



REPLY TO SGX'S QUERIES ON THE COMPANY'S ANNOUNCEMENTS OF 11 AND 18 NOVEMBER 2016

Innopac Holdings Limited (the "Company") refers to SGX's 9 December 2016 queries on the Group's unaudited Q3 2016 results announced on 11 November 2016 and its quarterly update pursuant to Rule 1313(2) of the Listing Manual announced on 18 November 2016, and would like to reply as follows:

SGX Query 1:

In paragraph 8 of the Company's third quarter 2016 results ("3Q2016"), it was disclosed that "Other receivables and prepayments increased to S\$9.3 million as at 30 September 2016 from S\$3.7 million as at 31 December 2015. The increase was mainly due to an advance of S\$6.0million for microalgae cultivation and oil extraction joint-venture."

- (i) Please provide details of the progress of the project, the revenue and the profits from the joint-venture so far;*
- (ii) Please explain the delay for the revenue generation;*
- (iii) Please provide details of the work and development of the microalgae farm and the joint-venture's plans for "R&D to produce other high-value downstream products such as pharmaceuticals, nutraceuticals, and cosmeceuticals" as per the Company's announcement on 22 September 2015; and*
- (iv) Please disclose the nature of the underlying transactions in the "Other receivables and prepayments" amounting to S\$9.3mil. Please also provide the aging schedule, reasons why this amount is outstanding and when will the underlying transactions materialize.*

Reply 1:

- (i) Please see (ii) and (iii) below.
- (ii) The Company and its JV partner have been focusing on the set up of the microalgae farm and necessary facilities to recover algae oil (the "Project"). The JV agreement of 22 September 2015 had contemplated to establish the first Project in Singapore, however the search for a suitable site was unsuccessful. Consequently, on 21 January 2016, the Company announced that it had varied the JV agreement, inter alia, to expand the geographical coverage to Malaysia. In May 2016, a suitable site was identified in Kundang, Selangor, Malaysia, and the use of the site was secured in June 2016. The JVCO has commenced work for site preparation, ordered equipment, and submitted applications for licenses and permits for the Project.
- (iii) The Company had on 17 June 2016, 12 August 2016, and 15 August 2016 announced that the Project would start generating revenue by November 2016.

However, due to the delay in securing a suitable site, the Company had further updated in its 11 November 2016 announcement that the Project would start generating revenue by January 2017.

On 17 June 2016, the Company had in its reply to SGX's queries on the Group's unaudited Q1 2016 results, highlighted that it has informed Primeforth that it is unlikely to provide the full funding of US\$12.5 million budget for the first Project as contemplated in the joint venture agreement by November 2016. Furthermore, in the same reply it was also mentioned that one of the option is "to downsize the Project". However, the Company and the JV partner have agreed that the Project shall be implemented in 3 phases, and this was announced on 12 August 2016 in its Q2 2016 unaudited results.

Phases 1, 2, and 3 of the Project shall have the daily production capacity of 5 metric tons, 10 metric tons, and 20 metric tons respectively.

The JVCO expects revenue of about US\$127,000 and gross margin of about US\$100,000 a month from the operations of phase 1 of the Project, based on the production capacity of 5 metric tons a day.

Our JV partner has established research collaboration recently with a renowned institution of higher learning in Singapore to research for higher value downstream products from microalgae.

(iv) Other receivables and prepayments consist of:

<u>Nature</u>	<u>Ageing</u>	<u>S\$ million</u>
Receivables from non-controlling shareholder of Sheng Rong ⁽¹⁾	Over 12 months	2.3
Legal / court fees deposits ⁽²⁾	Over 12 months	0.1
Rubic Prize Limited ⁽³⁾	Over 12 months	0.5
Receivable due under derivative contracts ⁽⁴⁾	Over 12 months	0.3
Advances to Primeforth, the joint venture partner, in the microalgae cultivation project ⁽⁵⁾	Current	6.0
Advance to a potential investee, pending completion of due diligence ⁽⁶⁾	Current	0.1
		<u>9.3</u>

Notes

(1) This represents an amount of RMB11.0 million (approximately S\$2.3 million) due from the non-controlling shareholder of Dezhou Sheng Rong Gas Co Ltd ("Sheng Rong"), an indirect subsidiary of the Company, being payments made by Sheng Rong for construction of a CNG station in the People's Republic of China. The non-controlling shareholder had agreed to repay Sheng Rong by transferring various properties in the PRC totalling RMB5.0 million (S\$1.0 million) in value and assignment of debts totalling RMB6.0 million (S\$1.3 million). The receivable is personally guaranteed by the owner of the non-controlling shareholder. Despite repeated reminders, the non-controlling shareholder of Sheng Rong has yet to deliver all the properties and the related assets to Sheng Rong. Sheng Rong had initiated legal action in May 2016 against the non-controlling shareholder for the recovery of the receivable. Timing of the recovery of the receivable is subject to the legal process in the People's Republic of China.

