

ANNICA HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 198304025N)

RESPONSES TO SGX-ST'S QUERIES IN RELATION TO THE COMPANY'S RECEIPT OF QUALIFIED OPINION FOR FY2019

1. INTRODUCTION

The board of directors (the "**Board**") of Annica Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the following:

- (a) The Company's announcement made on 26 July 2018 in relation to the conditional sale and purchase agreement ("**SPA**") entered into between the Company and Chong Shin Mun (the "**Purchaser**") on the proposed disposal (the "**Disposal**") by the Company of its entire shareholding interest of 350,000 ordinary shares in the share capital of GPE Power Systems (M) Sdn. Bhd. ("**GPE**"), representing 70.0% of the total number of issued shares in GPE;
- (b) The Company's announcements made on 29 October 2018, 15 January 2019, 15 February 2019, 2 May 2019, 20 May 2019, 31 May 2019, 9 June 2019, 27 June 2019, 19 July 2019, 13 August 2019, 27 August 2019, 3 October 2019, 5 November 2019, 11 November 2019, 12 November 2019, 9 December 2019, 15 December 2019, 4 February 2020, 4 March 2020 and 9 March 2020; and
- (c) The Company's announcement dated 13 April 2020 in relation to the Qualified Opinion by the Independent Auditor on the Financial Statements for the Financial Year ended 31 December 2019.

(collectively, the "**Earlier Announcements**")

Unless otherwise defined, all capitalised terms used herein shall bear the same meaning ascribed to them in the Earlier Announcements.

The Board wishes to inform shareholders that the Company has received queries from the SGX-ST on 14 April 2020 and is providing its responses to these queries in this announcement.

2. THE QUERIES

2.1 SGX-ST's Query 1 - Basis for Qualified opinion - Consideration due from disposal of a subsidiary of S\$1.2m ("**GPE**") from Ms Chong Shin Mun (the "**Purchaser**") (Note 7)

It was stated that "the balance consideration (including interest and other costs, charges and expenses incurred by the Company) due from the disposal is secured by a charge over shares of a private limited company and personal guarantee of a related party of the Purchaser. Management has assessed that no allowance for impairment loss is required on the balance due from the Purchaser. We are unable to obtain sufficient appropriate audit evidence with respect to the amounts of cash flows that can be received by the Group and the Company from the shares pledged and the personal guarantee. We are unable to obtain sufficient appropriate

audit evidence to satisfy ourselves that no allowance for impairment loss is required with respect to the above receivable.”

2.1.1. SGX-ST’s Query 1 (a):

Please elaborate and explain why the auditors are unable to obtain sufficient appropriate audit evidence with respect to the amounts of cash flows that can be received from the shares pledged and the personal guarantee?

Company’s Response:

Firstly, the Company would like to clarify that for FY2019, it has maintained a position of no need as yet to impair the receivables from the Purchaser because of the following reasons:

- (i) From the time of the initial default by the Purchaser of the instalments to be paid under the Third Tranche Consideration until the recent discussions with the Purchaser in respect of the repayment of the Fourth Tranche Consideration, the Company has managed to extract from the Purchaser by way of Controlled Shares (as continuing securities), of which S\$810,000 in value has been received by the Company to date, S\$340,000 remained unsold.
- (ii) As of 9 March 2020, the Company has further managed to extract from the Purchaser a further 62,670,000 Controlled Shares (being continuing security) for the Company for the repayment of the Fourth Tranche Consideration.
- (iii) The Purchaser has also agreed to pay a cash amount of S\$50,000 and a monthly extension fee of S\$5,000.
- (iv) Interest would also continue to accrue on the outstanding amount under the Fourth Tranche Consideration.
- (v) Lastly, the Company still holds the share pledges and the personal guarantee.

Premised on the above reasons, the Company has taken a view that the total receivables from the Purchaser do not need to be impaired for FY2019.

