ANNICA HOLDINGS LIMITED

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

RESPONSE TO SGX-ST'S QUERIES ON INDEPENDENT AUDITOR'S REPORT AND AR2017 AND UPDATE ON PROJECTS IN THE RENEWABLE BUSINESS SECTOR

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1. RESPONSE TO SGX-ST'S QUERIES ON INDEPENDENT AUDITOR'S REPORT AND AR2017

The board of directors (the "**Board**") of Annica Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") in connection with the Independent Auditor's Report issued by Baker Tilly TFW LLP on 12 April 2018 and the Company's Annual Report dated 12 April 2018 ("**AY2017**") which sets out our full year results for the year ended 31 December 2017 ("**FY2017**"). The Board wishes to clarify these queries as follows.

Terms used and not defined in this Section 1 shall bear the same meanings as ascribed to them in AR2017.

1.1. SGX-ST's Query 1:

"Please elaborate on "improvement in general operating environment" as mentioned in Note 3.1(1)(a) of AR2017. The improvement in FY2017 results was largely due to the disposal of the discontinued operations that were loss-making. The business direction of the Company remains unclear since FY2016. Since our last meeting with the Board where we were informed that the Company plans to focus on renewable energy, there has been no significant development till now."

Company's Response:

The Board would like to clarify that Note 3.1(1)(a) of AR2017 refers to the management's expectations of improvement in the general operating environment over the next 12 months. Furthermore, in FY2017, against the backdrop of a nascent recovery in the Oil & Gas sector, the Group's Oil & Gas business segment registered revenues of S$7.8 million, a 59% gain from S$4.9 million in FY2016. Similarly, the Board expects the Oil & Gas sector to continue its recovery over the next 12 months. The Group's Engineering Services business segment however continues to be affected by a combination of keen competition and sluggish market conditions faced by its major overseas customers despite the recovery in the Oil & Gas sector as industry players adopted a wait-and see-attitude towards investments.

On the same note, the Board would also like to clarify that the improvement in FY2017 refers not only to the reduction in total comprehensive loss for the FY2017 against FY2016, but the fact that the Group has also managed to reduce its losses from continuing operations, net of tax to S$1.3 million from losses of S$4.1 million previously. Pursuant to that, the Board is of the opinion that improvement in the FY2017 results were not largely due to the disposal of discontinued operations which were loss making – the improvement was largely attributable to the improvement in the Group's results from its continuing operations.

The Board wishes to further address the query above on the viability of the Company's business plan and the Company's direction. In the Group's restructuring efforts, we set out to do the following:

(a) *Streamline existing businesses, with focus on improving margins and reducing operating costs*

As part of our restructuring efforts, we have instituted our business streamlining plan throughout the Group. Pursuant to that, we have improved our gross margins by 4% in FY2017 against the previous year. In fact, the Group's gross profits were unchanged despite the decrease in revenue over the same period. The Group has reduced costs across all our expenses classes and managed to narrow our losses from continuing operations, net of tax to S$1.3 million in FY2017 against S$4.1 million in FY2016.

(b) *Diversify the earnings bases of the Company*

The Group has identified a new business segment in the Recycling, Renewable Energy and Green Technology sector (the "***Renewable Sector***") as the key driver of growth and revenues over the immediate and long term.

The Company has consistently communicated and announced to its stakeholders the plans it intends to undertake in the Renewable Sector. The Board wishes to inform the stakeholders that the Company remains focused on this Renewable Sector and is committed to carry out its plans as previously communicated.

On this note, the Board also wishes to provide the shareholders with further updates on some of its projects in the Renewable Sector in Section 2 below.

1.2. SGX-ST's Query 2:

"We noted from the Board's statement in Note 3.1(1)(c) of the AR2017 that the Company will raise additional funds from the RCB to ensure that the Group is able to continue operating on a going concern basis. The RCBs that had been drawn down to-date was approx. S$8 million and bulk of it had been expensed on working capital. It is not visible to us that the Company is embarking on any major projects to turnaround the business of the Company. If the Company continues to draw down on the RCB for working capital purposes without having a viable plan to turnaround the existing business, it would not be sustainable in the long run and would also not further the interests of the shareholders due to the potential dilution risks that come along with the RCB. In this regard, please share with us the Board's turnaround plan for the Company for the next 12 months."

