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

RELEASE OF INDEPENDENT REVIEW REPORT

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

1. INTRODUCTION

1.1 The Board of Directors (the "**Board**") of AGV Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the Company's announcements dated 1 April 2019, 27 June 2019 and 23 January 2020 (the "**Announcements**") in relation to the independent review on the Disposal (the "**Independent Review**").

1.2 The Board wishes to clarify that the Company had undertaken an independent review, and not a special audit, in relation to the Disposal.

2. BACKGROUND

2.1 On 13 March 2019, the Company had announced that its dormant subsidiary in the People's Republic of China ("**China**"), Xiamen Ecotechnology, had been disposed on 23 May 2018 (the "**March 2019 Announcement**"). The March 2019 Announcement further set out that the auditors had highlighted the Disposal for the attention of the Board during the course of their audit on the financial statements of the Group for the financial year ended 30 September 2018. Mr Albert Ang, the Chief Executive Officer of the Group during the relevant period (the "**CEO**"), had not informed the Board earlier on the Disposal as he was of the view that it was simply a disposal of a dormant subsidiary and it would not have any material impact on the Group, and accordingly, would not need to be announced. The Board had then reminded and instructed the CEO to keep the Board apprised of all disposals of any subsidiaries of the Group in the future, regardless of whether such subsidiary is dormant.

2.2 On 1 April 2019, the Company had announced its response to queries from the SGX-ST in relation to the Disposal (the "**April 2019 Announcement**"). It was further announced that while the Audit Committee ("**AC**") was of the view that the internal controls established and maintained by the Group were effective and adequate, the AC would consider strengthening the Group's policies and procedures further. The AC had decided to undertake an independent review to understand the facts and circumstances surrounding the disposal and the adequacy of controls of the Company moving forward, as well as to further strengthen the Group's policies and procedures. The scope of the Independent Review had been set out in the April 2019 Announcement.

2.3 On 23 January 2020, the Board had announced that the Independent Reviewer had completed the Independent Review and set out the findings of the Independent Reviewer (the "**Jan 2020 Announcement**"). The redacted independent review report (with several appendices containing confidential information omitted) is attached to this announcement.

3. RECOMMENDATIONS AND NEXT STEPS

3.1 As set out in the Company's announcement on 23 January 2020, the Independent Reviewer has made the following recommendations which the Company has accepted:

(i) *The Board and Management should consider arranging for Mr Jay Ree Goh, General Manager (Singapore) of the Group (the "**General Manager**") to attend the relevant training to be familiarized with the Catalist Rules to more effectively discharge his responsibilities of assisting the CEO in ensuring compliance with the Catalist Rules.*

It has been arranged for the General Manager to attend relevant training to be familiarized with the Catalist Rules. This will enable the General Manager to assist Management in ensuring compliance with the Catalist Rules.

(ii) *The Board should ensure that a sufficiently experienced and qualified chief finance executive, such as a chief financial officer, is brought on board to act as a check and balance to the executive directors' actions and enhance the overall control environment of the Group.*

As set out in the Jan 2020 Announcement, the Company is in the midst of negotiations with a potential candidate to be appointed as the Group Financial Controller, and will update shareholders as soon as such appointment is confirmed.

(iii) *Policies and Procedures for Safekeeping of Share Certificates (Effective 30 August 2019) should be updated to apply to share certificates of all Group companies at present and in the future, regardless of their country of incorporation.*

The Company is arranging with the Company Secretary for such policies and procedures to be updated to apply to share certificates of all Group companies at present and in the future, regardless of their country of incorporation.

(iv) *The share certificates of the Group companies in Singapore are still in the custody of the previous company secretary's office. The share certificates of the Group companies in Singapore should be transferred from the previous company secretary's office to be kept with the current company secretary as soon as practicable.*

The Company is arranging to have the share certificates of the Group companies in Singapore to be transferred from the previous company secretary's office to the current company secretary.

(v) *The internal audit review of fixed asset and inventory management has not been covered in the Previous Internal Audits, The AC should consider including fixed asset and inventory management in the internal audit scope of subsequent internal audit reviews.*

Fixed asset and inventory management had been included for the internal audit scope for the financial year ended 30 September 2019.

(vi) *The Board should consider formally setting up rules for the engagement of financial advisers, independent financial advisers and/or other relevant professional advisers prior to disposal of shareholdings in subsidiaries.*

The Board will consider and discuss on the same.

3.2 The Board will continue to take all necessary actions to safeguard the interests of the shareholders and the Group, and update shareholders as and when necessary.

BY ORDER OF THE BOARD

Chua Wei Kee
Executive Chairman
AGV Group Limited

3 February 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.

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.

Independent Review Report

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22 January 2020

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Executive Summary

A. Background

1. AGV Group Limited (the "Company", together with its subsidiaries, collectively the "Group") is listed on the Catalist of the Singapore Exchange.

2. On 13 March 2019, the Company announced that the Group's subsidiary AGV (Xiamen) Ecotechnology Co., Ltd ("AGV Xiamen") had been disposed on 23 May 2018 (the "Disposal").

3. On 14 March 2019, queries were raised by Singapore Exchange Securities Trading Limited (the "SGX-ST") regarding the Company's announcement on 13 March 2019 in relation to the Disposal.

4. On 25 June 2019, the Audit Committee of the Company ("AC") appointed Baker Tilly to review the facts and circumstances surrounding the Disposal and the adequacy of controls of the Company moving forward.

B. Scope of Review

5. Our scope of work for this independent review encompasses the following:

   (a) Understanding the facts and circumstances of the Disposal of the subsidiary, sequence of events leading to the discovery and announcement of such disposal, and parties responsible for any lapses in controls.

   (b) Assessment of the adequacy and compliance of controls in place at the relevant time of the Disposal.

   (c) Assessment of the adequacy and basis for Board of Directors' ratification of the Disposal.

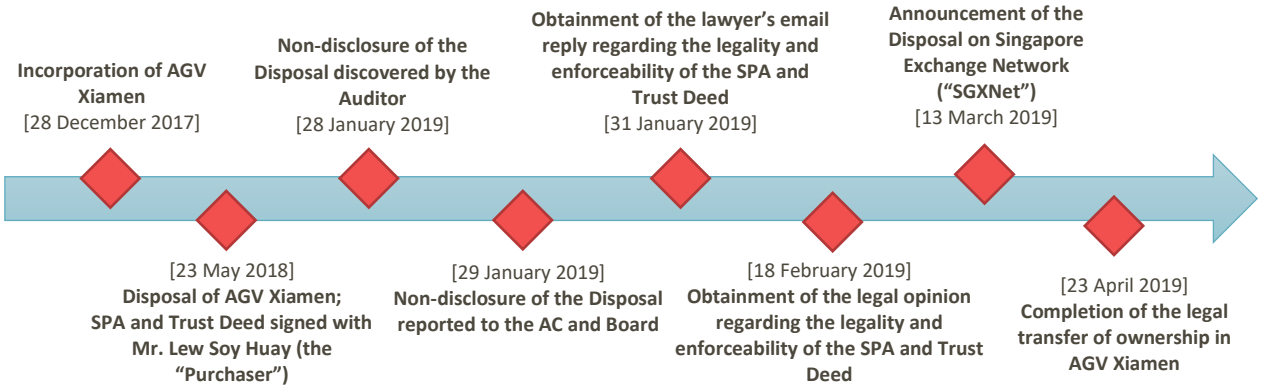
   (d) Identify any possible breaches of SGX Catalist Rules.

   (e) Review of adequacy of internal audit scopes of prior years in light of the business environment, geographical segments, risk areas, and other relevant circumstances.

6. In conducting this review and preparing this Independent Review Report (the "Report"), we interviewed and corresponded with various individuals and reviewed copies of documentations and information provided by the company, various professional parties and other sources.

