

AEI CORPORATION LTD.
(Incorporated in the Republic of Singapore)
Company Registration No. 198300506G

ANNOUNCEMENT

**RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION
(SINGAPORE)**

The Board of Directors ('Board') of AEI Corporation Ltd (the "Company") refers to:

- (a) the annual report of the Company for the financial year ended 31 December 2020 (the "Annual Report"); and
- (b) the notice of annual general meeting ("AGM") dated 13 April 2021 informing shareholders that the Company's AGM will be convened and held by way of electronic means on Wednesday, 28 April 2021 at 9.00 a.m.

The Company has not received any questions from the shareholders relating to the Annual Report or resolutions as set out in the notice of AGM before the submission deadline, 21 April 2021 at 9 a.m. The Company has received questions from the Securities Investors Association (Singapore) or SIAS.

Please refer to Annex A hereto for the list of questions from SIAS and the Management and Board's responses to these questions.

BY ORDER OF THE BOARD

Lum Soh Ping
Foo Soon Soo
Company Secretaries

25 April 2021

Annex A

ANNUAL GENERAL MEETING TO BE HELD ON 28 APRIL 2021 RESPONSE TO QUESTIONS FROM SIAS

Q1. As noted in the chairman's statement, the group is embarking on a diversification of its core business with the proposed acquisition of MTBL Global Pte. Ltd. ("MTBL"). MTBL owns the exclusive global distribution rights (excluding mainland China) to market and sell Moutai Bulao up to 31 December 2027 MTBL employs innovative marketing and leverages eon technology for sustainable growth and development in anticipated response to the changing business landscape..

Prior to this, the group was operating in electronics and precision engineering segment and the construction and infrastructure building segment.

The proposed acquisition of MTBL is subject to various conditions, including the approval of shareholders at an EGM to be held.

- (i) Can the board help shareholders understand if the group has already diversified into the marketing and distribution of spirits prior to obtaining shareholders' approval?**

Response: No, the Group has not diversified into the proposed new business yet and been exploring the potential of various new areas of business. As announced on 31 Dec 2020, the Group in connection with this, is seeking shareholders' approval for the proposed acquisition. In connection with this, the Group will also seek shareholders' approval for the proposed diversification at the same EGM. The Group is currently preparing the shareholders' circular ("**Circular**") for review by the SGX-ST and will be calling for an EGM in due course subject to clearance from the SGX-ST on the Circular.

- (ii) What is the level of due diligence carried out by management and by the board? How did the company choose to diversify into the beverage segment? There appears to be no synergy to be extracted with its existing business.**

Response: The Board has appointed a team of professionals to carry out the due diligence exercise, including legal due diligence on the subsidiaries incorporated in Singapore, Australia, Hong Kong and the United States. As announced on 31 December 2020, a key condition precedent to completion of the proposed acquisition is the Company being satisfied with its due diligence investigations in the MTBL Group. The Board has also requested an audit to be performed on MTBL and is expecting to receive the relevant audit report **in** due course.

In addition to the above, the Board's independent directors had appointed a financial adviser to advise the Company on the matter and the appointment of a professional valuer to conduct an independent valuation of the business. The Independent Board members were involved in many

discussions on the matter, including discussions with the financial adviser, legal adviser and independent valuer, so as to help in the decision making.

As disclosed in the 31 December 2020 announcement, the Company is of the view that the proposed acquisition of the MTBL Group presents an opportunity for the Company to acquire a business with a global distribution right (excluding mainland China) of a highly valuable liquor brand. In line with this, the Group believes that it can leverage on the distribution network and expertise to expand in the F&B industry.

The Company has been running into deficit for the past few years because of the poor and sluggish market demands for HDD and electronic components part sectors. Business outlook for these sectors has been and remains challenging and highly uncertain and likely to remain sluggish. The proposed acquisition and diversification is part of the corporate strategy of the group to seek diversified revenue streams that will provide long term growth and enhance shareholders' value in the longer term.