Company's Response:

On the Board's turnaround plan over the next 12 months, we wish to emphasize our efforts as follows:

(a) improve operational efficiency and streamline costs across our business segments;

(b) step up efforts to enhance sales and profitability across our business segments;

(c) adhere to our internal milestones of the Renewable Sector in order to facilitate timely rollout of the Company's projects in this segment; and

(d) evaluate alternative funding sources for the Renewable Sector and also current existing businesses.

Under the Board's turnaround plan, the contribution from the Renewable Sector will be a key factor to return the Group to profitability. However, the Board would only expect meaningful contribution from this business segment from FY2019 onwards, as the projects are only expected to come on-stream after second half of 2018.

With regards to funding consideration for proposed current or future acquisitions and/or project funding, the Company shall consider various funding options, which includes without limitation, taking up of external financing, raising funds from the capital market, tapping on internal resources, or a combination of one or more of the options mentioned. The Board shall propose funding options which are suitable to the Company with the best interests of the shareholders in mind, without placing undue stress on the Company's finances, at the point of acquisition and/ or project funding.

1.3. SGX'S Query 3:

"With regard to the Option Shares mentioned in Note 3.1(1)(d) of AR 2017, we noted that the option agreement was first signed in June 2016 and it was only in April 2017 where the option holder first paid S$50K to acquire the options. One (1) year has lapsed and no option has been exercised to-date. It does not appear that the funds from these options are forthcoming (in any case, the right of exercising the options lies with the option holder and not the Company). In this regard, how does the Board rely on this to justify going concern basis of the Company?"

Company's Response:

The Options had not been exercised to date as the investor, Mr. Lim In Chong (the "**Investor**", or "**Mr. Lim**"), had prioritised the exercise of the Debt Conversion Option ("**DCO**") which he was also a party to, and the DCO was completed recently. The completion of the DCO resulted in a reduction in the Company's gearing by S$2.5 million and therefore strengthened the Company's balance sheet. Pursuant to that, the Board has no reason to believe that the Investor would not exercise his Options and we believe that the Investor remains committed and supportive of the Company's turnaround plan. Mr. Lim is a renowned landscape designer and an avid supporter of sustainable and green development with abiding interest in the renewable energy sector.

The Board wishes to clarify that its assumptions on going concern includes all the factors mentioned above. However, the Board wishes to state that, despite the Company's expectations to incur losses for FY2018, the current cash balance of the Company is sufficiently adequate to cover for any operational cash outflows over the next 12 months, even excluding the assumption of cash inflow from the Options. Beyond FY2018, the Company expects an improvement in performance in FY2019, conditional on the successful and timely implementation of the Company's projects under the Renewable Sector in FY2018.

2. UPDATE ON PROJECTS IN THE RENEWABLE SECTOR

Further to our responses to SGX-ST's queries above, the Board also wishes to provide an update on the progress of some of the projects in the Renewable Sector below.

The Board refers to its announcements (the "**Announcements**"):

(a) dated 26 March 2018 (the "**26 March Announcement**") relating to *inter alia*: (i) the termination of the sale and purchase agreement for the proposed acquisition of Horizon Greentech Resources Sdn Bhd ("**HGR**"); and (ii) and the proposed acquisition of Green Pluslink Sdn. Bhd. ("**GPL**") (the "**Waste Tyre Pyrolysis Project**"); and

(b) dated 27 April 2017 relating to *inter alia*, the pilot project at the Klinik Long Loyang Marudi, Sarawak, Malaysia ("**Pilot Project**") and the Sarawak Rural Clinic Electrification Project ("**SRCE Project**"),

together (the "**Projects**"). Defined terms used not defined under this Section 2 shall bear the meanings ascribed to them in the Announcements.

