

ASIATIC GROUP (HOLDINGS) LIMITED
(Company Registration No. 200209290R)
(Incorporated in the Republic of Singapore)

**RESPONSE TO QUESTIONS RECEIVED FROM
THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)
IN RELATION TO THE ANNUAL REPORT 2021**

The Board of Directors (“**Board**”) of Asiatic Group (Holdings) Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) would like to provide the following information in response to questions raised by the Securities Investors Association (Singapore) (“**SIAS**”) in relation to the Company’s annual report for the financial year ended 31 March 2021 (the “**Annual Report**”).

SIAS’s Question 1:

For the financial year ended 31 March 2021, the group reported a loss of \$(3.6) million following losses of \$(13.46) million and \$(19.98) million in FY2020 and FY2019 respectively.

Equity attributable to owners of the company decreased from \$56.2 million at the beginning of FY2019 to \$24.1 million as at the end of FY2021. Following three years of losses, the group’s revenue reserve in the statements of changes in equity has turned from \$11.93 million to a negative position of \$(21.84) million at the end of FY2021.

*On the operational side, the group’s Phnom Penh Plant and Silhanoukville Power Plant had its term of the power purchase agreement shortened, and were told to remove the group’s assets from the site on or before 30th June 2021 failing which, Electricite Du Cambodge (“**EDC**”) shall reserve the right to withhold the payment or/and engage a third party to remove the company’s property and goods at the group’s cost.*

*For the group’s Phnom Penh Special Economic Zone power plant, the group is involved in arbitration proceedings against Phnom Penh Special Economic Zone Plc (“**PPSEZ**”) in respect of a dispute for which the group is seeking relief in the arbitration for a minimum of US\$14.41 million.*

In addition, the group is in the process of disposing Maju Intan Biomass Energy Sdn Bhd, an associate company that holds the Maju Intan Biomass Power Plant in Malaysia after 7 years of losses.

OUR INVESTMENTS

With four operating power stations, Asiatic stands as an eminent key player in the regional power business. In line with the increasing global recognition of sustainable energy sources, we will continuously upgrade our power stations to optimise operating efficiencies. We have also engaged in preliminary studies to explore the possibilities of harnessing other alternative sustainable energy sources as we look towards charting our long-term growth.

(Source: company annual report)

- (i) **On page 5 of the annual report, the company still states that the group “stands as an eminent key player in the regional power business” with four operating power stations (shown above). What is the level of involvement by the board in preparing the annual report to provide shareholders with a fair and holistic overview of the progress and challenges of the group? Would the board be updating the annual report to improve on the accuracy of its reporting?**

Company’s Response:

The Board reviewed the financial performance, progress and challenges faced by the Group during the Board meetings and informal ad-hoc meetings on several occasions. The Board also reviewed the statements and updates given to shareholders in the Annual Report.

The Annual Report covers the financial period from 1 April 2020 to 31 March 2021 (“FY2021”) and the above statement on page 5 of the Annual Report continues to remain factual during FY2021. However, with an intention to strengthen our core fire protection business, the Board will be reviewing and updating the statement in its annual report for the financial year ending 31 March 2022 (“FY2022”) to ensure its relevance in tandem with the Group’s prevailing business strategy.

In addition, it is noted that management has shifted the group’s focus back to the fire protection business given the large and continued losses in the energy business. The performance of the energy business was also the focus of minority shareholders in the past 2-3 years.

- (ii) **As the board is responsible for setting the strategic direction for the company, has the board evaluated its effectiveness at creating long-term value for shareholders?**

Company’s Response:

The Board, through its Nominating Committee (“NC”), had evaluated the performance of its members and will consider board refreshment from time to time. Shareholders can refer to page 20 of the

Annual Report for further information on the assessment of the Board. For FY2021, the review process involves:

1. All Directors individually and collectively as a whole completing a board evaluation questionnaire on the effectiveness of the Board, its Committees, the individual Directors and the Chairman based on the aforementioned performance criteria;
2. The Company Secretary will collate and present the questionnaire results to the NC Chairman in the form of a report; and
3. The NC will deliberate the report and opine on the performance results during the NC meeting.

(iii) What is the total amount (in gross direct investments, loans and corporate guarantees before impairment) invested in PPSEZ, in the Phnom Penh & Sihanoukville Power Plant, and in Maju Intan Biomass Power Plant? How much is recoverable/has been recovered from the 3 plants that will be sold/ceased operations? Has the board/management calculated the return on investment of these power plants from inception to the end?