C. Chronology of Events

7. Arising from our interviews, fact finding and review of documentations, the following chronology of events and key facts are applicable:



- 28 December 2017

  i. AGV Xiamen, a wholly-owned subsidiary of Asia Galvanizing (S) Pte. Ltd. ("AGV Singapore"), was incorporated in the People's Republic of China ("China") with a registered share capital of RMB 500,000.

  ii. Based on the CEO's response, from the incorporation of AGV Xiamen on 28 December 2017 till the Disposal on 23 May 2018, there were no transactions booked under AGV Xiamen and AGV Xiamen remained dormant up till the date of the Disposal.

- 23 May 2018

  i. AGV Singapore entered into a Sale and Purchase Agreement ("SPA") and a Trust Deed ("Trust Deed"), both dated 23 May 2018, for the disposal of AGV Xiamen to Mr. Lew Soy Huay, an associate known to the Chief Executive Officer ("CEO") of the Group, for a consideration of S$1 (the "Consideration").

  ii. The CEO of AGV had decided to proceed with the disposal of AGV Xiamen on the following grounds:

    - There were no intentions of operating the entity in the foreseeable future due to constraints in the Group's resources;

    - To reduce the recurring administrative fees and charges incurred for the maintenance of the entity; and

    - To reduce time and resources spent in compliance with regulators and auditors, and managing other stakeholders' interests regarding the activities of AGV Xiamen.

  iii. The SPA and Trust Deed were drafted by the CEO and signed with the Purchaser on 23 May 2018. However, the legal transfer of ownership in AGV Xiamen had not been effected. Accordingly, 100% of the shareholding in AGV Xiamen remained to be held by the Group from 23 May 2018 till 23 April 2019 under trust, with the Purchaser being the beneficial owner of AGV Xiamen.

- 28 January 2019

  The non-disclosure of the Disposal was discovered by the Group's external auditor, Mazars LLP (the "Auditor") during their audit of the Group's financial statements for the financial year ended 30 September 2018 ("FY2018").

- 29 January 2019

  The matters relating to the Disposal was brought to the attention of the Company's Board of Directors (the "Board") by the Auditor during the AC and Board meetings on 29 January 2019.

- 31 January 2019

  Upon the request of the Board, Guangxi Wanyi Law Firm was consulted on behalf of the Board by the Company Secretary's office Aquinas Law Alliance LLP ("AQLA") to advise on the legality and enforceability of the SPA and Trust Deed subsequent to the meetings. An email reply was provided on 31 January 2019 by Guangxi Wanyi Law Firm stating that the SPA and Trust Deed are enforceable under China laws.

- 18 February 2019

  Guangxi Wanyi Law Firm issued a legal opinion on the legality and enforceability of the SPA and Trust Deed.

- 13 March 2019

  The Company announced on SGXNet the disposal of AGV Xiamen.

- 23 April 2019

  The legal transfer of the 100% shareholding in AGV Xiamen from the Group to the Purchaser was completed.

D. Key Findings and Observations

8. The Board Approval Matrix (Effective 5 March 2018) at the time of the Disposal did not require the Board's approval for the disposal of subsidiary if it was not deemed to be a material subsidiary, which is defined as a subsidiary which contributes to 5% or more of the Group's revenue.

9. It has been acknowledged by the CEO that as part of the CEO's scope of responsibility, compliance with the SGX Catalist Rules, including making the necessary announcements, will be overseen by the CEO, and brought up to the Board and the Group's professional advisers as and when necessary. However, the CEO represented that as he was unaware that the disposal of a dormant subsidiary required to be announced on SGXNet, the Disposal was not brought to the attention of the Board, Company Secretary or Sponsor.

10. With regard to the adequacy and compliance of controls in place at the time of the disposal, we have the following observations:

    (a) The CEO was within his authority to execute the Disposal and in compliance with the Board Approval Matrix (Effective 5 March 2018) at the time of the Disposal.

    (b) The Board Approval Matrix (Effective 5 March 2018) at the time of disposal was, however, inadequate as it did not require the Board to approve the disposal of a subsidiary of the Group, if it was not deemed to be a 'material' subsidiary. The Board Approval Matrix (Effective 5 March 2018) defines a material subsidiary as a subsidiary which contributes to 5% or more of the Group's revenue.

    (c) There was a lack of internal expertise within the Group to advise the CEO on compliance with the SGX Catalist Rules. There were no other qualified executive personnel, such as a Chief Financial Officer, to advise or oversee compliance to SGX Catalist Rules.

11. As the approval of the Disposal was given by the CEO within his authority and was not in contravention of the Board Approval Matrix (Effective 5 March 2018) at the time of the Disposal, ratification by the Board was not required.

12. Nonetheless, the AC and Board had exercised their fiduciary responsibilities by taking the following steps upon being informed of the Disposal on 29 January 2019:

    (a) The Board had requested for the SPA and Trust Deed to be provided to the Board and Company Secretary for review. The CEO had, on 31 January 2019, provided a copy of the SPA and Trust Deed to the Board and Company Secretary.

    (b) The AC had considered the potential risk exposure to the Group and taken the appropriate steps to seek the legal opinion from a China legal counsel (Guangxi Wanyi Law Firm) as to the validity and enforceability of the SPA and Trust Deed under China laws. The Board obtained a preliminary email reply and a formal legal opinion from the China legal counsel on 31 January 2019 and 18 February 2019 respectively, that the SPA and Trust were valid and enforceable.

13. The AC had also determined that the Disposal Consideration of S$1 was reasonable, after taking into consideration the facts that (a) there was no gain or loss on the Disposal, (b) the net tangible assets (NTA) and net book value (NBV) of AGV Xiamen was zero, and (c) it is stated in the terms of the SPA that the Disposal was executed taking into account that AGV Xiamen was dormant and the share capital was unpaid.

14. Following the Disposal, the following remedial actions had been taken by the Group to enhance internal controls:

    (a) The inclusion of a clause within the revised Board Approval Matrix (Effective 19 February 2019) to require all disposals of subsidiaries, regardless of whether it is dormant or otherwise, to be approved by the Board, has been instituted.

    (b) Policies and Procedures for Safekeeping of Share Certificates has been established since 14 June 2019 and further revised on 30 August 2019 and applies to the Group companies in Singapore and Malaysia. The Policies and Procedures for Safekeeping of Share Certificates requires that any instruction to release share certificates must be given by two authorised personnel, one of whom must be an independent director. While in the case of the Disposal, no instruction had been given to the China corporate secretarial service provider to release the share certificate of AGV Xiamen, the implementation of the policies and procedures enhances the control over potential unauthorised instruction by company officers for the release of share certificates of subsidiaries.

    (c) The General Manager of the Group, who joined the Group in April 2019, has been assigned the responsibility of assisting the CEO in overseeing the Company's compliance with the SGX Catalist Rules.

15. The observations arising from our review of compliance with SGX Catalist Rules comprise the following:

    (a) Relating to the Company's announcement of the incorporation of AGV Xiamen dated 11 January 2018, the Company was not in compliance with Catalist Rule 704(16)(c) as the announcement was not made immediately after the incorporation of AGX Xiamen on 28 December 2017.

    (b) Relating to the Company's announcement of the Disposal dated 13 March 2019, the Company was not in compliance with Catalist Rule 704(17)(c) as:

        i. The announcement was not made immediately after the Disposal of AGV Xiamen on 23 May 2018;

        ii. The announcement on 13 March 2019 did not expressly set out the relevant information required by Rule 1010(3). While it was stated in the announcement of the Disposal that the nominal consideration of S$1 was determined on a willing-buyer and willing-seller basis, there were inadequate details as to the factors taken into account in arriving at the consideration of S$1. This information was subsequently provided in an announcement (Response to SGX-ST Queries) on 1 April 2019.

        iii. The announcement on 13 March 2019 did not expressly set out the relevant information required by Rule 1010(5). Such information includes the value (book value, net tangible asset value and the latest available open market value) of AGV Xiamen at the time of the Disposal. This information was subsequently provided in an announcement (Response to SGX-ST Queries) on 1 April 2019.

16. The internal audit scope for 2017 and 2018 were adequate in terms of coverage for the major business processes of the Group. The internal audit scope was planned on rotational basis, on a risk-based approach, in line with industry practice.

