RESPONSE TO THE SGX-ST’S QUERIES REGARDING
THE COMPANY’S ANNOUNCEMENTS DATED 14 MAY 2020 AND 28 MAY 2020

The Board of Directors (the “Board”) of Broadway Industrial Group Limited (the “Company” and, together with its subsidiaries, the “Group”) wishes to announce the information set out below in response to the questions from the Singapore Exchange Securities Trading Limited received on 2 June 2020 in relation to the Company’s financial results for the first quarter ended 31 March 2020, which was announced on 14 May 2020 and the Company’s announcement dated 28 May 2020 on the Non-Binding Indicative Proposal (“NBIP”).

SGX QUERY:

(i) Please provide a breakdown and explain the reason(s) for the increase in the “Other Assets” financial statement line item as follows:

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31-03-20</td>
<td>31-12-19</td>
</tr>
<tr>
<td>Other assets</td>
<td>$1,252</td>
<td>$762</td>
</tr>
</tbody>
</table>

COMPANY’S RESPONSE:

The increase of Other Assets was primarily due to increase in prepayment of operating costs such as rental, insurance, arising from the timing of such prepayments. The Other Assets in the Company referred to other prepayments.

<table>
<thead>
<tr>
<th></th>
<th>At 31 Mar 2020</th>
<th>At 31 Dec 2019</th>
<th>Increase/ (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Prepaid Rental</td>
<td>265</td>
<td>38</td>
<td>227</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>103</td>
<td>1</td>
<td>102</td>
</tr>
<tr>
<td>Prepaid Electricity</td>
<td>226</td>
<td>248</td>
<td>(23)</td>
</tr>
<tr>
<td>Prepaid Suppliers</td>
<td>279</td>
<td>194</td>
<td>85</td>
</tr>
<tr>
<td>Miscellaneous prepayments</td>
<td>379</td>
<td>281</td>
<td>98</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,252</strong></td>
<td><strong>762</strong></td>
<td><strong>490</strong></td>
</tr>
</tbody>
</table>

SGX QUERY:

(ii) The Company has disclosed that “In 1Q2020, the Group paid S$5.1 million of tax liabilities and related interest and penalties to a tax authority of the People’s Republic of China. The liabilities,
which were fully accrued for, were related to the underpayment of the 2007 to 2016 tax liabilities of a subsidiary within the businesses disposed on 30 December 2016.”

(a) Please name the subsidiary in question.

**COMPANY’S RESPONSE:**

BIGL Management Consultancy (Shenzhen) Co., Ltd. (“BMSZ”), formerly known as Compart Hi-Precision Technologies (Shenzhen) Co., Ltd. (“CHSZ”).

**SGX QUERY:**

(b) We note that the taxes of the said subsidiary were underpaid from 2007 to 2016. How was its underpayment of taxes from 2007 to 2016 discovered?

**COMPANY’S RESPONSE:**

According to our understanding, the matter was first drawn to the attention of the tax authority in China in 2017 as part of their routine tax audit of CHSZ when it was under the control of the Buyer, Platinum Equity. The Tax Authority noted a different view how the transfer prices were to be determined during this period.

We were informed that a notice for tax audit to be conducted for the period from 1 January 2012 to 31 December 2016 was served on CHSZ on 4 January 2018. Claims for breach of warranties and indemnities by the Buyer, which included the potential tax liability, were announced by the Group on 6 February 2018. The Group made a S$16.5 million provision for the potential claims from the Buyer in the FY2017 financial statements, part of which was related to the potential tax liability.

The Company announced on 22 June 2018 that CHSZ became a wholly owned subsidiary of the Company after the completion of the Exercise of the Put Option. CHSZ was subsequently renamed as BMSZ on 13 September 2018.

On 16 July 2018, a new notice was issued by the tax authority to CHSZ on a tax audit to be conducted for the period from FY2007 to FY2016, adding another five years to the audit.

**SGX QUERY:**

(c) When did the authorities in the People’s Republic of China (“PRC”) commence its investigations into the matter, and when did it conclude its investigations?

**COMPANY’S RESPONSE:**

We understand from the previous owner of CHSZ that the tax authority started the tax audit in July 2017.

In September 2017, CHSZ appointed an experienced tax adviser to assist in the tax audit and provide professional advice. Since then, the management together with the tax advisor had worked closely
with the tax authority in China to explain the transfer price methodology and computations. This process was long drawn and continued until December 2019 after many rounds of negotiation and appeals. The Group received an assessment notice on 6 December 2019. The Company made a final appeal to the tax authority in early January 2020 but was unsuccessful.

SGX QUERY:

(d) Please provide the breakdown of S$5.1 million which the Group paid as tax liabilities, related interest and penalties, in particular how much of this amount was attributable to penalties imposed by the tax authority.

