

INNOPAC HOLDINGS LIMITED

(Company Registration Number 197301788K)
(Incorporated in the Republic of Singapore)

REPLY TO SGX'S QUERIES ON THE COMPANY'S ANNOUNCEMENT ON 28 FEBRUARY 2016

Innopac Holdings Limited (the "Company") refers to its unaudited FY2015 Results (the "Announcement") on 28 February 2016 and the SGX's queries below.

The Company would like to reply as follows:

SGX Query 1:

In paragraph 8 of the FY2015 Results, the Company reported "Unrealised gain from derivative receivables was S\$36.9 million in FY 2014. This was due to the S&P entered into by the Group, wherein the Group had agreed to sell certain marketable securities. The transaction was subsequently completed in December 2014." Please elaborate on the following:

- (a) As the transaction was completed in December 2014, why is the amount due to the Company classified as "derivative receivables";
- (b) To provide details on the nature and the value of the underlying transaction;
- (c) Elaborate on how the derivative component is derived;
- (d) Disclose the specific terms of the receivables;
- (e) Explain how the significant unrealized gain of S\$36.9 million is derived; and
- (f) The beneficial owner of the purchaser of the marketable securities and when the significant amount due to the Company will be repaid.

Reply 1:

- (a) The transaction was completed on 31 December 2014 and this receivable was properly classified as Trade Receivables in the Balance Sheet as at 31 December 2014. The amount of S\$36.9 million was presented as unrealised gain on derivative receivables in the Statement of Comprehensive Income for FY 2014, as this receivable has been of the nature of derivative until the last day of FY 2014;
- (b) In 2013, the Company entered into a sale and purchase agreement ("S&P") to sell certain marketable securities, ("Securities") to the counterparty. The consideration of S\$65.46 million was negotiated by the parties and taking into consideration, inter-alia, the size of the transaction, represented a 10% discount to the last traded prices of the Securities on 6 September 2013. The consideration was to be fully satisfied by the counterparty in cash. The counterparty paid S\$7.2 million on 26 December 2013.

As the transaction was not completed as of 31 December 2013, the Company did not deliver the Securities and the amount receivable from the counterparty under the S&P was recorded in derivative receivables and other assets in the balance sheet.

On 25 March 2014, the Company and the counterparty entered into a Variation Agreement to the S&P to extend the completion date to 31 December 2014. Pursuant to the Variation Agreement, the counterparty provided collaterals by way of pledged shares in another Singapore listed company ("Pledged Shares") for their obligations under the S&P.

On 31 December 2014, the Company entered into a further agreement with the counterparty ("the Repurchase Agreement") to repurchase the Securities at S\$0.752 million ("Repurchase Price"), based on the Securities' last traded price on 31 December 2014. The counterparty agreed to settle the balance consideration after deducting the Repurchase Price in cash, by 30 September 2015. The net gain on the derivative receivables of S\$36.9 million and amount due from the counterparty of S\$57.5 million were recognised in the audited 2014 Financial Statements.

The above information have been disclosed in Note 19 of the audited Financial Statements in the Company's Annual Reports for FY 2013 and FY 2014, respectively.

- (c) As the Securities were not delivered to the counterparty and the transaction was not completed by 31 December 2014, the amount receivable from the counterparty under the S&P was included in the derivative receivables and other assets in the Balance Sheet.
- (d) The term of the receivable was settlement in cash. Under the Repurchase Agreement, the counterparty agreed to settle the balance consideration after deducting the Repurchase Price in cash, by 30 September 2015. On 30 September 2015, the Company entered into a further agreement with the counterparty to extend the settlement date to 30 September 2016. There are no additional terms for the extension.
- (e) The unrealised gain of S\$36.9 million reflected the decline in market value of the Securities that were sold under the S&P.
- (f) The Company had on 10 March 2015 replied to SGX's query that it is bound by the confidentiality terms of the S&P not to disclose the identity of the counterparty, its beneficial shareholder(s) and details of the transaction. The Company expects the receivable to be settled by 30 September 2016.

SGX Query 2:

The Company disclosed in paragraph 8 of its FY 2015 Results that "Other expenses in Q4 2015 was mainly due to further provision for impairment of trade receivable." It was disclosed that the "trade debtor had provided collaterals by way of third party pledged shares in another Singapore listed company ("Pledged Shares") for their obligations. The market value of the Pledged Shares declined to S\$1.3 million. Accordingly, the Company decided to make further provision of impairment loss of S\$29.5 million." The Company had disclosed in its 27 November 2015 Announcement that the Pledged shares were valued at \$30.8 million.

