



## INNOPAC HOLDINGS LIMITED

(Company Registration No. 197301788K)

### REPLY TO SGX-ST'S QUERIES ON THE COMPANY'S ANNOUNCEMENTS DATED 8 AUGUST 2017 AND 10 AUGUST 2017

Innopac Holdings Limited (the "Company") refers to SGX-ST's queries of 19 September 2017 on the Company's announcements dated 8 August 2017 (the Group's unaudited second quarter and half year results) and 10 August 2017 (quarterly update pursuant to Rule 1313(2) of the Listing Manual), and would like to reply as follows:

#### **SGX Query 1:**

*In the Company's 8 August 2017 announcement (the "8 August Announcement"), it was disclosed in the Income Statement that "Administrative Expenses" amounted to S\$391K. Please provide a breakdown of and quantify the items under "Administrative Expenses" amounting to S\$391K.*

#### **Reply 1:**

"Administrative Expenses" amounting to S\$319K comprised of:

- (a) staff costs, directors' fees and related expenses of S\$269,000;
- (b) group's corporate and statutory expenses of S\$73,000; and
- (d) other administrative expenses S\$49,000.

#### **SGX Query 2:**

*In the Income Statement, "Exchange differences on translation of foreign operations" amounted to S\$88K. It was disclosed that the "exchange differences were mainly due to the net effect in translating the foreign currency denominated financial statements of its subsidiaries into Singapore Dollar for reporting purposes". Please provide details on the currencies involved and the subsidiaries mentioned here.*

#### **Reply 2:**

Name of subsidiaries	Home Currency	Assets RM'000	Liabilities RM'000	Equity RM'000	Net effect in translation S\$'000
Awana Rentak Sdn Bhd, Malaysia	RM	22,151	(7,064)	(15,087)	(73)
Enigma Venture (M) Sdn Bhd, Malaysia	RM	6,213	(7)	(6,206)	(30)
Inno-Pacific Realty Sdn Bhd, Malaysia	RM	7,910	(10,907)	2,998	32
Megan Midas Sdn Bhd, Malaysia	RM	3,501	(237)	(3,264)	(16)
Dezhou Sheng Rong Gas Co Ltd, People's Republic of China	RMB	RMB'000 17,133	RMB'000 (16,106)	RMB'000 (1,028)	(1)
<b>Exchange losses/(gains) on translation</b>					<b>(88)</b>

### **SGX Query 3:**

*In paragraph 8 of the 8 August Announcement, it was also disclosed that “investments in joint venture decreased to S\$0.77 million as at 30 June from S\$6.77 million as at 31 December 2016, as the Group’s investment in the microalgae cultivation and extraction of oil project was reclassified as Assets classified as held for sale. The Group had received an expression of interest from an unrelated third party to acquire the microalgae cultivation and extraction of oil project on a “as is where is” basis in May 2017. The original budget commitment for the first facility (the “Facility”) of the microalgae cultivation and extraction of oil project is US\$12.50 million. The Company has invested S\$6.00 million for the construction of a down-sized Facility. The Facility is not able to achieve the optimal results, accordingly the Company has decided to sell this investment project”. Please:-*

- i) Quantify the amounts loaned and invested by the Company to-date on this project;*
- ii) Provide details on what the Company meant by “optimal results”;*
- iii) It was disclosed in the Company’s 2016 Annual Report that the joint venture company is expected to commence commercial operations and generate revenue by mid-2017. Please disclose the revenue that had been generated thus far; and*
- iv) Provide a breakdown of how the S\$6mil was spent and substantiate with details that operations is not able to achieve optimal results.*

### **Reply 3:**

- i) The Company has loaned and invested S\$6 million on this project;
- ii) The original budget for the microalgae cultivation and extraction of oil project of USD12.5 million was to build a facility to produce 20MT of microalgae oil per day. This USD12.5 million facility would cultivate microalgae in 2,000 x 10MT tanks that will be harvested daily using a mechanical harvester. The JV partner and the Company have determined that the daily production of 20MT of microalgae oil using this configuration and system would produce “optimal results”;
- iii) There is no revenue generated from this project to date. In May 2016, the JV partner and the Company decided not to proceed with the commercial operations of a down-sized project as it would not have the economy of scale and consequently be loss-making. The down-sized project will not have the required mechanical harvester for the operation. Most operational activities will be handled by manual labour. This will result in significantly higher operational costs;
- iv) On 13 December 2016, the Company had announced that the S\$6.0 million was utilised by the JVCO as follows: S\$1.6 million for civil works including site survey, land clearing, soil testing, groundwater drilling, technical drawings, civil construction works including land compacting, perimeter concreting and hoarding, fabricating steel tracks, rails and platforms, and project management costs; S\$1.1 million for harvesting machine, S\$1.3 million for tank making machine, tanks, and installation; S\$0.7 million for plumbing, electric works, supply and installation of generators and allied equipment; and S\$1.3 million for purchase of algae seeds. Please refer to the Company’s announcement dated 13 Dec 2016.