E. Recommendations

17. In view of the circumstances contributing to the non-compliance with Catalist Rule 704(16)(c) and 704(17)(c), the Board should:

    (a) Consider arranging for the General Manager to attend the relevant training to be familiarised with the SGX Catalist Rules to more effectively discharge his responsibilities of assisting the CEO in ensuring compliance with the SGX Catalist Rules.

    (b) The Board should ensure that a sufficiently experienced and qualified chief finance executive, such as a chief financial officer, is brought on board to act as a check and balance to the executive directors' actions and enhance the overall control environment of the Group.

18. The Group's Policies and Procedures for Safekeeping of Share Certificates has been updated and effective 30 August 2019. However, the Board should ensure the following matters are carried out:

    (a) The Policies and Procedures for Safekeeping of Share Certificates states that it applies to share certificates of Group companies incorporated in Singapore and Malaysia. The Policies and Procedures for Safekeeping of Share Certificates (Effective 30 August 2019) should be updated to apply to share certificates of all Group companies at present and in the future, regardless of their country of incorporation.

    (b) The transfer of share certificates of the Group companies in Singapore from the Company's previous company secretary's office, WTML Management Services Pte Ltd ("WTML") to the Company's current Company Secretary's office, AQLA, should be expedited and completed.

19. The internal audit review of Fixed Asset and Inventory Management has not been covered in the 2017 Internal Audit and 2018 Internal Audit. The AC should consider including Fixed Asset and Inventory Management in the internal audit scope of subsequent internal audit reviews.

20. The Board should consider formally setting up rules for the engagement of financial advisers, independent financial advisers and other relevant professional advisers prior to disposal of shareholdings in subsidiaries.

1. Overview

1.1 Objectives

1.1.1 We have completed our review of AGV Group Limited in accordance with our terms of reference dated 25 June 2019. The key objective of this review is to conduct an independent review of the Group's disposal of a subsidiary, AGV (Xiamen) Ecotechnology Co., Ltd, in China.

1.2 Scope & Coverage

1.2.1 The following scope was covered in this independent review:

(a) Understanding the facts and circumstances of the Disposal of the subsidiary, sequence of events leading to the discovery and announcement of such disposal, and parties responsible for any lapses in controls.

(b) Assessment of the adequacy and compliance of controls in place at the relevant time of the Disposal.

(c) Assessment of the adequacy and basis for Board of Directors' ratification of the Disposal.

(d) Identify any possible breaches of SGX Catalist Rules.

(e) Review of adequacy of internal audit scopes of prior years in light of the business environment, geographical segments, risk areas, and other relevant circumstances.

1.3 Review Methodology

1.3.1 In conducting this review and preparing this Report, we carried out the following activities:

(a) Held face-to-face interviews on a one-to-one basis with the following individuals:

Company

- Albert Ang Nam Wah, Executive Director and Chief Executive Officer
- James Ang Nam Heng, Executive Director and Group Chief Operating Officer

Third Parties

- The Company's external auditors – Mazars LLP

(b) Corresponded with the following parties to obtain clarification on our queries:

Company

- Chong Kwang Shih, Audit Committee (Chairman)
- Albert Ang Nam Wah, Executive Director and Chief Executive Officer

Third Parties

- The Company's Sponsor – Hong Leong Finance Limited
- The Company Secretary's office – Aquinas Law Alliance LLP
- The previous company secretary's office – WTML Management Services Pte Ltd
- The Company's internal auditors – Nexia TS Risk Advisory Pte Ltd ("Internal Auditor")

(c) Reviewed copies of the documents and information provided by the Company and corporate secretarial records.

2. Background Information

2.1 Incorporation of AGV (Xiamen) Ecotechnology Co., Ltd

2.1.1 On 16 November 2017, AGV Singapore entered into a contract with CNX.Asia, a business advisory arm of Rainmaker Concepts Pte Ltd, for the provision of consultation and assistance services for the incorporation of AGV Xiamen. The value of the contract is $29,250.

2.1.2 According to the response from the CEO, the fees incurred under the contract with CNX.Asia included payments for corporate secretarial services provided by Xiamen Zhongheng Financial Management Co., Ltd. to AGV Xiamen, which included acting as the custodian of AGV Xiamen's business license.

2.1.3 On 28 December 2017, AGV Xiamen, a wholly-owned subsidiary of AGV Singapore, was incorporated in China with a registered share capital of RMB 500,000.

2.1.4 Based on the CEO's response, at the incorporation of AGV Xiamen, the CEO was appointed as the Legal Representative of AGV Xiamen.

2.1.5 On 11 January 2018, the Company announced on SGXNet, amongst others, that:

(a) "its wholly-owned subsidiary, Asia Galvanizing (S) Pte. Ltd., has incorporated a new wholly-owned subsidiary, AGV (Xiamen) Ecotechnology Co., Ltd"; and

(b) "Pending commencement of its business operations, the incorporation of AGV (Xiamen) Ecotechnology Co., Ltd is not expected to have any material impact on the earnings per share or net tangible assets per share of the Company for the current financial year."

(c) The principal activities of AGV Xiamen is the "provision of solution on water and waste treatment"

2.1.6 Based on the verbal representation by the CEO, AGV Xiamen was expected to remain dormant until a business plan is drafted and approved by the Board.

2.2 Disposal of AGV (Xiamen) Ecotechnology Co., Ltd

2.2.1 Based on the CEO's representation, from the incorporation of AGV Xiamen on 28 December 2017 till the Disposal on 23 May 2018, there were no transactions booked under AGV Xiamen. It was also expressed in the CEO's response that there were no available accounting records for AGV Xiamen as it was "dormant company and accordingly did not have such information".

2.2.2 Based on the CEO's response, the plans to operate AGV Xiamen was put on hold and the entity remained dormant as the officers of the Group were occupied with the core operations of the Group, and he decided to proceed with the disposal of AGV Xiamen on the following grounds:

(a) There were no intentions of operating the entity in the foreseeable future due to constraints in the Group's resources;

(b) To avoid potentially incurring administrative fees and charges for the maintenance of AGV Xiamen; and

(c) To avoid potentially incurring time and resources spent in compliance with regulators and auditors, and managing other stakeholders' interests regarding the activities of AGV Xiamen.

2.2.3 On 23 May 2018, AGV Singapore entered into an SPA to dispose its entire shareholdings in AGV Xiamen to an individual, Mr. Lew Soy Huay (the Purchaser), for a consideration of S$1. The SPA was signed by the CEO on behalf of AGV Singapore. An extract of the terms of the SPA is set out below:

(a) Clause 2.4: "The Purchaser undertakes that he shall be responsible for any and all actions, proceedings, demands, claims, liabilities, damages, costs and expenses whatsoever made against or incurred of sustained by [AGV Xiamen] or become liable which has accrued from and including 23 May 2018 and agrees at all time to keep the [Group] and its successors and assigns fully indemnified against all such actions, proceedings, demands, claims, liabilities,

damages, costs and expenses whatsoever made against or incurred or sustained by [AGV Xiamen] or become liable which has accrued from and including 23 May 2018"

(b) Clause 3.1: "The consideration for the purchase of [the RMB 500,000 share capital of AGV Xiamen] shall be the sum of S$1.00, payable in any manner as may be determined by the Purchaser on [the completion of the Disposal]"

(c) Clause 3.2: "…the consideration [the sum of S$1] was arrived at after arm's length negotiations between the Purchaser and the Vendor [AGV Singapore] and on a willing-buyer and willing-seller basis, taking into account, inter alia, that the Company [AGV Xiamen] is dormant and inactive and the registered share capital is unpaid."

