

**RESPONSE TO SGX-ST QUERIES ON THE ANNUAL REPORT FOR FINANCIAL YEAR ENDED
 31 DECEMBER 2020**

1. INTRODUCTION

The board of directors (the “**Board**”, and each director, a “**Director**”) of AsiaPhos Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the Company’s announcement dated 12 April 2021 in connection with the Company’s annual report for financial year ended 31 December 2020 (“**FY2020**”).

The Board wishes to inform the Company’s shareholders that the Company has received queries from SGX-ST on 13 April 2021 and is providing its responses to those queries in this announcement.

2. THE QUERIES

Query 1

Please provide latest status on the arbitration process with the Chinese Government and indicative timeline to update shareholders on the Proposed Disposal of the Group’s mining assets and its discontinued mining operations.

Company’s Response

As disclosed in our announcement on 23 February 2021, arbitration is underway and the Group is required to observe confidentiality. Based on advice from the Company’s lawyers, certain information herein relating to Arbitration and negotiation with the Government are confidential, and disclosure may prejudice the Company’s position. Negotiations to seek amicable settlement are also underway and Management continues to engage the Chinese Government in dialogue. The Group is also open to consider any settlement proposal from the Chinese Government. Given the above, there are no certainties relating to timelines for the completion of the arbitration process.

The Group is mindful of its obligation under the Catalist Listing Rules and will make announcements on SGXnet as and when there are material developments in the arbitration or settlement negotiation.

Query 2

For the Group’s continued operations in the sale of Sodium Tripolyphosphate (STPP), Sodium Hexametaphosphate (SHMP) and Sodium Trimetaphosphate (STMP), its revenue declined by 17% in FY2020 compared to FY2019, caused by the COVID-19 Pandemic.

A proposed RTO with MMJV Pte. Ltd. (announced on 13 Nov 2020) was also terminated on 6 April 2021.

What are the Company’s plans to turn around the Group’s business in this climate? Is the continued operations sustainable in the long run?

Company's Response

The Company is already monitoring this issue closely and is inter alia working with Management in Mianzhu Norwest to engage parties interested in acquiring the Group's facilities in Gongxing town. We have received information that mining in the vicinity of Gongxing Town has resumed for certain state-owned enterprises ("SOE") and supply of phosphate rocks will make it economic to resume P4 production for those who are in this business.

As disclosed in our announcement on the termination of the acquisition of MMJV on 7 April 2021, the Group will continue to source for other corporate, business, acquisition and financing opportunities as and when available and appropriate to enhance shareholders' value. In addition, the majority shareholders had funded the company.

The Company will provide updates via SGXnet as and when there are material updates.

Query 3

In view of the Group's negative operating cash flow of S\$762,000 and cash balance of S\$330,000 as at 31 Dec 2020, is the Group dependent on its existing bank loans to sustain its continued operations?

Company's Response

Whilst there is a loan outstanding, the loan to value ratio at 43% is not high and the banks have been satisfied with the Group's repayment record. In addition, the Group's cash flow requirements are funded by its operations and shareholders' advances, and the sources of funding will include "outsourcing" it excess facilities and/or sale.

It is also dependent on the financial support of its Majority Shareholders (i.e. collectively, Dr Ong and the Ong families' investment companies). They believe that there is still substantial value to be recovered from the divestment of its property, plant and equipment and the potential receipt of compensation from the Chinese Government and will continue to provide support to the Company and not demand repayment in the event Asiaphos does not have the ability to repay.

Query 4

In confirming the Company's ability to operate as a going concern, please elaborate on the Board's bases and justifications.

Company's Response

The Board has taken into consideration the Group's plans (inter alia internal estimates of value of P4 plant and STTP plant as well as forward numbers) such as those disclosed in the answer to question 2 above and confirm that the Group will be able to operate as a going concern.

Reference is also made to the Company's announcement dated 9 April 2021, in which the following assumptions & directors' statement regarding the going-concern assumptions was disclosed. The basis of the Board's opinion is as follows:

(a) The Group is able to generate cash flows from its downstream chemical segments through trading of chemical products like Sodium Tripolyphosphate ("STPP"), Sodium Hexametaphosphate as well as other polyphosphate chemicals and achieve reduction in cash outlays and overheads due to downsized operations.

(b) In FY2019, the Group leased the STPP plant to a third party for RMB 1 million per annum for a period of 4 years, with the option to extend for another 3 years upon expiry. Rental income is received bi-annually.