Although these Projects in the Renewable Sector have faced some unexpected technical and operational challenges during their start-up phase, the Board remains committed and focused on the Renewable Sector as the key driver for future profitability.

2.1. Waste Tyre Pyrolysis Project

Referring to the 26 March Announcement, each of Seri Beskaya Sdn. Bhd., Awang Ahmad Sah and Kok Mun Keong (the "**HGR Shareholders**") have entered into a non-binding memorandum of understanding with GPL pursuant to which GPL shall acquire all of the 15 waste tyre pyrolysis production lines (the "**Production Lines**") and the waste tyre pyrolysis plant located at Tanjong Malim, Perak, West Malaysia (the "**Plant**") from the HGR Shareholders. For clarity, the acquisition of the Production Lines and Plant from the HGR Shareholders by GPL shall hereinafter be referred to as the "**HGR Asset Acquisition**".

The Board wishes to update the Shareholders that the HGR Shareholders and GPL are currently in negotiations to enter in a sale and purchase agreement in relation to the HGR Asset Acquisition.

Following completion of the HGR Asset Acquisition, the Company shall, subject to the entering of a sale and purchase agreement and the conditions therein being met, acquire an aggregate of 4,023,300 ordinary shares representing approximately 25.79% of the issued and paid-up share capital of GPL from the GPL Vendors (i.e. Awang Ahmad Sah and Kok Mun Keong) (the "**GPL Acquisition**").

The rationale for the Company's change in focus to acquire GPL is three-fold:

(a) First, whilst HGR has expended its best efforts to adhere to the implementation milestones, it continued to face delays due to various challenges in the set up and operational processes.

(b) Secondly, we are made to understand from our experience with HGR that the process of obtaining relevant licencing for the recycling business in Malaysia can be tedious and time-consuming. A key advantage of GPL is that it already holds operating licenses from the relevant authorities for its existing factory which would in turn facilitate processing of the requisite licensing for the Plant following the acquisition. This is evident from the permits obtained recently from relevant authorities for the Plant, which GPL has already assisted to acquire in advance of the HGR Assets Acquisition. GPL are currently working closely with the newly-elected state government and the local town council for the remaining licenses for the Plant.

(c) Last, the acquisition of the Productions Lines by GPL, when operated together with the three (3) production lines already owned by GPL, will also allow GPL to benefit from greater economies of scale as a result of process integration between the merging parties.

It is likely that finance for future capital expenditure for GPL will be raised by way of loans with banks or financial institutions as the GPL shareholders/ directors may consider appropriate at that time. Operational costs are likely to be funded by way of shareholders loan if the need arises. The shareholders of GPL will, upon finalisation of the acquisition, explore various options to fund its capital expenditure and operating requirements.

The consideration for the GPL Acquisition shall be met either by internal resources or by way of loans, debentures or issuance of securities (whether debt or equity), taking into consideration the financial circumstances of the Company at that time, and always with the best interest of the shareholders in mind.

The Company would also like to clarify to shareholders the reasons why the purchase consideration for the GPL Acquisition has remained unchanged even though the Company is now acquiring a smaller stake in GPL (25.79%) as opposed to 49% in HGR:

(a) Although the absolute stake in GPL is lower, the Company is acquiring a larger entity (i.e. GPL) relative to the HGR acquisition.

(b) Secondly, GPL has a few advantages over HGR as elaborated above, for example, GPL already holds operating licences from the relevant authorities, and following the completion of the HGR Assets Acquisition, GPL will also benefit from economies of scale in its business operations.

