ARION ENTERTAINMENT SINGAPORE LIMITED

(Incorporated in Singapore)
(Company Registration Number 199407135Z)

RESPONSE TO QUERIES RAISED BY THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

Unless otherwise defined, all capitalized terms used in this announcement shall bear the same meaning in the Company's announcements on the Proposed Subscription dated 5 August 2020.

The board of directors of the Company (the "**Board**" or "**Directors**") wishes to announce the that it has received queries from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 7 August 2020 in relation to the proposed subscription of 311,000,000 new ordinary shares in the capital of the Company and set out the Company's responses below:

SGX-ST refers to Arion's announcement dated 5 August 2020, on the proposed subscription of 311,000,000 shares for an aggregate consideration of S$1.6m (the "**Proposed Subscription**") and noted the following:

- The Subscription Price represents a discount of 9.73% over the volume weighted average price of S$0.005816 per ordinary share of the Company based on the trades done on 3 August 2020.
- The Subscription Shares represents 49.92% of the existing issued share capital of the Company (excluding treasury shares) (the "Shares") and 33.30% of the Company's enlarged issued share capital.
- The net proceeds will provide the Company with working capital and provide financial flexibility for future corporate developments which may involve diversifying into new business opportunities as and when they arise. The Group has not identified such new business opportunities.
- The Company has sufficient working capital to operate as a going concern for the next 12 months. However, in light of the current Covid-19 pandemic, the Company is of the view that it should raise additional funds for working capital.
- 80% of net proceeds are allocated to general working capital, while 20% is allocated to future corporate developments and new business opportunities (if any)
- the present bank facilities available to the Group, the working capital available to the Group is sufficient to meet its present requirements
- As at the date of this announcement, S$1.48 million or approximately 78.7% of the net proceeds from the 2018 Rights Issue remain unutilized.
- The Subscribers are business associates and personal friends of Mr. Ng.
- Full year unaudited results for FYE 31 Mar 2020 states that the Group has total assets of S$2.3m, of which S$2.1m is cash and cash equivalents. Net assets of the Group stands at S$1.9m, and net current assets stands at S$1.9m.

Question 1: Why is the Company raising additional funds via a private placement to 4 selected individuals, mainly for working capital purposes, when the Group has sufficient working capital to operate as a going concern for the next 12 months?

Company's Response

Whilst the Group has sufficient working capital to operate as a going concern for the next 12 months, there is limited leeway to fund corporate developments and contingencies. The Company does not have any banking facilities available for contingencies. In this regard, the Board chose equity fund raising through a placement as opposed to debt financing for the following reasons:

(a) it will strengthen the equity base of the Company;
(b) unlike debt, it will not burden the Company with interest cost; and
(c) it can be achieved quickly and the Board is of the view that it is comparatively cost efficient to do so.

In view of the Covid-19 pandemic and global recession, the Company felt that it will be prudent to raise additional working capital as a buffer if the situation deteriorates further. Should the situation deteriorate and affect market sentiment, the Company may not be able to raise funds when required.

The Company also has plans to diversify its business which will be put up for shareholders' approval before the end of the financial year ending 31 March 2021. If approved, these reserve funds will be immediately available for use to set up the new business. The new business is envisaged to be property related and also involves operating a finance company providing property related loans in Hong Kong. As the new business involves a change in the risk profile of the Company, the Company has to seek shareholders' approval prior to the proposed diversification. In the event that a major acquisition relating to the new business is proposed, we will seek a separate shareholders' approval for the proposed acquisition. The Company will provide further details in relation to the proposed diversification in a circular to shareholders in due course.

Question 2: Please explain the plans and intended usage for the unutilized net proceeds of S$1.48m raised from the 2018 Rights Issue.

Company's Response

As announced on 25 December 2018, the estimated net proceeds from the Rights Issue was approximately S$1.83 million*. Subsequently, the Company has stated in its full year results announcement for the financial year ended 31 March 2019 ("**FY2019 results**") which was announced on 21 May 2019 that the net proceeds from the Rights Issue was S$1.88 million* and were allocated as follow:

General working capital	S$1.378 million
Publishing business	S$0.500 million

* *The estimated net proceeds announced on 25 December 2018 was based on estimated expenses as compared with the net proceeds stated in the Company's FY2019 results and FY2019 annual report which was computed based on the actual expenses incurred.*

The unutilized proceeds as at the date of this announcement are as follow:

General working capital	S$0.979 million
Publishing business	S$0.500 million

The Company has been using the funds allocated to working capital for payment of headquarter expenses such as salaries, professional fees, regulatory fees and other overheads and will continue to do so.

The Group has yet to utilize the S$0.5 million allocated to publishing business but there are plans to use this amount for the Company's digital publishing ventures in the next 12 months. The Company had previously disclosed in its unaudited results for its financial year ended 31 March 2020 that the Group will continue to rationalize the activities of the publishing division and gradually shift towards digital and online publishing in FY2021.

Question 3: Please provide a breakdown of the use of proceeds from the Proposed Subscription, in particular the 80% allocated to general working capital.

<u>Company's Response</u>

Based on current financial year ending 31 March 2021, for illustrative purposes, the net proceeds from the Proposed Subscription which have been allocated towards general working capital shall comprise

- recurring expenses such as salaries and wages, regulatory fees, professional fees, office rental;
- directors' fees; and
- other miscellaneous overheads.

The above is budgeted to be about S$0.8 million annually and does not take into account any expenses to convene extraordinary general meetings or any costs to set up new business division in relation to new corporate transactions or developments by the Company, as the Company has not identified any specific acquisition target in relation to the proposed diversification at this juncture. Thus it is difficult for the Company to estimate the costs that will be incurred in the proposed diversification which may involve setting up a new management team for the business acquired.

As set out in the Company's announcement dated 5 August 2020, the Company has allocated S$0.3 million to the initial start-up costs associated with any new business identified or costs associated with its corporate development activities. In the event that there are no corporate developments or new business opportunities identified by financial year ending 31 March 2021, the Net Proceeds shall be re-allocated towards general working capital of the Group.

Question 4: Please provide Board's views and basis on why and how the Proposed Subscription is in the best interest of the Company and minority shareholders.

Company's Response

There is an opportunity for the Company to raise funds and although the Company has sufficient working capital to operate as a going concern for the next 12 months, the Board is of the view that it is prudent to raise additional funds as a buffer due to the Covid-19 pandemic and global recession. Based on the foregoing, the Board is of the view that the Proposed Subscription is in the best interest of the Company and its minority shareholders.

For and on behalf of the Board

Ng Kai Man
Executive Director
10 August 2020