FORISE INTERNATIONAL LIMITED
(Company Registration No. 200804077W)
(Incorporated in Singapore)

RESPONSE TO QUERIES FROM THE SINGAPORE STOCK EXCHANGE SECURITIES TRADING LIMITED ("SGX-ST") ON EARLIER ANNOUNCEMENTS

The Board of Directors of Forise International Limited (the "**Company**"), and together with its subsidiaries, the "**Group**") refers to the earlier 4Q 2019 Results Announcement dated 28 February 2020 and response to queries from the Singapore Stock Exchange Securities Trading Limited ("**SGX-ST**") dated 10 March 2020 (the "**Earlier Announcements**").

Unless otherwise defined, all capitalised terms herein shall have the meaning ascribed to them in the Earlier Announcements.

The Board would like to respond to the further queries raised by the SGX-ST on 13 March 2020 as follows:

SGX-ST's Query 1

We refer to the Response to SGX Queries announced on 10 Mar 2020. We refer to the Company's response to SGX-ST Query 1(a)(i). It was disclosed that the purpose of the advance of RMB 10.6 million to Prisma AI was to "provide working capital of the contract that Prisma Tech managed for Prisma AI".

a. Please elaborate, with specific details, on the factors that the Company considered in determining the ability of Prisma AI to repay the RMB 10.6 million within 12 months.

Company's Response

The Company wishes to clarify that the short-term advance was inadvertently disclosed as RMB10.6 million in our results announcement dated 28 February 2020 and announcement for response to SGX-ST queries dated 10 March 2020. It should have been reported as RMB10.4 million instead of RMB10.6 million.

Under the Management Fee Agreement, the Company is to provide strategic planning, corporate advisory, financial structuring and management consulting services. It was agreed between the parties that the Company would make funds available to or seek funds for Prisma Tech, so that Prisma Tech would be able to fund part of the working capital required. It was agreed that the maximum that Prisma Tech would fund would be S$2 million or RMB 10.4 million.

To ensure that the monies were spent on the project only, the Company funded the working capital (as explained in our response for query 1(b)) that was directly provided to Galaxy Enterprises ("**Galaxy**"), which is the customer of Prisma AI.

The factors that management considered in determining the ability of Prisma AI to repay the RMB 10.4 million within 12 months were as follows:

i. The creditworthiness of the African country in which the airport is being built. On 9 August 2019, Standard & Poor, an international financial services company, raised such African country's long-term sovereign credit rating to B+, and such rating has been reaffirmed as at early 2020. Reports from the World Bank and updates on the country have also been very favourable.

ii. In December 2019, an agreement between that African Government and Qatar Airways was signed. Under the agreement, Qatar Airways – one of the best funded airlines in the world - agreed to acquire 60% of the new airport. The Company has been informed that the investment will increase the capitalisation of the holding company of the airport significantly which provides comfort that Galaxy will be able to collect all amounts due to it and meet its payment obligations to Prisma AI.

iii. Galaxy is a significant IT solution company based out of Mumbai with turnover of more than US$40 million. Mr. Shreeram Subramaniam Iyer has informed the Company that he has worked with Galaxy several times in the past and that he did not experience any payment issue nor was he aware of any payment problems pertaining to third party projects. Given this, the Company believes that Galaxy represents a good credit risk. Under the agreement, Galaxy has agreed to pay Prisma AI in Singapore on the earlier of 6 months after completion or when Galaxy has been paid.

iv. Prisma AI, has provided the Company with the ability to monitor payments into their Singapore accounts. Thus, the Company has practical oversight.

b. Please provide the breakdown of how the working capital was used.

Company's Response

About 75% of the amount was used to fund the purchase of equipment. The remainder was used to fund installation and related labour costs. The types of equipment purchased include:

i. 3D Doppler Radar and Laser Sensors;
ii. Camera for ANPR;
iii. Camera for Evidence Capture;
iv. Infrared Flash;
v. Embedded hardware network switches;
vi. Tape drives and backup systems;
vii. 12 Servers x 4 storage data switch matrixes; and
viii. other supporting hardware.

c. If Prisma Tech is managing a contract in its capacity as a contractor for Prisma AI, its customer, why does the contractor have to loan money to its customer?

Company's Response

Prisma Tech is not loaning money to a customer. The transaction would be similar to a steel company delivering steel to a shipyard who will then pay the steel company 240 days after the last delivery.

In the construction industry, it is customary for subcontractors to fund their part of the working capital. This is particularly true if the project is significant and/or Government -related. The airport project is both significant and Government-related. Prisma AI and Prisma Tech are essentially subcontractors to Galaxy.

