

SINCAP GROUP LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No.: 201005161G)

RESPONSE TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The board of directors (the “**Board**”) and management of Sincap Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the questions received from Securities Investors Association (Singapore) (“**SIAS**”) on 22 April 2019. The Board and management of the Company wish to address the questions with the following corresponding responses in this announcement.

1. In 2018, the Group acquired an additional 48.97% stake in Orion Resources Energy Pte. Ltd. (“**Orion**”) to bring its ownership to 99.97%.

The advantage of Orion is that it can procure coal at competitive prices from coal mines that may not have access to commodity traders and coal end-customers due to their lack of scale, and on-sells such coal to commodity traders and coal end-customers with whom the group have strong business relationships.

For FY2018, the Group’s overall gross profit margin from coal trading dropped from 13% to 5%. In FY2017, the Group had entered into long term supply contracts for the whole year when prices were low. In FY2018, the supply of coal was acquired on spot basis which is closer to the Group’s selling price.

Question	Answer
<p>(i) Can the board / management help shareholders understand the hedging framework and policy? How can management be confident that market/spot prices do not go against the group’s hedged prices?</p>	<p>Orion has 2 main modes of procurement and on-selling. Firstly, Orion may procure and on-sell coal on a spot basis. In such instances, when there is spot demand, management secures spot buys to fulfil the demand. Secondly, management may secure long-term supply contracts if it is assured that there will be continual demand from key customers over a certain period of time. Under such contracts, Orion’s cost price will be pegged on the relevant prevailing coal price index price at the time of delivery – they usually receive a discount on the index price. Orion then on-sells the coal on a cost-plus basis (i.e. at a profit) – usually at the index price, or a margin above the index at the point of delivery. Based on Orion’s business model, there is no risk of hedging going against the Group.</p>
<p>In the chairman’s message, it was also disclosed that Orion has entered into offtake agreements with Indonesian miners by paying up front deposits to secure a stable source of supply of coal at preferential prices in December 2018.</p>	
<p>(ii) Would the board consider this a material agreement and did it consider the need to disclose the offtake agreements on SGXNET?</p>	<p>The Board does not consider the offtake agreements to be material agreements requiring disclosure on SGXNet, as these agreements to secure supply of coal are in the Group’s ordinary course of business. They are really part and parcel of the day to day business to secure supply of coal.</p>
<p>(iii) Please disclose the terms of the offtake agreements.</p>	<p>The terms of these agreements are a confidential trade secret of Orion. The Board takes the view that such information should not be</p>

	disclosed in a public forum, as this will have an adverse effect on the Company's ability to continue its business in its current mode.
(iv) What was the level of due diligence carried out by management prior to signing the offtake agreement and paying the upfront deposits? In Note 15 (page 96 – Trade and other receivables), the Group has disclosed that it received a total of RMB157 million from a customer and utilised RMB114.7 million of that to pay for the deposits under the offtake agreement.	Management had done know-your-client checks on the relevant counterparty in line with the Company's policies. The counterparty has a track record of reliability and deliverability based on Orion's previous dealings with the same supplier over the past 2 years. In addition, management had also sighted the supplier's financial statements and confirmed that the supplier had the relevant mining licence, such that it would be able to supply coal to Orion as agreed.

2. Would the board/management also provide shareholders with better clarity on the matters outside of Orion? Specifically:

Question	Answer
<p>(i) Tech investment: On 20 March 2019, the company announced that it had entered into a Memorandum of Understanding with the vendor to negotiate exclusively on a possible collaboration, joint venture, investment and/or acquisition in relation to Techcomm Technology Limited and its wholly-owned subsidiary, Xiamen Xinya Science and Technology Ltd ("Xinya"). It was also disclosed that Xinya is working with more than a hundred merchants and it has a target to of 1,875 merchants by 31 March 2019.</p> <p>Can the board help shareholders understand if the target is realistic and if Xinya achieved it? What is the experience of the board and of the management team in valuing technology start-up? Who is leading the negotiation with the vendor? What guidance has the board given to management to ensure that any deal would be structured such that the risks are considered and properly managed and that the group would avoid the risk of overpaying for an early-stage company? How different is Xinya's concept from a Hema store (by Alibaba) or an Amazon Go store?</p>	<p><i>The Company refers to its announcement dated 20 March 2019. All capitalised terms within this response (to question 2(i)) shall have the same meanings as ascribed to them in the aforementioned announcement unless otherwise defined.</i></p> <p>The approach taken by Hema and Amazon Go has been to set up offline stores in addition to what they are offering online. Xinya believes in the approach of enabling and empowering the physical stores/SMEs through rolling out a revolutionary new retail ecosystem. With that, Xinya's emphasis is on providing convenience, not only to shoppers but also to businesses. Hence its target market also differs as, unlike Hema and Amazon Go, Xinya does not open or operate its own stores but targets existing businesses as its clientele, in particular, supermarket and grocery store chains at the moment. In this regard, the progress of Xinya towards its targets has been promising and the Company is still evaluating the possibility of a potential collaboration, joint venture, investment and/or acquisition ("Collaboration") with Xinya. The MOU with Xinya was for parties to negotiate exclusively with regards to a potential Collaboration, and such potential Collaboration would be subject to parties' entry into definitive agreement(s) setting out detailed terms of the Collaboration. Parties are currently still at the exploratory stage, with the Company making efforts to gain a deeper understanding of and insight into Xinya and its business. The management is aware of the potential issues in investing in an early-stage company and is also working to address them. At this preliminary stage, the viability of a potential Collaboration is still being assessed by the Group's senior management and should any such</p>