The down-sized project will be labour intensive and the expected oil that can be extracted is reduced to less than 5MT per day. The commercial operation of the down-sized project will be loss making due to the significant dependence on labour as compared to the mechanized harvesting of microalgae contemplated in the original budget.

#### **SGX Query 4:**

*It was also disclosed that “the Group’s investment in joint venture as at 30 June 2017 represents its investment in the gold exploration and exploitation project”. Noting that this project is in a very preliminary stage, please disclose how much has the Company invested in the joint venture and whether the Company is still investing cash into the joint venture.*

#### **Reply 4:**

The Company has invested S\$0.77 million in the joint venture to date. The Company intends to invest a further S\$10,000 and S\$300,000 in the joint venture before the end of FY2017 and FY2018 respectively.

#### **SGX Query 5:**

*It was also disclosed in paragraph 8 of the 8 August Announcement that “the Group’s available-for-sale investments as at 30 June 2017 and 31 December 2016 was S\$6.1 million, comprising: (i) the rights to receive the net proceeds of 60 finished lots of land situated at Sawyer Falls, Pierce County, Washington State, USA, amounting to S\$4.6 million; and (ii) an equity investment in Trackplus Sdn Bhd with a valuation of S\$1.5 million”. Please disclose:-*

- i) The party whom the Company has rights to receive the net proceeds from;*
- ii) Why the net proceeds have not been received;*
- iii) When and why the Company acquire these rights; and*
- iv) Details on Trackplus Sdn Bhd and its business for a reasonable understanding of the size and operations of this investment.*

#### **Reply 5:**

- i) The Company has the rights to receive the net proceeds of the 60 finished lots of land from Capri Investment L.L.C. (“Capri”), a wholly owned subsidiary of Ipco International Limited, a company is listed on the main board of the Singapore Exchange Securities Trading Limited (“SGX-ST”);
- ii) The 60 lots are located in the Planned Development District (“PDD”) approved in 2002 by Pierce County, WA, USA. The County’s approval of this PDD allows up to 979 single-family residential lots to be created and sold. The size of the land is 450 acres. The contemplated development of this PDD is to be carried out in 12 phases. Lots within each phase of this PDD are created by the recording of a survey plat with the Auditor of Pierce County, WA, USA. Plats for 3 phases within the PDD, containing a total of approximately 350 single-family residential lots, have been recorded as of 31 December 2016 and have all been sold. The Company is entitled to the net sales proceeds of the 60 finished lots in the final phase of the PPD, viz the 12th phase. See the Company’s reply to SGX-ST’s queries on 22 March 2016;
- iii) In April 2002, Sawyer Falls Co, LLC (“SFC”), a 50% investee company of the Company, entered into a Vacant Land Sale and Purchase Agreement (“VLSPA”) to sell the Falling Water raw land to Capri Investment LLC (“Capri”). The sales consideration for the raw land was US\$3,500,000 and net proceeds from 85 finished lots from the property.

In February 2004, the Company, SFC and its members entered into an agreement whereby SFC agreed to distribute net proceeds from the first 35 lots of the 85 lots that SFC is entitled to, under the VLSPA to the Company as settlement of promissory notes issued by SFC to the Company. In addition, it was also agreed that the Company will be entitled to 25 lots based

on its (50%) equity interest in SFC. Consequently, the Company has a total right to receive the net proceeds from the sale of 60 finished lots. Further, SFC had confirmed to the Company that the net proceeds from the distribution of the remaining lots (which is 25 lots) to the Company will be without any deductions for the creditors of SFC or advances made by members of SFC after the date of the VLSPA.

