



RESPONSE TO QUERIES ISSUED BY THE SGX-ST ON THE ANNUAL REPORT AND AUDITOR'S COMMENTS OF ACCOUNTS FOR FY2019

The Board of Directors (the “**Board**”) of Regal International Group Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the announcement made by the Company on 8 February 2021 (the “**8 February 2021 Announcement**”) relating to, *inter alia*, the Company’s annual report (the “**Annual Report**”) and the Company’s auditor’s comments of accounts (the “**Auditor’s Comments of Accounts**”) for the financial year ended 31 December 2019 (“**FY2019**”).

The Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) has issued queries on the 8 February 2021 Announcement. The Company sets out below the queries issued by the SGX-ST and the Company’s responses to queries issued by the SGX-ST.

Queries issued by the SGX-ST

Question #1:

We refer to the Independent Auditor’s Report in the FY2019 Annual Report and the Board’s responses in the Auditor’s Comments of Accounts. It is noted that the Company’s independent auditors have issued a disclaimer opinion and also raised a material uncertainty related to going concern.

Please address the following queries:-

- (a) the Board of Directors’ assessment of the Group’s ability to continue operating as a going concern and the bases for the said assessment;
- (b) the Board of Directors’ opinion as to whether trading of the Company’s shares should be suspended pursuant to Listing Rule 1303(3); and
- (c) the Board of Directors’ confirmation as to whether all material disclosures have been provided for trading of the Company’s shares to continue in an orderly manner; and the bases for its views.

Question #2:

We refer to the disposal of Upright Strategy Sdn Bhd to Twin Revenue Sdn Bhd (“**Twin Revenue**”) (“**Disposal**”) under the basis of disclaimer opinion of the Independent Auditor’s Report in the FY2019 Annual Report. The Company had announced the Disposal on 31 December 2019.

- (a) Please disclose all relative figures under Listing Rule 1006, including negative figures computed;
- (b) An explanation from the Company why did the Company not apply Listing Rule 1014, if any of the relative figures as computed on the bases set out in Rule 1006 exceeded 20%;
- (c) Please disclose the date when the Disposal was completed; and
- (d) Whether Twin Revenue is an interested person as defined under Listing Rule 904(4)(a).



Question #3:

It is stated in the Independent Auditor's Report in the FY2019 Annual Report that the RSM Chio Lim LLP ("RSM"), the statutory auditors of the Company, were not previously aware of the Group's:-

- collaboration agreement with Twin Revenue on 10 August 2015; and
- letter of mutual agreement with Twin Revenue on 20 August 2017 (collective, "Non-Disclosures").

Please disclose:-

- (a) whether there are any undisclosed information not yet made known for RSM to conduct its audit as statutory auditors of the Company;
- (b) why RSM was not previously made aware of the Non-Disclosures;
- (c) the latest available amounts receivable and payable from/to Twin Revenue;
- (d) the total amount of TRC Advances paid to Twin Revenue to date, and the current amount of TRC Advances outstanding;
- (e) the total amount of funds injected by Twin Revenue to meet the obligations incurred in relation to projects between Twin Revenue and TRC;
- (f) the total amount of refunds obtained by TRC to date;
- (g) the Board's view on:
 - i. the recoverability of receivables from Twin Revenue; and
 - ii. whether the funds disbursed by TRC is in the ordinary course of business; and
- (h) Whether the Board and Audit Committee is of view that the Group has an adequate and effective systems of internal controls (including financial, operational, compliance and information technology controls) and risk management systems, to prevent the repeat occurrence of such Non-Disclosures.

The Company's Responses to Queries issued by the SGX-ST

Question #1:

(a)

As disclosed in the 8 February 2021 Announcement, the Board believes that the Group and the Company are well placed to manage their business risks and have adequate resources to meet their obligations as and when they fall due for at least 12 months from the end of FY2019 after taking into consideration the following:

- the Directors of the Company, who are also controlling shareholders of the Company, have agreed not to demand repayment of the balances owed to them amounting to RM5,866,000;
- the Group has entered into contra arrangements with its suppliers in exchange for services, or for the eventual sale to third parties which helps in the management of its working capital;
- the Group has multiple ongoing projects which are expected to generate revenue subsequent to FY2019 to meet operating cash flow requirements of the Group;
- the Group has had verbal discussions with the tax authorities in relation to a repayment plan for its tax obligations;
- the Group has restructured certain loans with its principal lenders to better manage its cash flows; and
- the Group's redeemable preference shareholder has agreed to extend the repayment period(s) in respect of its redeemable preference shares.