Company's Response:

Shareholders should refer to the following SGXNet announcements made by the Company for the latest updates:

PPSEZ

- 19 November 2020

Phnom Penh & Silhanoukville Plant

- 2 May 2019; and
- 11 February 2021

Maju Intan Biomass Plant

- 11 March 2020;
- 13 March 2020;
- 9 April 2020;
- 19 June 2020;
- 27 January 2021;
- 18 February 2021; and
- 15 July 2021

During the year, there was impairment of property, plant and equipment for the Phnom Penh & Silhanoukville Plants to the recoverable amount due to the shortening of the power purchase agreement with EDC ("**PPA**"). The Group continues to look for opportunity on alternative use and disposal of these assets.

Please refer to the Company's announcement dated 11 March 2020 for the disposal amount of the Maju Intan Biomass Plant ("**MJE**").

As there was an impairment of property, plant and equipment for the Phnom Penh & Silhanoukville Plants due to the shortening of the PPA and the MJE has been making losses, the return on investment analysis would not be meaningful.

(iv) What are the remaining milestones needed to be reached before the disposal of MJE?

Company's Response:

As previously announced on 15 July 2021, Hualang Renewable Energy Sdn Bhd (the "**Purchaser**") is seeking to submit an alternative debt restructuring proposal of MJE's debt obligations on or before 1 September 2021 to MJE's bank for acceptance and approval.

Please refer to the Company's announcement dated 11 March 2020 for the milestones on the disposal of MJE. Subject to the acceptance and approval by MJE's bank on the alternative debt restructuring proposal of MJE's debt obligations by the Purchaser, the remaining key milestones and conditions to be fulfilled for the disposal are as follows:

- the Company, having obtained the necessary approvals from shareholders of the Company (should the condition precedents ("**CP**") are fulfilled) as required under Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited and any other relevant authority for the sale of the Sale Shares upon the terms and conditions of the Sale and Purchase Agreement;
- the Purchaser, having procured the necessary approvals of the financiers of MJE, on behalf of the Company (i) the restructuring of the debt of MJE (provided that MJE remains liable for any restructured obligations) and discharge of existing security as set out in the Sale and Purchase Agreement and (ii) the change in shareholding and directors of MJE resulting from completion of the Sale and Purchase Agreement; and
- MJE having obtained written approval from the Sustainable Energy Development Authority (SEDA) or other energy related authority where applicable or the transfer of shares under this agreement to the Purchaser.

As at the date of this announcement, the Purchaser is in discussion and seeking to submit an alternative debt restructuring proposal of MJE's debt obligations ("**New Restructuring Proposal**") to MJE's bank for acceptance and approval. However, as a result of the continued Movement Control Order ("**MCO**") amid the worsening Covid-19 situation in Malaysia, the completion of the CP on the proposed disposal is expected to be further extended. The Company is currently in negotiation with

the Purchaser and MJE's Bank to request for further extension of withholding of legal action that is due to end on 1 September 2021.

Further updates would be provided to Shareholders in relation to the disposal of MJE once it is available.

- (v) Given that the group has commenced arbitration proceedings against PPSEZ, what is the current working relationship between the parties? What is the current operating status of PPSEZ power plant?**

Company's Response:

The arbitration proceedings are between the shareholders of PPSEZ power plant. The current working relationship between parties remains cordial and the current operations are status quo.

- (vi) Has the board carried out a review to analyse the reasons for the gap between the realised performance and management's projection during the board approval process?**

Company's Response:

The Board meets up with Management from time to time to understand the status of the investment against the budget. The performance of the investment was also reviewed during the Board meetings. The gaps or the issues are discussed at these Board meetings.

- (vii) Please provide greater clarity on the group's energy business going forward. Has the board decided to cease all future investments into the energy segment? Would the board be holding management accountable for the group's performance in the energy segment?**

Company's Response:

The Group continues to evaluate its energy business and expects to scale down this business. As disclosed in the Annual Report, the Group intends to shift its focus back to the core fire protection businesses. Any future update on its energy business will be provided in a timely manner via SGXNET announcement to shareholders. All investment carries risk and it is not fair to penalise Management as all investment project are brought to the Board's review and evaluation, with the best intent and interest. This has always been the case to maximise long term shareholders' value.

SIAS's Question 2:

The group's fire-fighting and protection business has been relatively stable over the years, as shown below:

	Segment revenue	Segment profit
FY2021 (\$'000)	15,651	2,016
FY2020 (\$'000)	18,342	1,379
FY2019 (\$'000)	14,572	823
FY2018 (\$'000)	14,992	185
FY2017 (\$'000)	15,434	506
FY2016 (\$'000)	15,876	445
FY2015 (\$'000)	16,385	522

(Source: company annual reports)

- (i) **What is the group's estimated market share in Singapore? Has the group kept up with its investment in the fire protection business given that the energy business was a big drain of capital and management's time?**

Company's Response:

The Group has not done any research to ascertain its market share in Singapore. The fire protection business is as important as the energy business and has always been the Group's focus. The Group has 2 designated teams in Industrial and Marine developing the businesses respectively by securing government service contracts and expanding into the portable fire extinguisher line lately.

