

**RESPONSES TO THE SGX-ST'S QUERIES IN RELATION TO THE
COMPANY'S ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022**

1. INTRODUCTION

- 1.1** The board of directors (the “**Board**”) of Annica Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the Company’s annual report for the financial year ended 31 December 2022 (“**FY2022**”) as announced on 14 April 2023 (“**AR2022**”).

All capitalised terms used and not defined herein shall have the same meanings given to them in AR2022.

The Board wishes to inform shareholders that the Company has, on 19 April 2023, received queries from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) in relation to AR2022, and the Company’s responses thereto are set out below.

1.2 SGX-ST’s Queries and Company’s Responses

We refer to the Company’s announcements on 14 Apr 2023 titled “Annual Reports and Related Documents”.

The Company’s statutory auditor issued a qualified opinion on the Company’s FY2022 Financial Statements, amongst others, the report highlighted the following:

1. *Consideration due from Ms Chong Shin Mun (the “**Purchaser**”) for disposal of a former subsidiary, GPE Power Systems (M) Sdn. Bhd. (“**GPE**”). As at 31 December 2022, consideration due from the disposal of GPE amounted to \$225,000 (2021: \$156,000) after deducting allowance for impairment loss of \$933,000 (2021: \$933,000). The balance consideration 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.*
2. *Loan to a former subsidiary (GPE) and amount due from a former subsidiary (GPE). As at 31 December 2022, loan to a former subsidiary (GPE) and amount due from a former subsidiary (GPE) amounted to \$2,910,000 (2021: \$2,847,000) and \$300,000 (2021: \$300,000) respectively. During the financial year, no repayment has been made to the Group and Company.*
3. *Material Uncertainty Related to Going Concern - During the financial year ended 31 December 2022, the Group reported a net loss of \$1,677,000 (2021: \$1,130,000). As at 31 December 2022, the Company’s current liabilities exceeded its current assets by \$2,008,000 (2021: \$1,053,000) and has a net capital deficiency of \$41,000.*

In relation to point (1), Consideration due from Ms Chong Shin Mun for disposal of a former subsidiary, GPE Power Systems (M) Sdn Bhd:

(a) SGX-ST Query 1(i)

What was the total disposal consideration and how much of it has been received by the Company?

Company’s Response:

Please see table below on the total disposal consideration and how much of it has been received by the Company as at 31 December 2022.

	<u>Principal</u>	<u>Interest</u>	<u>Extension Fee</u>	<u>Total</u>
Disposal Consideration	2,000,000	193,365	175,000	2,368,365
Paid	(1,190,000)	(20,000)	-	(1,210,000)
Balance	810,000	173,365	175,000	1,158,365

(b) SGX-ST Query 1(ii)

Why was the disposal consideration not collected in full?

Company's Response:

As per the sales and purchase agreement dated 26 July 2018 entered into with the Purchaser in connection with the disposal of GPE, it was agreed that the aggregate consideration of \$2 million would be satisfied in four tranches as follows:

- i) S\$200,000.00, to be paid to the Company by 31 July 2018 (fully paid);
- ii) S\$200,000.00, to be paid to the Company on completion (fully paid);
- iii) S\$600,000.00, to be paid to the Company on or before 31 December 2018 (fully paid);
and
- iv) S\$1,000,000.00, to be paid to the Company on or before the first (1st) anniversary of the completion date (of which S\$810,000 remains outstanding as at FY2022 and as at the date of this announcement).

(c) SGX-ST Query 1(iii)

At the time of the disposal, what did the Board assess with regards to the Purchaser's ability to fulfil its obligations to the agreement, including financial obligation?

Company's Response:

Prior to entering into the transaction, the Board considered the following:

- i) the Purchaser is the controlling shareholder of GPE, which was a profitable company at the time of the transaction; and
- ii) the Purchaser was a substantial shareholder of the Company, owning 974,500,000 shares in the Company (equivalent to S\$974,500 at the point of the transaction).

