
QUARTERLY UPDATE PURSUANT TO RULE 1313(2) OF THE LISTING MANUAL

INTRODUCTION

Innopac Holdings Limited (the “Company”) was placed on the financial criteria Watch-List pursuant to Rule 1311(1) of the Listing Manual (the “Listing Manual”) of the Singapore Exchange Securities Trading Limited (the “SGX-ST”) with effect from 3 June 2016. The Company will have to meet the requirements under Listing Rule 1314(1) within 36 months from 3 June 2016, failing which the SGX-ST would delist the Company or suspend trading in the Company’s shares with a view to delisting the Company. Listing Rule 1314(1) states that an issuer on the Watch-List may apply to the SGX-ST for its removal from the Watch-List if it records consolidated pre-tax profit for the most recently completed financial year (based on the latest full year consolidated audited accounts) and has an average daily market capitalisation of S\$40 million or more over the last 6 months.

The Company was also placed on the minimum trading price criterion Watch-List pursuant to Rule 1311(2) of the Listing Manual with effect from 5 June 2017. The Company will have to meet the requirement under Listing Rule 1314(2) within 36 months from 5 June 2017, failing which SGX-ST would delist the Company or suspend trading in the Company’s shares with a view to delisting the Company. Listing Rule 1314(2) states that the Company will be assessed by SGX-ST for removal from the Watch-List if it records volume-weighted average price of at least S\$0.20 and an average daily market capitalisation of S\$40 million or more over the last 6 months.

Rule 1313(2) of the Listing Manual, requires the Company to provide quarterly updates on its efforts and the progress made in meeting the exit criteria of the Watch-List, including where applicable its financial situation, its future direction, or other material development that may have a significant impact on its financial position.

The Board of Directors of the Company wishes to provide its First Quarter 2019 (“Q1 2019”) update to its shareholders and investors as follows:

UNAUDITED FINANCIAL PERFORMANCE AND FINANCIAL POSITION

The Company had released the unaudited results for Q1 2019 for the Company and the Group on 15 Nov 2018. Full details can be found on the SGX-ST and the Company’s websites.

The Company wishes to highlight that the Group’s loss was S\$0.7 million in Q1 2019 (Q1 2018: loss of S\$0.4 million). Loss per share for the reported 18 months period ended 30 June 2018 was 0.22 cent (0.02 cent for the corresponding period ended 30 June 2017).

The Company wishes to highlight that as at 30 Sep 2018, the Group and the Company had net current liabilities of about S\$12 million and S\$5.4 million respectively. The Group’s net current liability position of S\$12 million is primarily due to about S\$12.3 million of payables to Saxo Bank A/S incurred by two of the Group’s subsidiaries. (Also see below about claim by Saxo Bank A/S).

MATERIAL DEVELOPMENTS

1. Loan Facility Agreement, Proposed Disposal and Proposed Placement

On 8 and 9 October 2018, the Company announced that it had on 6 October 2018 entered into the following agreements:

- (a) Loan Facility agreement with Joy Maker International Limited for a loan of up to S\$2,500,000.00 to the Company (“Loan”). The proceeds from the Loan would be used for working capital purposes, repayment of creditors and to fund corporate exercises primarily pertaining to the Proposed Disposal and Proposed Placement.
- (b) Proposed Disposal of Subsidiaries (“Proposed Disposal”) to the CEO of the Company; and
- (c) Proposed Placement of 8,400,000,000 new ordinary shares in the capital of the Company at S\$0.001 per new ordinary share (“Proposed Placement”).

The Proposed Placement which will be subscribed by 11 individual investors (the “Investors”) shall raise up to S\$8,400,000. Upon completion of the Proposed Placement, two of the investors, namely Dato’ Choo Beng Kai and Dato’ Lim Soon Huat, will be controlling shareholders of the Company with 19.44% and 15.55% shareholding interest. Dato’ Choo will be appointed as a director of the Company on completion of the Placement.

The Investors have required that certain subsidiaries be disposed as a condition for their investment in the Proposed Placement. Accordingly, the Company had entered into a Sale & Purchase Agreement with Mr. Wong Chin Yong (“WCY”) for the sale of the Company’s entire shareholding interests in Heritage Investment Corporation (“HIC”), Wang Da Investment Limited (“WDIL”), Golden Eagle Mining Pte Ltd. (“GEM”), Extera Pte Ltd (“EPL”) and Malaysian Microalgae Enterprise Sdn Bhd (“MME”), (collectively, the “Entities”) for a total consideration of S\$100,000.00. The Entities have a combined net book value of negative S\$8,300,000. Upon completion of the Disposal, the Company shall record a gain on disposal of S\$8,400,000. WCY is currently the Chairman and CEO of the Company and the Proposed Disposal is an interested party transaction. A further condition of the Investors is that WCY will also resign as an employee and also a director of the Company on completion of the Proposed Disposal.