In respect of the query, the Company understands that from the documents in the possession of the Company which were all provided to the auditors, its auditors are unable to obtain sufficient appropriate audit evidence to satisfy themselves that no allowance for impairment loss is required with respect to the above receivable.

As to why the auditors are unable to obtain sufficient appropriate audit evidence with respect to the amounts of cash flows that can be received from the shares pledges and the personal guarantee, the Company would like to clarify that it was not a case of a withholding of any document or audit evidence on the part of the Company; there is no further document that the Company has in its possession that it could provide to show any kind of cash flow that can be received from the share pledges and the personal guarantee. Until the security is enforced on and a value on each of these securities is assessed by the receiver the Company may appoint, the Company is unable to provide any form of cash flow projection in respect of the share pledges and the personal guarantee.

In this matter, the Company has endeavoured to take a practical and commercial view with respect to the recovery of the receivables arising from the disposal of GPE. To date, it has been shown that a negotiated settlement has yielded more positive results than the results litigation and enforcement may bring. In the Company’s view, it has improved its position vis a vis the Purchaser and has obtained additional continuing securities for the Company in the form of the Further Controlled Shares.

It is important to note that the Company has not waived nor released any of its rights to commence legal proceedings against the Purchaser and the guarantor. Notwithstanding the

above, the Company will commence legal proceedings if the Purchaser breaches any term of the payment plan for the Third and Fourth Tranche Consideration, at which time, the Company will enforce on the security given by way of the share pledges, the personal guarantee as well as all the Controlled Shares.

2.1.2. SGX-ST's Query 1 (b):

What is the AC's views as to the materiality of these amounts due, to the Group?

Company's Response:

Materiality (FY2019)	% to FY2019 Revenue	% to FY2019 Total Assets
Consideration due from disposal of a subsidiary (S\$1.2m)	13.35%	12.73%

The aggregate outstanding amount on the Third Tranche Consideration and Fourth Tranche Consideration (inclusive of interest and extension fee) payable by the Purchaser to the Company as at 13 April 2020 are S\$0.15 million and S\$1.04 million respectively. The AC is of the view that this amount is material to the Group. As at the date of these responses, the Company has the rights to and controls approximately 227,330,000 and 112,670,000 of controlled shares (the "**Third Tranche Controlled Shares**" and "**Fourth Tranche Further Controlled Shares**" respectively, excluding all Controlled Shares which have been sold to date) which has an aggregate value of S\$340,000 (collectively, the "**Unsold Controlled Shares**").

2.1.3. SGX-ST's Query 1 (c):

Did the Board / AC check on the financial standing and financial ability of the guarantor to repay the debt?

Company's Response:

Prior entering into the transaction, the Board had appointed a Malaysian law firm to assist and perform:

- i) Bankruptcy search on the Guarantor; and
- ii) CTOS Report on the Guarantor

and the Company has performed financial examination on the Guarantor's source of wealth specifically into the guarantor's shareholding in the shares pledged.

Pursuant to that, the Company has conducted similar checks for the assessment period of FY2019.

2.1.4. SGX-ST's Query 1 (d):

What are the internal policies and safeguards in place for entry into such agreements so as to ensure that interests of the Company are looked after?

Company's Response:

The Company wishes to inform that, at all times, there are internal policies and safeguards when entering into agreements to protect the interests of the Company. With respect to this transaction, the Board had deliberated at length on, *inter alia*, the rationale of the disposal, terms of payment, assessment of the security to be taken and sale consideration price. Further, the disposal was put to a shareholders' vote at an extraordinary general meeting ("**EGM**") which was held on 28 September 2018 and was approved by shareholders unanimously at the same EGM.

With regard to this transaction and all other matters in relation to the Company and Group, the Board is given unrestricted access to Management's records and files which includes, *inter alia*, the management's assessment on the disposal of GPE. Our internal auditor reports to the Audit Committee on internal control matters and to the Chief Executive Officer on administrative matters. Our internal auditor reviews the adequacy and effectiveness of the Group's material internal controls on an annual basis. Based on the work performed by the internal auditors, the Management, with the concurrence of AC, is of the opinion that the internal controls and risk management systems are adequate and effective, as confirmed on page 44 of the Company's Annual Report for the financial year ended 31 December 2019 ("FY2019").