In addition, the Board wishes to disclose that:

- it believes that the Group and the Company have the ability to manage their working capital and generate cash flows from operations to pay debts as and when such debts fall due;
- it believes that the Group and the Company have the ability to negotiate with authorities that manage the employees' provident fund and lenders of the Group and the Company in relation to repayment or restructuring plans for its obligations;
- the Directors of the Company, who are also controlling shareholders of the Company, have agreed to provide continued financial support; and
- the Group and the Company were able to continue as a going concern in the financial year ended 31 December 2020 in spite of the COVID-19 pandemic.

Based on the above, the Board is of the opinion that the Group and the Company will be able to continue as a going concern, and that it is appropriate for the consolidated financial statements for FY2019 to be prepared using a going concern basis.

(b)

As the Board is of the opinion that the Group and the Company will be able to continue as a going concern, the Board is of the opinion that a suspension of trading of the Company's shares pursuant to Listing Rule 1303(3) is not required.

(c)

As disclosed in the 8 February 2021 Announcement, the Board is of the opinion that sufficient information has been disclosed for trading of the Company's securities to continue in an orderly manner. The bases for arriving at such an opinion are as follows:

- the Company had on 8 February 2021 made an announcement relating to, *inter alia*, the material variances between the unaudited consolidated financial statements of the Group for FY2019 released on 3 August 2020 and the audited consolidated financial statements of the Group for FY2019 setting out details and explanations for such material variances; and
- the Company had on 8 February 2021 made the 8 February 2021 Announcement set out the Board's responses to certain matters raised in the Independent Auditors' Report which formed the basis of the disclaimer of opinion issued by RSM Chio Lim LLP.

Question #2:

(a)

The relative figures computed on the bases set out in Listing Rule 1006 for the disposal of Upright Strategy Sdn Bhd ("**Upright Strategy**") to Twin Revenue Sdn Bhd ("**Twin Revenue**") (the "**Disposal**") are as follows:

Listing Rule 1006(a)	The net asset value of the assets to be disposed of, compared with the Group's net asset value. This basis is not applicable to an acquisition of assets. ⁽¹⁾	(84.7)% ⁽²⁾
Listing Rule 1006(b)	The net profits attributable to the assets acquired or disposed of, compared with the Group's net profits. ⁽³⁾	(36.0)% ⁽⁴⁾
Listing Rule 1006(c)	The aggregate value of the consideration given or received, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares.	18.1% ⁽⁵⁾



Listing Rule 1006(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not Applicable ⁽⁶⁾
Listing Rule 1006(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets. If the reserves are not directly comparable, the SGX-ST may permit valuations to be used instead of volume or amount.	Not Applicable ⁽⁷⁾

Notes:

- (1) "Net assets" means total assets less total liabilities.
- (2) Based on the latest announced consolidated financial statements of the Group at the time the Disposal was first announced on 31 December 2019 (i.e. the unaudited consolidated financial statements of the Group for the financial period ended 30 September 2019 ("3Q2019")), the net liability value of Upright Strategy attributable to the Group was approximately RM15,440,000 as at 30 September 2019 which represents approximately (84.7)% of the Group's net asset value of approximately RM18,235,000 as at 30 September 2019.
- (3) "Net profits" means profit or loss including discontinued operations that have not been disposed and before income tax and non-controlling interests.
- (4) Based on the unaudited consolidated financial statements of the Group for 3Q2019, the net loss of Upright Strategy attributable to the Group was approximately RM1,006,000 as at 30 September 2019 which represents approximately (36.0)% of the Group's net profits of approximately RM2,798,000 as at 30 September 2019.
- (5) The aggregate consideration for the Disposal of RM2,500,000 represents approximately 18.1% of the Company's market capitalisation of approximately S\$4,559,000 (equivalent to approximately RM13,825,000 based on an exchange rate of S\$1.00 : RM3.03233) on 30 December 2019, being the last full market day on which trades were done preceding the date of the sale and purchase agreements for the Disposal. The Company's market capitalisation was determined by multiplying the number of shares in issue (224,917,251 shares) by the weighted average price of such shares transacted on 30 December 2019 (S\$0.02027).
- (6) The Disposal is a disposal of assets not an acquisition of assets. No equity securities will be issued by the Company in connection with the Disposal.
- (7) The Company is not a mineral, oil and gas company.