Please disclose what these Pledged Shares are to enable shareholders to understand why the value of the collateral had fallen to only S\$1.3 million as at 31 December 2015.

Reply 2:

As per reply 1(f) above.

In its 27 November 2015 Announcement to SGX's query the Company did not say that the Pledged Shares were valued at \$30.8 million. The Company said that "The counterparty had provided collaterals, the value of which was estimated by the management to be S\$30.86 million, as at 31 December 2014."

In the preparation of its FY 2015 Financial Statements, the Company has taken a conservative approach and have made further allowance for impairment of the receivable. This approach is in line with the views of its Independent Auditors.

SGX Query 3:

In its 27 November 2015 Announcement, the Company disclosed that the impaired trade receivables arose from a "Sale and Purchase agreement ("S&P") to sell certain marketable securities ("Securities") in 2013 for a consideration of S\$65.46 million. The counterparty paid S\$7.2 million on 26 December 2013. The completion of the S&P was to take place on or before 31 December 2013", was extended to 30 September 2016 and there are no additional terms imposed for the extension".

- (a) A total of S\$56.15 million has been impaired by the Company arising from this S&P. Please disclose the identity of the counterparty and provide details on its financial standing.
- (b) What is the reason for its inability to make the payments under the S&P?

Reply 3:

- (a) As per reply 1(f) above.
- (b) The market value of the Securities fell substantially between the time of the entering of the S&P and completion date, i.e. 31 December 2013, and the counterparty was reluctant to complete the S&P. By giving time and engagement with the counterparty, the Company had succeeded in collecting S\$7.2 million and obtained collaterals.

SGX Query 4:

Noting that the Company has an NAV of S\$14.9 million, why does the Company decide to impair S\$56.15 million of debts due from the debtor in question 3 above? What legal actions has the Board undertaken to recover the debts with regards to the non-payment?

Reply 4:

The Company has taken a conservative approach in making further allowance for impairment of the receivable and in line with the views of its Independent Auditors. The Company made an allowance for impairment based on the uncollateralised amount of the receivable. The decline in market value of the Pledged Shares necessitated the total allowance for impairment of S\$56.15 million.

The Directors of the Company, have reviewed and considered the circumstances of the transaction and the counterparty's position and have concluded that it is in the best interest of the Company not to resort to legal action but to continue to engage the counterparty on the collection of the receivable.

SGX Query 5:

In paragraph 8 of the FY2015 Results, it was disclosed that the loss of S\$13.5 million arising from the discontinued operations in Q4 2015 was mainly due to an impairment of goodwill of S\$13.7 million arising from its investment in 81.82% of Extera Pte Ltd ("Extera") for S\$17.1 million whose sole investment is its 90% equity interest in Dezhou Sheng Rong Gas Co. Ltd. ("Sheng Rong"), an owner and operator of CNG refilling stations and gas supplier in Shandong Province.

As S\$17.1 million is very significant when compared to the Company's NAV of S\$14.9 million please disclose the identity of the Vendor of Sheng Rong.

Reply 5:

The Company's NAV was S\$19.2 million and not S\$14.9 million as at 31 December 2015. The Group's NAV was S\$14.9 million as at 31 December 2015.

The Vendor was Rubic Prize Limited, a British Virgin Islands company. This information had been disclosed in the Company's announcement released through the SGXNET on 1 December 2013.

SGX Query 6:

With respect to the discontinued operations of Sheng Rong, it was disclosed that "Revenue from discontinued operations was S\$0.5 million in FY2014. This was derived from the CNG refilling stations business in the PRC. The Group ceased to derive income from this business in FY2015. Gross loss from discontinuing operations was S\$0.1 million in FY 2014."

The net identifiable assets at the date of the sales and purchase agreement to acquire Extera on 29 November 2013 was S\$3.4 million and relates mainly to Sheng Rong. Please disclose the operations, number of outlets and assets acquired at the time of acquisition 2 years prior to 31 December 2015. How has this changed which led to the decision to discontinue this business?

Reply 6:

Sheng Rong (“SR”)’s principal activity was the ownership and operations of compressed natural gas (“CNG”) refilling stations and natural gas supply and distribution business in Shandong province, the People’s Republic of China.

On completion of the acquisition on 26 December 2013, SR owned and operated a CNG station located at Xin He East Road, Dezhou City, Shandong province and had contracted to purchase another station located in Lao Ling County (乐陵县), Shandong province. SR was in the process of building a third CNG refilling station. The assets acquired in 2013 included the operating equipment at the stations.

The CNG refilling stations business have become very competitive due to the entrance of state owned oil and gas companies into the retail CNG refilling stations business. The Company, after due consideration of the dim prospects of the CNG refilling stations business, its business plan and strategy, decided to exit the CNG refilling stations business in the PRC.

