ABUNDANCE INTERNATIONAL LIMITED

(Incorporated in Singapore)
(Company Registration Number 197501572K)

RESPONSES TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Board of Directors (the "**Board**") of Abundance International Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to announce the following in response to the queries raised by the Securities Investors Association (Singapore) ("**SIAS**") with respect to the Company's annual report for the financial year ended 31 December ("**FY**") 2020 (the "**AR2020**"). Unless otherwise defined, capitalised terms used herein shall have the meanings ascribed to them in the AR2020.

SIAS Query 1

On page 4 of the annual report, in the message to shareholder, the company stated the following:

This year, OSC Group achieved revenue of US$410.5 million, with profit after tax of US$0.3 million amidst challenges of the COVID-19 pandemic and global economic downturn. This was due mainly to certain types of chemical products that can be used to produce hand sanitisers which were in high demand.

Later, on page 6, under the section titled "Looking ahead", the company stated:

LOOKING AHEAD

Chemical Business
FY2020 saw an increase in the average selling price of the chemical products that the Group trades in. Amidst challenges of the COVID-19 pandemic, global economic downturn and competitive trading environment, OSC Group achieved revenue of US$410.5 million, with a loss after tax of US$0.3 million.

(Source: company annual report; emphasis added)

(i) Can the company reconcile the above and clarify if OSC Group was profitable in FY2020? Based on Note 37 (page 109 – Operating segment), the chemicals segment appeared to have reported a loss of $(420,000) and $(354,000) in FY2020 and FY2019 respectively.

Company's response

The OSC Group was profitable in FY2020, with profit after tax of US$0.3 million. It was erroneously indicated as having a "loss after tax" under the section titled "Looking Ahead" on Page 6 of the AR2020. The chemicals segment referred to in Note 37 comprises of the OSC Group and Zhangjiagang Orient-Hill Microorganisms Technology Co., Ltd. ("**Zhangjiagang Orient-Hill**"). Therefore, the chemicals segment result is different from the OSC Group's standalone result.

Reconciliation:

	US 'million
OSC Group	0.3
Zhangjiagang Orient-Hill	(1.1)
Less: Elimination of inter-segment transactions	0.4
Chemicals segment loss as disclosed in Note 37	(0.4)

(ii) Can management disclose the gross profit margin achieved by OSC group in the past 3 years?

Company's response

	Gross profit margin
FY2020	4.1%
FY2019	4.4%
FY2018	3.7%

(iii) Can management help shareholders understand the business model of its chemical trading business? How does management create and capture value for shareholders? What is the targeted gross profit margin?

Company's response

The Group's chemical trading business is conducted via its subsidiary, Orient-Salt Chemicals Pte. Ltd. ("**OSC Singapore**"), and its subsidiaries, Orient-Salt Chemicals Shanghai Co., Ltd. ("**OSC Shanghai**") in the People's Republic of China (the "**PRC**"), and Touen Japan Co., Ltd in Japan (collectively, the "**OSC Group**"). The OSC Group adopts a trading and distribution model. The main focus continues to be on the trading of commodity chemicals. The targeted gross profit margin for the chemical trading business is approximately 3% to 4%.

Our Executive Director, Mr Jiang Hao, has many years of experience in chemicals trading. Mr Jiang Hao is currently the general manager of the OSC Group. He is assisted by a pool of experienced sales and other personnel, many of whom have been working with him for many years. We believe that we can hold our own against other chemical traders due to our wide network of customers and suppliers, extensive experience, and our competent and loyal staff. In addition, Mr Shi Jiangang, our Executive Chairman, is also a veteran in the chemicals industry in the PRC. He too, has extensive contacts in this industry and can assist in setting strategic directions for our chemical business.

In 2019, the Company completed the acquisition of 18.18% of the share capital of 上海三瑞高分子材料股份有限公司 (Shanghai Sunrise Polymer Material Co., Ltd.) ("**Sunrise**"). Sunrise specialises in the production of specialty chemicals used mainly for the construction industry, such as concrete admixtures, mortar admixtures, gypsum water reducing agents, floor care products and geotechnical engineering additives.

