INTRACO Limited
(Incorporated in the Republic of Singapore)
Company Registration Number 196800526Z

RESPONSE TO QUERIES BY SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The Board of Directors ("the Board") of Intraco Limited ("Intraco" or "the Company") wishes to announce the following in response to the queries raised by Securities Investors Association (Singapore)("SIAS") on 9 April 2019:

Questions:

1. Would the Board / Management provide shareholders with better clarity on the following operational and financial matters? Specifically:

   i. **Plastic resin:** As noted in the Chairman's statement (page 6 of the Annual Report), the Group's plastic trading business "performed well" and it successfully expanded its regional footprint to Indonesia. From Note 23 (page 140), it can be seen that the segment revenue was $145.5 million while the segment profit before tax was $1.137 million, or a pre-tax profit margin of 0.78%. **Can the Company help shareholders understand how it could further improve the profitability of the segment? What is the target set by the Board? Can the Company elaborate further on the potential of the Indonesia market? Please also help shareholders understand the profile of the customers by industries and by location.**

   Company's response:

   The FY2018 pre-tax profit margin of 0.78% has improved from FY2017 (0.03%). The polymer trading industry is inherently highly competitive as it becomes increasingly commoditised. Buyers have the benefit of real-time information that allows them to determine minimum prices to source from the market at various times. Unfortunately, thin profit margins are to stay due to many players in this segment.

   As this is a volume-centric business, finding new suppliers and markets is a continuing endeavour. We have started looking at augmenting sales margins by exploring new markets such as Indonesia, China and Australia. Additionally, we are also exploring ways to value-add our services by providing better terms, shortening lead time in respect of delivery, providing timely information to customers for decision-making as well as acting as the procurement arm for end users – all with a view of earning slighter better margins. The longer-term goal is to identify higher margin trading products such as downstream specialty products, compounded materials and finished goods.

   Indonesia is a net importer of polyethylene ("PE") and polypropylene ("PP") products and the market has grown by a CAGR of c.25% in the past 5 years. The market size is estimated to be 3 million tons per annum and is expected to continue growing by an average 5-6% in the next 3 years in line with GDP growth[1].

   On the question of targets and profile of customers by industries and location, these are sensitive information that cannot be disclosed.

   ii. **Vietnam:** Revenue in Vietnam grew by more than a third, jumping to $97.1 million (page 143) from $70.3 million. **What are the key drivers for this improvement? How sustainable is the growth and how much more can the group grow the Vietnam business?**

   Company's response:
   The revenue growth in Vietnam in FY2018 was largely attributable to the rapid growth of the Vietnam economy, with GDP growing by circa 7%[2] during the year. The demand for polymer-related products increased by an estimated 15%[3] during the year.

[1] Asian Development Bank - Asian Development Outlook 2019 (https://www.adb.org/countries/indonesia/economy)
[2] Asian Development Bank – Asian Development Outlook 2019 (https://www.adb.org/countries/viet-nam/economy)
[3] Commoplast

We believe that the plastic trading business in Vietnam will continue to grow in tandem with the country's GDP, which is targeted to grow by approximately 6-7% in FY2019. We remain positive about Intraco Trading's growth outlook in Vietnam but restricting factors such as intensifying competition due to an increasing number of players and more supplies coming onstream (such as Nghi Son & Pref Chem) may impact the overall outlook.

iii. **Fire protection:** Revenue from the Fire protection segment accounted for just 5.4% of the total revenue. The chairman has said that the segment "remains an important profit contributor" to the group and the ability of the company to pay dividends will depend largely on the performance of the segment. **Can management help shareholders understand the market share of K.A. Group ("KA") in the fire protection segment? Who are the competitors in the fire protection segment? As KA mainly serves the commercial segment, will the financial and operational results be lumpy in nature? How much revenue was derived outside of Singapore? How does it intend to compete and gain market share in the region (including Vietnam, Myanmar and Malaysia) where the competitors may have a cost advantage over KA? Would the company be disclosing the forward order book?**

Company's response:

Depending on the type of products or services, KA Group's market share ranges from 3 to 50% and the primary competitors differ for each product and service. Details of market share and competitors are privy to the Company.