2.2.4 A Trust Deed dated 23 May 2018 was also entered into by AGV Singapore and the Purchaser, for AGV Singapore to hold the shares of AGV Xiamen in trust, with the Purchaser being the beneficial owner of AGV Xiamen. The Trust Deed was signed by the CEO on behalf of AGV Singapore. An extract of the terms of the Trust Deed is set out below:

(a) Clause B: "Pursuant to the [SPA for the sale of 100% of the share capital of AGV Xiamen (the "Sale Equity")], [the Group and Purchaser] have agreed that notwithstanding the transfer of the legal and beneficial title to the Sale Equity to the [Purchaser], the [Group] shall hold the Sale Equity on trust in favour of the [Purchaser] with the relevant authorities in the People's Republic of China"

2.2.5 Based on the CEO's response, the Purchaser is an associate known to the CEO and the Purchaser had previously loaned S$250,000 to the Group.

2.2.6 Based on the CEO's response, relating to the entering into the SPA and Trust Deed:

(a) The SPA and Trust Deed were drafted by the CEO and signed with the Purchaser, and neither the Group nor the CEO sought formal legal advice for the drafting of the SPA and Trust Deed as they related to a dormant subsidiary and it did not warrant the incurrence of further legal costs.

(b) At the time of Disposal, the Trust Deed was entered into pending legal registration of the transfer. Subsequently, in light of the ongoing negotiations (at that point in time) by the Group with its institutional and individual lenders to extend its repayment period, there had been an inadvertent oversight on part of the CEO to arrange for the transfer to be legally registered.

2.2.7 Based on a Notice of Approval for Change in Company Registration Details issued by the Market Supervision Commission of Xiamen Municipality dated 6 November 2018, subsequent to the Disposal, the Legal Representative of AGV Xiamen was changed from the CEO to the then-General Manager of the Group. The then-General Manager of the Group resigned from the Group on 30 April 2019.

2.2.8 The legal transfer of the Group's shareholding in AGV Xiamen to the Purchaser was completed on 23 April 2019.

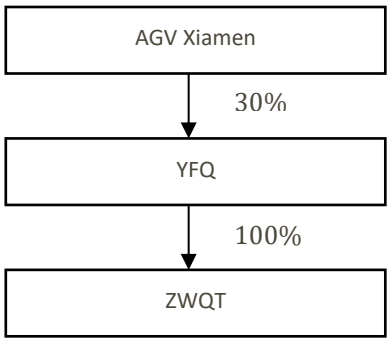
2.3 Discovery of the Non-disclosure of the Disposal

2.3.1 We interviewed the Auditor and were informed of the following:

(a) The non-disclosure of the Disposal was discovered by the Group's external auditor, Mazars LLP (the Auditor) during their audit of the Group's financial statements for FY2018.

(b) At the start of the audit, the Auditor was not informed of the Disposal by the Group's Management. The Auditor was only aware of the incorporation of AGV Xiamen which had taken place during FY2018.

(c) On 28 January 2019, the Auditor performed a background search of AGV Xiamen on tianyancha.com, a business data search platform for enterprises in China, which found that Yifangqing (Liaoning) Ecotechnology Co., Ltd ("YFQ") was incorporated under AGV Xiamen on 16 August 2018, with AGV Xiamen holding a 30% shareholding, and Zhangwu Qitian Wuliu Co., Ltd ("ZWQT") was in turn acquired by YFQ on 21 September 2018.



AGV Xiamen was disposed by the Group on 23 May 2018

YFQ was incorporated on 16 August 2018

ZWQT was acquired by YFQ on 21 September 2018

(d) On the same day, the Auditor approached the CEO for clarification on AGV Xiamen, YFQ and ZWQT. The CEO clarified to the Auditor that AGV Xiamen had been disposed on 23 May 2018 and that YFQ and ZWQT were incorporated and acquired respectively after the Disposal. As such, AGV Xiamen and the entities incorporated and acquired by AGV Xiamen were no longer part of the Group.

2.3.2 Based on the CEO's response, even though AGV Xiamen had been disposed on 23 May 2018, the CEO continued to act as the Legal Representative of AGV Xiamen up till 6 November 2018 and as the Legal Representative of AGV Xiamen, he was aware of the incorporation of YFQ, and had acted at the instruction of the Purchaser, pursuant to the Trust Deed to incorporate YFQ. He had not enquired further as to the purpose of the incorporation of YFQ and acquisition of ZWQT by YFQ as AGV Xiamen was for all intents and purposes, no longer a subsidiary of the Group.

2.4 Reporting of the Disposal to the Board; Board's Ratification

2.4.1 During the AC meeting held on 29 January 2019, the Auditor reported to the AC about the Disposal and that the Group had not made any announcements on SGXNet in relation to the Disposal.

2.4.2 According to the minutes of the AC meeting on 29 January 2019, the following points, amongst others, were mentioned by the CEO:

(a) "[AGV Singapore] had on 23 May 2018 entered into a sale and purchase agreement with [the Purchaser], a Singaporean individual, for the sale and purchase of [AGV Singapore's] shares in [AGV Xiamen];

(b) A Trust Deed had also been entered into with [the Purchaser], the arrangement was for [AGV Singapore] to hold the shares in [AGV Xiamen] on trust for [the Purchaser], pending registration of the transfer in shareholdings;

(c) [The CEO] further informed that the SPA and Trust Deed was governed under the laws of the People's Republic of China;

(d) [The CEO] considered that [AGV Xiamen] was dormant, he did not deem it necessary to bring [the Disposal] to the attention of the Board; and

(e) While the Board Approval Matrix required Board approval for disposals of material subsidiaries (where such subsidiary contributes to 5% or more of the Group's revenue), it did not require Board approval for disposal of a dormant subsidiary".

2.4.3 At the Board meeting held on 29 January 2019, it was also brought to the Board's attention by the Auditor and Company Secretary that an announcement had to be made on the SGXNet for disposal of subsidiaries, whether dormant or otherwise, based on SGX Catalist Rules.

2.4.4 At the request of the Board, the CEO provided a copy of the SPA and Trust Deed to the Board on 31 January 2019.

2.4.5 At the request of the AC, the Company Secretary's office, AQLA, emailed Guangxi Wanyi Law Firm on 30 January 2019 to seek advice on the legality and enforceability of the SPA and Trust Deed. In the email, the following information were provided:

(a) Background information

i. AGV Xiamen is a company incorporated by AGV Singapore, with a registered and unpaid share capital of RMB 500,000.

ii. AGV Xiamen, together with an individual Sun Lina, incorporated YFQ with a registered and unpaid share capital of RMB 10,000,000. AGV Xiamen holds 30% shareholding in YFQ.

iii. AGV Singapore entered into (i) a sale and purchase agreement and (ii) a trust deed, with the purchaser, to transfer the beneficial ownership in AGV Xiamen to the purchaser, while the legal ownership remains with AGV Singapore, and that AGV Singapore is not liable for any debts or obligations of AGV Xiamen on the date of the sale and purchase agreement and trust deed.

(b) Questions posed to Guangxi Wanyi Law Firm in light of the background information provided

i. Whether the shares held-in-trust (trust deed) arrangement is legally binding in China

ii. Whether AGV Singapore, as the legal owner of AGV Xiamen, is liable for the liabilities of AGV Xiamen

iii. Whether AGV Singapore may, pursuant to the trust deed, seek damages from the purchaser in relation to liabilities of AGV Xiamen

2.4.6 On 31 January 2019, Guangxi Wanyi Law Firm provided an email reply to AQLA (Refer to Appendix E: Email Reply from the China Legal Counsel dated 31 January 2019) with the following points:

(a) Whether the trust deed arrangement is legally binding in China. If the trust deed signed by AGV Singapore and the beneficial owner is not invalidated under Article 52 of the Contract Law, the Trust Deed shall be legal and valid

(b) Whether AGV Singapore, as the legal owner, is liable for the liabilities incurred by AGV Xiamen. According to the relevant provisions of the Company Law, AGV Xiamen as a Limited Liability Company, the debts of AGV Xiamen should be borne by the company itself. However, it must be explained that:

i. AGV Singapore as the registered legal shareholder shall be responsible as far as its corresponding responsibilities as a shareholder of AGV Xiamen. This includes liability for corporate debt within the scope of shareholder contributions. The legal shareholder and beneficial owner may establish an agreement on the liability, whereby the legal shareholder can seek recovery from the beneficial owner after accepting responsibility externally.

ii. On the other hand, AGV Singapore as the founding shareholder of AGV Xiamen, transferring the beneficial ownership when the share capital remains unpaid, it shall not be ruled out that third-party creditors may seek AGV Singapore to be responsible for the unpaid share capital.

iii. If AGV Singapore and the beneficial owner have come to the agreement on the basis that AGV Xiamen's share capital remains unpaid, AGV may seek damages from the purchaser pursuant to the trust deed.