The transactions contemplated above are subject to shareholders’ approval at an extraordinary general meeting to be convened at the earliest practicable date. The long stop date for the completion of the Proposed Placement is 5 February 2019.

The Company has on 29 November 2018 and 10 December 2018 appointed 3 Peaks Capital Private Limited and Censere Singapore Pte Limited as the Independent Financial Advisor (“IFA”) and Valuer, respectively.

Barring unforeseen regulatory or shareholders’ objection, the Board of Directors believes that the completion of transactions announced on 9 October 2018, i.e. the Proposed Disposal and Proposed Placement, represent the Company’s most viable efforts to strengthen the Company’s financial position, clean up its balance sheet, and return to profitability.

2. Legal Suit with Saxo Bank A/S

On 1 June 2018, the Company received a letter of demand (“**LOD**”) from the solicitors acting on behalf of Saxo Bank A/S (“Saxo Bank”) demanding payment of S\$14,689,028.02 from the Company. The Company having taken legal advice, denies that the claim by Saxo Bank against the Company is valid and the Company’s lawyers have responded accordingly. The liabilities forming the subject matter of the claim by Saxo Bank were incurred by the Company’s subsidiaries, namely Heritage Investment Corporation (“HIC”) and Wang Da Investment Limited (“WDA”), and not by the Company itself.

On 24 October 2018, the Company received a writ of summons in the High Court of the Republic of Singapore for a claim by Saxo Bank for a sum of S\$15,020,238.02 from the Company to settle, inter alia, the negative account balances under the accounts maintained by HIC and WDA (“the Claim”). The Company has taken legal advice from its solicitors and is disputing the Claim, as it believes that the Claim has no merit. The Company intends to strenuously defend the Claim.

On 15 November 2018, the Company's solicitors have filed the Defence and Counterclaim in response to the writ of summons. The Company's solicitors will also be making a summary judgement application to its Counterclaim to the High Court in January 2019.

3. Resumption of Trading

The Company had submitted an application to SGX-ST on 19 October 2018 for the resumption of trading in the shares of the Company. On 25 October 2018, SGX-ST notified the Company that its application for trading resumption is premature and rejected for the following reasons:

- (a) Based on the Company's announcement on 9 October 2018, the Claim by Saxo Bank A/S has not been settled and there was no clarity, based on the Board's conclusion that it can "reasonably assess its financial position", whether and how the Company will be able to operate as a going concern;
- (b) In the Company's Annual Report, concerns were raised by the Company's independent auditor ("Auditor") in the Auditor's Report dated 12 October 2018, on the Company's investments and opening balances of the Company's financial statements and the Auditor had issued a disclaimer of audit opinion, inter alia, on the appropriateness of its going concern assumption in relation to the Company's financial statements for the 18-Months period ended 30 June 2018 and the Company has not demonstrated that it is able to operate as a going concern;
- (c) The Company had appointed Provenance Capital Pte Ltd to review its investment process and report on its findings. The report is pending finalisation and has not been announced and the Company should work towards compliance with the notice of compliance; and
- (d) The Company has not addressed the issues raised by the Auditors and Provenance Capital Pte Ltd in their respective reports to enable the market to operate in a fair, orderly and transparent manner so that investors can make an informed decision about the Company.

The Company intends to engage with SGX-ST further on the Company's application to resume trading.

CURRENT OPERATIONS

The principal activities of the Company are those of investments, investments holding and the provision of management services to related companies.

The Company's objective is to build a portfolio of businesses and investments that can deliver consistent profits and cash flow as well as growth potential.

As at the date of this update, the Company's investment portfolio consists of:

1. Investment Properties

The Group's investment properties are as follows;

- (a) 48.3 acres industrial land in Tanjung Malim, Perak, Malaysia. Currently, 10 acres of the land is leased. The Group is in discussions to sub-divide and develop the entire site;
- (b) condominium apartment in Kuala Lumpur, Malaysia. A new tenancy will commence in January 2019; and
- (c) 2 shop houses in Sabah, Malaysia. These shop houses are being marketed for sale.