Notwithstanding the economic slowdown caused by the COVID-19 pandemic, the group believes that the F&B industry will continue to generate stable income. With consumers being unable to travel or dine out as often as they were previously used to, consumer demand for existing and new F&B products and innovative F&B experiences has increased. Going forward, food security and green resources will be the focus of worldwide concern and this will be a likely area that will see increased opportunities for entrepreneurial business innovation, growth and development. In this scenario, consumer demand for novelty, innovation, safe and environmentally friendly foods and beverages can be expected to rise. The company sees business potential in the F & B products space and the potential consumer appeal of the Group's F&B products.

The company anticipates the new revenue streams from the new business to grow over time and improve the financial condition of the group and as such, the company is of the view that the proposed diversification into the new business, offers a prospective platform to attract investment and enhance business growth and development.

The Circular containing further information on the proposed acquisition and proposed diversification will be dispatched to shareholders in due course.

(iii) In particular, what is the level of involvement and ownership by the independent directors in the due diligence and in the proposed acquisition?

Response: The independent Directors have:-

1. Led the negotiations on the terms of the Sales and Purchase Agreement with the vendor, who is also an interested person, taking into account inputs and information from the Financial Adviser, the

Independent Valuer and the Legal Counsel.

2. Selected the appointment of Company's valuer.
3. Selected the appointment of the Financial Adviser ("FA") and the Independent Financial Adviser ("IFA").
4. Reviewed and made relevant enquiries on the valuation report (including but not limited to the key assumptions made in the valuation report) with the assistance of the company's FA.
5. Reviewed and made relevant enquiries on the IFA report.
6. With the assistance of FA, held meetings with both set of valuers to ensure common data set and management information are provided to both valuers.
7. With the help of legal counsel, determined the scope of legal due diligence exercise and reviewed, discussed and attended to key findings as highlighted by the legal counsel.

The Audit Committee of the Company will obtain an opinion from the IFA on the Proposed Acquisition before forming its view, which will be disclosed in the Circular, as to whether the Proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders.

"On 1 February 2021, the group announced the pilot launch of VRAI, the first and only United States Department of Agriculture certified 5.5% organic premium hard seltzer. In the same announcement, it has revealed the target markets: VRAI in Singapore, China, Hong Kong and Vietnam distribution rights for Moutai Bulao liquor in Hong Kong, Macau and Taiwan (the latter subjected to approval by shareholders)."

(iv) What is the envisaged market size that the group is looking to capture? How much CAPEX is required for this venture?"

Response: According to Jefferies' analysis (<https://www.jefferies.com>. Jefferies Group LLC, an independent and full-service investment banking firm headquartered in the US), worldwide/US sales of hard seltzer are expected to reach USD3.5billion in 2019 and USD6.5 billion by 2024. In 2019 hard seltzer sales grew significantly by 226.4 % while total beer sales only achieved a growth of less than 1 %¹.

The Group see the potential of this hard seltzer drink as it has been gaining strong popularity especially among the Gen Z, millennials and women and has been identified as a new trend of beverage that may replace the mainstream

¹ <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/big-brewers-pop-top-on-new-hard-seltzer-brands-in-2020-56743493>

beer.²

At present, China's Baijiu (white liquor) production accounted for more than 40% of the world's liquor production and the proportion continues to increase.³ The output value of China Baijiu in 2019 was nearly 1 trillion Yuan while overseas sales volume (including Hong Kong, Taiwan and Macau) accounted for only a negligible amount. The penetration of China Baijiu in the overseas market is still in infancy stages which offers huge potential for growth and business opportunities. ⁴

MTBL is involved in the distribution of alcoholic beverages and owning the exclusive distributor rights to market and sell Moutai Bulao 125ml liquor products worldwide (except in mainland China) for period ending 31 Dec 2027. Moutai Bulao liquor is a single product launched on the market produced by Guizhou Moutai Winery (Group) Health wine Co. Ltd, a wholly owned subsidiary of the Moutai group in Guizhou, China and one of the world's most valuable spirits brands.⁵

Subject to shareholders' approval, the acquisition of MTBL presents an opportunity for the Group to acquire a business with a global distribution rights (excluding mainland China) of a highly valuable liquor brand.