Prisma Tech is a small company seeking to engage in a new and exciting industry. It is growing its competitive advantage. The airport project is a remarkable opportunity for Prisma AI. The ability to provide working capital is a competitive advantage the Company needed to lever off.

d. What is the total amount of all receivables owed to the Group by Prisma AI as at 31 December 2019 and as of the date of the response?

Company's Response

The total amount of all receivables owed to the Group by Prisma AI as at 31 December 2019 is RMB11.7 million, representing RMB 10.4 million for working capital and RMB 1.3 million for strategic planning, corporate advisory, financial structuring and management consulting services.

On the 12 March 2020, the Group received S$110,000 (equivalent to approximately RMB 0.55 million) as part payment for the fees outstanding. Thus the total amount of all receivables owed to the Group by Prisma AI as of the date of this announcement is RMB11.15 million.

e. Please disclose/explain the following:

i. What projects are covered under the management agreement;

Company's Response

The Management Agreement was for one project only. The project was for the implementation of recognition and surveillance systems for roadways in and around the new airport.

ii. What is the tenure of the management agreement;

Company's Response

As this was Prisma Tech's first project, the Company wanted a simple project with a relatively shorter contract period (less than 6 months). Prisma Tech's portion of the project was essentially completed on 12 December 2019.

iii. What specific services are provided under the management agreement;

Company's Response

As announced in the results announcement dated 28 February 2020, under the sub-header "Revenue", the nature of the management services rendered includes strategic planning, corporate advisory, financial structuring and management consulting services.

iv. How is the management fee calculated;

Company's Response

The management fee was made up of a set fee from each of the services rendered as explained in response to query 1(e)(iii) above. The fee is calculated with reference to the market rate of services rendered and the time spent involved in provision of the said services.

v. In relation to the project that was completed in 2019 that contributed to RMB 1.34 million worth of revenue, please disclose how much net profit is attributable to this project.

Company's Response

Prisma Tech is 50.1% owned by the Group. The net profit booked at Prisma Tech is RMB 0.42 million. However, this is after the Group charged management and interest fee of S$175,013 (equivalent to RMB0.90 million). On the basis that the management and interest fee are wholly taken into account but only 50.1% of the net profit of Prisma Tech is taken into account, the Group made RMB1.11 million.

SGX-ST's Query 2

We refer to the Company's response to SGX-ST Query 1(b)(iii). Please disclose if the customer of Le Rong, the privately-owned manufacturing company in China, is related to or has any connections or associations with the Company or any of its subsidiaries, substantial shareholders, directors, or key management.

Company's Response

The customer of Le Rong, the privately-owned manufacturing company in China, is neither related to the Group nor has any connection or associations with the Company or any of its subsidiaries, substantial shareholders, directors, or key management.

SGX-ST's Query 3

We refer to the Company's response to SGX-ST Query 1(c).

a. It was disclosed that the contract was completed in December 2019 and the amount has yet to be collected to date. The contract has been completed more than 2 months prior. As previously requested, please disclose the payment terms (i.e. credit terms) of the receivable. Please also disclose when payment is expected to be received with justification.

Company's Response

It was agreed that Prisma AI would pay Prisma Tech within a short time of it receiving payment. The Group has the right and the ability to monitor payments. The Group noted that Prisma AI received funds as part payment for the project in the first week of March 2020. Prisma Tech received S$110,000 on 12 March 2020.

It should be noted that payments in significant infrastructure projects can be long and 6 months is not unusual.

b. It was further disclosed that S$4 million will be paid to Prisma AI for the loss of profit and compensation of working capital incurred for assigning the management of Prisma AI's visual based contracts for airport, metro railways, highways and infrastructure projects to Prisma Tech. How much are the aforementioned management contracts to be assigned to Prisma Tech worth and provide an explanation that justifies why S$4 million should be paid to Prisma AI.

Company's Response

For the avoidance of any doubt, the S$4 million being referred to is an amount payable by Prisma Tech. The commercial logic for the proposed payment of S$4 million is as follows:

a. The margins of the type of software contracts being discussed are high. In the recently completed airport contract, the Group enjoyed a gross margin of around 80%;

b. Prisma AI has existing customers and existing contracts, some of which are significant. In order to encourage Prisma AI to allow Prisma Tech to take over these contracts and relationships, Prisma Tech must acquire the same or otherwise compensate Prisma AI;

c. Some of the contracts are with Government or Government-linked entities and assigning such contracts may or may not be possible. Prisma Tech would like to take over these contracts in order to establish a track record so that it can bid in new Government tenders. To encourage Prisma AI to undertake the task of engaging Governments or Government agencies, a process which can be demanding and which requires significant time and effort, Prisma Tech needs to compensate Prisma AI; and

d. There is an understanding between Prisma AI and the Company that the contracts that will be transferred or assigned to the Group will be valuable and worth approximately $4 million. As such, the profit, cashflow and value to be transferred by Prisma Tech shall be commensurate with monies that the Group will pay.