The information on SFC have been disclosed every year in the Notes of the audited Financial Statements in the Company's Annual Reports from year 2002 to 2016. Also refer the Company's reply to SGX-ST's queries on 22 March 2016;

- iv) On 9 September 2011, the Company acquired a 35% equity interest in Trackplus Sdn Bhd ("Trackplus"). Trackplus is a special purpose vehicle company and its only significant asset is a piece of land with an area of approximately 7,863 square metres at Section 13, Town of Shah Alam, Selangor, Malaysia. The land which is on a 99 years leasehold title for expiring on 22 January 2102. On 4 December 2015, Trackplus entered into a joint venture agreement with a developer in Malaysia to carry out residential and commercial development on the land. Under this agreement, the Developer shall pay to Trackplus (i) 20% of the total sales price of the net saleable area from the development on the land, or (ii) the Guaranteed Minimum Consideration of S\$8,060,000, whichever is higher.

The information on Trackplus have been disclosed every year in the Notes of the audited Financial Statements in the Company's Annual Reports from 2011 to 2016.

#### **SGX Query 6:**

*In paragraph 10 of the 8 August Announcement, it was disclosed that the "Group's investment properties are residential and commercial properties held for income and capital gain. The Group had reviewed its investments in investment properties and had decided to dispose of its investment properties in Malaysia".*

*Please list all of the Company's investment properties and indicate which are the ones that the Company intends to sell.*

#### **Reply 6:**

Descriptions of the investment properties are as follows:

	<u>Name of property</u>	<u>Date of acquisition</u>	<u>Area</u>	<u>Amount invested</u>
(a)	Tanjong Malim land, Perak, Malaysia	Nov 2005	2,103,948 sq. ft.	RM2.043 million
(b)	Unit 33-02 Cendana Condominium, Kuala Lumpur, Malaysia	Aug 2012	4,488 sq. ft.	RM 3.700 million
(c)	Unit 18-03 Clear Water Residence, Kuala Lumpur Malaysia	Jan 2013	3,283 sq. ft.	RM3.463 million
(d)	Lot A-2, Taman Sungai Mas, Sabah, Malaysia	Jan 2013	1,070 sq. ft.	RM0.400 million
(e)	Lot A-3A, Taman Sungai Mas, Sabah, Malaysia	Jan 2013	1,070 sq. ft.	RM0.400 million

The information on Investment properties have been disclosed every year in the Notes of the audited Financial Statements in the Company's Annual Reports from 2012 to 2016.

**SGX Query 7:**

*In paragraph 10, it was also disclosed that the Group is seeking necessary financing for the "Recovered carbon black" project. Please provide details on:-*

- i) How much has the Company invested so far;*
- ii) The status on available funding to the Company;*
- iii) In view of the Company's experience in the microalgae cultivation and extraction of oil investment, please disclose whether the Board of Directors (the "Board")'s plans to go ahead with this investment if only partial financing can be obtained; and*
- iv) The safeguards in place to protect the Company's investments in such projects.*

**Reply 7:**

- i) To date, the Company has not made any investment in the Recovered Carbon Black ("RCB") project, save for RM937 for incorporation expenses of the joint venture company, Superior Carbontech & Solutions Sdn Bhd;*
- ii) The Company has been seeking the necessary financing for the project since July 2016, and at this date, financing for the project has not been secured;*
- iii) The Company announced its intention to invest in the Recovered Carbon Black project in June 2016 and that the project would require a total of US\$2.5 million financing. The Company will not proceed with this project before securing the required financing;*
- iv) The following safeguards, such as but not limited to, are in place to protect the Company's interest in such projects: joint operations of the bank accounts, board and management representation and regular reporting,*

**SGX Query 8:**

*In the Company's announcement on 10 August 2017 (the "10 August Announcement"), it was disclosed that "the Company is of the opinion that the Group is not in a net current liability position as S\$12.3 million of trade and other payables are 3 year plus liabilities of two of the Group subsidiaries, where the creditor has not made any demand for settlement or otherwise." Please provide details on:-*

- i) Who the creditor is;*
- ii) The two subsidiaries that the Company is referring to; and*
- iii) How these liabilities came about, give a breakdown to and quantify the items contributing to these liabilities.*

**Reply 8:**

- i) The Company does not have the consent of the creditor to disclose its identity;*
- ii) Heritage Investment Corporation and Wang Da Investments Limited, both are British Virgin Islands incorporated companies;*
- iii) These liabilities arose from the subsidiaries' losses in derivatives trading, including financial and interest charges. The prices of the derivatives had declined during the financial years 2013, 2014 and 2015 leading to the losses, as follows.*

