

ACROMECH LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration Number: 201544003M)
(the “Company”)



ANNUAL GENERAL MEETING TO BE HELD ON 27 JANUARY 2021, 3PM

- RESPONSES TO QUESTIONS RAISED BY THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”)

ACROMECH Limited (the “Company”) and together with its subsidiaries, (the “Group”), has received the following questions from SIAS in relation to the Annual Report for the financial year ended 30 September 2020 and wishes to respond as follows:

Question 1

In the message to shareholders, the chairman highlighted the group’s push into the renewable energy segment. The construction of the waste-to-energy plant at Chew’s Agriculture farm is in progress and is expected to commence operations in 2021, having started the construction as early as 2019. Together with the joint venture partner (Nutara Investment Pte Ltd), the group will invest approximately \$10 million into the waste-to energy plant. The group has also signed an MOU with another potential customer who is in the landscaping business to explore the possibility of building a waste-to-energy plant using wood chip as feedstock. As at 30 September 2020, net asset value attributable to shareholders slipped to \$6.0 million. Borrowings have increased from \$1.94 million to \$7.86 million at the end of FY2020. During the year, the group took out three new loans under the Enterprise Financing Scheme which was enhanced during the COVID-19 pandemic to provide greater financing support to SMEs.

(i) Has the board/management evaluated if the group’s financial position is able to support the group’s strategic push in the renewable energy segment? The waste-to-energy plants are capital-intensive and have relatively long gestation period.

Company’s response

The Company believes that the renewable energy business sector is poised for growth as the world prepares to increase reliance on energy produced by sustainable sources, and in particular, that our waste-to-energy solutions support Singapore’s drive towards a circular economy that seeks to achieve a zero waste model. The Company has highlighted in its circular to shareholders dated 19 June 2019 that the Board will take into account the financial position of the Group in assessing the investment amount in its first waste-to-energy plant which is located at Chew’s Agriculture farm (“Investment”), which in any case is not expected to exceed S\$12 million. Further, as announced, the Company has concluded a joint venture agreement with Nutara Investment Pte Ltd where Nutara will invest up to S\$4 million in equity and loans for a 30% interest in the Investment. For further details, please refer to announcements dated 10 September 2020 and 26 November 2020.

(ii) What was the return on investment/hurdle rate used in the board’s approval process for the investment into the waste-to-energy plant?

Company’s response

The Company is not in a position to disclose such commercially sensitive information on return on investment/hurdle rates.

The Company has put in place a robust evaluation process and will regularly evaluate the progress of

the project. We will also work closely with our valued partner, Green Energy Resources Sdn Bhd, who has been in the waste-to-energy space for more than twenty years.

(iii) As part of the group's long-term strategy, what is the envisaged/targeted contribution to the top- and bottom-lines from this new operating segment?

Company's response

The Company is not in a position to disclose such commercially sensitive information. The Group however expects this new renewable energy segment to add stability to our revenue and income streams.

(iv) What progress has been made by the group to secure sustainability-linked loans or "Green loans"?

Company's response

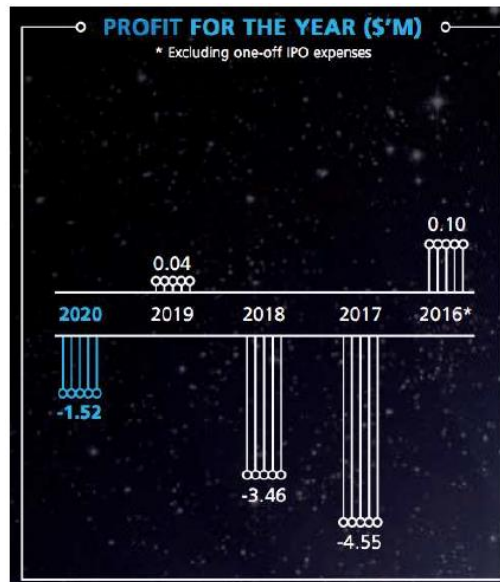
The Group is currently in the process of seeking re-financing from financial institutions on its waste-to-energy project at Chew's Agriculture farm. Further details will be announced when there are developments.

(v) In particular, for the waste-to-energy plant at Chew's Agriculture farm, what is the expected role/contribution of its joint venture partner (Nutara) other than being a co-investor? Does Nutara have a track record in constructing and managing renewable energy/waste-to-energy plants?

Company's response

Besides being an investor in the project, Nutara Investment Pte Ltd has other investments in companies that possess the relevant track record in providing turnkey solutions to its customers in the field of process plants and facilities, environmental technology systems as well as composite process equipment. This track record, among others in waste-to-energy, will provide the competitive advantage in the renewable energy space where they can share their expertise to optimize the plant's operational efficiency.

Since the company was listed in 2016, it has reported three years of losses that ranged from \$(1.52) million to \$(4.55) million in the past 4 financial years. Shareholders' equity has shrunk from \$10.8 million as at 30 September 2016 to \$5.99 million even as the company raised an additional \$3.7 million in FY2018. The track record of the group is shown in the financial highlights (page 22) and reproduced below.