(2) These are deposits paid to the PRC lawyer and the People's Court of China in relation to enforcement of the contractual rights of Sheng Rong. Timing of the recovery of the receivables is subject to the legal process in the People's Republic of China.

- (3) The Company had in December 2013 completed the acquisition of 81.8% equity interest in Extera Pte Ltd ("Extera") from Rubic Prize Limited ("Rubic") for a total consideration of S\$17.1 million ("the Purchase Consideration"). There was a receivable of S\$0.5 million from Rubic on the books of Extera, being unpaid issued share capital. As announced on 28 March 2016, the Company entered into a Memorandum of Understanding ("MOU") with Rubic to reduce the Purchase Consideration for the acquisition of Extera. The MOU contemplates that the Purchase Consideration will be adjusted and reduced, by Rubic (a) transferring its 18.2% equity interest in Extera to the Company; and (b) returning the Consideration Shares (valued at S\$9.9 million) to the Company for either cancellation or otherwise as the Company may determine following advice from its professional advisors. The Company is in the process of settling the transfer of the 18.2% equity in Extera and expects the receivable of S\$0.5 million from Rubic to be settled on completion.
- (4) The Company had entered into derivative contracts on forward trading of crude oil. The counterparty has not settled the amount due under the contracts. The Company is following up with the counterparty for its settlement.
- (5) The Company has made a total of S\$6.0 million in advances for the first microalgae cultivation Project. Upon commission of the production facility, the S\$6.0 million will be classified as plant and equipment in the books of the JVCO.
- (6) This amount was advanced to a potential investee company, pending completion of due diligence of the company.

SGX Query 2:

In the Company's quarterly update pursuant to Rule 1313(2) of the Listing Manual announcement, It was disclosed that the "Company has advanced S\$6.0 million for the first project and had informed Primethorpe that it is unlikely to provide the full funding of US\$12.5 million as contemplated in the joint venture agreement by November 2016. The Company is considering seeking project financing, suppliers' credit, and/or EPC contractors' credit, and/or rolling out the project in phases". Please:-

- (i) Disclose how has the S\$6.0mil been expended by the joint-venture so far;*
- (ii) Elaborate on why the Company is "unlikely to provide the full funding of US\$12.5 million";*
- (iii) Provide details of the joint-venture agreement mentioned and quantify how much each of the joint-venture partners will have to contribute to the joint-venture; and*
- (iv) Provide details on what are the problems faced in the operations of the project and why was it unable to meet its budget and now requires to seek project financing.*

Reply 2:

- (i) The S\$6.0 million has been utilised by the JVCO as follows: S\$1.6 million for civil works including site survey, land clearing, soil testing, groundwater drilling, technical drawings, civil construction works including land compacting, perimeter concreting and hoarding, fabricating steel tracks, rails and platforms, and project management costs; S\$1.1 million for harvesting machine, S\$1.3 million for tank making machine, tanks, and installation; S\$0.7 million for plumbing, electric works, supply and installation of generators and allied equipment; and S\$1.3 million for purchase of algae seeds.

- (ii) The Company was not able to provide the full funding of US\$12.5 million by November 2016, as its cash and cash equivalents as at 30 September 2016 was only S\$1.7 million.
- (iii) The Company had announced the details of the JV agreements on 22 September 2015, 5 October 2015, 21 January 2016, and 17 June 2016.

Pursuant to the agreements, the Company and the JV partner have agreed to incorporate a joint-venture company ("JVCO") with an issued share capital of Singapore dollars one million (S\$1,000,000), and the initial equity for the JVCO shall be contributed in the following percentage - Company 70% and Primeforth 30%; and that the Company shall contribute Primeforth's 30% subscription of the share capital of the JVCO; and that on the launch of the first Project, a financing commitment of up to US\$12.5 million shall be provided by the Company to the JVCO on a EPC basis for, inter-alia, the capital investment requirements of the Project. The business of the JVCO shall be the cultivation of microalgae using Primeforth's licensed, patented knowhow and technologies with focus on the recovery of algae oil. It was originally contemplated under the JV agreement that the first Project shall be located in Singapore. However, due to unavailability of a suitable site in Singapore, the Company had on 21 January 2016 announced that it had entered into a supplemental agreement with Primeforth to set up the first Project in Malaysia. The Company shall, from time to time provide the JVCO with financing and all such necessary financial assistance and in the areas of business development and financial management. Primeforth shall be responsible for the areas of operational management relating to the execution and roll out of the Project and any other areas where Primeforth's experience and expertise can materially ensure the JVCO's successful attainment of its business goals;

- (iv) The problems faced in the operations of the Project are the identification and securing of a suitable site, and procuring the requisite permits and licenses for the establishment of the facility for the Project.

The budget for the Project is US\$12.5 million. The Company and the JV partner agreed that the Project will be developed in phases, as the Company's cash position as at 30 September 2016 was insufficient to meet the full budget.

By Order of the Board
Innopac Holdings Limited

Wong Chin Yong
Managing Director

13 December 2016