AGV GROUP LIMITED

(Company Registration No. 201536566H)
(Incorporated in the Republic of Singapore on 2 October 2015)

RESPONSE TO QUESTIONS RAISED BY THE SECURITIES INESTORS ASSOCIATION (SINGAPORE) ("SIAS") IN RESPECT OF THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 ("FY2020")

The Board of Directors of AGV Group Limited (the "Company" and together with its subsidiaries, the "Group") wishes to respond to the following question raised by SIAS in respect of its Annual Report for FY2020 as follows**:**

1. **The group, which provides hot-dip galvanizing services in Singapore and Malaysia, was listed in August 2016. The financial highlights of the group in the past 5 years are shown on page 10 of the annual report and reproduced below.**

   In addition, even after carrying out a rights issue in FY2020, the group is in a capital deficit position of S$(3.5) million. The group has been in a capital deficit position since FY2018, just two years after its listing.

	FY2020 S$'000	FY2019 S$'000	FY2018 S$'000	FY2017 S$'000	FY2016 S$'000
Revenue	10,265	6,498	8,155	18,009	20,230
(Loss)/Profit for the year before tax	(2,652)	(7,673)	(13,869)	(4,638)	997
(Loss)/Profit for the year after tax	(2,781)	(8,404)	(13,366)	(4,288)	623
(Loss)/Profit attributable to					
Owners of the Group	(2,281)	(6,793)	(11,764)	(4,089)	623
Non-controlling interests	(500)	(1,611)	(1,602)	(199)	–

(Source: Company's Annual Report)

A positive development for the group is the recommencement of the Malaysian operations in December 2020 after the completion of refurbishment and upgrading works of the Malaysia factory. Since FY2017, productivity has been affected due to leakages of the zinc kettle and the Malaysia operation has been suspended for more than a year.

(i) Would board/management help shareholders understand the ground sentiments and economic conditions (including market demand for hot-dip galvanizing services) in Malaysia as a result of the COVID-19 pandemic?

The Board is of the view that the Group's Malaysian plant will see order books as there is still demand for hot-dip galvanizing services in Malaysia at this current point in time, notwithstanding the COVID-19 pandemic situation in Malaysia.

The Group's Singapore and Malaysia operations typically work hand in hand to provide services to the Group's existing Singapore clients and accordingly, such clients are aware of the Group's facilities in Malaysia. This, in turn, helps promote the Group's business in Malaysia when the Malaysian counterpart(s) of such clients require hot-dip galvanizing services. Accordingly, the Group is often referred by its existing clients to their partners in Malaysia who are undertaking steel fabrication jobs in Johor itself.

The Group however wishes to stress that the COVID-19 pandemic situation in Malaysia is constantly evolving and the Group will continue to monitor the situation. Further announcements will be made by the Group as and when there are material developments.

(ii) In particular, how will the extension of the movement control order affect the group?

Under the current movement control order in Malaysia, businesses can continue to operate as long as approval has been obtained from the Ministry of International Trade and Industry. This includes the Group's Malaysia operations. Barring unforeseen circumstances, the Group is of the view that save for several adjustments to meet regulatory requirements pursuant to the COVID-19 pandemic, it will be able to continue its operations in Malaysia as per normal at this stage.

The Group however, notes that the government-mandated standard operating procedures on Malaysia might be changed accordingly due to the pandemic evolving situation. The Group will continue to keep abreast of all regulatory requirements and any change in economic conditions to remain prepared. As the situation is evolving and fluid, the Group will make announcements as and when necessary and in accordance with the Catalist Rules.

As noted in the chairman's statement, the utilisation rate of the Singapore plant improved to 34% in FY2020, compared to 22% in FY2019.

(iii) What are the major opportunities in Singapore in the next 18-24 months? What is management's strategy to capture a greater share of the market?

In the media release by Building and Construction Authority ("**BCA**") on 18 January 2021, total construction demand in 2021 is projected to recover to between S$23 billion and S$28 billion, with the public sector contributing about 65% of the total demand.