(b)

The Company had on 31 December 2019 made an announcement (the "**31 December 2019 Announcement**") relating to, *inter alia*, the Disposal. At the time the 31 December 2019 Announcement was made by the Company Listing Rule 1007 stated, *inter alia*, that "*If any of the relative figures computed pursuant to Rule 1006 is a negative figure, this Chapter may still be applicable to the transaction at the discretion of the Exchange, and issuers should consult the Exchange.*" The Company has since consulted the SGX-ST and the SGX-ST has informed the Company that although the relative figures computed on the bases set out in Listing Rule 1006(a) and (b) are negative and the relative figures computed on the bases set out in Listing Rule 1006(c) does not exceed 20%, Listing Rule 1014 is still applicable to the Disposal.

The Company will make arrangements to convene an extraordinary general meeting to seek approval by shareholders of the Company for the ratification of the Disposal. A circular containing information relating to the Disposal will be despatched to shareholders of the Company in due course.



(c)

The Disposal was completed on 31 December 2019.

(d)

Twin Revenue is not an interested person as defined under Listing Rule 904(4)(a).

Question #3:

(a)

The Board is not aware of any undisclosed information not yet made known to RSM Chio Lim LLP ("**RSM**") to conduct its audit as statutory auditors of the Company.

(b)

The Group was not aware that the collaboration agreement with Twin Revenue Sdn Bhd ("**Twin Revenue**") dated 10 August 2015 and the letter of mutual agreement with Twin Revenue dated 20 August 2017 (collectively, the "**Agreements**") were not provided to the component auditors and/or RSM. The transactions contemplated by such Agreements had been taken up and recorded in the Group's accounts in the audits for prior financial years. Nevertheless, going forward, the Group will improve and enhance communication between the Group, the component auditors and RSM / its statutory auditors, and ensure that all relevant information is furnished to the component auditors and RSM / its statutory auditors.

(c)

Based on the management accounts of the Group, the total amount receivable from Twin Revenue as at 31 December 2020 was approximately RM14,463,000.

(d)

As disclosed in the 8 February 2021 Announcement, Temasek Regal Capital Sdn Bhd ("**TRC**") made advances to Twin Revenue to enable Twin Revenue to meet and/or fulfil its necessary obligations for the ongoing works relating to the construction projects being carried out on Twin Revenue's lands and/or project sites (collectively, the "**TRC Advances**"). Based on the management accounts of the Group, the total amount of TRC Advances made to Twin Revenue as at 31 December 2020 was approximately RM11,396,000 and the total amount of TRC Advances outstanding as at 31 December 2020 was nil.

(e)

The Group is not aware of the total amount of funds injected by Twin Revenue to meet and/or fulfil its necessary obligations for projects between Twin Revenue and TRC as the Group does not have access to Twin Revenue's accounts. The aggregate gross development value (i.e. the aggregate revenue value that is expect to be received upon full completion and sale of the development projects) and the aggregate gross construction value (i.e. the aggregate revenue value or consideration sum receivable from Twin Revenue upon full completion of the construction projects awarded by Twin Revenue) is estimated to amount to a total of approximately RM299.8 million.

(f)

Based on the management accounts of the Group, the total amount of refunds obtained by TRC as 31 December 2020 was approximately RM6,396,000. The balance of RM5,000,000 has been re-classified as a deposit for the development option of a project.



(g)

The Board is of the view that the Group will be able to recover the receivable from Twin Revenue, barring unforeseen circumstances, and that the funds disbursed by TRC is in the ordinary course of business in accordance with the terms and conditions of the Agreements.

(h)

The Board and the Audit Committee are of the view that the Group has an adequate and effective systems of internal controls (including financial, operational, compliance and information technology controls) and risk management systems. The systems of internal controls and risk management systems are reviewed at regular intervals with the assistance of the Group's internal auditors. Going forward, the Group will further enhance its systems of internal controls and risk management systems to ensure that all relevant information is furnished to RSM / its statutory auditors.

Shareholders and potential investors of the Company are advised to read this announcement and any further announcements made by the Company carefully. Shareholders and potential investors of the Company are advised to refrain from taking any action with respect to their securities in the Company which may be prejudicial to their interests, and to exercise caution when dealing in the securities of the Company. Shareholders and potential investors of the Company should consult their stockbrokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions they should take.

By Order of the Board of
Regal International Group Ltd

Su Chung Jye
Executive Chairman, Executive Director and Chief Executive Officer

18 February 2021