	<u>S\$'000</u>
Heritage Investment Corporation	4,214
Wang Da Investments Limited	8,125

**SGX Query 9:**

*In the 10 August Announcement, it was disclosed that the “Company intends to use the entire Net Proceeds from the Rights Issue for business expansion and for its general working capital”.*

- i) Please provide details on this business expansion; and*
- ii) Please also provide a breakdown and quantify the items that the general working capital will be used for.*

**Reply 9:**

Assuming that the Rights Issue is fully subscribed based on the Existing Issued Share Capital of the Company, an aggregate of 4,460,750,145 Rights Shares will be issued by the Company, thereby raising Net Proceeds of approximately S\$3,268,600. The Company intends to use such proceeds in the following manner:

- (i) 10% of the Net Proceeds, or S\$326,860, will be used by the Company for business expansion; and
- (ii) the balance 90% of the Net Proceeds, or S\$2,941,740, will be used by the Company as general working capital.

In respect of the Net Proceeds intended to be used for business expansion, the Company intends to use such proceeds for business expansion in survey, land improvement (clearing, levelling and fencing) and sub-division of the 48.3 acres land at Tanjong Malim into smaller and marketable lot sizes. The land at Tanjong Malim is an investment property held by the Company’s wholly owned subsidiary, Awana Rentak Sdn Bhd (“Awana”). Due to the size of the Tanjong Malim land, it is more feasible if the Tanjong Malim land is sub-divided into smaller and marketable lot sizes. This will enable Awana to market and sell the Tanjong Malim land and for the Company, through Awana, to receive returns from its investment. The estimated cost for undertaking such work is approximately RM1.0 million (equivalent to approximately S\$320,000 based on the exchange rate of S\$1.00 to RM3.13).

As for the Net Proceeds to be used by the Company as general working capital, such proceeds will be used for the following purposes:

- (a) staff costs and related expenses (S\$1.743 million);
- (b) office rental and upkeep of properties related expenses (S\$0.264 million);
- (c) SGX-ST’s listing fees, Groups’ corporate and statutory expenses (S\$0.593 million); and
- (d) other administrative expenses (S\$0.340 million).

The Company envisages that the Net Proceeds of S\$2,941,740 will be used as its general working capital for approximately 18 months.

The proposed Rights Issue was announced by the Company on 28 June 2017 and was repeated on 2 August 2017.

**SGX Query 10:**

*It was also disclosed that the “Company has decided to dispose of its investment properties in Malaysia, JV in China, the Sawyer Falls property rights in USA, and microalgae cultivation JV”. Please provide details on :-*

- i) When did the Company enter into each of these investments;*
- ii) The amount that the Company has invested so far for each of these investments; and*
- iii) For each investment mentioned above, to elaborate on the Board’s rationale for disposing these investments.*

**Reply 10:**

- i) Please see Reply 6 above on date of acquisition of investment properties in Malaysia.

The joint venture in China was acquired in December 2013.

Please see Reply 5 above on date of acquisition of the Sawyer Falls property rights in USA.

The Company’s investment in the microalgae cultivation JV was made in 2016.

- ii) Please see Reply 6 above on cost of investment properties in Malaysia.

The cost of investment in China is S\$17.1 million.

The cost of investment of the Sawyer Falls property rights in USA is S\$14.9 million.

The cost of investment in the microalgae cultivation JV is S\$6.0 million

- iii) The Board of Directors (the “Board”) of the Company had decided to sell these assets to raise funds for the Group’s working capital and for the Recovered Carbon Black and gold exploration joint ventures. The Board is of the view that these joint ventures should then generate positive cash flows for the Group.

The Board had decided to dispose of its investment properties in Malaysia as the Malaysian government had implemented property cooling measures to curb escalating property prices, and the investment return on these investment properties has not been attractive. Furthermore, the Board had agreed that the proceeds from the sales and invested in the two joint ventures would give better returns.

The Compressed Natural Gas (“CNG”) business in China faced many regulatory and operational difficulties and could not achieve the expected growth or returns. Despite the best efforts of the JV partners, the Company had to make a decision to exit the CNG business in 2015.

Please see Reply 3(ii) above regarding the microalgae cultivation JV.

By Order of the Board  
Innopac Holdings Limited

Wong Chin Yong  
Chairman & CEO

21 September 2017