

ANNAIK LIMITED

(Company Registration No. 197702066M)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUERY FROM SGX-ST ON QUALIFIED OPINION IN THE INDEPENDENT AUDITORS' REPORT IN RESPECT OF THE GROUPS' AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The Board of Directors (the "**Board**") of AnnAik Limited (the "**Company**" and together with its subsidiaries and associated companies, the "**Group**") would like to provide the following information in response to query from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") in respect of the Company's announcement dated 29 March 2019 that the independent auditors of the Group, Messrs Ernst & Young LLP, has issued a qualified opinion in the independent auditors' report in respect of the Group's audited financial statements for the financial year ended 31 December 2018 ("Independent Auditor's Report").

SGX-ST's query 1

The Group disposed 51% stake in Onway group in July 2017 to a strategic investor, what are the reasons for the inability to obtain information and explanations from the auditors of the associated company both for FY2017 and FY2018 accounts?

Company's Response

There was a change in auditor of the associated company in 2017 following the dilution of 51% to 25%. The new auditor is appointed by the Onway Board.

Please see below on the background of circumstances resulting in the inability to obtain information and explanation from the new auditors of the associated company.

Background information on the dilution from 51% to 25%

On 31st March 2017, the Company entered into a subscription agreement with Shanghai Xingyu Environmental Science and Technology Co., Ltd.* (上海兴禹环境科技有限公司) ("Xingyu") and a strategic investor; Feishang Industrial Group Co., Ltd (飞尚实业集团有限公司) (the "Investor") to allot and issue to the Investor new ordinary shares in Onway (the "New Shares") at an aggregate subscription price of RMB 124,897,959 in cash representing a 51% of the shareholding in the enlarged share capital of Onway (the "Investment"). The objectives of the exercise are as follows:-

- I. Enable Onway to tap on, inter alia, the marketing network, human resources and capital resources of the Investor to achieve growth, and to enhance and develop its market presence in the environmental protection industry in PRC.
- II. If Onway meets the relevant admission requirements for listing, the management of Onway shall make arrangements for a potential listing of Onway, with the assistance of the Investor, on The Stock Exchange of Hong Kong within 1 to 2 years from the date of the Investment, or on a stock exchange in PRC within 3 to 4 years from the date of the Investment.
- III. As a result of the above corporate exercise, especially to achieve (ii), a local PRC certified and reputable audit firm; Hua Pu TianJian ("HPTJ") CPA was appointed by the Board of Onway in 2017 as the new auditor in consideration of their expertise in IPO in China.

FY2017 audit

HPTJ was appointed by Onway Board in the 4th quarter of 2017. The Group communicated several times with HPTJ to allow EY Singapore to review their working papers. Ultimately, HPTJ rejected our request for EY Singapore to review its working papers file due to their internal policy and market practise which restricts foreign audit firms from assessing their audit working papers. Due to lack of time and tight deadline, we were not able to make alternative arrangement for a separate audit to be conducted in respect of the financial statements of Onway.

FY2018 audit

For FY 2018, there was consideration to make arrangement for a separate audit to be performed on the financial statements of Onway. However, sometime in the second half of 2018, the Group discussed a plan to enhance the business of Onway. As part of the plan, the Group requested HPTJ to allow EY Singapore to review its audit working papers. HPTJ initially agreed to allow EY Singapore to access its audit working papers on the condition that the plan will complete in 2018. Unfortunately, in December 2018, the plan was called off and once again, due to the limitation of time, the Group was not able to make alternative arrangement for a separate audit to be conducted on Onway to meet the requirements by EY Singapore. EY Singapore was also informed of the development and limitation of scope.

SGX-ST's query 2

Who are the auditors of Shanghai Onway Development Co Ltd?

Company's Response

Huapu Tianjian Certified Public Accountants LLP (Huapu Tianjian), a member of the RSM network.

SGX-ST's query 3

What are the steps and controls in place to provide the Board and Management with the comfort of the unaudited results of the performance of Shanghai Onway Development Co Ltd, as reported by the Group?