	Collaboration be possible, the Company will then seek advice from relevant external professionals.
(ii) Richardson refund: What is the time frame to recover the amount? Given the group's financial strength and the existing operations, is the group still actively looking to invest in properties?	<p><i>The Company refers to its announcement dated 30 January 2019. All capitalised terms within this response (to question 2(ii)) shall have the same meanings as ascribed to them in the aforementioned announcement unless otherwise defined.</i></p> <p>The time frame expected for the Company to recover the outstanding amount based on the amount reflected on its financials should not be more than 2 years. In the meantime, the Company is still exploring other possible ways to expedite repayment by the Defaulting Parties. In particular, the Defaulting Parties are looking at the possibility of refinancing the Proposed Project, which will lead to an expedited repayment process for the Company.</p> <p>The Group is still open to possible investments in the property sector. It will take into account its current financial strength and possible financing options before undertaking any such investment.</p> <p>The Company will make further announcements as and when there are developments.</p>

3. On 12 September 2018, the company announced the proposed placement of 450,250,000 new ordinary shares, representing approximately 26.47% of the share capital of the company on an enlarged basis, to 8 subscribers at an issue price of S\$0.01 per Placement Share.

The placement was carried out at a discount of approximately 9.1% to the volume weighted average price of S\$0.011 for trades done on the shares of the company on the day.

As at 30 June 2018, the last reported (unaudited) net asset value per share was RMB14.49 cents.

Based on the announcement dated 12 September 2018, the company's NTA per share will be reduced from RMB16.5 cents to RMB11.8 cents following the two placements.

NTA

	As at 31 December 2017		
	Before the Proposed Placement	Before the Proposed Placement (after the completion of the previous placement exercise on 22 May 2018)	After the Proposed Placement
NTA (RMB'00)	148,354	178,159	200,150
Number of issued shares of the Company ("Shares")	900,500,410	1,250,750,410	1,701,000,410
NTA per Share (RMB cents)	16.5	14.2	11.8

Question	Answer
<p>(i) Did the board, especially the independent directors, consider the dilutive impact of the placement at a price below its NTA per share on minority shareholders?</p>	<p>In its effort to raise financing and funds to expand the business of the Group, the Board had considered all options and all factors before undertaking the placement at the placement price. It was the best available option at that point in time.</p>
<p>(ii) What is the actual cost of capital to the group/existing shareholders as management raises fund by carrying out dilutive placements?</p>	<p>The funds are raised to expand the business of the Group and to help the Group continue to be profitable. The potential additional returns from the additional capital should also be considered in addition to cost of such capital in deciding on whether to raise the additional capital. Such potential additional returns will buttress the retained earnings which will have the effect of improving the NTA.</p>
<p>(iii) Did the independent directors evaluate the project returns from its investments vis-à-vis the real cost to capital?</p>	<p>The independent directors and the Board as a whole had evaluated the necessary and is confident that the project returns will cover the cost of capital.</p>
<p>(iv) Has the board evaluated the optimal capital structure? Is the current balance sheet sufficient to support the group's growth plans?</p>	<p>The situation is fluid and is not static. As such, the Board is constantly reviewing the needs of the Group and the balance sheet of the Group to ascertain if they are sufficient. The balance sheet is currently sufficient to support the growth plans of its current business. However, if the Group should embark on new businesses, another assessment will need to be made.</p>
<p>(v) Would the board, especially the independent directors, evaluate how it could safeguard the interests of minority shareholders as the group carries out its fund raising?</p>	<p>The Board considers all possible financing options before carrying out any fund raising and will continue to do so bearing in mind the interests of minority shareholders.</p>
<p>(vi) Should the company carry out another placement, would the board consider having a moratorium on the placement shares to prevent any undue short term speculation?</p>	<p>Based on the Company's records, the placees who have taken up shares in recent past placements have held on to their placement shares and have not disposed of their shareholdings in the Company. The Board has always been careful to try to seek out strategic placees/investors and placees/investors who take a longer term view of their investments, rather than short term speculators. The Company is of the view that finding investors who share the vision of the Group is more effective than just imposing a time-based moratorium.</p>

In the meantime, shareholders of the Company ("**Shareholders**") are advised to exercise caution when dealing in the shares of the Company ("**Shares**"), and to refrain from taking any action in respect of their Shares which may be prejudicial to their interests. In the event of any doubt, Shareholders should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

BY ORDER OF THE BOARD
SINCAP GROUP LIMITED

CHU MING KIN

Executive Chairman and Chief Executive Officer
29 April 2019

This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, Stamford Corporate Services Pte. Ltd. (the "Sponsor"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("SGX-ST"). The Sponsor has not independently verified the contents of this announcement.

This announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume 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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