Please refer to pages 6 and 7 in the Company's Annual Report 2019 for update on the efforts taken to address the basis for the qualified opinion to-date. The Company has been engaging with the Purchaser for additional continuing securities (i.e. controlled shares) when there is any default by the Purchaser.

2.2 SGX-ST's Query 2 - Loan to a former subsidiary of S\$2.67m (GPE) and Amount due from a former subsidiary of S\$300k (GPE) (Note 7)

It was stated that "We are unable to obtain sufficient appropriate audit evidence to satisfy ourselves that no allowance for impairment loss is required with respect to the above receivables as the latest financial information of GPE is not available to us at the date of this report. We are also unable to obtain sufficient appropriate audit evidence with respect to the cash flows that can be received by the Group and the Company in settlement of the receivables."

2.2.1. SGX-ST's Query 2 (a):

Please elaborate and explain why the auditors are unable to obtain sufficient appropriate audit evidence with respect to the underlined above?

Company's Response:

The audited financial statements of GPE that the Company has were dated as at 31 December 2018. After the disposal, GPE was no longer a subsidiary of the Company and although the Company had requested for recent management accounts from GPE for the purposes of its FY2019 audit, which GPE agreed to provide, it had informed the Company that it needed time to complete. Following the imposition of movement restrictions in Malaysia in response to the ongoing COVID-19 pandemic, the preparation of such management accounts was further hampered and delayed, and GPE was not able to deliver the required management accounts before the cut-off date for the Company's FY2019 audit.

In respect of the receivables from GPE, while GPE defaulted on 4 instalments during FY2019, as at the end of 2019, Chong Shin Mun provided the Company with 100,000,000 shares of the Company towards satisfying the outstanding scheduled payment. The shares is valued at approximately S\$100,000, based on a market price of S\$0.001 per share. It should also be noted that GPE made payment of a total of S\$30,000 on 31 March 2020 and is not in default of any of the scheduled payments in 2020.

2.2.2. SGX-ST's Query 2 (b):

What is the AC's views as to the materiality of these amounts due, to the Group?

Company's Response:

Materiality (FY2019)	% to FY2019 Revenue	% to FY2019 Total Assets
i. Loan to a former subsidiary (S\$2.67m)	29.36%	28.01%
ii. Amount due from a former subsidiary (S\$300k)	3.30%	3.15%

The AC is of the view that these amounts are material to the Group. As at 13 April 2020, the loan to a former subsidiary and amount due from a former subsidiary amounted to S\$2,681,000 and S\$300,000 respectively.

2.2.3. SGX-ST's Query 2 (c):

Who is in control/owns GPE and whom from GPE is liaising with the Company on the repayment of the amounts due?

Company's Response:

The Company is liaising with Ms Chong Shin Mun who is the majority shareholder and Executive Director of GPE.

2.2.4. SGX-ST's Query 2 (d):

Please provide details of the future scheduled payments, including the date and amounts due.

Company's Response:

Scheduled Payments:

Date	Amount (S\$)
30 June 2020	30,000
30 September 2020	30,000
31 December 2020	30,000
24 July 2021 (including interest up to 24 July 2021)	2,784,000

In addition to the scheduled payments above, GPE shall make payment for the amount due of S\$300,000 as stated in item ii on the table in our response to query 2(b). Please refer to pages 6 and 7 in the Company's Annual Report 2019 for update on the efforts taken to address the basis for the qualified opinion to-date. The Company has been engaging with the GPE for additional safeguards when there is any default by GPE.