Due to the project-based nature of the business, KA Group's results and performance could potentially be lumpy depending on the availability / size of projects won in a particular year. The lumpiness in results could also be attributable to the planned and actual start and completion dates of projects. FY2017 was a relatively strong year due to the award of some mega projects such as Jewel at Changi and Sengkang Hospital.

Less than 5% of KA Group's revenues in FY2018 were derived from outside Singapore.

We are exploring numerous regional expansion approaches including through the distributorship and agency model. This information plus the forward order book are sensitive information which would not be disclosed to the public.

iv. Property, plant and equipment (PPE): As at 31 December 2018, the group has $15.1 million in property, plant and equipment. This is more than doubled the PPE ($7.4 million) as at 1 January 2017. In the past two financial years, the group has invested $4.2-4.4 million in the "Trading and other" segment. Can management help shareholders understand if the high level of capital expenditure for the segment will continue? Can management confirm that the investment is to support "Intrawave" instead of the trading business?

Company's response:

The c.S$4m investment referred to was in relation to Intrawave, as opposed to the trading business. The high level of capital expenditure for the segment largely relates to the 4G upgrade project undertaken by Intrawave for the mobile network operators. These are primarily passthrough costs and the amounts incurred have been substantially collected. With the completion of this project in December 2018, the high level of capital expenditure is not likely to continue.

Questions:

2. As at 31 December 2018, the group has approximately $40.5 million in cash and cash equivalents, following the redemption of debt securities amounting to $9.5 million. The group also received more than $1.3 million in dividends from its associate. The group has total borrowings of $9.6 million as at 31 December 2018. Total equity attributable to owners of the company stands at $68.8 million.

   Net cash flow from operating activities amounted to $8.17 million in FY2017 and $5.18 million in FY2018.

   The company has stated that no dividends have been declared for the current financial year. This was because there was "insufficient distributable profits available for the declaration of dividend as there was a loss at company level despite net profits at group level." (page 71). The losses arose due to fair value losses on the written call and put options in connection with the Company's acquisition of the remaining 30% equity interest in K.A. Group.

   In FY2017, the reason that the company gave for not declaring any dividends was for it to "preserv[e] its cash reserves to pursue strategic business opportunities". As at 31 December 2017, the company and the group had cash and cash equivalents of $9.1 million and $30.7 million respectively.

   i. **Can the board elaborate further on the deliberations it has had on the declaration of dividends to reward shareholders?**

      Company's response:

      FY2018

      The Companies Act and the Constitution of the Company provide that no dividend shall be payable to shareholders except out of the profits of the company. In particular, Article 162 of the Company's Constitution reads "The Directors may before recommending any dividend set aside out of the profits of the Company."

      The general rule is that there must be enough profits (could be either retained profits or current year profits) before the Company can declare any dividends. In our case, Intraco Limited ("the Company") had accumulated losses of S$23.6 million as at 31 December 2018. During FY2018, the Company made a S$2.2 million loss arising primarily from the downward revaluation of the KA call-put options (-ve c.S$3.0m). This fair value loss at Company-level is eliminated on consolidation. What this means is that that there were insufficient current year profits at Company-level for which dividends could be paid out of for FY2018 (this is regardless of the fact that as a Group, Intraco achieved a PAT of S$2.5 million).

      FY2019 and Beyond

      The Board and Management are committed and working towards paying out dividends to all shareholders. Management's priority is to first ensure stability and growth in the KA division for FY2019 and FY2020. Management will also focus on growing the other existing businesses and acquiring new target(s) to ensure that the Company is able to deliver steady earnings. Once the Group has achieved a clear profit and growth trajectory, a sustainable dividend policy will be implemented.

   ii. Although the company has accumulated losses of $(23.6) million as at 31 December 2018, the current businesses are profitable and have generated strong positive cash flow. The losses at the company level are due to the drop in the non-cash value of the call and put options from $5.5 million to $2.5 million.

