



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

RESPONSE TO SGX-ST QUERIES

Capitalised terms in this announcement shall have the same meanings as ascribed to them in the Announcement (as defined below) unless otherwise defined.

The Board of Directors (the “**Board**”) of AGV Group Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) would like to respond to the queries from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) dated 13 January 2020 regarding the Company’s announcement on 8 January 2020 in relation to, amongst others, the emphasis of matter by the independent auditors of the Company on its financial statements for the financial year ended 30 September 2019 (“**FY2019**”) (the “**Announcement**”). Please refer to the Announcement for further information on the same.

The Board is of the opinion that the Group will be able to continue as a going concern on the following basis:

- (i) **ability of the Group to generate sufficient cash flows from their operations;**
- (ii) **continued financial support from the Group’s individual, corporate and institutional lenders, as well as vendors, as applicable; and**
- (iii) **potential new injections of capital.**

Question 1: Given that the Group has incurred net losses for FY2018 and FY2019 of S\$13.6m and S\$8.4m respectively, please elaborate and explain the Board’s view that the Group will have the ability to generate sufficient cash flows from their operations.

Response

The Group’s operations had earlier been hampered by the substantial increase in zinc prices leading to an increase in production costs, as well as slower production work rates and intermittent production work disruptions as a result of the structural damage to the zinc kettle in 2018. The Group had replaced the kettle in the same year.

For the forthcoming year, with the new kettle, the Group believes that it will be able to operate without any major disruptions. In addition, zinc price is also expected to average a gradual downward trend and it is expected that the Group will benefit from the falling zinc price, barring unforeseen circumstances.

In the second half of FY2019, the Group had also obtained support from Mr Chua Wei Kee, the Executive Chairman, through the supply of zinc from Mr Chua’s associate, the JD group of companies. As such, the Group will be able to secure a more stable supply of zinc, which will allow the Group to operate at a more optimal level and generate more revenue for FY2020.

The Group has also received improved payment terms from its customers hence improving its cash flow. Barring unforeseen circumstances, the Board anticipates that the Group will therefore be able to fulfil more galvanizing orders this financial year.

In relation to the Group’s operations in Malaysia, the Group has also made arrangements to replace its zinc kettle, and would therefore be on track to re-commence its operations in the next few months.

The Group has also been considering undertaking potential corporate actions to raise funds from public, such as through a rights issue or placement. The Group has also been able to meet its debt repayments as and when they fall due.

In light of the above, the Board is therefore of the view that the Group will be able to continue as a going concern.

Question 2: Please elaborate on the amount and tenure of the continued financial support from the Group's individual, corporate and institutional lenders, as well as vendors.

Response

As of 27 August 2019, the Chairman had provided a letter of undertaking that he will provide financial support of S\$4.5 million in the form of working capital to the Group, as and when the Group requires, for the next 12 months. The Group is in the midst of negotiating with new investors for new injections of capital and management continues to maintain close contact with its current creditors to explore different avenues for settlement of the liabilities. Please refer to Note 2.2 of the Group's audited financial statements for FY2019 as set out in its Annual Report released on SGXNet on 14 Jan 2020 for more details.

Question 3: Please elaborate on the potential new injections of capital, the extent of discussions with these parties, and the anticipated timeline for such new injections to take place.

Response

As abovementioned, the Group is considering undertaking potential corporate actions to raise funds from the public, such as through a rights issue or placement, within the financial year ending 30 September 2020, and will make the necessary announcement(s) as and when there is any material development.

Question 4: Please provide the Board of Directors' opinion as to whether trading of the Company's shares should be suspended pursuant to Listing Rule 1303(3) (Going Concern) and the basis for such opinion.

Response

In light of above (as set out in the Company's response in Q1, Q2 and Q3) and taking into consideration the cashflow forecast prepared by the finance team, the Board is of the opinion that the Company is able to pay its debts as and when they fall due. In light thereof, the Board is of view that the Company's shares should not be suspended pursuant to Listing Rule 1303(3).

With reference to the variances between unaudited and audited financial statements, S\$1.45m arose from the 'other expenses' category, which includes the following:

- (i) Write-off of a zinc galvanizing kettle and furnace system in Malaysia of S\$982,000;
- (ii) Reclassification on the write-off of inventory in Malaysia from consumables used to other expenses of S\$225,000 as per Note 2 (as set out in the Announcement) above;
- (iii) Impairment of a wastewater treatment plant of S\$118,000;
- (iv) Write-off of purchase price allocation adjustments in property, plant and equipment of S\$104,000; and
- (v) The expected credit losses on trade receivables of S\$21,000.

Question 5: The variances arising from write-offs and impairment is substantial as compared to the other adjustments. What are the reasons leading to the need for the above adjustments between the unaudited and audited results?

Response

The adjustments had been mainly due to the write-off of a zinc galvanizing kettle and furnace system in Malaysia. The write-off had taken place as the kettle is currently not in use and the Group intends to re-commence its operations in Malaysia in the next few months and no longer wishes to operate diesel-operated kettle(s). The Group intends to use LPG gas-operated kettle(s) as it is more cost-efficient in the long run. The Group had considered the possibility of retro-fitting the kettle to fit such purposes. However, after evaluation and assessment, it was considered that the kettle would be unfit for such re-designation.

Question 6: What policies and procedures does the Company currently have in place for write-offs and impairments?

Response

For such write-off and impairments, Management will propose the same to the Board. The Board will then review such write-off / impairment and consider the same for approval. Once Board approval has been obtained, such write-off / impairment will take place. In this case, this procedure had been followed.

Question 7: Is the current finance team adequate in preparing the financial statements?

Response

Yes, the Board is of the view that the current finance team is adequate. In this case, the write-off and impairment had taken place after release of the Company's announcement in relation to its unaudited financial statements for the financial year ended 30 September 2019 (the "**Unaudited FS Annt**"). It had therefore not been taken into consideration in the Unaudited FS Annt. The adjustments and variances between the Unaudited FS Annt and the Company's audited financial statements had been mainly due to such write-off and impairment.

BY ORDER OF THE BOARD

Chua Wei Kee
Executive Chairman
AGV Group Limited

15 January 2020

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 SGX-ST and the SGX-ST 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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