For the avoidance of any doubt, Prisma Tech shall only pay S$4 million for the transfer or assignment of visual based contracts for airports, metro railways, highways and infrastructure projects, if and only if the value of the clients gained, the value of the track record achieved, the value of the know-how transferred and the profit and cashflow to be received under the contracts are commensurate with the payment. It is understandable that Prisma AI would wish to be compensated for the transfer of such valuable assets.

SGX-ST's Query 4

We refer to the Company's response to SGX-ST Query 2(a). It was disclosed that no new contract was secured by the Group to date. Please explain why Prisma AI has not assigned any of the aforementioned management contracts noted in Query 3(b) to Prisma AI to date.

Company's Response

The Company has been in discussions with Prisma AI and other parties on several pipeline contracts. However, it should be noted:

i. the Company wanted to see the successful conclusion of the first project before it committed to the second project. Thus, it did not rush the negotiations for new projects pending completion of the first project;

ii. one of the projects is with a significant Government-linked entity and such discussions usually require more time;

iii. in one instance, the Company is holding out for additional safeguards and is awaiting the client's response;

iv. the recent outbreak of COVID-19 appears to have affected clients who are now noticeably slower to commit to new projects and/or new technology; and

v. the Group was reluctant to inform the market of possible contracts in the event the contracts did not materialise. As and when the Group has entered into any definitive contracts or projects, the necessary announcement(s) will be made via SGXNet to update investors and shareholders of the same.

SGX-ST's Query 5

We refer to the Company's response to SGX-ST Query 2(d)(ii). It was disclosed that there was an impairment of RMB 2,565k in the investment in TNT which was computed as net investment cost of RMB 3,177k less 40% of share of net assets of RMB 612k, with 40% being the Company's shareholdings in TNT. With reference to the Company's 2018 Annual Report, under the reconciliation of summarized information table in the investment in joint venture note, it was disclosed that the joint venture recorded goodwill of RMB 2,519k and RMB 2,639k in FY2017 and FY2018 respectively.

a. Please explain how goodwill arose in FY2017 and why goodwill can be recorded at company level financial statements.

Company's Response

As disclosed in the notes to account 17 of the FY2018 annual report, a goodwill of RMB2,519k was recorded in FY2017 as the Company paid a consideration which was in excess of the share of the net fair value of the investee's identifiable assets and liabilities upon investment. Goodwill forms part of the carrying amount of the net investment in the joint venture and is not separately recognised. Therefore, the goodwill arose from the investment in the joint venture was included in the carrying amount of the investment at company level and disclosed in the reconciliation table in the notes to account 17.

In accordance with SFRS(I) 1-28, an investment in joint venture shall be accounted for in the entity's separate financial statements using the equity method, where, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

b. Please clarify if the impairment amount of RMB 2,565k pertains to the impairment of goodwill recorded in the joint venture for FY2019. If so, please explain how the impairment of goodwill ties in with the Company failing to find investors to raise funds.

Company's Response

As mentioned in the response to (a) above, goodwill forms part of the carrying amount of the net investment in joint venture and is not separately recognised.

In accordance with SFRS(I) 1-28 Investments in Associates and Joint Ventures, because goodwill that forms part of the carrying amount of the net investment in an associate or a joint venture is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in SFRS(I) 1-36 Impairment of assets. Instead, the entire carrying amount of the investment is tested for impairment in accordance with SFRS(I)1-36 as a single asset, by comparing its recoverable amount with its carrying amount whenever indication that the net investment may be impaired exists. An impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the net investment in the associate or joint venture.

Accordingly, the Company wishes to clarify that the impairment amount of RMB2,565k in FY2019 does not pertain to the impairment of goodwill. The entire carrying amount of the investment was tested for impairment in accordance with SFRS(I)1-36 as a single asset.

Given the fact that TNT is a fund management company, its principal activity includes fundraising and managing the funds raised from its investors. Due to global economic uncertainty, trade war and challenging market conditions, TNT did not raise the funds since our investments, there is a clear indication impairment exists as the cost of investment in the equity instrument may not be recovered and hence, impairment is required.

BY ORDER OF THE BOARD
Peng Weile
Executive Director
17 March 2020