Company's Response

- I. The Group was allocated one board seat in Onway. One of the Executive Directors of AnnAik attended all the board meetings of Onway in 2017 and 2018. One of the agenda being discussed was key financial performance.
- II. The Group was also allocated one Supervisor (“ 监事 ”) position in Onway. One of the Executive Directors of AnnAik took up this position.
- III. The Management received regular updates from Onway management on the development of the business such as financial performance on new projects and funding requirements.
- IV. The Board and Management noted that there are no significant differences in the accounting policies of Onway as compared to the accounting policies of the Group. The Board and Management also noted that the financial statements of Onway have been audited pending final sign off.

SGX-ST's query 4

What are the steps taken by Board and Management in trying to resolve the issue so as to achieve a clean opinion?

Company's Response

For FY 2019, the Board and Management will be making an arrangement to engage an audit firm (either an audit firm that is affiliate with E&Y Singapore or a Singapore audit firm acceptable to EY Singapore) to carry out a separate audit of Onway for 2019 for purpose of expressing opinion on the Group consolidated accounts. The audit will be based on Group Audit Instruction given by EY Singapore.

SGX-ST's query 5

Moving forward, does the Group anticipate a disclaimer of opinion as well for future annual reports for as long as the Group holds onto Shanghai Onway Development Co Ltd as an associate?

Company's Response

We are trying to resolve the issue by FY2019, action plans as per above Company's response to query 4 in order to prevent any potential disclaimer of opinion when the results of associate become significant to AnnAik.

SGX-ST's query 6

It was mentioned that Board and Management will be making an arrangement to engage an audit firm (either an audit firm that is affiliate with E&Y Singapore or a Singapore audit firm acceptable to EY Singapore) to carry out a separate audit of Onway for 2019 – has Onway Board approved such plans? Will the Company still require HPTJ's approval to carry out the above plan?

Company's Response

The Company has verbally proposed the plan to the Management of Onway and they have no objection to it. No approval from the Board of Onway is required at this point in time. No approval is required from HPTJ as the Company's plan does not require E&Y Singapore or a Singapore audit firm to access HPTJ's working files.

SGX-ST's query 7

How significant (percentage) is Onway's share of results and/or balance sheet impact vis-à-vis the group?

Company's Response

- I. Share of Onway result (PL) amounting to \$1,545,000 which is 91.91% of the Group Profit before tax of \$1,681,000.
- II. Investment in associate (Onway) amounting to \$9,980,000 which is 16.29% of the Group Net Assets of \$61,274,000.

SGX-ST's query 8

Given the materiality of Onway's results (P/L) on the Group's performance for FY2018, what is the AC's views and basis on why an audit firm (either an audit firm that is affiliate with E&Y Singapore or a Singapore audit firm acceptable to EY Singapore) is not engaged to carry out a separate audit of Onway for FY2018? How is the AC satisfied and reasonably assured that the financial performance of the Group as reported in the AR for FY2018 is properly disclosed?

Company's Response

- I. For FY2018, the AC was initially given the understanding that the limitation of scope faced by EY in FY 2017 could be resolved as the Management of Onway informed that HPTJ has agreed to the Group's request to allow EY Singapore to review its audit working papers in view of the plan to enhance the business of Onway (please see above response to SGX-ST's query 1). However, when the plan fell through, the access to the audit working papers to HPTJ was denied which would give rise to the limitation of scope in FY2018 similar to FY2017. Efforts were made to consider if it was possible to arrange for a separate audit of Onway. However, this was noted to be very challenging given the limitation of time and resources of audit firms. The management of Annaik communicated this development to EY as well in a timely manner.
- II. The AC confirmed the process in place to ensure that the financial results of Onway are monitored and reviewed by the Management of Annaik on a regular basis and that the financial results of Onway have been audited (near finalization) by HPTJ which is a reputable firm in China and also a member of the RSM network. The Board is updated on a regular basis by the Management on the financial performance of Onway. The AC is therefore satisfied and reasonably assured that the performance of the Group as reported in the AR for FY2018 is properly disclosed.

The AC is discussing with the Management of Annaik on steps to resolve the limitation of scope for FY2019.

BY ORDER OF THE BOARD

Ng Kim Keang
Executive Director
10 April 2019

**These are transliteration of the Chinese names of the entities. They may not be the legal names of the entities.*

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, Hong Leong Finance Limited (the "**Sponsor**") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("SGX-ST"). The Sponsor has not independently verified the contents of this announcement.*

This announcement has not been examined or approved by the SGX-ST. The Sponsor and SGX-ST assume no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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