ANNICA HOLDINGS LIMITED

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

RESPONSES TO SIAS'S QUERIES IN RELATION TO THE COMPANY'S ANNUAL REPORT FOR FY2020

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1. INTRODUCTION

The board of directors (the "**Board**") of Annica Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the Company's announcements dated 14 April 2021 in relation to (i) the Company's Annual Report ("**Annual Report FY2020**") and (ii) variances between the audited and unaudited financial statements ("**FS Variances Announcement**") for the financial year ended 31 December 2020 ("**FY2020**").

Unless otherwise defined, all capitalised terms used herein shall bear the same meaning ascribed to them in the Annual Report FY2020 and the FS Variances Announcement.

The Board wishes to inform shareholders that the Company has received queries from the Securities Investors Association (Singapore) ("**SIAS**") on 21 April 2021 and is providing its responses to these queries in this announcement.

2. THE QUERIES

2.1.1. Queries on Financial Review in Annual Report FY2020

As noted in the financial review, the group recognised revenue of $10.9 million for FY2020, which was 20% higher than the revenue from the preceding year. The primary business segments of Oil and Gas Equipment and Engineering Services contributed 93% and 7% of the revenue respectively. The group also has plans to develop in the renewable energy and green technology segment. In particular, the group entered into a framework agreement with a partner in June 2020 to collaborate on the development of large scale solar photovoltaic projects in the State of Perak.

2.1.2. SIAS's Query 1 (i):

PLIDCO®: *The group established PLIDCO® Authorised Refurbishment Services Centres in Brunei and Indonesia in February 2019 and July 2020 respectively to provide refurbishment services to its customers.* ***Can management elaborate further on the PLIDCO® operations, including the major customers and the main services/products offered? How is management growing the business? What is the total addressable market?***

Company's Response:

Can management elaborate further on the PLIDCO® operations, including the major customers and the main services/products offered?

PJ Group has been proudly representing PLIDCO in Southeast Asia for more than 35 years. Our major clients include, *inter alia*, Shell, Pertamina, Petronas Carigali, PTT Exploration and Production, and ExxonMobil. PJ Group sells and refurbishes PLIDCO pipeline fittings which are used for high pressure emergency pipeline repairs and routine pipeline maintenance in a wide variety of applications, both onshore and subsea and include oil, gas, water, chemical, steam, slurry and other piping systems.

How is management growing the business?

As part of our efforts in growing the Group's business and in providing additional value-added services to our clients, we established the world's first PLIDCO Authorised Refurbishment Services Centre ("**PLIDCO Centre**") in Brunei in February 2019. The PLIDCO Centre in Brunei has also successfully completed refurbishment of PLIDCO pipeline fittings for our clients based in Thailand and Malaysia.

Following the PLIDCO Centre in Brunei, we observed a growth in supply of PLIDCO pipeline fittings as well as a growing request for refurbishment of PLIDCO pipeline fittings in Indonesia which led us to establish a PLIDCO Centre in that country which has been in operation since July 2020.

The PLIDCO Centre in Brunei services the markets of Brunei, Malaysia and Thailand while the PLIDCO Centre in Indonesia mainly services the Indonesian market. Currently, refurbishment services contribute between 5% to 8% of the Group's total annual sales of PLIDCO products and services. We are also planning to set up a PLIDCO Centre based in Singapore as part of our future expansion plans.

What is the total addressable market?

At present, to the best of the Company's knowledge, none of our known competitors offer refurbishment services for their pipeline fittings as none of them have refurbishment facilities in Southeast Asia. This makes our value proposition highly attractive, coupled with the fact that PLIDCO is also the only manufacturer in the pipeline industry to offer a five-year warranty. Generally speaking, the current practical addressable market for the Group is South East Asia.

2.1.3. SIAS's Query 1 (ii):

Solar H-2 Power System: For the benefit of new shareholders, can management help shareholders understand who developed and own the IP of the solar and hydrogen-based Power Module? *It would appear that the group first started the pilot project in 2017.* ***What is the group's expertise in this area? How long will it take the group to reach the commercialisation stage?***

<u>Company's Response:</u>

Who developed and owns the IP of the solar and hydrogen-based Power Module?