(c) Whether AGV Singapore may, pursuant to the trust deed, seek damages from the purchaser in relation to liabilities of AGV Xiamen. AGV Singapore, after fulfilling its responsibilities as the legal shareholder of AGV Xiamen, may seek compensation from the purchaser pursuant to the trust deed.

(d) To note, that the above is a preliminary response. A legal opinion shall only be issued after the relevant documents have been provided.

2.4.7 Based on the post-meeting update to the minutes of the AC meeting on 29 January 2019, a copy of the email reply from Guangxi Wanyi Law Firm on 31 January 2019 was provided to the AC. .

2.4.8 On 18 February 2019, Guangxi Wanyi Law Firm issued a legal opinion, in relation to AQLA's email to Guangxi Wanyi Law Firm on 30 January 2019, in response to the following questions:

(a) Whether the shares held-in-trust (trust deed) arrangement is legally binding in China

(b) Whether AGV Singapore, as the legal owner of AGV Xiamen, is liable for the liabilities of AGV Xiamen

(c) Whether AGV Singapore may, pursuant to the trust deed, seek damages from the purchaser in relation to liabilities of AGV Xiamen

2.4.9 On 19 February 2019, the approval matrix for matters requiring the Board's approval was reviewed and updated (Refer to Appendix C for Board Approval Matrix (Effective 19 February 2019)) to include the disposal of any subsidiary, dormant or otherwise.

2.4.10 On 13 March 2019, the Group announced on SGXNet, amongst others, that:

(a) [The Group] had on 23 May 2018, completed the disposal of its entire shareholdings in its dormant wholly-owned subsidiary, [AGV Xiamen] to [the Purchaser] at a consideration of S$1 determined on a willing-buyer and willing-seller basis;

(b) The Disposal is also not expected to have any material impact on the earnings per share and net tangible assets of the Company and the Group for the current financial year; and

(c) None of the Directors (other than in his capacity as Director or shareholder of the Company, as the case may be) and controlling shareholders of the Company has any interest, direct or indirect, in AGV Xiamen.

3. Review of the Disposal

3.1 Assessment of the Adequacy and Compliance of Controls in Place at the Time of the Disposal

3.1.1 Based on the Board Approval Matrix at the time of the Disposal (refer to Appendix B: Board Approval Matrix (Effective 5 March 2018) at the Time of Disposal), we have noted the following:

(a) The Board Approval Matrix (Effective 5 March 2018) at the time of Disposal did not require the Board's approval for the disposal of subsidiary if it was not deemed to be a material subsidiary. A material subsidiary is defined as a subsidiary which contributes to 5% or more of the Group's revenue as at the last announced results.

(b) Apart from the board reserved matters, the CEO was authorised to decide on other management matters having reference to the operational authorisation matrix laid out the in the Board Approval Matrix (Effective 5 March 2018) at the Time of Disposal.

3.1.2 As per CEO's response and confirmation by WTML (in relation to share certificates in their custody), at the time of the Disposal, the shares certificates of the Group companies were being held by the following custodians:

Group Companies	**Custodian of Share Certificate(s) as at 23 May 2018**
All Group companies incorporated in Singapore	WTML
AGV Galvanizing (M) Sdn. Bhd. ("AGV Malaysia")	Liang & Liang Sdn Bhd
AGV Xiamen	Xiamen Zhongheng Financial Management Co., Ltd

3.1.3 The CEO responded to our query as to whether the Company had established written procedures to provide guidance on announcements to be made on SGXNet, that:

(a) In relation to announcements to be made on SGXNet, the Company does not have written procedures to provide guidance.

(b) However, management will typically inform the Company Secretary about any announcements to be made, who will then assist to draft and review the announcement. The Board will then review and approve the announcement. The Sponsor will also be provided with the drafted announcement at the same time for review, prior to release of the announcement on SGXNet.

3.1.4 The CEO responded to our query as to whether there was any delegation of responsibilities to the executive personnel of the Group relating to compliance with SGX Catalist Rules, that:

(a) With regard to compliance with SGX Catalist Rules, the responsibility falls within the broad spectrum of the CEO's scope of work.

(b) It is acknowledged that this will be overseen by the CEO, and brought up to the Board and the Group's professional advisers (e.g. Company Secretary and lawyers) as and when necessary.

3.1.5 However, the CEO represented that as he was unaware that the disposal of a dormant subsidiary required to be announced on SGXNet, the Disposal was not brought to the attention of the Board, Company Secretary or Sponsor.

3.1.6 Furthermore, the CEO responded that the legal transfer of ownership in AGV Xiamen had been delayed due to an inadvertent oversight by the CEO "in light of the ongoing negotiations (at that point in time) by AGV with its institutional and individual lenders to extend its repayment period".

3.1.7 Considering the points laid out in 3.1.1 to 3.1.6 above, our assessment of the adequacy and compliance of controls in place at the time of the Disposal are as follows:

(a) The CEO was within his authority to execute the Disposal and in compliance with the Board Approval Matrix (Effective 5 March 2018) at the time of the Disposal.

(b) However, the Board Approval Matrix (Effective 5 March 2018) at the time of the Disposal was inadequate as it did not require the Board to approve the disposal of a non-material subsidiary. Additionally, the Board Approval Matrix did not require the Board to be informed of such disposal of a non-material subsidiary.

(c) There was a lack of internal expertise within the Group to advise the CEO on compliance with the SGX Catalist Rules. There were no other qualified executive personnel, such as a Chief Financial Officer, to advise or oversee compliance to SGX Catalist Rules. We further note from the CEO's representation that while there had been a financial controller within the Group at the time of the Disposal, the CEO had not informed the financial controller as the financial controller had not been assigned the responsibility of assisting with SGX Rulebook compliance matters.

3.2 Assessment of the Adequacy and Basis for Board's Ratification of the Disposal

3.2.1 As the approval of the Disposal was given by the CEO within his authority and was not in contravention of the Board Approval Matrix (Effective 5 March 2018) at the time of the Disposal, ratification by the Board was not required.

3.2.2 Nonetheless, we note that the AC and Board had exercised their fiduciary responsibilities by taking the following steps upon being informed of the Disposal on 29 January 2019:

(a) At the AC meeting and Board meeting on 29 January 2019, the Board requested for the executed SPA and Trust Deed to be provided by the CEO for review. It was noted in the post-meeting update to the minutes of the AC meeting and Board meeting on 29 January 2019 that the CEO had, on 31 January 2019, provided a copy of the SPA and Trust Deed to the Board and Company Secretary.

(b) At the AC meeting on 29 January 2019, the AC considered the potential risk exposure to AGV Singapore as the current named shareholder of AGV Xiamen, and instructed for a legal opinion from the China legal counsel to be sought as to the risk exposure to the Group and the legality and enforceability of the SPA and Trust Deed.

It was noted in the post-meeting update to the minutes of the AC meeting on 29 January 2019 that a copy of the email reply from Guangxi Wanyi Law Firm on 31 January 2019 was provided to the AC, indicating that given the circumstances, that the "documents in relation to the Disposal would be enforceable under China laws".

The legal opinion was issued by Guangxi Wanyi Law Firm on 18 February 2019.

3.2.3 Additionally, the AC had viewed that the Disposal Consideration of S$1 was reasonable on the following grounds:

(a) There was no loss or gain on the Disposal.

(b) The net tangible assets (NTA) and net book value (NBV) of AGV Xiamen was zero.

