AEI CORPORATION LTD.
(Incorporated in the Republic of Singapore)
Co. Registration No. 198300506G

ANNOUNCEMENT

RESPONSE TO SGX-ST QUERIES ON FULL YEAR FINANCIAL STATEMENTS FOR FYE 31 DECEMBER 2020

The Board of Directors ("**Board**") of AEI Corporation Ltd ("**Company**") refers to the queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") and would like to provide further information.

Question 1:

Please explain why finance income amounted to only S$156,000 for the full financial year ended 31 December 2020 when the Company has significant cash and cash equivalents of S$29,678,000 as at 31 December 2020?

Company response:

Cash at bank are held at as short-term deposits which earns relatively low interest rate. In FY2020 economic climate, the 3-month average deposits rate had fallen to a low of 0.15%.

Question 2:

Please provide the reason(s) for the borrowings by the Group of S$370,000 under current liabilities titled "Current portion of term loans" and S$1,881,000 under non-current liabilities titled "Non-current portion of term loans", when the Group recorded cash and cash equivalents of S$29,678,000 as at 31 December 2020?

Please also disclose:-

i. details of the term loan, including the terms of the term loan, interest on the term loans and maturity dates;
ii. a breakdown of the lender(s) and their identities;
iii. when were term loans obtained and approved by the Board including the Audit Committee; and
iv. the use of proceeds from the term loans.

Company response:

The Group aims to achieve an optimal capital structure to finance overall operations and growth through a mixture of debt and equity. The term loan of S$2,251,000 was taken up in June 2014 to finance the purchase and construction of Tuas South factory property while the main bulk of cash and cash equivalents amounting to S$23 million arose from the fund-raising exercise in April 2018 through the issuance of 28,750,000 new shares at an issue price of S$0.80. The S$23 million funds raised has been earmarked for new business acquisitions.

Below are the details of the term loan:

Lender	OCBC Bank
Type of Loan	Land Loan
Loan Amount	S$3.7 million
Tenor	12 Years
Interest rate	1.75% p.a. + Bank's prevailing Cost of Funds
Final Maturity Date	1st February 2027
Loan Obtained	19 June 2014
Approved by Board (Including AC)	19 June 2014
Use of Proceeds	S$3.7 million cashier order made in favour of "Commission of Lands, SLA"

<u>Question 3:</u>

Please provide the reason(s) for the Group's trade payables of S$1,878,000 and other payables amounting to S$3,648,000 as at 31 December 2020 when the Group recorded cash and cash equivalents of S$29,678,000 as at 31 December 2020.

<u>Company response:</u>

Trade payables refer to raw material purchases and operating expenses incurred. These trade purchases are negotiated with credit terms. As at 31 December 2020 reporting date, these purchases were not yet due for payment. Other payables are accrued charges and interest-free advances from directors of subsidiaries.

<u>Question 4:</u>

Please disclose a breakdown of the Group's trade payables amounting to S$1,878,000 and other payables amounting to S$3,648,000 as at 31 December 2020. For other payables, please disclose the identity of the counterparties, the aging and nature of these other payables.

<u>Company response:</u>

Details for (a) trade payables and (b) other payables are as follow:

(a)

Trade Payables	**S$'000**
Billet Raw Material	1,024
Advance receipt from customers	344
Operating expenses	510

(b)

Other Payables	**Counter Parties**	**S$'000**	**Aging**
Accrued expenses			
- Factory building cost	Zhengda and sub-contractors	700	>1 year
- Provision for CPF/FWL/Performance bonus	CPF Board, employees	775	< 2 year
- Provision for audit and tax fee	Ernst & Young LLP	122	< 1 year

- Provision for professional fees (valuers, lawyer fees etc) - Deposits on sale of Penjuru Property - Deferred recognition of JSS Government Grant - Accrual for expenses	Zico Insights, Cushman ACW Holdings Pte Ltd IRAS Various	60 50 64 169	<1 year <1 year <1 year <1 year
Provision of Directors' Fee	Board of Directors	276	< 1 year
Interest-free advances	Sinta Muchtar & Tan Chu En	1,432	< 1 year

Question 5:

It is noted that the Group's other operating expenses amounted to S$2,382,000 for the year ended 31 December 2020. It is noted on page 9 that:- "Other operating expenses increased by 96.7% from S$1.2 million to S$2.4 million. Other operating expenses in FY2020 relates mainly to impairment loss of S$0.7 million on Tuas South property and impairment of plant and equipment of S$1.6 million of the extrusion business. Other operating expenses in FY2019 relates to impairment loss of S$1.1 million on Tuas South leasehold land as well as professional fees of S$0.1 million incurred in corporate actions relating to sale of Penjuru property and disposal of existing business."

i. Please clarify how the amount of impairment loss of S$0.7 million on the Tuas South property and S$1.6 million impairment of plant and equipment of the extrusion business was determined.
ii. Please clarify the reason(s) for the impairment loss of S$0.7 million on the Tuas South property and S$1.6 million impairment of plant and equipment of the extrusion business.
iii. Please clarify whether any valuation was conducted; the value placed on the assets; the basis and the date of such valuation; and
iv. The Board's confirmation as to whether it is satisfied with the reasonableness of the methodologies used to determine the amount of impairment and the basis for its views.

Company response:

The Group adopts the revaluation model accounting policy for Buildings and Improvement whereby buildings and improvement are measured at fair value less accumulated depreciation and impairment losses are recognized after the date of revaluation. Valuations, as required by the accounting standard, are to be performed with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value of the buildings and improvements at the end of the reporting period.

(i) The Group had engaged an independent external appraiser, Knight Frank Pte Ltd, to perform a valuation on the Tuas South Property as at 31 December 2020. Based on the valuation performed, the Tuas South building was valued at S$4.36m, lower than the carrying amount of S$5.06 million, consequently, an impairment loss of S$0.7 million was recorded.

As required by SFRS(I)1- 36 Impairment of Assets, the Group is required to assess if there is indications of impairment of the Plant and Equipment. The Group has determined the recoverable amount of the plant and equipment employed in the extrusion business by using the value-in-use approach by forecasting future discounted cashflows derived from the continuing operations using the existing plant and equipment. Arising from this review, an impairment of S$1.6 million on the plant and equipment was recognized as at 31 December 2020.

(ii) In accordance to Accounting Standard SFRS (I) 1-16 Property, Plant and Equipment and SFRS (I) 1-36 Impairment of Assets, and (a) impairment loss of S$0.7 million on the Tuas South property was recorded after measuring and recording Tuas South Property at fair value less accumulated depreciation and (b) an impairment of S$1.6 million on plant and equipment of the extrusion business was recorded as the existing extrusion business has been incurring losses and the recoverable amount of the plant and equipment employed in the extrusion business is assessed to be lower than the carrying amount of the plant and equipment.

(iii) The Group had engaged an independent external appraiser, Knight Frank Pte Ltd, to perform a valuation on the Tuas South Property as at 31 December 2020. Based on the valuation performed (valuation date: 31 December 2020), the Tuas South building was valued at S$4.36m, and an impairment loss of S$0.7 million was recorded.

The basis and method of valuation: Valuer's opinion of "Market Value", valuing the property by Direct Comparison Method, with adjustment made to account for time, tenure, size (floor area), age, location, proximity to transportation nodes etc.

(iv) The AC and Board of directors had considered the valuation and methodologies used, and agreed with the appropriateness to recognize the impairment amount for the reporting period and approved the release of the unaudited results on 22 February 2021.

By Order of the Board

SUN QUAN
EXECUTIVE DIRECTOR

31 March 2021