The Board assessed the above factors and was of the view that the Purchaser would be able to meet her obligations for the remaining payment tranches as and when they fall due, and would be able to obtain loans in the event of a deficit in her cashflow to meet the obligated payments.

In addition to the above, the Company had negotiated for the mother of the Purchaser, Madam Tan Yock Chew (the "**Guarantor**") to act as the guarantor for the disposal as a safeguard. The Board had also assessed the Purchaser's ability to fulfil its obligations under the agreement by appointing a Malaysian law firm to conduct a bankruptcy search and CTOS report search on the Guarantor as part of the due diligence process. The Company also performed a financial examination on the Guarantor's source of wealth, specifically into the Guarantor's shareholding in the shares pledged.

(d) SGX-ST Query 1(iv)

What is the Board's bases for providing allowance for impairment of \$933K in relation to disposal consideration due from the disposal of GPE?

Company's Response:

As at 31 December 2020 (and as disclosed in the Company's annual report for the financial year ended 31 December 2020 ("FY2020") ("AR2020")), the total outstanding balances (i.e. gross receivables due from the Purchaser) stood at S\$1,073,000. The Purchaser had pledged Company shares (i.e. the "Controlled Shares" and "Further Controlled Shares", as referred to in AR2020 and AR2022) owned by the Purchaser to the Company and such balance unmonetised shares were valued at S\$140,000. The unsecured amount is therefore S\$933,000 (S\$1,073,000 less S\$140,000) and this was provisioned as allowance for impairment at the recommendation of the Company's auditors at the time, Baker Tilly TFW LLP.

As at 31 December 2022, the Controlled Shares and Further Controlled Shares have been fully monetised and received by the Company. The allowance for impairment did not change.

(e) SGX-ST Query 1(v)

The balance consideration is secured by a charge over shares of a private company and personal guarantee. Why did the Company not enforce its claims over charge / guarantee?

Company's Response:

As disclosed in the Company's announcements on 19 October 2020 and 9 March 2021, the Company initially contemplated the appointment of a law firm to commence legal action against the Purchaser and the Guarantor for the purposes of recovering the outstanding Fourth Tranche Consideration as the amounts demanded under the Letters of Demand which had been served on the Purchaser and the Guarantor on 25 September 2020 (the "**Demanded Amounts**"), further details of which are provided in the Company's announcements dated 25 September 2020 and 19 October 2020, had not been received by the Company.

As subsequently disclosed in the Company's announcements dated 1 March 2021, 9 March 2021, 14 April 2021 and 20 April 2021, on the advice of the Company's legal advisors, prior to the commencement of legal action, the Company had sought a written consent from the Purchaser to waive her jurisdictional rights in Singapore in favour of Malaysia, due to cost considerations. The waiver was received by the Company from the Purchaser on 14 December 2020.

Following receipt of the waiver, the Purchaser informed the Company of a new offer for the proposed sale of her assets and requested for additional time to complete the sale, and had committed to assigning the proceeds from sale to the Company to satisfy the Demanded Amounts. As a result of this new development, the Board had deliberated at length during its meeting in December 2020 and decided to stay its earlier decision to commence legal action and grant the Purchaser reasonable time to settle the Demanded Amounts through the sale of her assets. In arriving at their decision, the Board had considered that:

- (a) the Purchaser had, in addition to the existing security, committed to assigning the proceeds of the sale of the Purchaser's assets to the Company; and
- (b) the Purchaser had provided the Company with a total of 810,000,000 shares in the Company amounting to S\$810,000. Save for the 140,000,000 shares with a value amounting to S\$140,000 which had yet to be monetized as at the time of the board meeting, 670,000,000 shares amounting to S\$670,000 was provided to the Company as partial payment towards the Purchase Price and had been monetized successfully without commencing legal action.