The solar hydrogen technology used in the Pilot Project is based on existing technologies which are currently only available as industrial scale applications. By drawing on the expertise and experience of the Company's wholly owned subsidiary and oil and gas/engineering control systems integrator, Industrial Engineering Systems Pte Ltd ("**IES**"), HT Energy (S) Sdn Bhd ("**HTES**") (another subsidiary of the Company) set about designing and building a proprietary solar hydrogen power module (the "**Power Module**") suited for smaller scale applications such as rural electrification based on the same industrial scale technologies which are within IES's domain of expertise.

There are several potentially patentable IPs arising from the pilot study, which include power module design and power point tracking. Power extraction from solar and fuel-cells is not always optimum. In this regard, HTES is collaborating with Universiti Malaysia Sarawak

(UNIMAS) in researching and developing a patentable technology for the purposes of optimising power extraction.

What is the group's expertise in this area?
We wish to clarify that HTES had obtained the consent of the Ministry of Health, Malaysia to undertake a pilot project in the Long Loyang Clinic based in Sarawak, Malaysia to provide reliable, clean and affordable electricity access to rural clinics based on a solar and hydrogen energy system (the "**Pilot Project**") in 2018 and not 2017 as stated in the query above.

Prior to the Group's diversification into the Renewable Sector, the Group had assessed its existing resources from its O&G Equipment and Engineering Services business segments to explore potential areas to leverage and capitalise in its foray into renewable energy.

How long will it take the group to reach the commercialisation stage?
Upon successful commencement of the pilot study at the Long Loyang Clinic which is currently targeted to take place in the second half of 2021, we envisage a wider rollout of the Power Module to other clinics, schools and settlements across rural Sarawak and beyond, enabling rural communities, in Malaysia and overseas, to have access to zero-carbon, reliable and sustainable energy. The Power Module is Malaysia's first hydrogen-based energy system that is diametrically superior to conventional diesel; a closed loop circular energy system offering long term energy and cost savings to governments without carbon emissions or pollutants.

On 8 March 2021, HTES had entered into a binding term sheet (the "**Term Sheet**") with H2U Power Tech Pty Ltd (the "**Licensee**"). Pursuant to the Term Sheet, HTES has agreed to grant the Licensee a perpetual (subject to termination for breach), sole, non-sublicensable license to assemble, install, distribute, market and sell the Solar H-2 Power System (the "**SH2PS**") worldwide, save for certain excluded territories. Subject to the definitive licensing agreement to be entered between HTES and the Licensee, HTES will work with the Licensee to commercialise the SH2PS worldwide (save for certain excluded territories). The proposed definitive licensing agreement is targeted to be executed by 7 May 2021, with potential roll-out of the SH2PS in mines, rural communities and farmhouses in Australia by 2022. Thereafter, the business model shall be examined and improved in due course to allow for further roll-out of the SH2PS worldwide.

2.1.4. SIAS's Query 1 (iii):

Large Scale Solar Photovoltaic: What are the opportunities envisaged by the group in the area of large scale solar photovoltaic farms?

<u>Company's Response:</u>

On 3 June 2020, our wholly owned subsidiary Cahya Suria Energy Sdn Bhd entered into a Framework Agreement with Majuperak Energy Resources Sdn Bhd to collaborate on the development of large scale solar photovoltaic projects ("**LSS Projects**") in the State of Perak.

The Malaysian government's energy policies and incentives demonstrate its commitment towards meeting its renewable energy mix target of 20% by 2025. This, along with the global movement to aggressively reduce carbon emissions, is a major catalyst in opening up more opportunities especially for renewable energy players like the Company, which will in turn enhance the Company's prospects in the long run. Apart from our collaboration in the State of Perak, the Group is also exploring potential collaboration opportunities for LSS Projects with several other States and governmental agencies in Malaysia. The current focus on ESG considerations, driven largely by major corporations and MNCS, also present opportunities to potentially supply power from these proposed LSS Projects based on corporate Power Purchase Agreements.

