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

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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 10 April 2018:

Questions:

1. In the Chairman's Statement (page 6 of the annual report), the Chairman reminded shareholders that 2018 is the Company's Golden Jubilee. All five businesses in the group reported positive underlying earnings, and the group achieved higher "adjusted earnings of S$2.7m, the strongest in almost a decade". In addition, the CEO had also referenced the "total group underlying earnings of $2.7 million" (page 7).

(i) Can the Chairman and the CEO clarify how "adjusted earnings" and "total group underlying earnings" of $2.7 million were obtained?

Based on the Consolidated statement of profit or loss, the profit for the year stood at $2.078 million (page 74) while the total comprehensive income for the year, as seen from the Consolidated statement of comprehensive income, was $951,000.

(ii) Can the Chairman and the CEO help shareholders reconcile the adjusted earnings/ total group underlying earnings of $2.7 million to the reported profits of $2.078 million?

Company's response:

(i) The adjusted earnings/total group underlying earnings of $2.7 million was arrived at after excluding the effects of one-off income/costs from reported earnings.

As set out on page 75 of the Annual Report, total comprehensive income for the year of $951,000 was derived after adjusting for net change in fair value of available-for-sale financial assets (comprising quoted debt securities) and foreign currency translation differences from foreign operations (mainly relating to Dynamic Colours) from Reported Profit after Tax of $2.078 million.

(ii) The adjusted earnings/total group underlying earnings of $2.7 million was arrived at after excluding from Reported Profit after Tax of $2.078 million certain one-off income/costs comprising: (a) impairment of the two tower cranes of $0.2 million (refer to page 19 of the Annual Report) and (b) compensation to former CEO which the Group is contractually bound of $0.4m million.

2. The CEO has laid out the core principles that will support the group's two-pronged growth strategy, which are "to do fewer things better, by striving to be the best in class in each of the businesses we engage in"; and "to work actively with our subsidiary and associate companies and be their valuable resource and partner" (page 7).

On page 5, the Company has also highlighted some of the milestones achieved by the Company in the past 50 years. These included hitting an all-time market capitalisation of $278 million in 1993, recording an all-time high revenue of $918 million in 1995, and achieving an all-time high profit after tax of $19 million in 1999. All these figures have not been adjusted for inflation.
For 2018, the group will be looking to expand the fire protection business regionally and to open up new markets for the plastics trading business.

Based on the consolidated statement of profit or loss, the group's core operating activities generated $121.3 million in revenue and a profit of $282,000 or a profit margin of 0.23% from the core operating activities. In FY2016, the group reported losses in the core operating activities.

(i) Can the Company help shareholders understand the potential of the group's core operations, especially the fire protection business, which is a core focus of the group in FY2018?

(ii) Similarly, can management help shareholders understand its value proposition in the plastics trading business?

(iii) What are the prospects of IntraWave? Is management looking to scale up this business in the region?

(iv) What are the targets, such as revenue, gross profit margin and net profit margin, set by the board for management to achieve in the core operating activities in the near term?

In addition, the share of profit of the group's equity-accounted investees (net of tax) was $1.74 million in FY2017 and $1.50 million in FY2016. The profit contribution by the investees accounted for 83% and 191% of the group's profit for FY2017 and FY2016 respectively.
(v) Can the board clarify if management is responsible or is in charge of the day-to-day operations of the associate/joint venture, i.e. Dynamic Colours and Tat Hong Intraco?

(vi) Please elaborate further on the Company's level of influence and control of the strategic direction of its associate/joint venture.

Company's response:

(i) **KA-Intraco**, which is a one-stop provider of fire protection products, is a key revenue contributor of Intraco. Currently, KA-Intraco derives over 90% of its revenues from Singapore. KA-Intraco will intensify its efforts to grow regionally and it has developed several initiatives in this regard, including the appointment of Mr Daniel Lim, who has joined KA-Intraco as General Manager in March 2018. He will be instrumental in leading KA-Intraco in the regional expansion. Mr Lim brings with him extensive marketing experience in the regional building solution and fire & security sectors.