As disclosed in the Company's announcements on 9 March 2021 and 20 April 2021, the Company had weighed the legal costs, time and potential recoverability of the outstanding amounts against any potential detriment to the Company for staying the legal action and took the view that there would not be significant detriment to the Company in staying the legal action for a reasonable period, and any legal action may actually adversely impact any potential sale of the Purchaser's assets and the Purchaser's ability to satisfy the outstanding amounts. The Audit Committee (the "AC") has maintained the view that the ongoing engagement with the Purchaser is in the best interests of the Company and its shareholders and should be continued at this juncture, while the AC continues to monitor and review the situation for any changes to the detriment of the Company. As of 24 June 2022, the Purchaser has since completed the transfer of, and successfully monetised, all the Controlled Shares and Further Controlled Shares amounting to an aggregate of S\$810,000 which has been received by the Company.

(f) SGX-ST Query 1(vi)

The Auditor stated that it was unable to obtain sufficient appropriate audit evidence to satisfy itself that no further allowance for impairment loss is required with respect to the remaining consideration receivable of \$225,000. Why was auditor not provided with the required information?

Company's Response:

The Company had provided all the documents in the possession of the Company to the auditors for the purposes of the FY2022 audit exercise. Nevertheless, the auditors were unable to obtain sufficient appropriate audit evidence to satisfy themselves that no allowance for impairment loss was required with respect to the above receivable.

The Company would like to reiterate that it was not a case of withholding any document or audit evidence on its part, and believes that the basis for the qualified opinion will be resolved once the settlement with Purchaser is finalised; there is no further document that the Company has (or otherwise had) in its possession that could be used to demonstrate any guaranteed cash flow that can be received from the share pledges and the personal guarantee to satisfy the remaining consideration receivable. Until the security is enforced by the Company and the value of these securities is assessed by the receiver as may be appointed by the Company, 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 if the Company were to pursue litigation and enforcement, as demonstrated by the recovery of S\$810,000 to date via the monetisation of the Controlled Shares and Further Controlled Shares.

(g) SGX-ST Query 1(vii)

What's the Company's plan to manage the collection, and timeline?

Company's Response:

The Company is working closely with the Purchaser to ensure the recovery of the outstanding amounts pursuant to the proposed sale of the Purchaser's assets. Despite the understanding that the parties are working towards an expeditious completion of such proposed sale, the Company is in active discussions with the Purchaser on other alternative means of monetising these assets in the event the proposed sale fails to materialise. Such discussions, though in their advanced stages, are insufficiently definite as at the date of this announcement. The Company will provide an update to shareholders as and when there are material developments in this regard.

In relation to point (2), Loan to a former subsidiary (GPE) and amount due from a former subsidiary (GPE):

(a) SGX-ST Query 2(i)

Auditor stated that it was unable to obtain sufficient appropriate audit evidence to satisfy itself that no allowance for impairment loss is required with respect to the loan to GPE and amount due from GPE as the latest financial information of GPE is not available to the Auditor at the date of this report. Why was auditor not provided with the required information?

Company's Response:

As GPE is no longer a subsidiary of the Company, the Company does not have direct access to the books of GPE and could only request GPE to furnish the Company with its latest financial information. We understand that GPE has been adversely affected by an unexpected change in business conditions brought about by the new political landscape of Malaysia in 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. Subsequently, we were given to understand that GPE's operations were also affected by the effects of COVID-19 and that efforts were expended to focus on building the financial position and business of GPE, and that GPE was unable to provide the requested updated financial information due to the lack of resources.. Nevertheless, the Company also conducted enquiries with the Companies Commission of Malaysia periodically to obtain financial information and the status of GPE to be furnished to the Auditor. However, the financial information of GPE was not available from the Companies Commission of Malaysia.

(b) SGX-ST Query 2(ii)

How did the Board assess the ability of GPE to repay the loan and amount due?

Company's Response:

As disclosed in the Company's responses to the SGX-ST's queries in relation to the Company's receipt of a qualified opinion for FY2020 as announced on 20 April 2021, when GPE was disposed to the Purchaser, the business of GPE was profitable at the time of the transaction. 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 loan and amount due would be repaid. The default by GPE was out of an unexpected change in business conditions as described in the response to SGX-ST Query 2(ii) above. The adverse impact suffered by GPE was not business-related but a consequence of the prevailing Malaysian political climate at that time. In addition, at the time of the transaction, the Board has also taken into consideration of the Purchaser's financial capacity as described in response to SGX-ST Query 1(iii) above.

