**INTRACO LIMITED**
(Company Registration No. 196800526Z)
Incorporated in the Republic of Singapore

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**RESPONSE TO QUESTIONS RAISED BY THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RESPECT OF THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

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The Board of Directors (the "**Board**") of Intraco Limited (the "**Company**" or together with its subsidiaries, the "**Group**") refers to the questions raised by Securities Investors Association (Singapore) ("**SIAS**") in respect of the Company's Annual Report for the financial year ended 31 December 2020 and wishes to provide its responses as follows:

**Q1. The Group's employees have decreased from 131 to 108 employees.**

**i. Can Management help Shareholders understand if the organisation structure has been "flattened" and if the streamlining was carried out mostly at the middle-senior management level or at the working level?**

The Company did not implement any headcount reduction or streamlining exercise in FY2020 as a result of the pandemic situation. The employee numbers in FY2019 of 131 included 23 employees from our joint venture business in Myanmar. For FY2020, the Company had adopted a practice to disclose only employees under the Group subsidiaries and therefore the employee number is 108 in FY2020 (FY2019: 107). Ordinarily, employees not directly under a company's direct control or supervision are not included for reporting purposes. This practice will be adopted for our annual report disclosure purposes going forward. For clarification purposes, total employee numbers have remained broadly unchanged year on year (between FY2019 and FY2020).

**ii. Would this lead to more effective oversight by the Board and increased accountability within the Company?**

See response provided to Q1(i).

The Board endeavours to continue to have effective oversight and ensure there is accountability within the Company.

**iii. Can the Chairman help Shareholders understand the basis of his confidence that, following the restructuring exercise, the Group is "well-positioned to achieve steadier growth"?**

The restructuring exercise consisted mainly of:
(a) the disposal of DCL; and

(b) material impairments in relation to the Group's principal subsidiary, K.A. Group Holdings Pte Ltd and its crane leasing joint venture business in Myanmar, Tat Hong Intraco Pte Ltd.

As a result of this exercise, the Group believes that it has streamlined the portfolio of its businesses and mitigated the risk of any further material impairments in the near future.

The Group is now well-positioned to redeploy its cash (bolstered with the divestment of DCL) to grow the current businesses and/or acquire profit accretive businesses should suitable opportunities arise.

iv. **Can the Board help Shareholders understand why trading remains a key business pillar for the Group in 2021? With low barriers of entry, and an increasingly transparent marketplace with digitalisation, what advantage does the Group have in trading? Can Management show the gross and net profit margin in the trading segment over 3-year, 5-year and 10-year periods? What is the sustainable, long-term returns that can be reasonably achieved in the trading segment?**

The trading business represents approximately 93% of the Group's total revenues of S$135.9m for FY2020 and has been consistently profit accretive in the past three years. The business is carried out on a "back-to-back" basis and is therefore generally low risk in nature. Capex investment / requirement is also minimal and above all, it provides a substantial base in which to build the Group's future growth and profitability. For these reasons, trading will continue to be an important pillar for the Group in FY2021.

The primary advantage of this business lies with its regional network (of suppliers and customers) and strong (Singapore) heritage and brand.

The impact of digitalisation on the marketplace is being ascertained but so far, such impact/risk is being managed. Management is currently looking at various ways to leverage on technology to build a competitive advantage for the business.

The gross and net profit margins of the (polymer) trading segment represent sensitive information which might impact our competitiveness, hence it would not be possible for the Company to disclose this publicly. However, the margins have remained broadly consistent over the 3, 5 and 10-year periods. Further, in accordance with SGX listing rules, the Company is not able to provide any profit forecast in respect of its long-term earnings or returns.

To ensure the longer term growth and sustainability of the trading business, there is a need to create greater differentiation and value-add to the supply chain the Company operates in. To this end, the Group is looking at investing into new products, partnerships and technology and may even consider synergistic acquisitions to accelerate this process to move up the value chain.

v. **In addition, the Chairman has announced his intention to retire this year after 6 years in the role. What was the level of involvement by the other board members and management in the restructuring exercise? Will there be sufficient ownership of the restructuring exercise in the group to execute on the plans even as the board is progressively refreshed with a new chairman?**

The retirement of the Independent Chairman is part of the Company's periodic board renewal process. Two new independent directors including a new independent chairman will be appointed as part of this board renewal process and the announcements will be made in due course. The other three directors will remain unchanged. The Board remains committed to execute on the Group's plans.

**Q2. i. Can Management confirm that the Group had to acquire an additional 20% of K.A. Group due to the exercise of the put option at a consideration of $4.77 million in FY2019 and had to impair the entire $6.9 million in goodwill associated with K.A. Group in FY2020? Was the Group performing up to Management's expectations prior to COVID-19?**

Yes, the Group had to acquire the additional 20% stake as a result of the put option exercised by the founders of the K.A. Group. The K.A. goodwill impairment of S$6.9m in FY2020 arose as a result of the operating losses suffered during the year and the challenging outlook for the construction industry in the next few years.