The fire protection services segment is heavily linked with the construction and infrastructure industries and both these industries are expected to achieve continuous growth in Southeast Asia in the foreseeable future.

(ii) Another substantial revenue contributor is **Intraco Trading**, which is engaged in the trading and distribution of plastic resin products. Started in 1994, Intraco Trading has established a strong brand and reputation; built strong relationships with its suppliers and has accumulated deep knowledge of regional markets, which puts it in a strong competitive position. This unit is helmed by Mr Edmond Lee, who joined us in February 2018 and brings with him approximately three decades of sourcing and procurement experience in the petrochemicals and packaging sectors, including Chevron-Phillips, General Electric Co. (Plastics). We are currently evaluating opportunities for expansion into new markets and new products.

(iii) We see potential to grow **IntraWave** further, driven by positive developments in the industry, including the entry of TPG Telecom as the fourth telco player in Singapore. Growing this business further would entail investing substantial capital expenditure and for this reason Management will have to conduct a cost-benefit analysis and weigh the allocation of resources (with a view of prioritising investments that would likely generate the highest returns on investment).

(iv) We have an approved budget set by the Board, which include targets for profitability and revenue. However, these are sensitive information and would not be disclosed to the public.

Intraco owns a 41.27%% stake in SGX mainboard listed **Dynamic Colours** (DCL) and 40% stake in **Tat Hong Intraco** (THI). Intraco management does not have control, and thus, are not involved in the day-to-day operations of DCL and THI. Nonetheless, Intraco actively engages with and receives regular updates from the management teams of both investee companies.

(v) As a substantial shareholder of DCL, Intraco has Board representation and exercises some influence, but not control, over the financial and operating decisions of DCL. For THI, Intraco has joint influence and control over the investee pursuant to terms of the shareholders' agreement among the joint venture partners.

3. The following table, from the Company's Corporate Governance Report (page 50), shows the remuneration of the CEO and the key management personnel for FY2017.
(Source: Company annual report)
(i) Can the remuneration committee (RC) explain the "Other Benefits" component given to the former CEO that accounted for 62.8% of his remuneration for the year?

The top 3 KMPs each received bonus of about 6% last year when the losses from the operating activities were $(950,000). In FY2017, the level of bonuses increased to 25-28% when the profit from the operating activities hit $282,000.
(ii) Can the RC help shareholders understand the key performance indicators used to measure the group's and the individual's performance?

(iii) *The new CEO, Mr Nicholas Yoong Swie Leong, was appointed on 1 July 2017.* ***How instrumental was Mr Yoong in the group's performance for the financial year ended 31 December 2017?***

(iv) Can the RC elaborate further how it had assessed the performance of Mr Yoong given that he was only appointed to his role on 1 July 2017? What is the basis of the award of the bonus component that accounted for 27.9% of his annual remuneration package (pro-rated)?

Company's response:

(i) The former CEO's last day of service with the Company was on 26 May 2017. "Other Benefits" pertain to compensation due to him in accordance to terms of his employment contract with the Company.

(ii) The key performance indicators were tied to the profitability of the specific business which the individuals were managing.

(iii) The H1 and H2 2017 Profit After Tax were S$0.5m and S$1.6m respectively. Mr Yoong has been the key driver for the significant improvement in the financial performance of the Company. With the support of his key management team, he was able to drive organisational improvements and attain the financial results for FY 2017.

(iv) Mr Yoong was assessed based on financial and non-financial aspects in respect of the Company's development and progress which include delivering a set of improved results for H2 FY2017, strengthening the talent pool and implementing more robust systems and processes. The bonus component was based on the terms of his employment contract with the Company as well as his performance.

On behalf of the Board

Colin Low
Chairman
Date: 13 April 2018