We are hopeful that the growing importance of sustainable energy both in Malaysia and globally will continue to increase our potential growth prospects in this area. At the same time, there are potentially more new tenders on renewable energy projects which include LSS Projects, from Brunei and Thailand, which we are keen to participate in. With global climate concerns, governments across the world, including Malaysia, are highly supportive of projects such as the LSS Projects and have provided or otherwise supported green incentives and green bonds in order to ensure project success.

2.2. Queries on Financial Statements in Annual Report FY2020

In the Report on the audit of the financial statements (pages 56 to 59), the independent auditor has included a qualified opinion in relation to the group's audited financial statements and company's statement of financial position and statement of changes in equity for the financial year ended 31 December 2020. The bases for qualified opinion were:

- Consideration due from Ms Chong Shin Mun for disposal of a former subsidiary, GPE
- Loan to a former subsidiary (GPE) and amount due from a former subsidiary (GPE)

The independent auditor was unable to obtain sufficient appropriate audit evidence to satisfy themselves that no further allowance for impairment loss is required with respect to the remaining consideration receivable of $140,000. In addition, management has assessed that no allowance for impairment loss is required on the outstanding balances even though GPE defaulted on 3 instalment payments in FY2020. The independent auditor was unable to obtain sufficient appropriate audit evidence to satisfy themselves 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 the independent auditor.

2.2.1. SIAS's Query 2 (i):

Can the board provide shareholders with an update on the financial status of the purchaser (Ms Chong Shin Mun)?

Company's Response:

The Board is of the view that the Purchaser still has the financial capability of meeting her obligations. By procuring security in the form of controlled shares, security pledges and personal guarantees from the Purchaser and her guarantor, and imposing interest on the uncollected amount, the Company's legal position is being fortified and these measures provide the Company an alternative means of enforcement and gradual recoverability of the outstanding amounts owed by the Purchaser.

2.2.2. SIAS's Query 2 (ii):

Who is leading the negotiation with the purchaser to recover the monies owned to the company?

Company's Response:

The Company has placed utmost priority on this matter. As such, the CEO of the Company, together with the assistance of the finance manager, is currently leading all negotiations with the

Purchaser to recover the monies owed to the Company. In addition, these negotiations are conducted with the advice and consultation of the Company's lawyers and the Board. In this regard, no proposal is accepted nor will an agreement be entered into without endorsement of the Board.

2.2.3. SIAS's Query 2 (iii):

In addition, the independent auditor also highlighted a material uncertainty related to going concern with respect to the group's and the company's ability to continue as going concerns. As at 31 December 2020, the company's current liabilities exceeded its current assets by $152,000 (2019: $625,000).

Has the board evaluated the options available to the company to strengthen the financial position?

<u>Company's Response:</u>

The Directors are actively evaluating various strategies, including fund raising, acquisitions of suitable businesses as well as restructuring the Group's existing businesses or assets to improve the existing business and earnings base of the Group.

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. The Group is also hopeful that once the power module is commercialised, it would provide another source of revenue for the Group.

2.2.4. SIAS's Query 2 (iv):

How will the group be able to fund any new solar/major projects which are likely to be capital intensive?

<u>Company's Response:</u>

For any upcoming potential major projects, the Group is considering debt financing and equity funding from potential investors either from the debt and/or capital markets.

2.3. <u>Variances Between the Audited and Unaudited Financial Statements as disclosed in the FS Variances Announcement</u>

On 14 April 2021, the company announced that there are variances between the unaudited results (first announced by the company on 1 March 2021) and the audited financial statements for FY2020 after the finalisation of audit.

The announcement of variances came more than 6 weeks after the company first announced its unaudited results. There were 12 reclassifications and adjustments in the audited financial statements.