In spite of the challenges besetting the operating environment, K.A. had remained profitable during the period prior to the COVID-19 pandemic. K.A.'s reported losses in FY2020 were primarily due to a temporary halt of construction projects from April to August 2020. The current slow recovery of the sector is attributed to severe manpower constraints, the rise in materials cost and movement restrictions.

**ii. To help Shareholders better understand the Group's investments and related impairments / losses, would Management help Shareholders understand the total amount invested in and the dividends / capital received by the Company from its investments in:**
**a. K.A. Group**
**b. Tat Hong Intraco**
**c. Dynamic Colours Limited?**

The table below sets out the amounts invested and dividends received for each of the subsidiaries:

| Company | Year of Investment | Investment Amount SGD'000 | Dividends To Date SGD'000 | Disposal Proceeds SGD'000 |
|---|---|---|---|---|
| 1. K.A. Group | 2014 | 20,370 | 8,298 | n.a. |
| 2. Tat Hong Intraco | 2013 | 2,516 | - | n.a. |
| 3. Dynamic Colours Ltd | 2010 – 2020 | 14,544 | 12,017 | 19,350 |
| **TOTAL** | | **37,430** | **20,315** | **19,350** |

**iii. In line with the theme of the annual report – "Reset", would the Board consider halting all major investments and to review its investment framework to ensure that the investment criteria used by the Group leads to long-term value creation for all shareholders, especially minority shareholders?**

The Board has a sound strategy for the Group to deliver long-term value creation for all shareholders including minority shareholders, and that is to invest in growing the current businesses including Intrawave and to explore the acquisition of profit-accretive businesses in sectors with strong growth potential. This strategy (including the investment framework), developed and approved after a detailed and considered review in July 2018 is reviewed and refined annually. Management will conduct the necessary due diligence for each target identified to ensure alignment with the Board's strategy.

**iv. Would the remuneration committee help shareholders understand the reason(s) for the increase?**

| Name | FY2019 SGD | FY2020 SGD | Variance SGD | Remark |
|---|---|---|---|---|
| Colin Low | 113,875 | 126,875 | 13,000 | [1]Fees increased generally due to an increase in the number of meetings arising from the DCL transaction |
| Shabbir Hassanbhai | 87,500 | 94,500 | 7,000 | |
| Dr Tan Boon Wan | 71,625 | 83,625 | 12,000 | |
| Charlie Ng | 66,875 | 74,875 | 8,000 | |
| Dr Steve Lai | 48,625 | 58,625 | 10,000 | |
| **Total Intraco Limited** | **388,500** | [2]**438,500** | **50,000** | |
| Dr Steve Lai | 14,746 | 15,250 | 504 | Fee as Chairman of K.A. Board |
| Charlie Ng | 6,000 | 4,000 | (2,000) | Fee as Member of K.A. Board |
| **Total Intraco Group** | **409,246** | **457,750** | **48,504** | |

1. The reasons for the increase are set out in the remarks column on the right of the table.
2. Total director fees of S$438,500 in FY2020 are within the limit of S$440,000 approved by Shareholders at the last AGM in respect of Intraco Limited. The said fees did not take into account certain additional directors' fees which had been waived by the Board as an exemplary model of minimising the Company's overhead costs during the COVID-19 pandemic (please refer to page 70 of the Company's FY2020 Annual Report).

**v. Would the Board consider a reduction in the director fees to help the Group in this challenging period and to show solidarity with all the stakeholders?**

As part of the Remuneration Committee's regular activities, it conducts a review of the structure, composition and remuneration packages of all directors, taking into consideration key market practices and industry benchmarks amongst various considerations. Pursuant to the review, the Remuneration Committee will update the Board of its proposals (if any) and the Board, as a whole, will consider if any changes are to be made to the structure, composition and remuneration packages of all directors. As at the date of these responses, the Remuneration Committee will be starting this review for FY2021.

**vi. Similarly, can the Remuneration Committee help shareholders understand the reason(s) for the higher bonuses paid out in FY2020 when the Group reported a significant loss?**

The bonus payment in 2020 mainly reflects:

(a) annual wage supplement which is contractual in nature; and

(b) payment of performance bonus declared in FY2019 but paid in FY2020 to key management personnel of K.A. Group.

No performance bonus has been paid to employees as a result of the Group' performance in FY2020 other than a few exceptional cases where performance targets were either met or exceeded.

**Q3. i. Did the Company also consider a "reset" of its accumulated losses of $(25.1) million so that it can carry out a capital reduction to return excess capital to shareholders who can then make their individual capital allocation decisions?**

The Board will weigh the merits of a special cash distribution, which would be done by way of capital reduction as the Company does not have any distributable reserves to pay dividend. Having said that, any special cash distribution, if undertaken, needs to be carefully considered in view of the significant uncertainties in the economic environment and the need to ensure that the Company has adequate cash to tide through any potentially challenging period of prolonged financial difficulty. Cash preservation is also necessary to enable the Company to seize any good investment opportunities when they arise. By using the cash to invest in the sustainability of the current businesses and other profit accretive businesses (as opposed to returning capital to shareholders), the Board aims to establish a sustainable dividend policy in the near term.

By Order of the Board

Josephine Toh
Company Secretary

27 April 2021