(c) The terms of the SPA are drafted such as the Purchaser is liable for the unpaid share capital of AGV Xiamen, amounting to RMB 500,000. Specifically, clause 3.2 of the SPA specifically states that:

> "The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor [AGV Singapore] and on a willing-buyer and willing-seller basis, taking into account, inter alia, that the Company [AGV Xiamen] is dormant and inactive and the registered share capital is unpaid."

3.2.4 Considering the points laid out in 3.2.1, 3.2.2 and 3.2.3 above, our assessment of the adequacy and basis for the Board's ratification of the Disposal are as follows:

(a) The Board had adequately requested for the SPA and Trust Deed to be provided to the Board and Company Secretary for review following the Board meeting on 29 January 2019.

(b) The AC had considered the potential risk exposure to the Group and taken the appropriate steps to seek the legal opinion from the China legal counsel (Guangxi Wanyi Law Firm) as to the validity and enforceability of the SPA and Trust Deed under China laws.

3.3 Assessment of the Remedial Actions Taken by the Group

3.3.1 Upon the Board being informed of the Disposal on 29 January 2019, the following remedial actions were taken to enhance the controls of the Group:

(a) At the Board meeting on 29 January 2019, the Company Secretary highlighted to the Board that the incorporation or disposal of subsidiaries are required to be announced pursuant to Rule 704 of the SGX Catalist Rules. In light of the circumstances, the Board considered that the Board Approval Matrix on matters requiring Board approval was to be reviewed and to be considered if it was to be refreshed and confirmed again.

(b) On 19 February 2019, a Board resolution was passed to amend the Board Approval Matrix to include the requirement for the Board to approve any disposal of subsidiary. Specifically, the Board Approval Matrix (Effective 19 February 2019) includes the following clause:

> "The Board's approval is required for the following matters: (iii) disposal of any subsidiary, dormant or otherwise"

3.3.2 Policies and procedures for the custody, procedures to instruct the custodian to release the share certificates and the authorised parties to do so ("Policies and Procedures for Safekeeping of Share Certificates") have been established since 14 June 2019.

3.3.3 The Policies and Procedures for Safekeeping of Share Certificates was further updated and approved by the Board on 30 August 2019 (refer to Appendix D: Policies and Procedures for Safekeeping of Share Certificates (Effective 30 August 2019), which states the following:

(a) The Company has engaged AQLA for the purposes of safe-keeping the share certificates of its Group companies

(b) For any instructions to the Company Secretary to release the share certificates of the Group companies in Singapore and Malaysia, the instruction from two authorised personnel, each from group A and group B, are required. Group A comprises of the CEO, General Manager and Non-Executive Chairman, while Group B comprises of 2 independent directors.

(c) Mr Lim Kok Meng (Company Secretary) and one other partner of AQLA are authorised to receive the share certificates of the Group companies in Singapore and Malaysia for the purposes of safe-keeping, and are to take instruction from relevant authorised personnel in the Group and authorise on behalf of AQLA for release of share certificates of the Group companies in Singapore and Malaysia.

3.3.4 As at 5 September 2019, the share certificates of the Group companies are held by the following custodians:

Group Companies	**Custodian of Share Certificate(s)**
All Group companies incorporated in Singapore	WTML
AGV Malaysia	AQLA

3.3.5 While the Policies and Procedures for Safekeeping of Share Certificates has taken effect from 14 June 2019 and specifies that AQLA shall safekeep the share certificates of the Group companies in Singapore and Malaysia, as at 5 September 2019, the share certificates of the Group companies in Singapore are still in the custody of the previous company secretary's office, WTML.

3.3.6 The new General Manager of the Group, who joined the Group in April 2019 has been assigned the responsibility of assisting the CEO in overseeing the Company's compliance with the SGX Catalist Rules. Additionally, as per the Sponsor and CEO's responses, the Board and management will assess and decide on the need for the General Manager to attend relevant training relating to SGX Catalist Rules compliance.

3.3.7 It is also noted that as at 5 September 2019, the Group has not brought onboard a chief finance executive, since the last financial controller left the Group on 23 August 2019.

3.3.8 Considering the points laid out in 3.3.1 to 3.3.7 above, our assessment of the remedial actions taken to enhance the controls of the Group are as follows:

(a) The inclusion of the clause within the revised Board Approval Matrix (Effective 19 February 2019) to require all disposals of subsidiaries, regardless of whether it is dormant or otherwise, to be approved by the Board, is adequate.

(b) The Policies and Procedures for Safekeeping of Share Certificates has been established and it requires that any instruction to release share certificates must be given by two authorised personnel, one of whom must be an independent director. While in the case of the Disposal, no instruction had been given to the China corporate secretarial service provider to release the share certificate of AGV Xiamen, the implementation of the policies and procedures enhances the control over potential unauthorised instruction by company officers for the release of share certificates of Group companies. However, it should be noted that:

i. The Policies and Procedures for Safekeeping of Share Certificates states that it applies to share certificates of Group companies incorporated in Singapore and Malaysia, which are the countries in which the Group companies, as at 5 September 2019, are incorporated in. We recommend that the Policies and Procedures for Safekeeping of Share Certificates should be updated to apply to share certificates of all Group companies at present and in the future, regardless of their country of incorporation.

ii. While the Policies and Procedures for Safekeeping of Share Certificates has taken effect from 14 June 2019 and specifies that AQLA shall safe-keep the share certificates of the Group companies in Singapore and Malaysia, as at 5 September 2019, the share certificates of the Group companies in Singapore are still in the custody of the previous company secretary's office, WTML. The transfer of share certificates of the Group companies in Singapore from the Company's previous company secretary's office, WTML to the Company's current Company Secretary's office, AQLA, should be expedited and completed.

(c) With the addition of the General Manager to assist the CEO overseeing the Company's compliance with the SGX Catalist Rules, the compliance oversight function has been enhanced. However, the Board and Management should consider arranging for the General Manager to attend the relevant training to be familiarised with the SGX Catalist Rules to more effectively discharge his responsibilities of assisting the CEO in ensuring compliance with the SGX Catalist Rules.

(d) Since the departure of the Group's last financial controller on 23 August 2019 up till as at 5 September 2019, the position of the Group's chief finance executive has been vacant. The Board should ensure that a sufficiently experienced and qualified chief finance executive, such as a chief financial officer, is brought on board to act as a check and balance to the executive directors' actions and enhance the overall control environment of the Group.

4. Compliance with SGX Catalist Rules

4.1 Identification of Possible Breaches with SGX Catalist Rules – Incorporation and Announcement of a New Subsidiary

4.1.1 With respect to the incorporation and announcement of a new subsidiary, we referred to the following SGX Catalist Rules:

(a) Rule 703(1): An issuer must announce any information known to issuer concerning it or any subsidiaries or associated companies which is necessary to avoid the establishment of a false market in the issuer's securities; or would likely to materially affect the price or value of its securities.

(b) Rule 704(16)(c): In addition to Rule 703, an issuer must immediately announce…any acquisition of shares resulting in a company becoming a subsidiary or an associated company of the issuer (providing the information required by Rule 1010(3) and (5)).

i. Information required by Rule 1010(3): The aggregate value of the consideration, stating the factors taken into account in arriving at it and how it will be satisfied, including the terms of payment.

ii. Information required by Rule 1010(5): The value (book value, net tangible asset value and the latest available open market value) of the assets being acquired or disposed of, and in respect of the latest available valuation, the value placed on the assets, the party who commissioned the valuation and the basis and date of such valuation.

4.1.2 AGV Xiamen was incorporated in China on 28 December 2017, whereby AGV Singapore held 100% of the shares of AGV Xiamen.

4.1.3 An announcement of the incorporation of AGV Xiamen was made in SGXNet on 11 January 2018 which included the following information:

(a) Name of the newly incorporated subsidiary

(b) Country of incorporation

(c) Registered share capital

(d) Shareholders' holdings

(e) Principal activities of subsidiary

(f) Incorporation of AGV Xiamen is not expected to have any material impact on earnings per share (EPS) and net tangible assets (NTA) of the Group

4.1.4 Based on the SGX Catalist Rules referred to in 4.1.1. above, while the Company had announced the incorporation of AGV Xiamen in SGXNet with the necessary information required by Rule 1010(3) and (5), the announcement was not made on an immediate basis and thus, the Company was not in compliance with Rule 704(16)(c).