*In fact, the company had to report variances between the unaudited and the audited full year financial statements for the past 5 financial years, i.e. for the financial years ended 31 December 20**<u>20</u>**, 31 December 20**<u>19</u>**, 31 December 20**<u>18</u>**, 31 December 20**<u>17</u>** and 31 December 20**<u>16</u>**. For* *the FY2018 and FY2017 audited financial statements, there were more than 19 changes (including sub-bullets) following the finalisation of the audit and the explanatory notes for FY2017 took up almost two pages. It is clear that the company has not improved on its financial reporting.*

14 Apr 2021 11:38 PM	ANNICA HOLDINGS LIMITED	ANNICA HOLDINGS LIMITED	Financial Statements and Related Announcement::Auditor's Comments of Accounts	Financial Statements
14 Apr 2021 11:31 PM	ANNICA HOLDINGS LIMITED	ANNICA HOLDINGS LIMITED	Financial Statements and Related Announcement::Discrepancies between unaudited and audited accounts	Financial Statements
14 Apr 2020 12:49 AM	ANNICA HOLDINGS LIMITED	ANNICA HOLDINGS LIMITED	Financial Statements and Related Announcement::Auditor's Comments of Accounts	Financial Statements
14 Apr 2020 12:47 AM	ANNICA HOLDINGS LIMITED	ANNICA HOLDINGS LIMITED	Financial Statements and Related Announcement::Discrepancies between unaudited and audited accounts	Financial Statements
08 Apr 2019 11:49 PM	ANNICA HOLDINGS LIMITED	ANNICA HOLDINGS LIMITED	Financial Statements and Related Announcement::Auditor's Comments of Accounts	Financial Statements
08 Apr 2019 11:48 PM	ANNICA HOLDINGS LIMITED	ANNICA HOLDINGS LIMITED	Financial Statements and Related Announcement::Discrepancies between unaudited and audited accounts	Financial Statements
12 Apr 2018 12:04 AM	ANNICA HOLDINGS LIMITED	ANNICA HOLDINGS LIMITED	Financial Statements and Related Announcement::Auditor's Comments of Accounts	Financial Statements
12 Apr 2018 12:03 AM	ANNICA HOLDINGS LIMITED	ANNICA HOLDINGS LIMITED	Financial Statements and Related Announcement::Discrepancies between unaudited and audited accounts	Financial Statements
11 Apr 2017 09:38 PM	ANNICA HOLDINGS LIMITED	ANNICA HOLDINGS LIMITED	Financial Statements and Related Announcement::Auditor's Comments of Accounts	Financial Statements
11 Apr 2017 09:38 PM	ANNICA HOLDINGS LIMITED	ANNICA HOLDINGS LIMITED	Financial Statements and Related Announcement::Discrepancies between unaudited and audited accounts	Financial Statements

2.3.1. SIAS's Query 3 (i):

How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?

<u>Company's Response:</u>

There was a transition from an external finance team to an in-house finance team in FY2017. The variances between the unaudited and audited financial statements generally relate to reclassifications of certain line items. The variances and corresponding reclassifications have no material impact on the statement of comprehensive income, except for adjustments necessary to take into account events subsequent to the financial year end and/or adjustments arising from differing views on impairment assessment between the Company's management and the auditors.

The preparation of financial statements is performed in accordance with the relevant Act and financial reporting standards at all times, in consultation with the Company's auditors. Further, the Group is considering allocating more resources to strengthen the finance teams. The Group also provides relevant training to the finance teams on any update(s) on financial reporting standards on an annual basis.

2.3.2. SIAS's Query 3 (ii):

Has the audit committee (AC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements? Will the AC be looking to appoint a CFO for the group?

<u>Company's Response:</u>

The AC has made the necessary evaluations and has concluded that all the finance team members are properly qualified and experienced for the financial reporting role. Meanwhile, as the Group is positioning itself to expand its businesses and undertake new projects, the AC has considered the appointment of a CFO for the Group subject to the Group's internal resources and success in its planned business expansion.

2.3.3. SIAS's Query 3 (iii):

Is the company (and its officers) familiar with the Singapore Financial Reporting Standards (International) ("SFRS(I)")?

<u>Company's Response:</u>

The Company (and its officers) are familiar with the SFRS(I). All our officers and members of the finance team are kept apprised on any update(s) on financial reporting standards on an annual basis as mentioned in our responses to SIAS's Query 3 (i) above.

