

**RESPONSE TO SGX-ST'S QUERIES IN RELATION TO THE
SUBSCRIPTION OF REDEEMABLE CONVERTIBLE NON-CUMULATIVE
PREFERENCE SHARES IN HT ENERGY (S) SDN BHD**

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 announcement dated 26 February 2019 (the "**Prior Announcement**") in relation to the subscription of non-cumulative preference shares ("**RCNCPS**") in the Company's 49% owned associate company, HT Energy (S) Sdn. Bhd. ("**HTES**").

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

The Board wishes to provide further clarification to shareholders on the subscription of the RCNCPS, based on SGX-ST's queries to the Company on 28 February 2019 and 13 March 2019.

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

(a) SGX-ST Query 1

The conditional subscription agreement was entered into on 30 Dec 2018, why is it only announced on 26 Feb 2019?

Company's Response:

The Company did not make an announcement in respect of the transaction when it was first entered into on 31 December 2018 as none of the relative figures exceeded 5% of the applicable thresholds under Rule 1006 and hence is not deemed to be a disclosable transaction under Chapter 10 of the Catalist Rules.

Further under Rule 704(16)(d), the Company had initially taken the view that so long as the Company does not convert the RCNCPS into ordinary shares, which it may do so under the terms of the Subscription Agreement, its shareholding of ordinary shares in HTES will not change from the 49% it currently holds.

However, the Company's sponsor was made aware of the Proposed Subscription when reviewing the Company's draft full year financial statements, and requested the Company to make a disclosure of the transaction on 26 February 2019 to keep the shareholders updated and informed of the current tranche of RCNCPS subscribed for and further tranches subscribed in the future. The Company will be mindful of this going forward.

(b) SGX-ST Query 2

*It was disclosed that the Total Consideration was derived on a willing-buyer, willing-seller basis, taking into account the net tangible liability value ("**NTL**") of HTES, based on its business potential. No independent valuation has been conducted on HTES. What is the basis and how was the Total Consideration of RM 1,000,000 derived?*

Company's Response:

The rationale of the investment was based on the business objectives of HTES, being the tendering and securing of Malaysian governmental agencies' energy contracts/ projects ("**Government Contracts**"). The Total Consideration was arrived at based on, among other factors, local minimum paid-up capital requirements in order for HTES to qualify for these Government Contracts tenders.

HTES is in a NTL position as it is still a start-up vehicle incorporated to procure renewable energy projects predominantly in East Malaysia. At this stage, all expenses incurred pertains to the costs of the pilot project at Long Loyang (the "**Pilot Project**"), operational expenses and miscellaneous expenses incurred for the bidding of the Government Contracts.

Further, the Company is already an investor in HTES, and the RCNCPS are meant as an additional investment to increase the capital base of HTES in order for it to qualify for Government Contract tenders that require a minimum paid-up capital. Preference shares were decided as the best alternative for these purposes as opposed to subscription to ordinary shares, due to the following reasons:

- (a) the redemption feature attached to the RCNCPS;
- (b) the need to maintain the current ordinary shareholding percentages in HTES (in order for a company to participate in Government Contracts, foreign equity from ASEAN countries must not exceed 49% of the total voting shareholding of the company); and
- (c) in addition, Section 3.03 of the Subscription Agreement ensures that proceeds from subsequent tranches will have to be applied toward specified purposes as approved by the Company prior to subscription. This would allow the Company to monitor, control and assess any future investments made by HTES under the terms of the Subscription Agreement.

With regard to Tranche 1 of the RCNCPS in the amount of approximately S\$96,000 (RM290,000 using an exchange rate of RM 3.035: SGD1.00) ("**Initial Investment**"), the Company believes that this Initial Investment is necessary for HTES to satisfy the minimum paid-up capital requirement in order to tender for Government Contracts, which could potentially have a good return of a 49% share in distributable profits from these Government Contracts (noting that the Company contributed RM4,900 for its 49% ordinary equity stake). This potential return is on top of the Preference Dividends (as defined below), which will be payable if there are any distributable profits generated by HTES. Further, its subsidiaries, Industrial Engineering Systems Pte Ltd ("**IES**") and Renosun International Sdn Bhd, are the main suppliers of HTES's projects with IES supporting on technical aspects. HTES is also the Concessionaire of the Pilot Project.

(c) SGX-ST Query 3

It was disclosed that the Initial Tranche shall be subscribed by the Company provided that conditions stipulated in Section 3.03 and Section 5.01 of the Subscription Agreement have been complied with prior to such subscription date. What are these conditions stipulated in Section 3.03 and Section 5.01 of the Subscription Agreement?