The Group is also exploring sale of land that is surplus to the Group's current operating requirements and is in negotiations to lease out its P4 plant (and is also currently in ongoing discussions towards the potential sale i.e. disposal of the STPP and P4 Plants); and

(c) Discussions will be carried out by the Group with financial institutions to rollover its existing loans as and when they fall due. As the Group has in the past not defaulted on any of the loans extended to it, barring unforeseen circumstances, the Directors expect that the Group will be able to obtain requisite financing for the Group's operations.

In addition, the cash resources of the Group will be augmented by the support of its majority shareholders and also as disclosed in our announcement on the termination of the acquisition of MMJV on 7 April 2021, the Group will continue to source for other corporate, business, acquisition and financing opportunities as and when available and appropriate to enhance shareholders' value. In addition, the Majority Shareholders had funded the Company.

Query 5

What are the Sponsor's opinion on whether the Group is able to continue as a going concern. Please provide justifications.

Sponsor's Response

The Sponsor has considered the following:-

- (1) As at 31 December 2020, the Group was in net current liabilities position of approximately S\$9.1 million (excluding the assets and liability of the disposal group). The biggest component of the Group's current liabilities as at 31 December 2020 was bank borrowings of S\$6.3 million. As announced on 17 December 2020 and 13 January 2021, the Group has managed to refinance its bank borrowings with the banks. The Directors and the Management confirmed that based on past discussions with the banks and the fact that (a) the Group has in the past not defaulted on any of the loans extended to it; and (b) the loans are adequately secured (loan to value ratio of only 43%), barring unforeseen circumstances, the Group will be able to renew the bank loans when they are due in December 2021 and January 2022.
- (2) Continuous financial support from its Majority Shareholders (ie. collectively, Dr Ong Hian Eng ("**Dr Ong**") and the Ong families' investment companies) – To-date, Dr Ong has extended loans of approximately S\$1.15 million in aggregate. These loans are unsecured, repayable on demand and bears interest of 8% per annum. The Sponsor understands from discussion with the Company that barring any unforeseen circumstances, the Majority Shareholders of the Company, inter alia, Dr Ong will continue to provide support to the Company and will not demand for repayment in the event Asiaphos does not have the ability to repay.

The Group's ability to continue generating cash flows from downstream chemical products like STPP, SHMP as well as other polyphosphate chemicals – the Management represented that it will continue its efforts to expand the geographical base of the Group's customers of downstream phosphate chemicals like STPP and STMP produced by their tenant and cooperation partner Lianyungang Zexin Food

Ingredients Co Ltd. The Group will continue its cost control effort and achieve further reduction in cash outlays in view of the downsized operations.

- (3) The Group leased out the STPP plant to a third party since 2019 for RMB1 million per annum for a period of 4 years, with the option to extend for another 3 years upon expiry.
- (4) The Board's representation that the Group has taken various effort to improve its cash flows inter alia cost control (reduction in overhead). The Sponsor notes that the Group is also exploring sale of land that is surplus to the Group's current operating requirements and is in negotiations to lease out its P4 plant (and is also currently in ongoing discussions towards the potential sale i.e. disposal of the STPP and P4 Plants.
- (5) The Board has confirmed and represented that the cash resources of the Group will be augmented by the support of its Majority Shareholders and as disclosed in the Company's announcement on the termination of the acquisition of MMJV on 7 April 2021, the Group will continue to source for other corporate, business, acquisition and financing opportunities as and when available and appropriate to enhance shareholders' value. In addition, the Majority Shareholders had funded the Company. In addition, the Board has confirmed given the estimates for legal fees (as advised) and barring unforeseen circumstances the Group has the resources to fund the arbitration proceedings.

In view of the above and based on the Company's announcements (including, *inter alia*, this announcement) and information provided, and subject to the Board's successful implementation of the various approaches as announced, and the Board's representation and confirmation and barring unforeseen circumstances (*inter alia*, the ongoing arbitration) and market conditions, the Sponsor is of the view that at this moment, there is nothing to suggest that the Group is not able to continue as a going concern.

BY ORDER OF THE BOARD

Dr. Ong Hian Eng
Executive Director
AsiaPhos Limited

15 April 2021

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor ("Sponsor"), Asian Corporate Advisors Pte. Ltd., in accordance with Rules 226(2)(b) and 753(2) of the Singapore Exchange Securities Trading Limited ("Exchange") Listing Manual Section B: Rules of Catalist for compliance with the relevant rules of the Exchange. The Company's Sponsor has not independently verified the contents of this announcement including the correctness of any of the figures used, statements or opinions made.

This announcement 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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