The Company do not expect CAPEX for Vrai business to be significant as we intend to tap on the distribution channels of MTBL following its acquisition (subject to shareholders' approval). Information on the CAPEX for MTBL can be found in the valuation reports which will be made available for shareholders' inspection upon the dispatch of the Circular in due course, after the receipt of clearance from the SGX-ST.

Q2. As shown in Note 31 (pages 106 and 107), revenue from electronics and precision engineering increased in FY2020 from \$7.95 million to \$9.37 million while revenue from construction and infrastructure decreased from \$1.11 million to \$486,000 in FY2020 (reproduced below).

The segments also reported lower segment losses in FY2020.

The group recognised revenue from two major customers amounting to \$2,977,000 (2019: \$2,170,000). These were from sales by the electronics and precision engineering segment.

² <https://blog.euromonitor.com/over-60-percent-of-asian-millennials-define-themselves-as-mindful-drinkers-in-2020>

³ http://www.xinhuanet.com/food/2018-11/12/c_1123698846.htm

⁴ http://www.xinhuanet.com/food/2019-12/31/c_1125407666.htm

⁵ <https://www.ft.com/content/0019ec5a-988a-11e9-8cfb-30c211dcd229>

31. SEGMENT INFORMATION (CONT'D)

(a) Business segments

	Electronics and precision engineering		Construction and infra-structure building		Beverage		Others		Consolidated	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Revenue										
External customers	9,372	7,953	486	1,114	-	-	9	9	9,867	9,076
Total revenue	9,372	7,953	486	1,114	-	-	9	9	9,867	9,076
Results:										
Segment result	(1,554)	(2,384)	(192)	(303)	(112)	-	(116)	(246)	(1,974)	(2,933)
Depreciation	(921)	(953)	(56)	(156)	(21)	-	-	-	(998)	(1,109)
(Loss)/gain on disposal of property, plant and equipment, net	(63)	121	(4)	20	-	-	-	-	(67)	141
Finance income									156	565
Finance cost									(412)	(445)
Impairment loss on property, plant and equipment									(2,293)	(3)
Impairment loss on leasehold land									-	(1,093)
Share of results of associate									(93)	(492)
Loss before tax									(5,681)	(5,369)
Income tax benefit/(expense)									43	(486)
Loss net of tax									(5,638)	(5,855)

(Source: company annual report)

(i) Can management provide shareholders with greater clarity on the underlying demand for the group's products and services?

Response: The Group recorded an increase in sales from the electronics and precision engineering segment due to a qualification of new customer program, as well as pent-up demand and delayed orders in the 2H of 2020. Sales and demand from construction and infrastructure segment were affected by the imposition of circuit breaker by the Singapore Government to contain the COVID-19 spread. Business outlook for these segments has been and will remain challenging and highly uncertain.

On the supply side, we have been experiencing shipping delays on our raw materials due to seaports congestion, which in turn has affected our operational efficiencies to meet customers' orders as well as increasing our freight charges and cost of operation. Overall the business prospect will remain less robust.

(ii) In particular, other than being qualified for the HDD program, what are the factors that led the major customers to increase its orders from the group in FY2020?

Response: The increase in sales was also caused by pent-up demand and delayed orders due to the 1H lockdown experienced by our customers.

(iii) After getting qualified by its customer(s) in the HDD programs, does the group have better visibility of customers' demand going forward?

Response: Despite the participation in the customer new program, operating conditions remain challenging due to weak worldwide demand from the HDD consumers and component markets as well as lower competitive pricing.

