ACCRELIST LTD. (亚连盛有限公司)

(Company Registration No. 198600445D)
(Incorporated in the Republic of Singapore)

RESPONSES TO QUESTIONS FROM SIAS

The Board of Directors (the "**Board**") of Accrelist Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") sets out the Company's response to the questions received from the Securities Investors Association (Singapore) ("**SIAS"**).

Query 1

As disclosed in the chairman's letter, the long-term vision is to transform the group into a medical aesthetics focused company. The group currently owns Accrelist Medical Aesthetics group of companies ("A.M Aesthetics"), which operates a network of clinics both locally and overseas; and distributes medical aesthetics products through A Skin Products Pte. Ltd. ("A Skin").

(i) **Would the company provide shareholders with greater clarity on the progress it has made with A.M Aesthetics? In particular, would the company consider disclosing the locations of its clinics, the number of medical aesthetic professionals and other key operational metrics, such as the number of customers served?**

Company's Response

The Company first acquired the Refresh Laser Clinic network in October 2018, after which the four existing local clinics in the network were renamed under the A.M Aesthetics brand. The Group has since made significant progress towards its expansion goals, with the opening of its fifth clinic in Singapore and its first two clinics in Malaysia.

Clinic Locations (Singapore):
- Toa Payoh Hub
- Bedok Mall
- SingPost Centre
- Lot 1 Shoppers Mall
- Clementi Mall

Clinic Locations (Malaysia):
- Bangsar, Kuala Lumpur
- Jelutong, Penang

Key operational metrics are commercially sensitive information.

On the corporate website of A.M Aesthetics (https://www.amaesthetics.com.sg/), it claims that it is the largest SGX-listed aesthetics player in Singapore with 12 clinics in Singapore, Malaysia and Penang.

(ii) **Would the company help shareholders reconcile the number of clinics it has in its network?**

Company's Response

To complement the seven clinics operated under the A.M Aesthetics brand as highlighted in the Company's response to Q1 (i), our customers have access to a wider network which includes five clinics operated by our strategic partner, Ozhean Skin and Plastic Surgery.

(iii) **In addition, would the company provide shareholders with an updated holistic overview of its detailed growth plans for A.M Aesthetics, locally and overseas, given that that the COVID-19 pandemic has caused unprecedented disruption to the global economy?**

Company's Response

Despite the near-term impact of Covid-19, we remain confident that the medical aesthetics segment holds significant long-term potential for the Group. We will take a measured approach to sustainably grow the Group's network of medical aesthetic clinics. Plans are underway to set up more clinics across Malaysia in 2021, including Kuala Lumpur, Johor Bahru and Ipoh, subject to the evolving Covid-19 situation in Malaysia.

(iv) **Given the group's background in electronics and commodities, how would customers view the authenticity of A.M Aesthetics and of A Skin?**

Company's Response

In addition to the physical network of clinics, the Company's acquisition of the Refresh Laser Clinic network also added an existing customer base and a team of qualified doctors and experienced professionals.

Longstanding customers of A.M Aesthetics would be familiar with the strong reputation of the Group's medical aesthetics services which previously operated under the Refresh Laser Clinic brand.

We believe our customers view the newly established A.M Aesthetics brand as a reputable medical aesthetics services provider backed by a strong team of qualified doctors and experienced professionals.

(v) **How much more capital has been earmarked to support the growth of the aesthetics business? How will the group be funding the growth?**

Company's Response

The evolving Covid-19 situation has affected valuations across industries and the Company will take a measured approach to support sustainable growth of the aesthetics business. In due course, the Company will reassess the capital needed for expansion in a more stable post-Covid environment for greater clarity.

The Group continues to explore options to unlock the value of its investments, secure strategic partnerships and investors to fund the growth of its aesthetics business.

(vi) In addition, the goodwill attributed to the acquisition of the Aesthetics Medical Group has been impaired from $5.89 million to $3.95 million (page 93). In particular, impairments were recognised for Accrelist Medical Aesthetics (TPY) Pte. Ltd. ($1.2 million) and Accrelist Medical SPA Pte. Ltd. ($0.8 million). **How does the board ensure that the group does not overpay for its acquisitions as it seeks to grow in this area?**

<u>Company's Response</u>

The Group conducts extensive due diligence for any acquisition. The impairments reflect the unprecedented impact of Covid-19 on the sector which has affected forecasts, targets and growth assumptions that were made under market and economic conditions prior to the outbreak of Covid-19.