Company's Response:

The conditions pursuant to Sections 3.03 and 5.01 of the Subscription Agreement are set out below:

Section 3.03 – Subscription Tranche and Subscription Price

The Company shall subscribe for the RCNCPS in Tranches on each subscription date(s) upon receipt of a written notice from HTES, specifying the number of RCNCPS to be

subscribed by the Company and the use of proceeds PROVIDED ALWAYS THAT all the conditions stipulated in Section 3.03 and Section 5.01 hereof shall have been complied with prior to each subscription date and PROVIDED FURTHER THAT the Company shall first approve the use of proceeds for the subscription price to be paid under each Tranche. The RCNCPS shall be allotted and issued free from all encumbrances and shall carry the rights, privileges and terms set out in HTES's Constitution.

Section 5.01

- (1) In addition to Section 3.03, completion of each Tranche on the subscription date is conditional upon the approval of the Company for the use of proceeds for each Tranche of the subscription and the Company having received the following in form and substance satisfactory to it:
- (a) the report on the due diligence exercise conducted on HTES and its related companies which shall *inter alia* include confirmation that all pertinent agreements relating to the business of the Associate shall have been duly executed on terms deemed favorable by the Company and that HTES and its related companies have satisfied all the applicable statutory requirements by the respective statutory bodies in connection therewith;
 - (b) the approval of the shareholders of HTES in general meeting to the allotment and issue of the RCNCPS to the Company and the written waiver by them of their rights in relation to the RCNCPS;
 - (c) there having been as at each subscription date, neither any adverse change in the condition (financial or otherwise) of the Associate which is material in the context of the subscription for the RCNCPS, nor the occurrence of any event making any of the representations and warranties contained in Article VII untrue and incorrect in any respect on each subscription date as though they had been given and made on such date with reference to the facts and circumstances then subsisting, nor the occurrence of any breach of the undertakings contained in Article VIII nor the occurrence of any event of default under this Agreement;
 - (d) the delivery to the Company of:-
 - (i) a copy, certified as a true copy by a duly authorized officer of HTES, of (1) the Certificate of Incorporation of HTES and (2) HTES's Constitution incorporating the terms of the issuance of the RCNCPS and (3) HTES's latest audited accounts;
 - (ii) a copy, certified as a true copy by a duly authorized officer of HTES, of resolutions of the shareholders of HTES in general meeting approving the issue of the RCNCPS and the amendment to HTES's Constitution incorporating the terms of the issuance of the RCNCPS and the resolutions of the board of directors of HTES approving this Agreement including all other related agreements and the issue of the RCNCPS and authorising a named person or persons on behalf of HTES to execute this Agreement;
 - (iii) a certificate by a duly authorized officer of HTES setting out the names and specimen signatures of the persons authorized to execute, on behalf of the Associate this Agreement and any documents to be delivered by HTES pursuant hereto or thereto;
 - (iv) a certificate dated the relevant subscription date signed by a duly authorized officer of HTES stating that, to the best of his knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as is referred to in Section 5.01(1)(c) above;
 - (v) such reports and confirmations from the auditors of HTES as the Company may reasonably require;

- (vi) a copy, certified as a true copy by a duly authorized officer of HTES, of the transfer and allotment of shares forms evidencing the existing shareholders' shareholding proportion in HTES; and
 - (vii) such other documents, confirmations, opinions and approvals as may be required by the Company.
- (e) there shall have been obtained or there shall have been made provisions satisfactory to the Company for HTES to obtain all governmental, corporate, creditors, shareholders' or other authorizations, licenses, approvals and consents which may be necessary or expedient for the issuance of the RCNCPS;
 - (f) no event or circumstances or change of law or other governmental action shall have occurred which shall make it improbable in the opinion of the Company that HTES will be able to issue the RCNCPS and to observe and perform the covenants and obligations on its part to be observed and performed under the relevant agreements; and
 - (g) fulfillment by HTES of any other terms and conditions as may from time to time be stipulated and or required by the Company.

(d) SGX-ST Query 4

What is the resultant shareholding of the Company in HTES subsequent to the Initial Tranche, assuming conversion? What is the resultant shareholding of the Company in HTES assuming full subscription of the Proposed Subscription, assuming conversion?

Company's Response:

Following completion of the subscription of the Initial Tranche, the Company holds 98.3%¹ of the enlarged total share capital of HTES, on the assumption that the RCNCPS under the Initial Tranche are fully converted into ordinary shares.

On full subscription of all of the RCNCPS under the Subscription Agreement, the Company will hold approximately 99.5%² of the enlarged total share capital of HTES, on the assumption that the RCNCPS are fully subscribed for and fully converted into ordinary shares.

Note:

$$^1 (4,900 + 290,000) / (10,000 + 290,000) = 98.3\%$$

$$^2 (4,900 + 1,000,000) / (10,000 + 1,000,000) = 99.5\%$$

(e) SGX-ST Query 5

It was disclosed that the Company will be entitled to an annual non-cumulative dividend equal to 8% of the issue price which will accrue daily. Is this regardless of the performance of HTES?