BCA expects a steady improvement in construction demand over the medium term. It is projected to reach between S$25 billion and S$32 billion per year from 2022 to 2025. The increase in construction demand over the medium term presents opportunities for the Group to capitalise on.

The Company would add that the Group will continue its strategy of targeting customers and/or projects, as the case may be, with shorter payment terms. The Group will also be customer-focused and work on improving the quality of its services provided so as to position itself to capture a greater share of the market where possible.

The Board is of the view that the above strategy has worked thus far: as per the Group's audited financial statements for FY2020, the revenue for its Singapore operations had increased from approximately S$6.5 million in FY2019 to S$10.3 million in FY2020. The Group had performed better in terms of revenue and reduced its operational losses as compared to FY2019. This was in spite of the COVID-19 pandemic in FY2020.

(iv) Can the board/management help shareholders understand the group's competitive advantage and elaborate further on how it intends to create long-term value for shareholder with the current business model?

Please refer to the response set out in Question 1(iii) above. The Group intends to continue to work on improving its processes such that it is able to ensure fast turn around and meeting client's requirements without compromising on product quality. In addition, the Group will also actively seek expansion opportunities to increase its revenue streams. In this manner, the Group intends to create long-term value for shareholders.

2. **On 21 February 2020, the company proposed a renounceable non-underwritten rights issue of up to 929,732,200 new ordinary shares in the capital of the company at an issue price of $0.025 for each rights share on the basis of 5 rights shares for every 1 ordinary share of the company.**

   On 7 July 2020, the company announced that, as at the close of rights issue on 30 June 2020, valid acceptance and valid excess applications amounted to 22.56% and 30.85% respectively.

   (i) Has the board carried out a review to understand the reasons for the low valid acceptances by shareholders (other than the undertaking shareholders)?

   The Board has conducted a review following the completion of the Rights Issue, and concluded that the low valid acceptances by shareholders is a result of, *inter alia*, rising uncertainty and economic impact brought about by the COVID-19 pandemic. In this regard, the Board considered that investors were more cautious and risk adverse, and therefore less likely to take up rights shares and invest further in the Group amidst such economic conditions.

   (ii) With the benefit of hindsight, what could the board done differently? Has the board/management evaluate the market's understanding of the group and the appreciation of the group's business model and growth prospects?

   The Board had undertaken the Rights Issue with reference to the Group's financial condition, the then-market sentiments and, having managed to secure undertakings from undertaking shareholders to place fresh funds and capitalise existing debts. While there was economic uncertainty in global outlook taking into consideration the pandemic, the Board was of the view that it would be in best interests of the Group to secure the debt capitalisation and fresh funds from the undertaking shareholders at that point in time instead of pushing back the Rights Issue to a later time, as there was no certainty that the undertaking shareholders will continue to support the Rights Issue if it was to be undertaken at a later time.

   Going forward, the Company intends to reach out to more institutional investors so as to create more awareness of the potential value of the Company. The Company is also working closely with its investor relations personnel to send across a clear, concise message of the Company's strengths in the hot-dip galvanizing market.

   The company has raised net proceeds of approximately $5.158 million. By 5 January 2021, the company has utilized 100% of the net proceeds, with 51% being used for general working capital and 49% being allocated to the group's operations in Malaysia.

   The independent auditors have included a material uncertainty related to going concern in the report on the audit of financial statements (page 62). In particular, as at 30 September 2020, the group reported net liabilities of S$3,520,000 and net current liabilities of S$1,048,000. The group also reported net loss of S$2,781,000 and operating cash outflows of S$124,000 for the financial year then ended. The group has financial liabilities of more than S$7 million which is expected to be settled within a year from the reporting date.

   On 19 November 2020, the group announced a proposed sale and leaseback of its property located at Johor Bahru.

   (iii) Has the uncertainty related to the group's going concern affected its ability to secure jobs and win contracts from its customers?

   The Group has not seen a reduction in its ability to secure jobs and win contracts from its customers.