SGX Query 7:

With reference to the following on page 9 of the FY2015 Results, please provide a status update on the 50% Joint venture in a gold exploration concession in Kyrgyz Republic. Please provide details of this concession, the work done to date, how much has been paid by the Company to-date and loans extended, the progress of the exploration and the material assessments in IQP’s report on this exploration project.

Reply 7:

The concession

Golden Eagle Mining Pte Ltd, a wholly owned subsidiary of the Company, acquired a 50% participating interest in an exploration and mining concession in the Kuramator region called Kuramatorskoy owned by Artel Trade LLC (“Artel”). The concession is located in the middle Tien Shan metallogenic province which is home to some of the biggest gold deposits such as Chaarat, Isthtamberdi, Bozimchak Jamgyr, Terek-say and others. The concession covers an area of 63.72 km².

Exploration licences were issued on 22 January 2014 by the State Agency of Geology and Mineral Resources of the Kyrgyz Republic and are valid till 22 May 2019 for the concession area. The licenses may be extended for a further period of 20 years.

The work done to date

In accordance with Licence agreement #1 to Licence #3447 AP, Artel submitted geological and exploration works proposals (“Proposals”) for review by and approval from the State Agency of Geology and Mineral Resources under the Government of Kyrgyz Republic (hereinafter the “Geology Agency”) and the State Agency on Environmental Safety and Forest Management under the Government of Kyrgyz Republic (hereinafter the “Environmental Safety Agency”).

- a) Geology department of the Geology Agency approved the Proposals on 17 April 2014.
- b) Industrial safety department of the Geology Agency approved the Proposals on 2 April 2014.
- c) The Environmental Safety Agency approved the Proposals on 6 May 2014.

After fulfilment of the conditions of the Licence Agreement #1, Artel received License Agreement #2 to License #3447 AP for exploration works.

After receipt of License Agreement #2, Artel undertook and completed a partial recovery of the roads at the site of the Republican highway Jany Bazaar - Kyzyl-Adyr, at the confluence of Kara-Kysmak and Chatkal. Reconnaissance routes were constructed up the creek of Kura-formers from the confluence with the Chatkal river, to the northern border of the license area. Along the route, gold-bearing occurrences were found at the accumulative landforms developed on top of the bed of the creek, near the northern border of the license area.

In the abovementioned exercise, a reconnaissance survey of 5 km² of the area, reconstruction and repair of access roads to the licensed area of 2,300 m, construction and equipping of temporary field camp, including residential units, warehouses, shed, sanitary facilities, fuel storage and power lines etc, were completed.

How much has been paid by the Company to-date and loans extended

Investment - 50% participating interest	US\$400,000 (S\$545,880)
Work Program – 2015	US\$115,000 (S\$157,388)
Licence, registrations etc	<u>US\$ 18,500 (S\$ 25,332)</u>
	<u>US\$533,500 (S\$728,600)</u>

The progress of the exploration and the material assessments in IQP's report on this exploration project

Please refer to 7(ii) above and further work done to date include geological mapping (1:5000) of 15 km²; geomorphological mapping (1:10000) of 5 km²; drilling 1,620 m; collected 4050 drill samples of which 500 samples were sent for testing, and other infrastructural work.

The Company is an investment company and this investment constitutes approximately 1% of the Company's total assets in FY 2014 audited Financial Statements. Minerals exploration and mining is not the Company's principal business and the Company is of the opinion that no Independent Qualified Person's report is required.

SGX Query 8:

With reference to the following on page 9 of the FY2015 Results on the "available for sale investments" relating to "the rights to receive the net proceeds of 60 finished lots of land" at Sawyer Falls in Washington. Please disclose:

- (a) What are the terms of these rights;
- (b) Who owns the lots of land;

- (c) The use of the land, the size and whether there are any issues related to the land;
- (d) How have the rights to receive the net proceeds been valued;
- (e) How much net proceeds will be received and when will this be due; and
- (f) The status of the sales of these finished lots of land.

Reply 8:

- (a) 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.

These information have been included annually in the Notes of the audited Financial Statements in the Company’s Annual Reports from 2002 to 2010.

- (b) Capri Investment LLC.
- (c) The land has received preliminary plat approval from Pierce County for residential development in phases as part of a Planned Development District (“PDD”) in 2002. The size of the land is 450 acres.
- (d) Lake Union Partners, Seattle, WA, USA, valued each finished residential lot at US\$86,082 dated 8 June 2015
- (e) The net proceeds will be due upon the sale of the finished residential lots in the final phase. The Company is not aware and SFC has not informed the Company of the expected completion date of the final phase.
- (f) The 60 lots are located in the PDD. approved 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 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 2015 and have all been sold. The Company is entitled to the net sales proceeds of the 60 lots in the final phase of the PPD, viz the 12th phase.