As announced by the Company on 15 April 2021, OSC Shanghai has subscribed for 0.31% of the enlarged share capital of Jiangsu Sopo Chemical Co., Ltd. ("**Jiangsu Sopo**"). Jiangsu Sopo is a major supplier of acetic acid to the OSC Group. The long term relationship we have with them has been beneficial and fruitful. We believe that this investment will further strengthen our relationship with them and provide us with a competitive edge when we purchase goods from them in the future.

We believe that given time, the above acquisitions will be beneficial to our Group. We will continue to explore and evaluate other chemical related investment opportunities which may further create value for shareholders.

(iv) How does management intend to increase its gross/net margin? How much pricing ability does the group have?

Company's response

Commodity chemicals trading typically yields a low gross margin and traders typically have limited pricing ability. We believe we have certain advantages, such as a team of experienced and dedicated sales staff, longstanding working relationships with customers, and a presence both in the PRC and outside. Our profit margins for any particular period is also dependent on the price fluctuations of our inventory for that period. We will strive to increase our gross profit margin by maintaining good working relationships with our suppliers and customers. However, we also need to balance that against managing our risk (such as inventory risk) and the stability of our supplies and orders.

In addition, in FY2020, the group also recognised a loss of US$(499,000) relating to a contract cancellation. On page 104, management has stated that the loss on contract cancellation relates to the amount paid to a customer for the non-fulfilment of a contract with the customer due to volatility in chemical supplies.

(v) Would management help shareholders understand the circumstances leading to the contract cancellation? Did management adhere to the group's operations and risk management framework?

Company's response

This was a one-off event during the pandemic outbreak. The OSC Group had entered into a contract to supply a certain chemical product to a customer. However, the price of this chemical product spiked up unexpectedly due to the worsening of the COVID-19 situation in USA and Europe. Our supplier was not able to supply the same to us due to production constraints and sudden high demand. The OSC Group had the alternative of buying the chemical product from the open market to fulfil the contract, but the loss suffered would have been even higher as the market price for that chemical product had increased significantly. Therefore, we negotiated with our customer and finally agreed on a settlement amount of US$499,000 after weighing the overall cost-benefit.

SIAS Query 2

In addition, the group has a 70%-owned joint venture company, Zhangjiagang Orient-Hill Microorganisms Technology Co., Ltd. ("Zhangjiagang Orient-Hill") with principal activities in research, screening and cultivation of microbes. In March 2020, the JV company signed an agreement to acquire a 40% equity stake in Orient-Hill (Guangdong) Microorganisms Environmental Technology Co. Ltd. The JV company has so far secured a service contract and it is in the midst of negotiations with a few other potential customers for new service contracts.

As disclosed on page 6, during FY2020, the joint venture recorded US$75,000 in revenue, with loss after tax of US$(1.1) million. Impairment loss on plant and equipment, research costs, marketing fees and operating costs were incurred during FY2020, resulting in a net loss.

(i) Can the board/management help shareholders understand its investment into the research, screening and cultivation of microbes?

Company's response

Given the emphasis placed by the PRC government on environmental protection in recent years, the Company is optimistic about the potential of the water treatment industry in the PRC. The Company is initially targeting factories producing chemicals as the pollution level for waste water is typically higher than normal municipal waste water and therefore, harder to treat. With the expertise of our joint venture partner ("**JV Partner**"), the Company is confident of providing a superior sludge management solution at a lower cost as compared to other existing water treatment service providers in the PRC.

(ii) Is this synergistic to the group's chemical trading business?

Company's response

As mentioned above, our initial target customers are the factories producing chemicals in the PRC. As the OSC Group is also in the chemicals trading business, we expect there to be synergistic benefits from having a common pool of suppliers and customers in the chemical industry.

(iii) What is management's expertise in microorganisms and its related technology?

Company's response

Our JV Partner is principally engaged in the business of providing sludge management solutions to chemical manufacturing companies in Japan. They will provide the technical support initially and over time, build up a technical support team based in the PRC for Zhangjiagang Orient-Hill. However, due to travel restrictions arising from the COVID-19 situation, the JV Partner has not been able to send staff to the PRC and therefore, the development of this business has been slower than we had hoped.