(c) SGX-ST Query 2(iii)

Why was no repayment made to the Group and Company during the financial year?.

Company's Response:

To clarify, the Company received a payment of S\$90,000 from GPE on 26 July 2022.

(d) SGX-ST Query 2(iv)

Why were such loan and amount due from GPE not settled when the Company disposed GPE to the Purchaser?

Company's Response:

The Purchaser had negotiated, and the Company had agreed, for the Purchaser to restructure the loan and amount due from GPE to be repaid in scheduled payments. The Board had assessed the ability of GPE to repay (and had no reason to doubt the same) when GPE was disposed to the Purchaser, as mentioned in our reply to the SGX-ST's Query 2(ii) above.

(e) SGX-ST Query 2(v)

What is the status of GPE's operations and financial position?

Company's Response:

To the best of the Company's knowledge, we believe that it is still operational. However, we are unable to ascertain their financial position as they are a private company and its latest financial statements are unavailable to us.

(f) SGX-ST Query 2(vi)

What's the Company's plan to manage the collection, and timeline?

Company's Response:

Please refer to our responses to the SGX-ST's Query 1(vii) above, as the Purchaser is the major shareholder of GPE.

In relation to point (3), Material uncertainty on the Group's and Company's ability to continue as going concern

(a) SGX-ST Query 3(i)

Group reported loss, is in net current liability position and has a net capital deficiency. Please provide Board's assessment, with supporting bases, on the Group's ability to operate as going concern.

Company's Response:

To clarify, the Company, and **NOT** the Group, is in a net current liability position. The Group's and the Company's going concern assumptions, set out on page 99 of AR2022 under Note 3.1 to the audited financial statements (Critical judgements made in applying accounting policies), are replicated below (in *italics*) for ease of reference.

Going concern (cont'd)

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

(1) The review of the cash flow forecasts of the Group and of the Company subsequent to the financial year ended 31 December 2022 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:

(a) Group activities is expected to generate positive cash flows for the Group and the Company in the next 12 months as economies recovers post Covid-19 pandemic;

(b) The Group's business in the green technology and renewable energy segment is expected to contribute to the Group during the next 12 months; and

(c) *The Group is performing a reset on its engineering services segment and oil and gas equipment segment, reshaping their strategic direction to serve other markets along the value chain in the engineering services and oil and gas equipment segment, This expansion, if successful, will strengthen the Group's position along the value chain and improve the contribution from the engineering services and oil and gas equipment segments.*

(2) *As at 31 December 2022, the Group is in net current asset position; and*

(3) *During the financial year, the Group generated positive cashflows from operating activities.*

(4) *Subsequent to the financial year end, the Group has obtained additional loan facility of \$2,000,000 to finance its working capital with the conditions stated in the loan agreement dated 31 March 2023.*

...

Board of Directors have reviewed and assessed the cash flow forecast of the Group for the next 12 months from the date of financial statements and concluded that the Group has adequate resources to continue in operation for the next 12 months from the date of financial statement and it is unlikely to breach the covenant set by the lender while the Group is expecting to generate operating cash inflows in the next 12 months.

(5) *The Directors are actively evaluating and reviewing various corporate strategies, including fund raising, primarily for the Group's green technology and renewable energy segment, strategic acquisitions of suitable businesses as well as restructuring the Group's existing businesses or assets with a view towards enhancing and solidifying the earnings base of the Group.*

In view of the above, the Board continues to have a reasonable expectation that the Group has adequate resources to continue in operation for at least the next 12 months from the financial year ended 31 December 2022 and that the going concern basis for the preparation of the audited financial statements in AR2022 remains appropriate. With regard to paragraph 1(a) of the going concern assumption, the Group has secured book orders for its oil and gas business segment for FY2023. With regard to paragraph 1(b) of the going concern assumption, the Group is currently engaged in preliminary discussions with several parties with a view to commercialising the H2E1. Moreover, as disclosed in our response to the SGX-ST's Query 1(vii), the Company is in advanced discussions with the Purchaser on alternative means of monetising her assets.