The medical aesthetics business is largely asset-light and dependent on specialist professionals. The acquisition of the Refresh Laser Clinic network in October 2018 not only added four clinics to the Group, but also an existing customer base and a team of qualified doctors and experienced professionals.

(vii) **In addition, in what way has the COVID-19 pandemic affected the group's plans to "unlock the value of the group's investment in Jubilee Industries Holdings Ltd. ("Jubilee")? Would it be more optimal for the company to proceed with a capital reduction and proposed distribution of Jubilee shares to its shareholders (without the need to carry out a disposal of Jubilee shares to a related party)?**

<u>Company's Response</u>

The Board of Directors refer to the Company's announcement on 29 September 2020 regarding updates to the Proposed Disposal of 44,351,540 shares in Jubilee to EG Industries Berhad ("**EG Industries**") and the Proposed Capital Reduction and Proposed Distribution *in specie* of 122,467,391 shares in Jubilee.

The Proposed Disposal to EG Industries was intended to enhance and optimise the operations of Jubilee, given that EG Industries has the relevant expertise and experience in electronic manufacturing services and would therefore enable Jubilee to build on and enhance its existing operations at a faster pace.

In view of the current ongoing Covid-19 pandemic which has affected business and economic activities worldwide as well as the continued evolving uncertainty on the long-term impact of Covid-19 on general business sentiments and the outlook of the operations of companies in general, the parties involved in the proposed disposal of Jubilee shares have mutually agreed not to proceed with the proposed disposal. This would allow both the Company and Jubilee to concentrate on their respective existing operations amidst the pandemic.

As the proposed disposal will no longer be undertaken, the Company will consequently also no longer be undertaking the proposed capital reduction and proposed distribution.

The Company is currently evaluating various options to unlock the value of its investment in Jubilee.

(viii) **Can the board clarify on the strategic value of A Tech Media Pte Ltd? Is the group looking to dispose A Tech Media to focus solely on medical aesthetics services?**

Company's Response

The Group's subsidiary A Tech Media Pte. Ltd. ("**A Tech Media**") provides services and solutions powered by facial recognition and artificial intelligence as a systems integrator. This includes smart retail solutions which complement A.M Aesthetics' efforts to deliver an enhanced experience for customers. The Group is not looking to dispose A Tech Media at this time.

Query 2

As disclosed in Note 27 (page 115 – Loan payable/convertible loan), the company decided not to exercise its conversion right to its convertible loan and agreed for an instalment repayment plan with Singapore Rixin Zhonghe Investment Pte Ltd ("SRZI") to settle the convertible loan amount, including accrued interest.

Back in November 2016, the company entered into a subscription agreement with SRZI to issue a 3 years convertible loan for S$4 million.

The non-exercise of the conversion led to a remeasurement loss on financial liability of S$2.8 million which the group recognised in FY2020. The $2.8 million loss is the difference between carrying amount and the amount the company is contractually obligated to pay to holders of the debentures at maturity (page 115).

(i) **Would the board help shareholders understand why it had not exercised its right to convert the loan and instead opted to repay the loan and recognised a loss of $2.8 million as a result?**

Company's Response

The Board of Directors refer to the Company's announcement on 29 September 2020 in relation to the S$4,000,000 convertible loan entered into between Singapore Rixin Zhonghe Investment Pte. Ltd. and the Company.

The Company decided not to proceed with the exercise of its Conversion Right under the Convertible Loan Agreement, taking into consideration the continued evolving uncertainty of the long-term impact of Covid-19 on general business sentiments and therefore the desire to minimise the introduction of any material changes affecting the Company as far as possible so as to provide stability to the Company in the midst of the pandemic.

The loss of S$2.8 million recognised as a result is a one-off non-cash item.

The decision also ensures that the Company is able to maintain relationships with potential strategic partners, financers and investors.

(ii) **Can the company confirm the conversion price (adjusted for share consolidation) if the company had exercised its right to convert the loan?**

Company's Response

The Board of Directors refer to the Company's announcement on 24 December 2019 regarding the exercise of conversion right by the Company for the full conversion of S$4,000,000 convertible loan entered into between Singapore Rixin Zhonghe Investment Pte. Ltd. and the Company ("**Convertible Loan Agreement**").