2. Other investments

The Company's Other Investments are;

- (a) Its 81.8% owned subsidiary Extera Pte Ltd ("Extera"), which in turn owns 90% of Dezhou Sheng Rong Gas Co Ltd ("SR") in China. Currently, SR has no business operations. However, included in the Group's other receivables as at 30 September 2018, is an amount of \$2,300,000 due from a former non-controlling shareholder of SR ("SR Receivables"). The recoverability of the SR Receivables is dependent on the realisation and monetisation of the assigned debt and the (1) property already transferred and (3) other properties yet to be transferred to SR. The Independent Auditor of the Company had issued a Disclaimer of Opinion on the recoverability of the SR Receivables in The Independent Auditor's Report on 12 October 2018. The full text of the Independent Auditor Report is found on page 23 of the Company's 2018 Annual Report.

Extera is one of the subsidiaries subject to the Proposed Disposal;

- (b) a microalgae cultivation JV (the "Microalgae Project") (held under Malaysian Microalgae Enterprise Sdn Bhd ("MME")). On 22 Sep 2015, the Company entered in a Joint Venture Agreement with Primeforth Renewable Energy Limited ("Primeforth"). On 11 October 2016, the Company signed an engineering, procurement and construction ("EPC") with Primeforth for the construction of the microalgae facility on a turn-key basis. The Microalgae Project was to be rolled out in three phases with the Company committed to invest and fund an amount of US\$4,500,000, US\$3,000,000 and US\$5,000,000 for Phase 1, 2 and 3, respectively. The Group had funded S\$6,000,000 for Phase 1 of the project and it was later determined that the (Phase 1) down-sized facility would not be able to achieve optimal results which led to the decision to suspend and dispose of the Microalgae Project. The Company had made demands for the return of the \$6,000,000 advanced by the Company from Primeforth. The Company is seeking legal advice on the recovery of this S\$6,000,000 from Primeforth. As at 30 Jun 2018, the net carrying amount of the investment in MME before impairment was \$5,998,000 and the amount was fully impaired during the financial period ended 30 Jun 2018.

MME is one of the subsidiaries subject to the Proposed Disposal; and

- (c) an available-for-sale investment of S\$4,600,000 as at 30 September 2018, representing the right to receive the net proceeds from 60 finished lots of property in Falling Water District, Pierce County, Washington State, USA. The management had determined that no impairment loss on this investment is required, however, The Independent Auditor of the Company had issued a disclaimer of opinion on this investment, as they had been unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the recoverable amount of the investment (in Sawyer Falls Co. LLC). The full text of the Independent Auditor Report is found on page 23 of the Company's 2018 Annual Report.

The Company has sought legal advice from US attorneys on the recovery of this investment and is evaluating the course of action.

3. Joint-venture

Gold exploration and exploitation Joint Venture in the Kyrgyz Republic

The Company through its wholly-owned subsidiary, Golden Eagle Mining Pte Ltd, has a 50% equity interest in Artel Trade LLC, a Kyrgyz company which has a 63.72 sq. km. gold exploration and exploitation concession in the Kyrgyz Republic. The Company wishes to update that due to limited working capital, the proposed work program for 2018 had not been carried out and that the mining season in Kyrgyzstan had effectively ended with the start of winter.

The Company also wishes to highlight that the 2 exploration licenses held by Artel Trade LLC are due to expire within the first half of 2019 and that the renewal/extension of these licenses are subject to reports on the work program carried out in the concession area. Given the circumstances, there is a material risk that these licenses may not be renewed/extended.

Golden Eagle Mining Pte Ltd is one of the subsidiaries contemplated under the Proposed Disposal.

OTHER MATTERS

On 13 April 2018, the Company received a Notice of Compliance (“NOC”) from the Singapore Exchange Regulation, that requires the Company (i) pursuant to Mainboard Listing Rule 1405(1)(f), to undertake an interim audit on its financial results for the 12 month period ended 31 December 2017 and to complete the interim audit by 31 May 2018; and (ii) pursuant to Mainboard Listing Rule 1405(1)(f) and arising from the concerns/disclaimers of opinion raised by the Auditors on the Company’s investments, to appoint a Professional Firm acceptable to the Exchange by 12 May 2018 to conduct a review on the group’s investment processes and to recommend improvements in controls (“*Investment Process Review*”), if any and to announce findings of the Investment Process Review.

The Company has complied with the NOC above. NOC (i) on the interim audit for the 12 month period ended 31 December 2017 conducted by Baker Tilly TFW LLP was completed and announced on 15 July 2018. NOC (ii), the Investment Process Review conducted by Provenance Capital was issued on 23 November 2018 and posted on the SGXNET on 30 November 2018.

The Company will update shareholders when there are material developments, if any, relating to the claim by Saxo Bank, and/or any corporate development with regards to the Company and Group.

By order of the Board

INNOPAC HOLDINGS LIMITED

Wong Chin Yong
Chairman & CEO

21 December 2018