(b) SGX-ST Query 3(ii)

Please provide Board's assessment, with supporting bases, on whether trading of the Company's shares should be suspended.

Company's Response:

The Board is of the view that suspension of the Company's shares is not necessary as the Board has reasonable expectation that the Group has adequate resources to continue in operation for at least the next 12 months and is of the view that there is no going concern issue taking into account the explanations provided in our response to the SGX-ST's Query 3(i) above. The Board is of the view that sufficient information has been disclosed to enable trading of the Company's shares to continue in an orderly manner.

(c) SGX-ST Query 3(iii)

Please provide the Sponsor's assessment with supporting bases, on the Group's ability to operate as going concern.

Sponsor's Response:

The Sponsor notes the Company's responses to the SGX-ST's Queries 3(i) and 3(ii) above and the Board's justifications for the going concern assumption as set out on page 99 of AR2022 under Note 3.1 to the audited financial statements (*Critical judgements made in applying accounting policies*).

In particular, the Sponsor understands that: (1) as at 31 December 2022, the Group is in a net current asset position; (2) during FY2022, the Group generated positive cashflows from operating activities of S\$1.09 million (compared to a net cash used in operating activities of S\$0.19 million in the preceding financial year ended 31 December 2021 ("FY2021")); (3) the Group's revenue for FY2022 was S\$14.99 million (almost doubling that of the S\$7.66 million revenue figure for FY2021); (4) the Group has obtained an additional loan facility of S\$2,000,000 to finance its working capital (subject to the conditions stated in the loan agreement dated 31 March 2023); and (5) the Directors are actively evaluating and reviewing various corporate strategies, including fundraising, and are in advanced discussions with the Purchaser on alternative means of monetising her assets with a view to repaying the outstanding amounts owed by the Purchaser and GPE. Moreover, the Sponsor notes that the Board is of the view that, *inter alia*: (a) the Group activities is expected to generate positive cash flows for the Group and the Company in the next 12 months as economies recovers post Covid-19 pandemic; and (b) the Group's business in the green technology and renewable energy segment is expected to contribute to the Group during the next 12 months.

Based on the foregoing, the Sponsor is of the view that the ability of the Group to (a) commercialise, and begin seeing returns on its investments in, its projects in the green technology and renewable energy segment (particularly the H2E Solar-Hydrogen Pilot Power Module model "H2E1"); (b) reach a meaningful settlement with the Purchaser for all outstanding amounts owed by the Purchaser and GPE; and (c) raise additional working capital through fundraising exercises, will be critical to the Group's ability to continue as a going concern.

(d) SGX-ST Query 3(iv)

Please provide the Sponsor's assessment with supporting bases, on whether trading of the Company's shares should be suspended.

Sponsor's Response:

The Sponsor notes the Board's confirmation and basis on the assessment as to whether the trading of the Company's shares should continue. Based on the Board's justifications for the going concern assumption as set out above and on page 99 of AR2022 under Note 3.1 to the audited financial statements (*Critical judgements made in applying accounting policies*), and the additional points raised in the Sponsor's response to the SGX-ST's Query 3(iii) above, nothing has come to the Sponsor's attention as of the date of this announcement that trading in the Company's shares should be suspended.

(e) **SGX-ST Query 3(v)**

Please confirm if the Group has received any letters of demand.

Company's Response:

The Group confirm that it has not received any letters of demand as at the date of this announcement.

2. 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 projects mentioned herein will be completed. The Company will make the necessary announcements when there are further developments on the projects.

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

21 April 2023

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 "SGX-ST") 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.

*The contact person for the Sponsor is Mr Bernard Lui.
Tel: 6389 3000 Email: bernard.lui@morganlewis.com*