4.2 Identification of Possible Breaches with SGX Catalist Rules – Sale or Disposal of a Subsidiary

4.2.1 With respect to the sale/disposal of a subsidiary and the announcement of such sale/disposal of a subsidiary, we referred to the following SGX Catalist Rules:

(a) Rule 703(1): An issuer must announce any information known to issuer concerning it or any subsidiaries or associated companies which is necessary to avoid the establishment of a false market in the issuer's securities; or would likely to materially affect the price or value of its securities.

(b) Rule 704(17)(c): In addition to Rule 703, an issuer must immediately announce any sale of shares resulting in a company ceasing to be a subsidiary or an associated company of the issuer (providing the information required by Rule 1010(3) and (5))

i. Information required by Rule 1010(3): The aggregate value of the consideration, stating the factors taken into account in arriving at it and how it will be satisfied, including the terms of payment.

ii. Information required by Rule 1010(5): The value (book value, net tangible asset value and the latest available open market value) of the assets being acquired or disposed of, and in respect of the latest available valuation, the value placed on the assets, the party who commissioned the valuation and the basis and date of such valuation.

(c) Rule 1008 (1): Unless Rule 703, 905 or 1009 applies, no announcement of the transaction is required if all of the relative figures computed on the bases set out in Rule 1006 amount to 5% or less.

i. Rule 905(1): An issuer must make an immediate announcement of any interested person transaction of a value equal to, or more than, 3% of the group's latest audited net tangible assets.

ii. Rule 905(2): If the aggregate value of all transactions entered into with the same interested person during the same financial year amounts to 3% or more of the group's latest audited net tangible assets, the issuer must make an immediate announcement of the latest transaction and all future transactions entered into with that same interested person during that financial year.

iii. Rule 905(3): Rule 905(1) and (2) does not apply to any transaction below $100,000.

iv. Rule 1009: If the consideration is satisfied wholly or partly in securities for which listing is being sought, the issuer must announce the transaction as soon as possible after the terms have been agreed, stating the information set out in Part VI.

4.2.2 An announcement of the Disposal of AGV Xiamen was made in SGXNet on 13 March 2019 which included the following information:

(a) [The Group] had on 23 May 2018, completed the disposal of its entire shareholdings in its dormant wholly-owned subsidiary, [AGV Xiamen] to [the Purchaser] at a consideration of S$1 determined on a willing-buyer and willing-seller basis;

(b) The Disposal is also not expected to have any material impact on the earnings per share and net tangible assets of the Company and the Group for the current financial year; and

(c) None of the Directors (other than in his capacity as Director or shareholder of the Company, as the case may be) and controlling shareholders of the Company has any interest, direct or indirect, in AGV Xiamen.

4.2.3 Based on the CEO's response, AGV Xiamen was dormant and had net tangible asset (NTA) of zero. Accordingly, based on Rule 1008(1) of the SGX Catalist Rules, the Disposal is not required to be announced in SGXNet as the net tangible asset (NTA) of AGV Xiamen is zero and therefore less than 5% of the Group's NTA.

4.2.4 Nonetheless, the Company was not in compliance with Rule 704(17)(c) due to the following factors:

(a) The announcement of the Disposal, in which AGV Xiamen ceased to be a subsidiary of the Company, was not made on an immediate basis as required by Rule 704(17)(c);

(b) The relevant information required by Rule 1010(3) was not provided in the announcement of the Disposal. While it was stated in the announcement of the Disposal that the nominal consideration of S$1 was determined on a willing-buyer and willing-seller basis, there were inadequate details as to the factors taken into account in arriving at the consideration of S$1.

This information was subsequently provided in an announcement (Response to SGX-ST Queries) on 1 April 2019, after SGX-ST raised queries on the Disposal announcement. According to the announcement on 1 April 2019, the AC view that the consideration of S$1 was reasonable as (i) there was no loss/or gain, and NTA and NBV was zero, and (ii) that it is a term of the SPA that the Purchaser is liable for the unpaid share capital of AGV Xiamen.

(c) The relevant information required by Rule 1010(5) was not expressly set out in the announcement of the Disposal. Such information includes the value (book value, net tangible asset value and the latest available open market value) of AGV Xiamen at the time of the Disposal.

This information was subsequently provided in an announcement (Response to SGX-ST Queries) on 1 April 2019, after SGX-ST raised queries on the Disposal announcement. It was announced that:

i. The Company confirmed that AGV Xiamen since incorporation up to 23 May 2018 (date of the Disposal), had no NTA, NBV and/or any financial performance figures and there was no physical office and/or any fixed assets set up.

5. Review of Internal Audit Scope of Prior Years

5.1 The Group's Internal Audit Scope of Prior Years.

5.1.1 The Group has outsourced its internal audit function to Nexia TS Risk Advisory Pte Ltd since the financial year ended 30 September 2016.

5.1.2 In our review of the adequacy of the Group's internal audit scopes of prior years, we focused on the internal audit scope for the current financial year up till 30 June 2019 and the preceding two financial years (i.e. financial year ended 30 September 2017 and financial year ended 30 September 2018).

5.1.3 During this period, there were 2 internal audit reviews carried out by the Internal Auditor for the Group. The scope of the internal audit reviews completed are summarised as follows:

	2017 Internal Audit	**2018 Internal Audit**
Date of Internal Audit Report	June 2017	March 2019
Date of Internal Audit Review Fieldwork	5-9 June 2017	7-11 January 2019
Period Reviewed	1 May 2016 to 30 April 2017 (i.e. spanning FY 2016 – FY2017)	1 December 2017 to 30 November 2018 (i.e. spanning FY2018 – FY2019)
Entities Reviewed	• AGV Group Limited • Asia Galvanizing (S) Pte. Ltd. • AGV C&S Pte. Ltd.	• AGV Group Limited • Asia Galvanizing (S) Pte. Ltd.
Business Processes Reviewed	• Sales, Receivables and Collection • Cash and Bank Management • Human Resource and Payroll • Follow-up on ICR [internal control review] Follow Up Review Report Dated October 2015	• Procurement, Payables and Payment • Financial and General Management • Follow-up on Previous internal audit report(s)
Date of Engagement Letter	1 November 2016	28 November 2018

5.1.4 With reference to the Presentation of Results of Enterprise Risk Management Review to the Board of Directors dated 5 May 2017, we note that an internal audit work plan for the year 2017 was proposed by the Internal Auditor, based on the results of the enterprise risk management review ("ERM Review") which was carried out during 2017. The ERM Review was facilitated by the Internal Auditor and a total of 12 key position holders from the Group were involved in the ERM Review.

5.1.5 From the ERM Review, a total of 35 risks were identified from across four broad risk categories, namely strategic risk, operational risk, financial risk and compliance risk. The Internal Auditor had proposed an internal audit work plan for the year 2017, to be covered over two audit visits, which prioritised the business processes based on the number of risks associated. The number of risks associated with each of the business processes are summarised as follows:

No.	Business Process	Number of Associated Risks[1] Identified from the ERM Review
1	Sales, Receivables and Collection	11
2	Cash and Bank Management	8
3	Human Resource and Payroll	5
4	Procurement, Payables and Payment	14
5	Fixed Asset and Inventory Management	10
6	Financial and General Management	7

5.1.6 Based on the Internal Audit Report dated June 2017, for the 2017 Internal Audit, 3 of the 6 business processes ((1) Sales, Receivables and Collection, (2) Cash and Bank Management and (3) Human Resource and Payroll) were covered.

5.1.7 The planned internal audit visit covering the remaining 3 business processes ((4) Procurement, Payables and Payment, (5) Fixed Asset and Inventory Management and (6) Financial and General Management) was not carried out in 2017. According to the Internal Auditor's response, the planned internal audit review was postposed as the company's operations and production has dropped and the company was going through some changes in personnel.