- (ii) **Are there opportunities to expand to other key cities/countries for the fire protection business?**

Company's Response:

Currently, there are exports to Malaysia, Indonesia, China and is actively pursuing and exploring more countries to supply i.e. Bangladesh and Macau once Covid-19's restriction subsides.

- (iii) **On page 87, the company identified two major customers that accounted for \$7.73 million (FY2020: \$12.59 million) of revenue. What is the profile of its major customers? What are the key growth drivers in the segment? Can management elaborate further on the growth opportunities in the next 2-3 years in the fire protection business?**

Company's Response:

On page 87 of the Annual Report, the 2 major customers accounting for \$7.73 million of the revenue relates to the energy business. The 2 major customers are a state owned utility company and a beverage production company.

Given the current Covid-19 pandemic, the Group's main focus is to ensure that the cashflow continues to remain adequate for the overall operation of the Group. The Company will provide updates to the shareholders via announcement(s) through SGXNet when there is any material development on the business strategy.

(iv) How much capital has been earmarked for the group's expansion into manufacturing fire-fighting products for the marine industry (page 3)? What is the opportunity in the marine industry?

Company's Response:

Please refer page 86 of the Annual Report for the capital expenditures for the fire fighting expansion. The Group has created a manufacturing arm for fire fighting products and fire fighting systems for both the marine and buildings industries which includes oil and gas. The marine industry remains challenging, but the product and systems manufactured are useful to be sold and deployed to all locations or properties which includes buildings, oil rigs and refinery which the Group intends to explore.

SIAS's Question 3:

In the corporate governance report, the company has disclosed that Nexia TS Risk Advisory Pte. Ltd. ("Nexia") served as the internal auditor (IA) for the group for FY2021.

On page 26, it was disclosed that the audit and risk committee (ARC) is satisfied that the IA is independent, adequately qualified and resourced. Nexia is a member of the Singapore Institute of Internal Auditors and adheres to the Standards for the Professional Practice of Internal Auditing laid down in the International Professional Practices Framework issued by the Institute of Internal Auditors.

In addition, it was stated that the IA has unfettered access to all the group's documents, records, properties and personnel, including the ARC, and has the appropriate standing in the company to discharge its duties effectively.

Based on the internal audit report from Nexia, the ARC understands that there are no significant or material weaknesses identified so far.

- (i) Can the board clarify if the internal auditors audit all the major operating subsidiaries, including the company's subsidiaries for the operations in Cambodia and Malaysia? In particular, did the internal audit also include the company's associate, Maju Intan Biomass Energy Sdn Bhd ("MJE")?**

Company's Response:

The major operating subsidiaries are covered in the internal audit plan on a rolling basis. In FY2020, an internal audit was performed on Colben Energy (Cambodia) Limited. Subsequent to the announcement on 11 March 2020 on the Group's decision to dispose our holdings in MJE, the subsidiary selected for internal audit in FY2021 was Colben System Pte Ltd.

- (ii) What was the scope of the internal audit in FY2021 and in FY2020?**

Company's Response:

The FY2020 internal audit focused on the following business processes at Colben Energy (Cambodia) Limited:

- Revenue, Receivables and Collections
- Procurement, Payables and Payment
- Inventory Management

The FY2021 internal audit focused on the following business processes/areas at Colben System Pte Ltd:

- Revenue, Receivables and Collections
- Procurement, Payables and Payment
- Inventory Management
- Follow-up on previous internal audit reports

The scope of work, including the areas of focus and work procedures were reviewed and approved by the ARC.

- (iii) What were some of the key findings by the internal audit? Did the internal auditor make any recommendations to the ARC? If so, have the recommendations been implemented?**

Company's Response:

As part of presenting the internal audit findings to the ARC, the internal auditor made recommendations to mitigate the risks relating to the findings. The key findings for the FY2021 internal audit for Colben System Pte Ltd included the following and were all rated moderate risk.

- Price comparison and sourcing of quotations to be documented and retained;
- Supplier evaluations process to be enhanced;
- Supplier management system to be enhanced; and
- Policies and procedures including approval matrices to be established and formalised.

For the FY2021 internal audit, all recommendations by the internal auditor were accepted by Management and all internal audit findings by the internal auditor were remediated with appropriate action plans put in place by Management.

Following the cessation of Colben Energy (Cambodia) Limited's operations arising from EDC's shortening of the term of the power purchase agreement as announced on the SGXNet on 11 February 2021, the internal audit findings for FY2020 would no longer be applicable in the Group's operating context and were not remediated.

The follow-up on the FY2021 internal audit findings will be included in FY2022's internal audit.

By Order of the Board

Tan Boon Kheng
Managing Director

30 August 2021

*This announcement has been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**Exchange**") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.*

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