. Metal structures when exposed to elements in the environment, will suffer deterioration in structural strength. CP typically begins with the blasting process, which cleans and eliminates contaminants on the surface of metal structures. This prepares it for coating and painting which will protect and prolong the life of these structures.

Complete Range of Services

At CP, we provide comprehensive corrosion prevention services through a wide range of blasting and coating methods at our own plant as well as on-site at customers’ shipyards.

For Tank Coating on-site, CP carries out highly specialised and controlled process of grit blasting and paint coating for internal surfaces of chemical tankers, FPSO (Floating, production, storage and offload) vessels, and barges. Our commitment to meeting customers’ expectations and consistently delivering jobs on schedule has enabled us to be a resident contractor for premier shipyards in Singapore.

For Plant Operations, blasting and coating of raw materials that are supplied by customers, such as steel plates, steel structures (beams and pipes), and fabricated modules. To complement our core services and deliver a one-stop solution to customers, we are also engaged in the design, supply and distribution of corrosion prevention systems, machinery, equipment, materials and products.

To complement our core services and deliver a one-stop solution to customers, we are also engaged in the design and supply of blasting and painting systems.

Overall, on average, the marine and offshore sector contributes about 70% to 75% of CP’s revenue. We are cautiously optimistic that our CP can further grow its presence in the construction sector and infrastructure arena such as MRT as we have both the skillsets and facilities to cater for and fulfil their needs for design and supply of corrosion prevention systems and blasting and painting systems.

**(ii) Engineering & Construction (“E&C”): Would the group consider disclosing the order book for its steel engineering business? What is the estimated volume for the group to breakeven?**

Company’s response:

While Group is closely monitoring the order book for its steel engineering business, there exists many business and practical factors for not being able to share the information with other stakeholders. It also involves sensitivity especially from our clients since the Group is working closely with various main contractors who are constantly doing their number crunching and thus warrants us to main a low profile on our participation as part of their strategy to win the main contract which involves a much bigger contract sum as compared to our steel portion.

In general, our breakeven point is not too demanding as we maintain a low overhead strategy and share many works with our sub-contractors. Moreover, the Group is planning to expand our capacity in Johore, Malaysia to enhance our management and control of costs and operating risk.

**(iii) Solar energy: Did the group secure an exclusive distribution for the solar inverters? Can management disclose the brand(s) of solar inverters it distributes? For the 50MW solar power plant project in Bangladesh, what are the group’s plans for the solar power plant after it achieves Commercial Operation by 30 June 2020?**

Company’s response:

For the solar energy segment, the Group, through its subsidiary, Sinenergy Holdings Pte Ltd, is involved in solar energy development and EPC works. It successfully installed various roof-top, ground-mounted photovoltaic systems of all scales for domestic and commercial customers in Singapore. It also secured distribution rights solar inverters under the license from Huawei for certain territories and we are actively pursuing its sales and marketing potential.

It should be noted that the Commercial Operation Date for the 50MW solar power plant project in Bangladesh may have to be deferred to beyond 30 June 2020 with the impact of the Covid-19 since February 2020. As reported earlier, the solar project is faced with a financing gap of up to US\$56 million to complete the project. Accordingly, the Company is exploring all options, including sourcing for funding to plug the financing gap or to diversify the solar power plant project as SHS is careful not to overburden the Group on its financial capital to drive new business while seeking the best outcome for the Group.

### **SIAS Query 3:**

On 5 April 2020, the company announced that there are material differences between the unaudited results (first announced by the company on 27 February 2020) and the audited financial statements for FY2019 after the finalisation of audit.

After the finalisation of audit, loss after income tax increased by 84% from \$(13.8) million to \$(25.4) million. Cash from operating activities turned from an inflow of \$3.6 million to an outflow of \$(9.1) million. Total equity dropped from \$172.4 million to \$160.8 million.

For FY2016, FY2017, FY2018 and FY2019, the company has had to announce that there are discrepancies after the finalisation of audit in each of the past four years.

**(i) How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**

#### Company's response:

The Company made SGXnet announcements on the differences between unaudited and audited full year financial statements for the financial years for the FY2016 to FY2019 made pursuant to Rule 704(6) of the Listing Manual with a view to provide clarity to, and explain for, changes to the Consolidated Statement of Comprehensive Income, Statement of Financial Position (Group) and Consolidated Statement of Cash Flows in the Audited Financial Statements compared to what was disclosed in the Unaudited Financial Statements. It is noteworthy that most of the differences relating to FY2016 to FY2018 were primarily reclassifications and thus do not have material impact on the overall results as per audited financial statements after the finalisation of audit. It is not uncommon for auditors to make audit reclassification adjustments for items that may not have a material impact.