5.1.8 Based on the Internal Audit Report dated March 2019, for the 2018 Internal Audit, 2 business processes (Procurement, Payables and Payment, and Financial and General Management) were covered.

5.1.9 According to the AC's response, it was intended for the second internal audit [covering year 2018] to cover what the first internal audit [covering year 2017] had not yet covered.

5.1.10 However, it is noted that the business process of Fixed Asset and Inventory Management was not covered in the internal audit review in 2018. According to the Internal Auditor's response, the Internal Auditor had proposed to exclude Fixed Asset and Inventory Management from the 2018 internal audit as there was minimal activity in terms of fixed assets management and inventory due to damage to the zinc kettle and intermittent production work disruptions.

5.2. Conclusion on the Adequacy of Internal Audit Scope of Prior Years

5.2.1 We conclude that the scope of the 2017 Internal Audit and 2018 Internal Audit were adequate in terms of coverage for the major business processes of the Group. It was observed that the internal audit scope was planned on rotational basis, on a risk-based approach, in line with industry practice.

5.2.2 We noted that the controls relating to disposal of subsidiaries, as well as the control over share certificates of Group companies were not included in the internal audit scope in 2017 and 2018. This is likely due to the fact that the Group does not frequently engage in the disposal of subsidiaries. Since its listing on the Catalist (August 2016) to date (August 2019), there had only been one instance of a disposal of a subsidiary, being the disposal of AGV Xiamen.

5.2.3 We also noted that the internal audit review of Fixed Asset and Inventory Management has not been covered in the 2017 Internal Audit and 2018 Internal Audit. As such, it is recommended that the internal audit review of Fixed Asset and Inventory Management should be covered in subsequent internal audit reviews.

[1] Each of the 35 risks identified may be associated with one or more Business Processes.

6. Conclusion and Recommendations

6.1 Conclusion

6.1.1 The CEO was within his authority to execute the Disposal and in compliance with the Board Approval Matrix (Effective 5 March 2018) at the time of the Disposal.

6.1.2 However, the Board Approval Matrix (Effective 5 March 2018) at the time of Disposal was inadequate as it did not require the Board to approve the disposal of a non-material subsidiary and did not require the Board to be informed of such disposal of a non-material subsidiary. The Board Approval Matrix (Effective 19 February 2019) has since been revised to include the requirement for all disposals of subsidiaries, regardless of whether it is dormant or otherwise, to be approved by the Board.

6.1.3 The observations arising from our review of compliance with SGX Catalist List comprise the following:

(a) Relating to the Company's announcement of the incorporation of AGV Xiamen dated 11 January 2018, the Company was not in compliance with Catalist Rule 704(16)(c) as the announcement was not made immediately after the incorporation of AGX Xiamen on 28 December 2017.

(b) Relating to the Company's announcement of the Disposal dated 13 March 2019, the Company was not in compliance with Catalist Rule 704(17)(c) as:

i. The announcement was not made immediately after the disposal of AGV Xiamen on 23 May 2018; and

ii. The announcement did not include the relevant information required by Rule 1010(3) and Rule 1010(5).

6.1.4 There was a lack of internal expertise within the Group to advise the CEO on compliance with the SGX Catalist Rules at the time of the Disposal. The General Manager of the Group, who joined the Group in April 2019, has been assigned the responsibility of assisting the CEO in overseeing the Company’s compliance with the SGX Catalist Rules.

6.1.5 The AC had taken adequate steps to instruct for a legal opinion to be sought as to the validity and enforceability of the SPA and Trust Deed under China laws. The legal opinion was issued by Guangxi Wanyi Law Firm on 18 February 2019, which confirmed that the SPA and Trust Deed are valid and enforceable under China laws.

6.1.6 The Policies and Procedures for Safekeeping of Share Certificates, has been established with effect from 30 June 2019 and was further updated on 30 August 2019 and it applies to the Group companies incorporated in Singapore and Malaysia, which are the countries in which the Group companies, as at 5 September 2019, are incorporated in. It requires that any instruction to release share certificates must be given by two authorised personnel, one of whom must be an independent director. The implementation of the policies and procedures enhances the control over potential unauthorised instructions by company officers for the release of share certificates of Group companies.

6.1.7 The scope of the 2017 Internal Audit and 2018 Internal Audit were adequate in terms of coverage for the major business processes of the Group. It was observed that the internal audit scope was planned on rotational basis, on a risk-based approach, in line with industry practice.

6.2 Recommendations

6.2.1 The Board and Management should consider arranging for the General Manager to attend the relevant training to be familiarised with the SGX Catalist Rules to more effectively discharge his responsibilities of assisting the CEO in ensuring compliance with the SGX Catalist Rules.

6.2.2 The Board should ensure that a sufficiently experienced and qualified chief finance executive, such as a chief financial officer, is brought on board to act as a check and balance to the executive directors’ actions and enhance the overall control environment of the Group.

6.2.3 Policies and Procedures for Safekeeping of Share Certificates (Effective 30 August 2019) should be updated to apply to share certificates of all Group companies at present and in the future, regardless of their country of incorporation.

6.2.4 As at 5 September 2019, the share certificates of the Group companies in Singapore are still in the custody of the previous company secretary's office, WTML. The share certificates of the Group companies in Singapore should be transferred from WTML to be kept with AQLA as soon as practicable.

6.2.5 The internal audit review of Fixed Asset and Inventory Management has not been covered in the 2017 Internal Audit and 2018 Internal Audit, The AC should consider including Fixed Asset and Inventory Management in the internal audit scope of subsequent internal audit reviews.

6.2.6 The Board should consider formally setting up rules for the engagement of financial advisers, independent financial advisers and/or other relevant professional advisers prior to disposal of shareholdings in subsidiaries.

Appendices

Appendix A: Glossary of Terms and Definitions

The following terms are used in this Report:

Group Companies

Term	Definition
Company	AGV Group Limited
AGV Malaysia	AGV Galvanizing (M) Sdn. Bhd.
AGV Singapore	Asia Galvanizing (S) Pte. Ltd.
AGV Xiamen	AGV (Xiamen) Ecotechnology Co., Ltd (亿方青（厦门）环保科技有限公司)
Group	AGV Group Limited together with its subsidiaries

Other Corporations

Term	Definition
Auditor	Mazars LLP, the external auditors of the Group
AQLA	Aquinas Law Alliance LLP, the Company Secretary's office
Internal Auditor	Nexia TS Risk Advisory Pte Ltd, the internal auditors of the Group
SGX-ST	Singapore Exchange Securities Trading Limited
WTML	WTML Management Services Pte Ltd, the Company's previous company secretary's office
YFQ	Yifangqing (Liaoning) Ecotechnology Co., Ltd (亿方青（辽宁）环保科技有限公司)
ZWQT	Zhangwu Qitian Wuliu Co., Ltd (彰武柒田物流有限公司)

General

Term	Definition
AC	Audit Committee of the Company
Board	The Board of Directors of the Company
CEO	Chief Executive Officer of the Group, Mr, Albert Ang
China	People's Republic of China
Company Secretary	Mr. Lim Kok Meng (Partner, Aquinas Law Alliance LLP)
Consideration	The consideration of S$1 under the SPA
Disposal	The disposal of AGV Xiamen by AGV Singapore on 23 May 2018
ERM Review	The enterprise risk management review carried out during 2017 by the Group. The review was facilitated by the Internal Auditor
Purchaser	Mr. Lew Soy Huay, the purchaser under the Disposal
SGXNet	Singapore Exchange Network
SPA	Sale and purchase agreement between AGV Singapore and the Purchaser for the Disposal of shares in AGV Xiamen, dated 23 May 2018
Trust Deed	Deed of trust established between AGV Singapore and the Purchaser dated 23 May 2018, for AGV Singapore to hold shares in trust for the Purchaser. The Trust Deed was signed by the CEO