2.3 SGX-ST's Query 3 - General

Please elaborate on the controls and safeguards in place for entry into material contracts. Please elaborate on whether the Company have in place due diligence or other procedures to assess financial standing and financial ability of the guarantor/counterparty to fulfil their obligations. Please state the persons responsible for such processes.

Company's Response:

Please refer to our responses to Queries 1(c) and 1(d) and we further reiterate that for all transactions of this nature, the Company conducts financial and legal due diligence to arrive at an assessment of the financial standing and ability of the guarantor/counterparty to fulfil their obligation. All documentation will be reviewed by the CEO, and final approval from the Board will be received before proceeding to engage the targeted company or counterparty with discussions. The Company will also seek shareholders' approval prior to entry into any material transaction as may be required under the Catalist Rules.

It is worth remembering that the disposal of GPE was not to a third party, but to a person who had been operating the business prior to buying it from the Company. Aside from the internal controls the Company performed in respect of the Purchaser, at the time, GPE was doing fairly well as it was supplying goods and services mainly to real estate developers in Malaysia. There was every expectation that the purchase consideration and the intercompany loan would be repaid. The default by the Purchaser and GPE has not arisen out of bad faith or negligence, but out of an unexpected change in business conditions brought about by the new political landscape of Malaysia in May 2018. GPE's major customer had restrictions imposed on it with the new political landscape then, and consequently, the down-stream business that GPE had enjoyed was reduced as a result. Notwithstanding, as Chong Shin Mun provided the Company with 100,000,000 shares of the Company towards satisfying the outstanding scheduled payment on behalf of GPE, and the fact that GPE did not miss any repayment in 2020, the Company took a position not to impair the GPE receivable for FY2019.

2.4 SGX-ST's Query 4 - Going Concern

The Directors are of the view that it is appropriate for the financial statements of the Group and of the Company to be prepared on a going concern basis as:

The review of the cash flow forecasts of the Group and of the Company for the financial year ending 31 December 2020 showed that the Group and the Company have adequate resources and will be able to generate sufficient cash flows in the next 12 months to meet their financial obligations as and when they fall due taking into consideration:

Please elaborate and provide basis for each of the underlined statements below.

2.4.1. SGX-ST's Query 4 (a):

- a) *Group activities is expected to continue generating positive cash flows for the Group and the Company in the next 12 months despite the slowdown in the operating environment;*

Company's Response:

The financial projections for the Group's existing activities for the financial year ending 31 December 2020 ("FY2020") have been prepared, reviewed and approved by the Board. Operating cashflows generated from each business segment are expected to be positive in FY2020 – this is premised on revenues estimated from current project pipelines and historical sales performance against the outlook of each industry in which our business segments operate, and offset by budgeted costs during the next 12 months.

- b) *the Group's business segment in the renewable business and energy sector which is expected to register their maiden contributions during the next 12 months; and*

Company's Response:

The financial projections for the Group's renewable business and energy sector were prepared, reviewed and approved by the Board, which had considered key factors including, *inter alia*, the Pilot Project in Long Loyang which is slated to commence in Q2 of 2020, its potential impact on revenue upon success of the project, and potential projects in the pipeline in this segment in deriving the revenue forecasts. When set against the

budgeted costs, operating cashflows generated from renewable business and energy sector is expected to be positive in FY2020.

- c) *the Company targets to raise proceeds from the allotment and issuance of shares under an option agreement to Mr Lim In Chong ("Mr Lim") or to his designated investors and/or nominees by 24 April 2020*

Company's Response:

The Company is actively engaging with Mr Lim to raise proceeds from the allotment and issuance of shares under the option agreement by 24 April 2020.

2.4.2. SGX-ST's Query 4 (b):

In addition, please state how much proceeds have been raised from Mr Lim thus far? Please state all of the annual reports in which potential fund raising from Mr Lim was quoted as a reason for ability for the Company to continue as going concern.