SGX Query 9:

In Paragraph 10 on page 9 of the FY2015 Results, the Company disclosed it “acquired a 50% participating interest in a exploration and mining concession in Kuramator region” and “the historical exploration data indicates that the Kuramator concession contains 3.75 tonnes of gold. The State Agency for Geology and Mineral Resources of the Kyrgyz Republic had reported that the concession area contains 447 kilograms of recoverable alluvial gold.” Please disclose:

- (a) The parties that the licenses were issued to, the scope of authority under the license, who issued the licenses and how is the Company’s participating interest registered within the license arrangements;
- (b) The date of the acquisition, the price payable and amount paid to date on the acquisition;
- (c) The basis for the agreed acquisition price and the valuation for the participating interest;
- (d) With respect to the statement to the 3.75 tonnes of gold, please provide the dates and details of the statements and reports prepared for the valuation and the identity of the qualified persons who prepared the reports, their qualifications and the standards and methods used in the preparation of the statements;
- (e) Referring to the disclosure that “the concession area contains 447 kilograms of recoverable alluvial gold”, please disclose the type and method of sampling, sampling intervals and methods, relevant sample locations, distribution, dimensions and relative location of all relevant assay data, data aggregation methods and also disclose other information relevant to an assessment of the “recoverable alluvial gold”;
- (f) The location of the “mining concession in Kuramator region”; and
- (g) Accreditation of the “State Agency for Geology and Mineral Resources” for performing the analysis that the Company has requested for its 500 grab samples.

Reply 9:

- (a) The following licences were issued by The State Agency for Geology and Mineral Resources, the Kyrgyz Republic to Artel Trade LLC:
 - (i) Licence # 3447 AP dated 22 January 2014 for subsoil use for geological exploration works of (alluvial) gold till 22 January 2019 at Kuramator area #1
 - (ii) Licence # 4217 AP dated 29 June 2015 for subsoil use for geological exploration works of (vein) gold till 29 June 2019 at Kuramator area #2

The Company’s 50% participating interest through a wholly-owned subsidiary Golden Eagle Mining Pte Ltd was registered with the Geology Agency.

- (b) The 50% participating interest was acquired on 15 April 2015. The consideration was US\$400,000 and funding of US\$150,000 for 2015 work program. For amount paid to date please refer to 7(iii) above.
- (c) The agreed acquisition price was arrived on a willing seller willing buyer basis. The Company took into account the work done in 2014, the data from the concession area obtained by Soviet geological expeditions (1970 and 1986-1987)

and the Geology Agency (1992). Such information was prepared by a qualified Kyrgyz geologist.

- (d) The statement of 3.75 tonnes of gold was reported by Kyrgyz geologists using data from the Soviet geological expedition (in 1970 and 1986-1987) and Kyrgyz official geological expedition (1992), calculated according to “Instructions on geochemical methods of exploring ore deposits (USSR)” over a 1.5 km² area in the concession and of P1 category (USSR classification).
- (e) The statement of *“the concession area contains 447 kilograms of recoverable alluvial gold”* was abstracted from archival reports of historical exploration work by Soviet geological expeditions (in 1970 and 1986-1987) and Kyrgyz official geological expeditions (1992).

The Soviet geologists explored only 2 sections of the licensed area and carried out 13 adits in one section and more in the second section. *Source: Materials of Geology Agency of the Kyrgyz Government.*

- (f) Kuramatorskoy concession is located in Chatkal district, Dzhahalal-Abad Oblast, Kyrgyz Republic. See 7(i) for further details.
- (g) The State Agency for Geology and Mineral Resources is the authority for all mining activities in the Kyrgyz Republic. It is an agency of the Ministry of Economy, the Kyrgyz Republic.

The Central Laboratory (“CL”) of the State Agency on Geology and Mineral Resources of the Kyrgyz Republic is a state-owned enterprise, specialising in the comprehensive study of minerals. The Central Laboratory is recognised as an independent and technically competent entity and is accredited under the international standards GOST, ISO/IEC 17025-2009 (The Competence of Testing and Calibration Laboratories). The range of accreditation comprises 57 types of analysis. The CL also has certificate No KG 417/KTSA, KMSI.P.0001 recognising it as the coordinating entity in inter-laboratory verifications of analysis of ores, rocks and products.

By Order of the Board
Innopac Holdings Limited

Wong Chin Yong
CEO & Managing Director

22 March 2016