(iv) Does the group have the working capital to support its strategic goals? If not, what are the options available to the group to further strength its financial position?

With reference to the Group's announcements on 8 January 2021 and 12 January 2021, the Board is of the opinion that the Group will be able to continue as a going concern on the basis of the following:

(a) ability of the Group to generate sufficient cash flows from their operations;
(b) continued financial support from the Group's individual, corporate and institutional lenders, as well as vendors, as applicable;
(c) financial support from the chairman of the Group; and
(d) potential new injections of capital.

The Group may also be look to different sources of funds, including but not limited to corporate actions to strengthen its financial position as and when the opportunity arises.

3. On 23 January 2020, the company published the findings of the independent review which relates to the disposal of a subsidiary in the People's Republic of China, The independent reviewer noted that the group's approval matrix was inadequate and that there was a lack of internal expertise on compliance with the Catalist Rules. Certain breaches of the rules of the SGX listing manual were also identified by the independent reviewer.

(i) Can the board update shareholders on the improvements made to its governance and risk management framework, including the board approval matrix?

The Board had in FY2019 updated the Board Approval Matrix. Arising from the findings of the independent reviewer, the Board had then further updated its Board Approval Matrix in FY2020, and had requested for its internal auditors to review the updated Board Approval Matrix. The updates took into consideration balancing the Group's internal control needs against its operational efficiency. Our current year work plan is to make further improvement and enhancement to the governance and risk management framework, and will undertake the necessary work with the relevant professional parties.

(ii) Has the group developed its own internal capabilities and improved its knowledge of the Catalist rules?

The Directors, Executive Officers and key management personnel are regularly updated by professionals on amendments to the Catalist Rules, as and when arising. The Group is also making arrangements to receive formal training on compliance with the Catalist Rules. The Group also ensures that all Directors appointed to the Board have either received training by the Singapore Institute of Directors and/or had prior experience as a director of a listed issuer.

(iii) In particular, what is the level of familiarity of the executive officers and key management personnel on Catalist rules and on the roles and responsibilities of a director of a listed issuer?

The executive officers and key management personnel have a combined experience of not less than 32 years of working experience with a listed issuer. As set out in the response to Question 3(ii) above, the Directors of the Company either had prior experience as a director of a listed issuer or had attended the mandated prescribed training on the roles and responsibilities of a director of a listed issuer.

(iv) What is the level of involvement by the sponsor in helping the company with its compliance with the Catalist rules?

The Sponsor is invited to attend all Board meetings and the Company regularly consults the Sponsor on material developments and proposed corporate actions to be undertaken. Upon such occasions, the Sponsor regularly provides guidance on the Company's compliance with the Catalist Rules, including additional factors (if any) to be considered by the Company in coming to a decision. The Company also receives regular update from the Sponsors on amendments to the Catalist Rules, if any.

In addition, although the group has relatively significant amounts of fixed assets and inventory, the independent reviewer noted that previous internal audits have not covered the review of fixed asset and inventory management.

(v) Can the board/audit committee help shareholders understand if the internal audit review of fixed asset and inventory management has been carried out/has been scheduled? What are some of the key findings from the internal audit of fixed asset and inventory management?

The Group's annual internal audits focused on different business processes on a rotational basis. The last internal audit on fixed asset and inventory management was carried out in October 2019 ("**2019 IA Report**") and covered the Group's operations in Singapore. The next internal audit in FY2021 will cover fixed asset and inventory management relating to operations in Malaysia.

The key findings in the 2019 IA Report for fixed asset and inventory management related to conflicts in segregation of duties on management of chemicals in the warehouse and gaps in the physical security of the chemical storage area. In the follow-up review performed in October 2020 on these findings in the 2019 IA Report, the internal auditors noted that the management action plans were adequately implemented.

BY ORDER OF THE BOARD

Chua Wei Kee
Executive Chairman

27 January 2021

This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, Hong Leong Finance Limited. It has not been examined or approved by the Exchange and the Exchange assumes 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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