Company's Response:

We wish to highlight that the Share Options had been granted to Mr Lim on 25 April 2017, and this had been approved by shareholders on 27 July 2016. Potential fund raising from Mr Lim has been quoted in the Company's annual reports as one of the reasons for the Company's ability to continue as a going concern since FY2016. To clarify, the Company's assumption on fund raising from Mr. Lim has not been centered on Mr. Lim actually being the funder himself, but on the options instrument itself which he has a right of transfer.

Mr Lim had directly contributed S\$3.5 million to the Company in equivalent, through the completion of the debt conversion exercise which had reduced the liability of the Company significantly and in turn improved the overall health of the Company's balance sheet. Meanwhile, Mr Lim had indirectly contributed a total of S\$500,000 in funds raised arising from the transfer and subsequent exercise of options by his designated investor, Mr Shamsol Jeffri Bin Zainal Abidin, which was completed on 19 April 2019.

There exists a possibility that Mr Lim may not be able to exercise his options before the expiry date due to the COVID-19 movement restrictions in Malaysia. Should this occur, the Directors are of the opinion that the Group and the Company will still be able to meet their obligations as and when they fall due over the next 12 months, although there will be less internal resources available to implement projects that are still in the planning stage.

2.5 SGX-ST's Query 5 - Going Concern

The auditor had included a material uncertainty related to going concern in its opinion.

2.5.1. SGX-ST's Query 5 (a):

Please provide the Board of Directors' assessment of the Group's ability to continue operating as a going concern and the bases for the said assessment;

Company's Response:

Please refer to Note 4.1 to the audited financial statements in the Company's annual report for FY2019 as well as our responses to Query 4 above.

In light of the adverse impact on the Group's activities owing to the current COVID-19 pandemic, which is difficult to assess at this point with regard to its severity and duration given that economic activity has been largely disrupted in most parts of the world and may remain weak in the near term, the Board is of the opinion that the Group is still able to continue operating as a going concern while continuing to closely monitor the fluid situation, improve its financial position and conserve liquidity to withstand the current economy. The Group has a management team that is experienced in managing difficult situations and has demonstrated that the

management can respond quickly to changing market conditions and remain well positioned for the expected recovery in due course.

2.5.2. SGX-ST's Query 5 (b):

Please provide the Board of Directors' opinion as to whether trading of the Company's shares should be suspended pursuant to Listing Rule 1303(3) (Going Concern) and the basis for such opinion;

Company's Response:

Taking into consideration the factors outlined in our response to Query 4 and 5(a) above, the Board maintains that the Company can continue as going concern and that trading of the Company's shares should not be suspended. With the impending commencement of our Pilot Project (pilot study) coupled with other potential projects in the pipeline in the renewable business and energy segment, the Board is of the view that an interruption in trading of the Company's shares would affect the Group's ability to raise funds from the capital markets to support the expansion and growth of the Group's business

2.5.3. SGX-ST's Query 5 (c):

Please provide the Board of Directors' confirmation as to whether sufficient information has been disclosed to enable trading of the Company's shares to continue in an orderly manner and the bases for its views.

Company's Response:

The Board confirms that the Company has disclosed all material information that it has on hand and that sufficient information has been disclosed to enable trading of the Company's shares to continue in an orderly manner. The Board is watching closely the developments in and the progress of the Group's activities and will provide timely updates to Shareholders through disclosures via the SGXNET as and when appropriate or required.

3. CAUTION IN TRADING

Shareholders are advised to exercise caution in trading their shares as there is no certainty or assurance as at the date of this announcement that all or any of the abovementioned projects will be completed. The Company will make the necessary announcements when there are further developments on the above.

Shareholders and potential investors are advised to read this announcement and any further announcements by the Company carefully. Shareholders should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers if they have any doubt about the actions they should take.

By Order of the Board

Sandra Liz Hon Ai Ling
Executive Director and Chief Executive Officer

22 April 2020

This announcement has been reviewed by the Company's sponsor, Stamford Corporate Services Pte. Ltd. (the "Sponsor"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "SGXST") and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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