      Has the board reviewed the company's capital structure? With over $40.6 million in cash and cash equivalent, out of the group's total equity of $68.5 million, is the group overcapitalised for its current scale and business needs?

iii. Has the board considered a capital reduction to write off the accumulated losses?

Company's response:

The Board, together with Management, does from time to time undertake a review of its capital structure to assess if it is necessary and beneficial to restructure the Company's capital, taking into account the capital and/or funding needs, as well as other relevant factors.
The outcome of this periodic review is that:

- the net cash position as at 31 December 2018 of S$31.0m is deemed reasonable for the purpose of growing the existing businesses and acquiring new acquisition target(s). By investing in expansion and growth, the Company will be able to develop sustainable growth and profits, which will in turn form the basis to establish a clearly defined dividend policy; and
- in order to provide the Company with added flexibility in managing its share capital, the Board has at the EGM on 18 April 2019 sought shareholders' approval for the adoption of a share buyback mandate.

In so far as undertaking a capital reduction exercise to write off accumulated losses, Management is currently evaluating the merits of such a corporate action and is in the process of seeking professional advice on the same, and will at the appropriate juncture and subject to advice received, make the relevant recommendation to the Board on the conduct of such a capital reduction exercise.

Questions:

3. The Board comprises five non-executive directors, three of whom (including the chairman) are independent and two alternate directors. The company states that "More than half of the Board is made up of Independent Directors which is in compliance with the Code."

   The alternate directors are Mr Tony Chew Leong Chee (alternate director to Mr Charlie Ng How Kiat) and Mr Roland Ng San Tiong (alternate director to Dr Steve Lai Mun Fook). The company has disclosed that the "alternate directors attend most of the Board meetings, notwithstanding the attendance or presence of their respective principal director" (page 55).

   Guideline 4.5 of the 2012 Code of Corporate Governance (CG Code) states that boards should generally avoid approving the appointment of alternate directors. Alternate directors should only be appointed for limited periods in exceptional cases such as when a director has a medical emergency. The CG Code further recommends that alternate directors be appointed for limited periods only.

   i. Can the board help shareholders understand the rationale for the appointments of Mr Tony Chew Leong Chee and Mr Roland Ng San Tiong as alternate directors?

   Company's response:

   The alternate directors, Mr Roland Ng San Tiong and Mr Tony Chew Leong Chee have deemed interests in the Company of 28.43% and 27.96% respectively. Both Mr Ng and Mr Chew have vast business, management and investment expertise across multiple industries and geographical markets. The Board believes that the Company is able to leverage on their knowledge, experience and extensive network of business contacts in the region. The alternate directors attend Board meetings regularly, participate and actively contribute to board discussions.

ii. If the alternate directors play active roles and attend board meetings notwithstanding the attendance or presence of their respective principal directors, does it mean that the company may not have independent directors making up more than half of the board?

Company's response:

The five-member Board is chaired by independent director, Mr Colin Low. Together with two other independent directors Dr. Tan Boon Wan and Mr. Shabbir H Hassanbhai, the independent directors make up more than half of the Board. As such, there are adequate safeguards and checks in place to ensure that the decision-making process by the Board is independent and based on collective view that are objective and transparent.

iii. Would the nominating committee consider "converting" the alternate directors to non-executive directors if the NC deem the alternate directors qualified and able to contribute to the board?

Company's response:

There are currently no plans for the alternate directors to be "converted" to non-executive directors. The Nominating Committee is however cognizant of the guidance provided by the CG Code and will undertake a review of such appointment at a point in time when appropriate.

By Order of the Board

Josephine Toh
Company Secretary
18 April 2019