

HO HUP CONSTRUCTION COMPANY BERHAD (“Ho Hup” or “the Company”)

• RESPONSE TO THE LETTER TO SHAREHOLDERS OF THE COMPANY DATED 7 JANUARY 2010 FROM LOW CHEE & SONS SDN. BHD. AND CHOO SOO HAR @ CHOU KAM CHEONG IN RELATION TO THEIR PROPOSED ALTERNATIVE REGULARISATION PLAN

- (i) Following the various consultations with the regulators, it is imperative for companies classified under PN17 status to substantially restructure its balance sheet, such that it is able to begin on a clean slate post restructuring. The Proposed Alternative Regularisation Proposal does not clearly address the accumulated loss position of Ho Hup Group nor provide certainty that such losses will be substantially eliminated immediately upon completion of the Proposed Alternative Regularisation Proposal.
- (ii) The amount of funding raised immediately post completion of the Proposed Alternative Regularisation Proposal is RM25.5 million, which is insufficient for Ho Hup’s debt management and working capital purposes, especially for the 60 acres Bukit Jalil land development. The Proposed Alternative Regularisation Proposal also involves the issuance of an instrument which bears a coupon of 8% which will further constrain the cashflows of the Company;
- (iii) The Proposed Alternative Regularisation Proposal involves the issuance of 51.00 million free warrants. There is no guarantee that the free warrants will be exercised in the near future and hence, cashflow of RM51.00 million arising from the exercise of warrants is highly uncertain. Ho Hup cannot place full reliance on the cashflows from the exercise of warrants as a source of funding for Ho Hup’s immediate working capital requirements;
- (iv) The Group had recently secured a loan from Sabah Development Bank (“SDB”) for RM125 million, critically to refinance its current loan with CIMB Bank, of which the 60 acres Bukit Jalil land has been charged.

Given the recent developments in the Company which may have a bearing on the SDB loan and in the absence of any alternative funding available to refinance Ho Hup’s debt to CIMB Bank, Ho Hup faces significant risks of the 60 acres Bukit Jalil land being foreclosed, hence raising greater uncertainty on the Company’s future viability.

- (v) In view of the insufficient funding which may create uncertainties for Ho Hup to continue operating as a going concern, the Company’s auditors, Ernst & Young’s may continue to disclaim the audited financial statements of the Group, potentially rendering Ho Hup to remain as a PN17 company,
- (vi) Any restructuring for the upliftment of PN17 status must ensure that the shareholders equity of the listed issuer on a group basis must be more than 25% of the share capital or the shareholders equity must be RM40 million or more. Notwithstanding this, in order for the restructuring plan to be adequately comprehensive such that the company does not fall back into PN17 after the restructuring, the restructuring plan should address both of these criteria whereby shareholders equity after the restructuring is more than 25% of share capital and at least RM40 million.

The Proposed Alternative Regularisation Proposal does not fulfil the basic fundamental requirements for the upliftment of PN17 status of Ho Hup on the following basis:-

- (a) The revaluation of 60 acres cannot be recognized as revaluation surplus to set-off against the accumulated losses of Ho Hup as this 60 acres land is classified as Land Held For Development; and
- (b) The Proposed Alternative Regularisation Proposal will also not meet the shareholders equity of RM40 million upon completion in view of (a) above as well as the warrants being excluded from the computation of the shareholders equity given that a warrant is an option which may/may not be exercisable (at the sole discretion of warrant holders of the Company).

The current Proposed Restructuring Scheme is a more comprehensive 'one-off' total solution to Ho Hup's financial and operating condition. The Board of Ho Hup in formulating the current Proposed Restructuring Scheme had taken into consideration the following main parameters:-

- (a) addressing all the critical disclaimer opinions made by the Auditors to address PN17;
- (b) Enabling the Company to start on a clean slate by substantially cleaning up the balance sheet of the Company;
- (c) addressing immediate cashflow requirements from creditors, lenders, suppliers etc;
- (d) preserving the value of the landbank in the Company;
- (e) not over-burdening shareholders with additional outlay of capital; and
- (f) inviting both strategic and non-strategic investors to participate at premium to Net Asset values of the Company. It has always been the Board's intention to identify and present to shareholders at the Extraordinary General Meeting to be convened for its restructuring proposal.

Last but not least, the existing directors and management of Ho Hup wish to assure all stakeholders of the Company that they are of the view that they have acted in the best interest of all stakeholders of the Company in their efforts in restructuring the Group's operation and financial condition. The directors and management had been actively engaging with various parties such as financiers, creditors, auditors, advisers and regulators to formulate a comprehensive turnaround plan for Ho Hup Group which includes, amongst others, the settlement of the Madagascar case and reviving various abandoned projects.