(iv) How is the group mitigating the volatility in aluminium prices?

Response: Our products' selling price largely moves in tandem with aluminium prices. The Group partly mitigates the volatility in aluminium prices by maintaining sales-driven level of stocking. However, the recent upward movements of LME aluminium prices and shortage of supply pose new challenges for us.

(v) Do the two above-mentioned segments fit into the long-term plans of the group?

Response: The existing aluminium extrusion business has been incurring losses for the past few years because of poor and sluggish market demands for HDD consumers and components part sectors. The Group is actively pursuing and seek divestment of the aluminium and metal business on terms which will align with the timing of the Group's business transformation. As announced on 31 December 2020, the Group is seeking shareholders' approval for the proposed acquisition. In connection with this, the Group will also seek shareholders' approval for the proposed diversification at the same EGM. The Group is currently preparing shareholders' circular for review by the SGX and will be calling for an EGM in due course subject to clearance from the SGX on the Circular.

Q3. In the corporate governance report, under the section on interested person transactions (IPTs, the company reported that it conducted a one-off business joint venture promotion event with MTBL Global amounting to \$1.263 million.

Interested Person Transactions

The Company has established internal control policies to ensure that transactions with interested persons are properly reviewed and approved and are conducted at arms' length basis. During the year, the Company had entered into the following interested persons transactions.

Name of Interested Person	Nature of relationship	Aggregate value of all interested person transactions conducted (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
MTBL Global Pte Ltd	Associated with a director	\$1,263,000 *	NIL

* one-off business joint venture promotional event

(Source: company annual report)

MTBL Global is associated with a director and is a target of the company's proposed acquisition.

- (i) What was the event and what was the goal of the event? Who was the target audience and what was the attendance? What was the group's involvement?**

Response: The promotional event "Chinese Food Festival" was organized by Human Health Organization in partnership with the Delegates Dining Room of United Nations and Tianjin Prosperous Chinese Food Management Ltd, a unit of CP Group, to promote Chinese Foods & Beverages at United Nations ("UN"), New York USA and scheduled in March 2020. The target audience were world delegates to UN, UN officers, key leaders attending UN programme, New York residents and TV coverage for worldwide channels.

The Group had participated in the one-off business joint venture of importing and sale of Moutai Bulao in FY 2019 with MTBL, as disclosed in our FY2019 full year results announcement on 28 Feb 2020. In view of the Group's participation in this joint venture, the Group was invited to participate in this event to promote the Moutai Bulao liquor in a "Moutai Bulao Day" at the above event at United Nations New York.

- (ii) Can the board, especially the independent directors, help shareholders understand the scope and nature of the IPT?**

Response: The Group had participated in the one-off transaction of importing and sale of Moutai Bulao in FY2019 through a joint venture with MTBL, which is the sole distributor of the liquor worldwide (except Mainland China) and the Group was invited to participate in the above promotional events [to be held in the UN in New York] in early 2020. As MTBL is associated with a director of the Company, based on the listing rules, the transaction was classified as IPT.

- (iii) Was MTBL paid \$1.263 million by the company for a one-off joint venture promotional event? Please help shareholders understand how the amount of \$1.263 million was determined.**

Response: S\$1.263 was equivalent to USD 1 million at the time of the transaction in Jan 2020. USD 0.3 million was paid to the event organisers, USD0.5 million were budgeted for payment of importing the Moutai Bulao Liquor to USA (for the event) for import tax, logistics and warehousing expenses etc. and USD0.2 million was for payment of importing tax for export sales of Moutai Bulao to Laos . However, the events were postponed due the COVID-19 pandemic and we were informed by the organizers that the promotional events will be rescheduled and held later. As the events have been postponed, the amounts were treated as advanced payments/receivables.

- (iv) Did the audit committee pre-approve the IPT with MTBL?**

Response: The Board and AC approved the above transactions in Jan 2020.