Pursuant to clauses 6.3 and 7.1 of the Convertible Loan Agreement, the Company has the absolute right to determine the mode of repayment of the convertible loan including to convert the convertible loan or any part thereof including all accrued interest thereon, any time before or upon the expiry of the term of the convertible loan into cash, conversion shares or both cash and conversion shares ("**Conversion Right**"). In connection with the foregoing, the Company chose to exercise its rights to convert the convertible loan into conversion shares. According to the terms of the Convertible Loan Agreement, the conversion price of the conversion shares ("**Conversion Price**") was based on either:

(i) 90% of the VWAP of the Company's ordinary shares ("**Shares**") quoted by the SGX-ST for five consecutive trading days ending on the trading day immediately preceding the date of the Convertible Loan Agreement, which for illustrative purposes would be equivalent to 38,518,516 new Shares at a Conversion Price of S$0.1080 per share in the issued and paid-up share capital of the Company; or

(ii) 100% of the net asset value per share as at 30 September 2019, which for illustrative purposes would be equivalent to 21,541,394 new Shares, at a Conversion Price of S$0.1931 per share in the issued and paid-up share capital of the Company, at the discretion of the Company.

The $4 million loan would have been converted into 38,518,516 shares at a conversion price of 10.8 cents (adjusted for share consolidation).

(iii) **Would the board, especially the independent directors, help shareholders understand the rationale of paying back the convertible loan instead of exercising its rights to convert the loan into shares?** By converting the loan into shares at 10.8 cents (vs a 6-month volume weighted average price of 3.53 cents per share), the company would be able to secure funds cheaply and conserve cash to fund its growth.

Company's Response

Please refer to the Company's response to Q2(i) above for the rationale of paying back the convertible loan instead of exercising its rights to convert the loan into shares.

To clarify, the conversion price is fixed at S$0.1080 per share or S$0.1931 per share as explained in the Company's response to Q2(ii) above.

Query 3

The board comprises of four directors, namely Mr Terence Tea Yeok Kian (executive chairman), Mr Alex Kang Pang Kiang (non-executive director), Mr Ng Li Yong and Mr Lim Yeow Hua @ Lim You Qin (independent directors).

The biographies of the directors could be found on pages 6 to 9 of the annual report. Additional information on directors seeking their re-election can be found on pages 30 to 35.

The profiles of the directors are: male, Chinese, aged between 48 and 58, with experience and training in electronics, legal, accounting and manufacturing. The directors appear to be lacking in medical, aesthetics and service industry experience.

(i) **How does the board ensure that it is able to understand its targeted customer segment and make good, well-informed decisions to drive the aesthetics business forward in profitable manner?**

Company's Response

Following the acquisition of the Refresh Laser Clinic network in October 2018, the Company retained managerial staff during the transition period to guide the Company in the operations of the aesthetic clinics.

In addition, the team of experienced doctors was also retained, and they provided valuable insights to the Company on the medical aesthetics business.

Under the Board's leadership, A.M Aesthetics recorded a 46.8% increase in revenue from S$3.4 million for FY2019 to S$5.0 million for FY2020.

The Company is also looking to attract new talent with experience in the medical aesthetics field to drive the business forward.

Listing Rule 710 of the SGX Listing Manual (Catalist Rules) requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018, the provision from which it has varied, the reason for the variation, and the explanation(s) on how the practices it had adopted are consistent with the intent of the relevant principle.

The board noted that the independent directors do not make up a majority of the board (page 15), without stating its reason.

(ii) **Would the board provide the reason(s) for the deviation for the code, as required by Rule 710?**

Company's Response

As explained in the Corporate Governance Report on page 15 of the Company's 2020 Annual Report, the Board wishes to highlight that it is of the view that the appointment of Lead Independent Director ensures a sufficient balance of power and authority in the Board. In addition, the Board notes that the Independent Directors are experienced professionals with diverse expertise and skills, including strategic planning, management, legal, finance and accounting experience. Accordingly, the combined wealth and diversity of expertise and skills of all the Directors enable them to contribute effectively to the strategic growth and governance of the Group.

Notwithstanding the above, the Board may consider appointing one additional Independent Director when a suitable candidate is identified in the interest of embracing recommended best practices.

(iii) **What are the board's near-term efforts to reconstitute the board to meet the Provisions of the Code of Corporate Governance 2018?**

Company's Response

As explained in the Corporate Governance Report on page 15 of the Company's 2020 Annual Report, the Board may consider appointing one additional Independent Director when a suitable candidate is identified in the interest of embracing recommended best practices.

