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 18 March 2019 regarding the Company's announcement on 15 March 2019 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 2018 ("**FY2018**") (the "**Announcement**"). Please refer to the Announcement for further information on the same.

The Group has a net current liabilities position of S$21.0m as at FY2018. It was stated that the Board is of the opinion that the Group will be able to continue as a going concern on the basis that:

(i) the Group had in October 2018 obtained financing cash inflows of approximately S$2.0m, will approximately S$1.1m raised by way of placement (the "Placement") and approximately S$900k by way of a loan ("Loan");

(ii) the Group had on 4 March 2019 received the continued support of its institutional lenders by entering into an agreement with them to amend and restate existing terms and conditions of the corresponding loans so as to extend the tenure of repayment of the loans (the "Restructured Loans"); and

(iii) the Group had on 6 March 2019, entered into two (2) loan agreements with several investors, including Mr Chua Wei Kee, the Non-Executive Chairman of the Group, for an aggregate of up to S$5.0m (the "New Loans").

Question 1: It was stated in Annual Report for FY2018 ("AR") issued on 15 March 2019 that as at the date of the AR, the net proceeds of S$1.1m from Placement has been <u>fully utilized</u> by the Group for the purposes of its general working capital and repayment of bank borrowings and other trade payables. Taking into account the free cash balance of the Group is precariously low at S$77k as at 30 Sep 2018 (FY2018 year-end), what is the latest free cash balance of the Group currently?

<u>Response</u>

As at 19 March 2019, the free cash balance of the Group was S$110,000. As disclosed in its audit report for FY2018 and as abovementioned, the Group has however obtained the New Loans and has already drawn down on approximately S$2.4 million. The Group has also, to-date, requested for a further draw down of S$0.1 million from the New Loans.

The Group wishes to add that part of the Placement proceeds and the Loan had been utilised towards the purchase of zinc. Whilst the Group had earlier been unable to run its operations at full capacity due to the replacement of the damaged zinc kettle, the Group is of the view that with the replacement of the zinc kettle, it will now be able to generate a higher revenue from its operations. As the Group is also operating on 30-days credit terms, it has recently been able to commence collection of receivables from its customers. Further, as one of the Group's challenges faced in FY2018 had been the higher cost of zinc, the Group is also confident that with Mr Chua Wei Kee, one of the largest zinc suppliers in the region, coming onboard as the Group's Non-Executive Director and Non-Executive Chairman, his support will help the Group overcome any increased costs of zinc.

In view of the abovementioned, whilst the Group's current free cash balance remains low, the Board is of the view that the Group will have sufficient cash for its operations and any other payables.

Question 2: It was disclosed in the AR for FY2018 that the New Loans are repayable on demand. It was also disclosed that with regards the agreement entered into with the institutional lenders to agree on the

Restructured Loans, the amended terms require the Group to make repayments of S$1.7m within the next 12 months while approximately S$10m ought to be repaid between end Oct 2019 till end Oct 2022. Given the above, what is latest current liabilities of the Group vis-à-vis the current assets of the Group?

Response

The Group has been provided with comfort letters from the investors extending the New Loans indicating that they will not call on repayment of the New Loans within the next 18 months. As mentioned in the Company's response to Q1, the Group has already drawn down on approximately S$2.4 million and part of this amount has been utilised towards making the repayment of S$1.7 million to the institutional lenders (the "**Repayment**").

Based on the Group's balance sheet as at 28 February 2019 and adjusted for the Repayment, and extension of tenure of repayment with certain trade creditors and private lenders up to 19 March 2019, the Group's total current liabilities have now been reduced to S$5.5 million. Total non-current liabilities are S$20.2 million, making total liabilities to be S$25.7 million. The Group's total current assets are S$4.2 million. Hence, net current liabilities are now at S$1.3 million.

In light of the abovementioned draw down, the balance of the New Loans that remains unutilised by the Group is S$2.5 million, which exceeds the Group's net current liabilities as at 19 March 2019.

The Group is accordingly of the view that it will be able to fulfil its current debt obligations.

Question 3: Loss for the year has been widened from S$4.3m in FY2017 to S$13.4m in FY2018. Amongst other reasons, it was disclosed that revenue from galvanizing services decreased from S$18.0m in FY2017 to S$8.0m in FY2018 as a result, partially, of structural damage experienced by its zinc kettle in 2018, which required constant repairs and the Group ultimately carried out a total replacement of the zinc kettle. This resulted in lower production tonnage, intermittent production work disruptions, increase in costs and inevitable zinc loss as a result of the change in zinc kettle. Given that the damaged zinc kettle has been totally replaced, will there still be additional costs expected in FY2019 as a result of the damaged zinc kettle?

Response

As the damaged zinc kettle has now been replaced, barring any unforeseen circumstances, the Group does not envision any further disruptions to operations caused by any damages to the zinc kettle, save for the usual maintenance works on the kettle.

Question 4: Taking into account the above, what are the Board's basis for the opinion that the Group is able to continue as a going concern?

Response

On the basis of the reasons mentioned in the responses to Q1, 2 and 3, the Board is of the view that the Group is able to continue as a going concern.

The Board collectively and individually takes responsibility for the accuracy of the aforesaid replies to the queries raised by the SGX-ST.

BY ORDER OF THE BOARD

Albert Ang Nam Wah
Executive Director and Chief Executive Officer
AGV Group Limited

28 March 2019

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contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr Tang Yeng Yuen, Vice President, Head of Corporate Finance who can be contacted at 16 Raffles Quay, #01-05, Hong Leong Building, Singapore 048581, Telephone: (65) 6415 9886.