2.3.4. SIAS's Query 3 (iv):

Specifically, what was the level of involvement by the AC chairman and each of the AC members in the preparation of the financial statements? *The AC comprises Su Jun Ming (chairman), Tan Sri Dato Seri Zulkefli Bin Ahmad Makinudin and Adnan Bin Mansor.*

<u>Company's Response:</u>

All AC members are apprised of key matters under the audit plan presented in the AC meeting annually. All AC members also review and approve the financial statements before their release. Further, the AC members act in accordance with the Code of Corporate Governance at all times when discharging their duties during AC meetings.

The key terms of reference of the AC include:

(a) reviewing significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and any announcements relating to the Company's financial performance;

(b) reviewing at least annually the adequacy and effectiveness of the Company's internal controls and risk management systems, including financial, operational, compliance and information technology controls and risk management systems, prior to the incorporation of such results in the Company's annual report;

(c) reviewing the assurance from the CEO on the financial records and financial statements;

(d) making recommendations to the Board on: (i) the proposals to the shareholders on the appointment and removal of external auditors; and (ii) the remuneration and terms of engagement of the external auditors;

(e) reviewing the adequacy, effectiveness, independence, scope and results of the external audit and the Company's internal audit function; and

(f) reviewing the policy and arrangements for concerns about possible improprieties in financial reporting or other matters to be safely raised, independently investigated and appropriately followed up on. The Company publicly discloses, and clearly communicates to employees, the existence of a whistle-blowing policy and procedures for raising such concerns.

The AC has been given full access to and has the full cooperation of Management, and has reasonable resources to enable it to discharge its functions properly.

2.3.5. SIAS's Query 3 (v):

Can the AC update shareholders on the improvements made/to be made to the group's financial reporting systems and processes?

<u>Company's Response:</u>

The Group will continue to provide relevant training to the financial reporting team while forging closer integration of the financial reporting systems and processes across its subsidiaries which are operating in different geographical jurisdictions in its continual efforts to improve accuracy, timeliness and accountability.

As also mentioned in our responses to SIAS's Query 3 (ii) above, as the Group is positioning itself to expand its businesses and undertake new projects, the AC has considered the appointment of a CFO for the Group subject to the Group's internal resources and success in its planned business expansion.

2.3.6. SIAS's Query 3 (vi):

What guidance has the sponsor given to the company to improve on its financial reporting? Is the sponsor satisfied that the company has the human resources and the proper systems and controls in place to meet its financial reporting obligations?

<u>Company's Response:</u>

Management accounts are prepared by management with the support of the finance team and they report directly to the AC and the Board. The Company's Sponsor has queried on the variances, and the reasons for such variances have been disclosed in the FS Variance Announcement. The Company's Sponsor has also reminded the Company to consult and review the unaudited full year financial statements with the Company's auditors to minimise discrepancies, and the Company confirms that it consults and discusses with its auditors, where appropriate. Nonetheless, for the avoidance of doubt and as disclosed in the Company's unaudited full year financial results announcements, such full year financial results are unaudited.

The Company wishes to emphasise that it has always fulfilled its financial reporting obligations in a timely manner.

2.3.7. SIAS's Query 3 (vii):

Given the disclaimer of opinion and the material uncertainty related to going concern, has the board considered if it would be necessary to suspend the trading of the securities of the company on SGX-ST in the interest of maintaining a fair, orderly and transparent market?

<u>Company's Response:</u>

The Company wishes to emphasise that its auditors did not issue a disclaimer of opinion on the financial statements but a qualified opinion, and the basis for the qualified opinion has been announced on 14 April 2021.

A paragraph concerning a "Material Uncertainly Related to Going Concern" is included in the independent auditor's report but the auditor concluded that their opinion was not modified in respect of this emphasis of matter on "Material Uncertainly Related to Going Concern".

The Board is 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 (for the reasons disclosed in Note 3.1 to the financial statements) and, accordingly, suspension of trading of the Company's shares is not necessary. 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. The Board of Directors is also of the view that sufficient information has been disclosed to enable trading of the Company's shares to continue in an orderly manner.

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

25 April 2021

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*"**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