COMPANY’S RESPONSE:

The breakdown of the S$5.1 million is as follows:

<table>
<thead>
<tr>
<th>Items</th>
<th>RMB’000</th>
<th>SGD’000 equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax paid</td>
<td>19,011</td>
<td>3,801</td>
</tr>
<tr>
<td>Interest</td>
<td>6,298</td>
<td>1,259</td>
</tr>
<tr>
<td>Penalty</td>
<td>125</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25,434</strong></td>
<td><strong>5,085</strong></td>
</tr>
</tbody>
</table>

SGX QUERY:

(e) Did the Company release any announcements on SGXNet with regard to this matter? If no, why not?

COMPANY’S RESPONSE:

In addition to earlier disclosures under Claims for Breach of Warranties and Indemnities by the Buyer, the Company disclosed that an additional S$3.7 million provision was made for the final tax liability in the announcement for the full year results on 29 February 2020. The details were disclosed in Note 11 to the FY2019 financial statements.

SGX QUERY:

(iii) We note that the Group has bank loans of S$24,227,000 which are repayable in one year or less, or on demand.

(a) How does the Group intend to repay the amount of S$24,227,000 which is repayable in one year or less, or on demand?

COMPANY’S RESPONSE:

The bank loans of $24,227,000 consisted of
1) term loan that falls due within the next 12 months
2) working capital loan that are secured by legal charges over part of the group’s property, plant and equipment and guarantees issued by certain subsidiaries.

As disclosed in our first quarter 2020 results announcement dated 14 May 2020, the Group generated S$17,378,000 positive cashflow from operating activities. The Group applied part of the cashflow to meet our term loan repayment obligations. It is the Group’s plan to continue using internally generated cashflow to meet scheduled repayment obligations for the remainder of this year.

In the announcement dated 17 April 2020, the Group also stated that

(i) $9,817,000 undrawn credit facilities (as stated in Note 34E to 2019 financial statements) is available. This facility remains unused as at 31 March 2020. This together with available trade receivable financing facilities are expected to provide the Group adequate liquidity resources to meet its ongoing obligations.

(ii) As the Group has strong long term relationship with its banks, the Board and management are of the view that the banks will not request for immediate payment of the outstanding loans and continue to provide financial support to the Group as and when required.

The Board, having reviewed the Group’s ability to generate positive cash flows from its operating activities to support operating expenses and capital expenditure for the following 9 months from 1 April 2020, the unused credit facilities available to the Group and the existing cash and cash equivalents, is of the opinion that the Group has adequate resources to meet its obligations as and when they fall due.

The Group is also currently working closely with the bank to restructure the working capital loan as part of its ongoing effort to strengthen our balance sheet and to improve liquidity.

**SGX QUERY:**

(b) How much of the amount of S$24,227,000 is attributable to borrowings and debt securities which are repayable on demand? Further, what are the conditions or circumstances which would trigger repayment to be made on demand?

**COMPANY’S RESPONSE:**

The majority of the bank loans are revolving working capital loans which are rolled over every three months as long as the Group makes the interest payments as they fall due.

**SGX QUERY:**

(c) Please provide further information on whether the Company expects cash flow or liquidity issues with regards to the repayment of S$24,227,000, in light of the COVID-19 situation and its impact
on the Company’s business operations. Please substantiate the Company’s stand with specific details.


COMPANY’S RESPONSE:

The Company does not expect cash flow or liquidity issues in the repayment of the outstanding loans. Despite the disruption caused by the Covid-19 pandemic since late January 2020, the manufacturing operations of the Group in China and Thailand experienced minimal disruption, and orders from our customers remained robust. Hence, our results for the first quarter 2020 has not been adversely affected, the Group generated S$17,378,000 positive cash flow from operating activities.

The Group continues to pursue and execute its cost reduction initiatives across all manufacturing sites, improve supply chain efficiency, improve labour productivity, increase asset utilisation and manufacturing resources optimization. These actions have reduced operating costs, improved gross margin and lower the breakeven point for the business.

SGX QUERY:

(iv) The Company has disclosed that “the outlook for the hard disk drive (“HDD”) industry in 2020 is expected to remain challenging. The volume is expected to decline 6% year on year according to Trendfocus. Against this backdrop, the HDD industry is now further challenged by the impact of the ongoing Covid-19 pandemic. The rapid spread of the virus has caused major disruptions to worldwide supply chains, dampened economic sentiment and led to several countries declaring national emergencies while closing their borders to contain the outbreak. How this will impact HDD industry and therefore our business, in the remainder of 2020 remains uncertain.”

The Company’s announcement dated 28 May 2020 provided that “the Company has entered into a Non-Binding Indicative Proposal (“NBIP”) with a potential buyer (“Buyer”) to dispose of the Group’s hard disk drive business (“HDD Business”) through the disposal of the Company’s wholly-owned subsidiary, BIGL Asia Pte Ltd. (“BIGL Asia”).”

Please state what is the HDD Business’ contribution to the Group’s revenue of S$91,647,000 as at 31 March 2020 by providing a percentage figure.

COMPANY’S RESPONSE:

Revenue for the first quarter 2020 was generated entirely by the HDD business.

By Order of the Board

Broadway Industrial Group Limited

3 June 2020