(iv) Can the company help shareholders understand the business model of the microbes business? What is the niche and the size of the addressable market?

Company's response

Zhangjiagang Orient-Hill provides sludge management solutions to its customers. We produce microbes which are added to our customers' waste water facilities. Currently, typical sludge management solutions require the sludge produced to be removed and disposed of. Our solution is different in that it controls the amount of sludge produced so that no sludge removal is needed, resulting in cost savings for our customers. Other than chemical factories, waste water plants and factories in other industries are our potential customers too.

(v) Will the investment into microorganisms technology alter the risk profile of the group?

Company's response

As the investment into microorganisms technology is still relatively new and the operation size is small, we do not foresee significant change to the risk profile of the Group. Also, the capital expenditure for this business is not expected to be large.

(vi) **Separately, the group conducts its investment business via the wholly-owned subsidiary, Abundance Investments Pte. Ltd. As noted in the annual report, the portfolio (excluding the 18.18% equity interest in Shanghai Sunrise Polymer Material Co., Ltd.) was valued at US$0.53 million, up from US$0.19 million in FY2019. Net cash purchase of financial asset at fair value through profit or loss (FVTPL) was US$338,000 in FY2020. As disclosed in Note 15 (page 94 – Financial assets at fair value through profit or loss), the group invested in quoted equity shares for returns through dividend income and fair value gains. Can the group elaborate further on the investment mandate?**

Fair value loss on equity investments at FVTPL of $2,000 (2019: $10,000) has been included in profit or loss for the year as part of "Other operating income". How is the portfolio managed and what are the risk management policies put in place?

Company's response

Currently, we invest a small amount of our cash in quoted securities. Our Managing Director monitors the investments closely and will adjust the portfolio accordingly where needed.

For the unquoted shares in Sunrise, we review their half yearly management accounts, understand the development of their business, and engage an independent professional valuer to perform business valuation on a yearly basis as part of our monitoring exercise.

Any significant new investments are submitted to the Board for discussion and approval. The Board evaluating such investments, taking into account, amongst others, expected return, potential operational synergies and shareholder value enhancement.

SIAS Query 3

Provision 2.2 of the Code of Corporate Governance 2018 provides that where the chairman is not an independent director, the independent directors should make up a majority of the board and Provision 2.3 states that non-executive directors should make up a majority of the board. The current board comprises six directors, three of whom are independent directors and three are executive directors. The board acknowledged the deviations from Provisions 2.2 and 2.3. The justifications can be found on page 16 of the annual report.

(i) **Has the nominating committee (NC) evaluated how, in meeting Provisions 2.2 and 2.3, the board dynamics may be further improved, leading to more constructive debate and a higher propensity to avoid groupthink?**

(ii) **Would the board be reconsidering its deviation from Provisions 2.2 and 2.3?**

Company's response

The NC has evaluated the board composition and is of the view that notwithstanding the deviation from Provisions 2.2 and 2.3 of the 2018 Code, there is a sufficiently strong and independent element in the Board to have constructive debates and discussions as at least half the Board comprises Independent Directors and there is a Lead Independent Director. The Independent Directors, who make up 50% of the Board, maintain appropriate checks and balances and avoid undue influence of the Management on the Board's decision making process and are able to provide the appropriate level of independence and diversity of thought and background to avoid groupthink. The Board is able to exercise independent judgment on corporate affairs, as all Directors debate vigorously on subject matters tabled at Board Meetings, regardless of whether they are independent or not. All decisions of the Board are based on collective decision without any individual or small group of individuals influencing or dominating the decision-making process.

The NC and the Board will continue to review and evaluate the board composition taking into account Provisions 2.2 and 2.3.

By Order of the Board

Sam Kok Yin
Managing Director

26 April 2021

Note:

*This announcement has been reviewed by the Company's Sponsor, Stamford Corporate Services Pte. Ltd. (the "**Sponsor**"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (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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