Company's Response:

Any payment of dividends under the RCNCPS ("**Preference Dividends**") shall be subject to applicable law. And as such the non-cumulative dividend of 8% ("**Preference Dividend Rate**") will be paid out only if there are profits of HTES available for payment of dividend under applicable laws ("**Distributable Profits**").

If the amount of the Preference Dividend calculated based on the Preference Dividend Rate (if paid in full) would exceed the Distributable Profits, HTES shall make partial payment of the Preference Dividend, to the extent of available Distributable Profits, to the Company on a pro-rata basis. HTES is not obliged to pay, and shall not pay, the shortfall in the amount of the Preference Dividend calculated based on the Preference Dividend Rate, and such shortfall shall be deemed not to be due and payable and is not accrued.

If HTES succeeds in its business objectives and performs well, and there is sufficient Distributable Profits, the Company will also have a 49% share in the Distributable Profits, noting that it holds 49% of paid-up ordinary shares in HTES.

As mentioned in the reply to Query 2 above, we wish to reiterate that the purpose of funding HTES via the RCNCPS is primarily to meet the minimum paid-up capital requirement in bidding for Government Contracts, while (i) maintaining the current ordinary shareholding percentages of HTES; and (ii) providing the Company with a redemption clause upon maturity of the RCNCPS.

(f) SGX-ST Query 6

Please provide the workings for the computation of Rule 1006(b).

<u>Relative Figures under Rule 1006</u>		<u>Relative Figures (%)</u>
(b)	The net loss attributable to the assets acquired, compared with the Group's net loss	0.9%

For the purpose of calculating the figures above, the latest announced financial statements being HY2018 released on SGXNET on 13 August 2018 prior to the signing of the Subscription Agreement was used.

(g) SGX-ST Query 7

It was mentioned that preference shares were decided as opposed to subscription to ordinary shares because of the redemption feature attached to the RCNCPS. What will happen if the Company opts to redeem the RCNCPS on the Maturity Date (i.e. 3 years from date of issuance of Initial Tranche) but HTES is unable to pay the redemption payable amount?

Company's Response

The Company will only opt to redeem the RCNCPS on the Maturity Date if the RCNCPS have not already been converted into ordinary shares of HTES upon the completion of the subscription of new ordinary shares by the other shareholder, Muhammad Hatta Bin Sukarni (the "**Majority Shareholder**") (see our response to Q10 below).

On the assumption that the subscription by the Majority Shareholder is not completed, or if HTES is unable to fulfil the redemption, the Company will consider converting the RCNCPS in order to take control of HTES, while looking for an alternative local partner to invest in HTES. Further, HTES is currently focusing on government sector projects which will allow HTES to gain a foothold in the off-grid electrification market. By the end of the year, HTES may be in the position to diversify into private sector work which will not require local shareholding control. As such, the Company will monitor and take various considerations into account, including the business focus of HTES, before deciding the appropriate course of action at that time (such as conversion or commence legal action against HTES etc).

(h) SGX-ST Query 8

It was also mentioned that preference shares were preferred due to the need to maintain the current ordinary shareholding percentages in HTES for the purposes of bidding for governmental projects. Would this mean that the convertibility feature of the Company would unlikely be exercised as this would affect the current shareholding percentages in HTES, thereby affecting its chances of bidding for governmental projects?

Company's Response:

The Company wishes to add that the Majority Shareholder had provided an undertaking to HTES and to the Company on 18 March 2019 that he wishes to subscribe for a further 301,837 ordinary shares in HTES within the next 12 months. Once this subscription is completed, the Company would be able to convert its 290,000 RCNCPS into ordinary shares to maintain the current 49%:51% shareholding percentages.

(i) **SGX-ST Query 9**

Since Annica owns 49% of HTES currently, in scenarios where HTES is profitable, Annica would already enjoy returns from the distributable profits of HTES arising from its 49% stake, and given that HTES should maintain its local majority shareholding (i.e. Annica's stake will remain at max of 49%), why did the Company not consider entering into a loan with HTES instead, where interests are secured?

Company's Response:

The purpose of the RCNCPS was to meet the local minimum paid up capital requirements. A loan would not serve that purpose.

(j) **SGX-ST Query 10**

Has the Company considered pro-rata contribution from both shareholders so as to preserve the current shareholding percentages in HTES?

Company's Response:

As mentioned in our responses to SGX-ST's Query 2 above, the Majority Shareholder has undertaken to the Company that he will, within the next 12 months, contribute to the capital of HTES on a pro-rated basis, by subscribing for an additional 301,837 ordinary shares at RM1 each, such that upon full conversion of the RCNCPS, the shareholding percentages between the parties will be maintained at 49%:51%.

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 projects 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

26 March 2019

This announcement has been prepared by the Company and its contents have been reviewed by the Company's Continuing Sponsor, Stamford Corporate Services Pte. Ltd. ("Sponsor"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Manual Section B: Rules of Catalyst.

The Sponsor has not independently verified the contents of this announcement. This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this

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