[*The following question was sent to the company following the review of the 2018 annual report. It has been updated and reposted to the company following the review of the 2020 annual report.*]

Query 4

On 8 July **2017**, the company announced that it had made certain material adjustments and reclassifications to the unaudited results for the financial year ended 31 March 2017 (first announced on 31 May 2017), following the finalisation of the audit.

This happened again on 10 July **2018** when the company announced that it had made material adjustments and reclassifications to the unaudited results for the financial year ended 31 March 2018 (first announced on 31 May 2018), following the finalisation of the audit.

On 11 November **2020**, the company once again announced that it had made material adjustments and reclassifications to the unaudited results for the financial year ended 31 March 2020 (first announced on 29 September 2020) following the finalisation of the audit.

In **three** of the past **four** financial years, the company had to make material adjustments and reclassification to the unaudited financial statements following the finalisation of audit.

The audit committee comprises of Mr Lim Yeow Hua @ Lim You Qin (chairman), Mr Ng Li Yong and Mr Kang Pang Kiang.

(i) **As the directors have responsibilities to oversee the group's financial reporting process, can the directors, especially the directors in the audit committee, help shareholders understand their individual and collective efforts in the preparation of the group's financial statements to give a true and fair view in accordance with the provisions of the Act and FRSs?**

Company's Response

The Directors recognise their overall responsibility to ensure proper financial reporting for the Group and the effectiveness of the Group's system of internal controls.

In particular, Audit Committee members continue to assist the Board in providing oversight of risk management in the Company. The Audit Committee continues to review the adequacy and effectiveness of the Group's risk management systems and internal controls including financial and compliance controls. The Audit Committee continues to report to the Board annually its observations on any matters under its purview including financial matters as necessary and makes recommendations to the Board as it thinks fit.

In addition, the Audit Committee also ensures that a review of the effectiveness of the Company's internal controls is conducted at least annually and has met with the external and internal auditors without management during the year.

Furthermore, the Audit Committee receives updates from the Management and the external auditors regarding changes to accounting standards, Listing Rules of the SGX-ST and other regulations which could have an impact on the Group's business and financial statements.

(ii) **On what basis did the board consider that the members of the AC are appropriately qualified to discharge the responsibilities of the AC?** As noted above, the company has to make material adjustments to the unaudited financial statements in three of the past four years, following the finalisation of audit.

Company's Response

The qualifications and profiles of Audit Committee members Mr Ng Li Yong, Mr Lim Yeow Hua and Mr Alex Kang Pang Kiang are available on pages 7, 8 and 9 of the Company's 2020 Annual Report.

Based on the background of the AC members, the Board views that the AC members collectively have many years of experience in accounting, audit, business and financial management. The Board considers that the members of the AC are appropriately qualified to discharge the responsibilities of the AC.

(iii) **Would the AC chairman help shareholders understand his recent and relevant accounting or related financial management expertise or experience?**

Company's Response

Audit Committee Chairman, Mr Lim Yeow Hua, is a chartered accountant of the Institute of Singapore Chartered Accountants and accredited tax advisor (income tax & GST) of the Singapore Chartered Tax Professionals with more than 29 years of experience in taxation, financial services and business advisory. Mr Lim sits on the boards of various companies listed on SGX.

(iv) **Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

Company's Response

The Audit Committee has reviewed the adequacy of the Group's financial and management reporting system including the effectiveness of material internal financial controls, operational and compliance controls and risk management policies.

The Board has received assurance from the Managing Director and Chief Financial Officer:

(1) that the financial records for financial year ended 31 March 2020 have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and

(2) regarding the adequacy and effectiveness of the Company's risk management and internal control systems.

The Audit Committee is satisfied that the Group's finance team is led by an experienced and qualified Chief Financial Officer who is a long serving member of staff.

(v) **What changes has the AC made to the group's systems and processes to improve the quality and accuracy of the financial statements?**

Company's Response

In addition to what has been mentioned above, the Audit Committee has implemented a weekly review on the collection of accounts receivable for better assessment of the Company's debt given the current economic situation. Inventory review is also conducted weekly.

BY ORDER OF THE BOARD

Lee Wei Hsiung
Loh Eng Lock Kelvin
Company Secretaries

7 December 2020