The Company is mindful to prepare its financial statements in accordance with the relevant ACT and financial reporting standards. The likely cause of the difference between unaudited and audited financial statements for the financial year can be traced to the timing difference since the preliminary unaudited financial results are made within 60 days from the year end of 31 December of each year and the audited financial results in the annual report has the benefits of subsequent events and all matters that may have transpired or materialised since then to the print date. In addition, carrying value of certain assets are determined based on assumptions and estimates of forecasts of the underlying Cash Generating Unit. All these involve management judgements which may have to be subsequently revised by additional available information and discussions. Moreover, the unaudited financial statements are produced by the Company and the audited financial statements has undergone the entire audit process by the external auditors who can often offer a different perspective.

To keep abreast, our auditors constantly provide the Company with the latest development and requirements of the auditing and financial reporting standards. Also, Company strives to recruit more competent and qualified staff and send them for professional upgrading and seminars to keep them updated with the latest development in the financial reporting standards.

The Company provides timely update on any major development between the announcement of preliminary unaudited financial results and the final audit and the publication of AR through broadcast to the SGXnet in due course.

**(ii) Has the audit committee (AC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

Company's response:

The AC is aware of the internal financial reporting/finance team and the experience and qualification of senior members of the financial team. Our Chief Financial Officer ("CFO") and Senior Finance Manager are Chartered Certified Accountants with several years of exposure to audit practices and proven experience in the industry and commercial world. The CFO has more than 20 years working experience in SGX listed companies. They are members of their professional bodies where they continue to update themselves on the latest accounting standards to satisfy their continuing professional education requirements of the professional bodies whom they are members.

**(iii) Is the company (and its officers) familiar with Singapore Financial Reporting Standards (International)?**

Company's response:

Further to our response to Query 3(ii) above, the Company strives to recruit competent and qualified staff and are mindful to send them for professional updating and seminars to keep abreast with the latest development. Also, our auditors constantly provide the Company the latest development and requirements of the auditing and financial reporting standards

**(iv) Would the members of the AC help shareholders understand their personal recent and relevant accounting or related financial management expertise or experience that would make them appropriately qualified to discharge their responsibilities?**

Company's response:

The AC, including the Chairman, has accounting or related financial management expertise or experience. While appropriately qualified to discharge their responsibilities, none of them were previous partners or directors of the Company's external auditors within two years or hold any interest in the external auditors.

The AC Chairman, Mr Lee Gee Aik is a Fellow of the Association of Chartered Certified Accountants (UK) and the Institute of Singapore Chartered Accountants. He also obtained a Master in Business Administration from the Henley Management College, United Kingdom. Mr Lee is also a director and AC Chairman of another three SGX-ST listed companies. Hence, Mr Lee has the requisite accounting knowledge to discharge his duties as AC Chairman. With his existing listed directorships and AC Chairmanships, Mr Lee is also well-apprised of the SGX-ST Listing Rules requirements.

Mr Kenneth Oh, is a senior partner in Dentons Rodyk & Davison LLP with practices mainly in the areas of, amongst others, corporate finance and mergers and acquisitions. Mr Oh also sits on another SGX-ST listed company. He brings with him legal knowledge which is relevant and pertinent to the AC and Board especially in the function when there are investment or joint venture proposals for Board's deliberation.

Dr David Lee, a Professor at the Singapore University of Social Sciences has over 20 years of experience in financial modelling, portfolio allocation and alternative investments. Dr Lee also sits on another SGX-ST listed company and has the requisite financial management expertise which he can contribute to the AC and Board.

On an on-going basis, the AC members attend relevant industry conferences, seminars or any training programme in connection with their duties as Directors of listed issuers. They are briefed regularly at each AC and Board meetings on any changes to regulations, policies and accounting standards that affect the Group or Directors' disclosure obligations.

**(v) What was the level of involvement by the AC in the preparation of the financial statements?**

Company's response:

While the preparation of the Financial Statements is a finance function, the AC has direct access to the Chief Financial Officer and Finance Manager of the Group and seek clarifications as and when it is necessary. Prior to tabling the audited financial statements to the Board for approval, the AC would review the draft audited financial statements. During the review session, the AC would ask relevant questions and seek clarifications from both Management and external auditors on the financial statements. During such session, the AC would also challenge Management on the accounting practices, if need be. If there are any adjustments to be made, the AC would ensure that Management works closely with the external auditors to attend these adjustments. The AC would also review the key audit matters ("KAMs") identified by the external auditors and Management's responses to these KAMs. The AC also meet the external auditors and internal auditors separately without management presence.

**(vi) Can the AC update shareholders on the improvements made/to be made to the group's financial reporting systems and processes?**

Company's response:

The group's financial reporting systems and processes have been streamlined over the years with clear reporting lines to avoid undue complexities. The AC is mindful that continuous improvement is an important element in the group's financial reporting systems and processes. To this end, the AC regularly engage the internal auditors to review their internal audit plan and external auditors for discussions on their proposed annual audit plan. Furthermore, the AC monitor and follow up on findings of the internal auditors and external auditors to ensure the recommendations are implemented by management.

By Order of the Board  
**SHS Holdings Ltd.**

Ng Han Kok, Henry  
Group Chief Executive Officer  
25 June 2020