2.2. Pilot Project

The Company had on 18 April 2017 announced the acquisition of 49% of the issued and paid-up capital of HT Energy (S) Sdn. Bhd. ("**HTES**"). Subsequently, HTES entered into a non-binding memorandum of understanding ("**MOU**") with HEC-Tina, Inc ("**HEC-Tina**") on 27 April 2017, for, *inter alia*, a proposed collaboration on a project to power rural clinics in Sarawak, Malaysia with green electricity produced by renewables and hydrogen using HEC-Tina's proprietary hybrid WSWH2 power modules and the Pilot Project to evaluate feasibility, time, cost and adverse events prior to its full-scale implementation. Please refer to the announcement dated 27 April 2017 for further information on the MOU.

By way of an update, following our last announcement on 1 June 2018, as the parties thereto have been unable to reach an agreement on, *inter alia*, the commercial terms for the implementation of the Pilot Project, the parties have agreed to terminate the MOU as of 1 June 2018.

Concurrently, the Company have been engaged in project discussions with the Ministry of Health of Malaysia ("**Ministry of Health**"), to better understand their needs and requirements. Following the last rounds of discussions, to meet the Ministry of Health's requirements, HTES has commissioned a Chinese manufacturer ("**Manufacturer**") instead to manufacture a solar and hydrogen module which has been customized to HTES' specifications (the "**Power Module**") for the Pilot Project. The Manufacturer has been selected based on technical and commercial considerations and shall be replacing HEC-Tina as the supplier of the Power Module for the Pilot Project.

The Group also has in place a core group of key management personnel who possesses the relevant expertise (from both the technical and commercial perspectives) in the renewable energy business and will be able to manage the implementation and operation of the Pilot Project and the business as a whole. Mr. Muhammad Hatta Bin Sukarni ("**Mr. Hatta**"), the co-founder and 51% shareholder of HTES, will be driving the commercial efforts and strategic development of HTES by leveraging on his extensive business and government network in Sarawak, being the initial geographical market that HTES is focusing on. As stated in our announcement on 18 April 2017, Mr. Hatta has more than 20 years of business and entrepreneurial experience and has a diversified portfolio of investments in the engineering and construction, property development, oil and gas, and fishing industries. On the other hand, Mr. Pek Seck Wei ("**Mr. Pek**") shall oversee the technical aspects of the projects undertaken by HTES. Mr. Pek is currently a director of two of the Company's wholly-owned subsidiaries, Industrial Engineering Systems Pte Ltd ("**IES**") and Cahya Suria Energy Sdn Bhd, and possesses good knowledge and understanding of the stringent standards required of hydrogen storage tanks gleaned from years of experience in the oil and gas industry. Notably, IES is primarily engaged in the business activities of designing industrial plant engineering services systems, wholesale and trade. Mr. Pek is also a qualified electrical engineer by profession and has been involved in the entire design process of the Power Module. In addition, the Group is also leveraging on the expertise of our joint venture partners (who are established solar power installers) in Renosun International Sdn Bhd, our 51% owned subsidiary, in respect of the solar power component of the Pilot Project. The funding of the manufacture of the Power Module shall be bore proportionately according to the shareholdings of HTES. The Group shall fund its portion through internal sources.

The Board is pleased to announce that HTES has received the consent letter from the Ministry of Health on 14 March 2018 for the implementation of the Pilot Project. The Pilot Project is expected to roll-out in end July 2018, barring any unforeseen delays from the Manufacturer and the transportation of the Power Module to the destination. The Pilot Project shall be conducted for a period of three (3) months to simulate the real-time operation of the Power Module at the pilot site. Upon acceptable results from the Pilot Project, the Company will look towards working closely with the Sarawak Government and the newly-elected Federal Government for the commercialising of the Power Module under the SRCE Project.

In December 2017, HTES has been admitted as a member of the Alliance Rural Electrification (ARE), a global industry association that supports all businesses along the value chain of renewable solutions for rural electrification in developing and emerging countries. HTES has also received commercial inquiries in relation to potential applications in other off grid electrification projects in other geographical locations for the Power Module and the Pilot Project shall be the key to the future collaboration between these interested industry players and the Company.

3. CAUTION IN TRADING

Shareholders are advised to exercise caution in trading their shares as the 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

5 June 2018

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*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 Catalist.*

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