(Source: company annual report)

(vi) What are the operational and financial milestones management needs to achieve to return the group to profitability?

Company's response

The Group's revenue was impacted during the financial year ended 30 September 2020 where revenue plummeted 28% on the back of lower business activities due to the COVID-19 pandemic. The Group is working hard to return to pre-pandemic business activities levels. It is also working in tandem to manage its operating and administration cost. As and when there are new material contract wins, which will strengthen our order book, the Group will make the necessary announcements.

The commencement and stable operation of the waste-to-energy plant is also an important factor. The commercialisation of carbon credits trading will be an added advantage to the Group as the Group is in process of registering for Clean Development Mechanism (CDM) which allows emission reduction projects like the Group's to earn certified emission reduction (CER) or carbon credits where it will be able to trade these CERs.

Question 2

Would the board/management provide shareholders with greater clarity on the group's core engineering, procurement, and construction ("EPC") and maintenance segments?

(i) **Profit margin:** While the COVID-19 pandemic has served as a catalyst to drive more investment into healthcare infrastructure, it has disrupted the supply chain and raised manpower costs. **What changes has the group made in its tendering process to factor in higher manpower costs and possibly longer delivery deadlines (as a result of manpower shortages and lower productivity due to safe distancing measures)?**

Company's response

We have commenced with adjusting preliminaries in our project tenders to capture the expected increase of manpower costs. At the same time, we continually manage the performance and costs of our approved vendors.

(ii) **Opportunities:** What are some of the major EPC opportunities in Singapore in the next 18-24 months? What is the group's competitive advantage that would allow it to win EPC contracts?

Company's response

Singapore would be keen to reinforce its status as a safe investment location for large corporations, continued leadership in research and development as well as healthcare services. We believe that we are well positioned, having the requisite established track record, to undertake key Facilities EPC contracts to support both local and MNC clients.

(iii) Indonesia: Can management elaborate further on the group's scale, business model, prospects and opportunities in Indonesia?

Company's response

The Group's Indonesia subsidiary is in the business of distribution of laboratory furniture and accessories. The subsidiary has built an equipped local team, supported by good guidance and training from our Singapore team. Our Indonesia subsidiary has completed and successfully delivered a few projects since incorporation in year 2018. The Team is kept lean during COVID-19 pandemic and they continue to work on smaller scale critical facilities, at the same time waiting for opportunities which is expected post COVID-19 recovery.

(iv) Maintenance: How does the group acquire new customers in the maintenance segment?

Company's response

The Group's maintenance business is a derived business from its EPC business. Barring unforeseen circumstances, it is expected to grow as the EPC business continues its expansion and growth. The Group is focused on making further inroads in the commercial and industrial building maintenance space following its recent increase of its 60% interest in Golden Harvest Engineering Pte Ltd to 90%.

(v) Investment property: An investment property at 1 West Coast Drive was acquired by the group when it acquired Golden Harvest Engineering. It seems that the group has not been able to rent out the unit at NEWest since FY2017.

(Note 13 – Investment property; page 105). **Can management clarify its plans for the investment property? What is the meaning of the expiry date of "September 2034" for its investment property (page 3 of the annual report)?**

Company's response

The Group is still making effort to rent out the investment property to-date. Further updates will be made when the property is rented out. The Group is also exploring the disposal of the investment property, should such opportunity arises. The expiry date shown in the annual report reflects the end of the property's lease period.

Question 3

As disclosed in Note 1 (page 65 – General) and Note 20 (page 113 – Bank loans), the group breached a financial covenant relating to a subsidiary's leverage ratio on a bank loan amounting to \$2,500,000 during the year. It further stated that the group has yet to apply for a waiver for the breach on this affected loan.

The breach relates to the group's unsecured loan (Loan D) that was drawn under the Enterprise Financing Scheme. The loan matures 5 years from the date of draw down and has an interest servicing period for the first 12 months from draw down date.

(i) Would management help shareholders understand the reasons for the breach? How did the subsidiary breach its financial covenant so soon after the draw down?

Company's response

This relates to a breach of financial covenants relating to a subsidiary's leverage ratio as a result of the

drawdown of the Enterprise Financing Scheme.

(ii) What is causing the delay to apply for the waiver or to meet the financial covenants?

Company's response

There has been no delay to apply for waiver. The subsidiary has notified the bank and is in regular discussions with the bank's relationship manager. It has not been notified by the bank of any enforcement action. The subsidiary has not defaulted in any repayments of the loan. The Group does not foresee it has any problems to meet the scheduled repayments.

(iii) Would the breach of the financial covenant lead to other penalties such as higher interest rate or cross default?

Company's response

The Group does not anticipate that this would lead to such situations as stated above.

By Order of the Board

Lim Say Chin
Executive Chairman and Managing Director
22 January 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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