

INNO-PACIFIC HOLDINGS LTD

ANNOUNCEMENT ON VACANT LAND SALE AND PURCHASE AGREEMENT BY AN ASSOCIATE COMPANY

The Board of Directors of Inno-Pacific Holdings Ltd ("IPH" or the "Company") wish to announce that the Company has been informed by Sawyer Falls LLC ("SFC"), an associate company of IPH, that it had entered into a Vacant Land Sale and Purchase Agreement (the "Agreement") with Capri Investments, LLC ("Capri"), a Washington state limited liability company on 23 April 2002. The purchase consideration for the land was US\$3,500,000 and 85 finished lots from Property which will be delivered to SFC by Capri within 6 years. Pursuant to the Agreement, part of the purchase price of US\$3,500,000 was to be applied towards paying the outstanding liability to Trustee and the Federal tax liability of SFC. The value of each finished lot is estimated at US\$70,000.

Background

On 20 December 1999, IPH enforced its right in respect of a 50% share interest in Sawyer Falls Co., LLC, ("SFC"), a company incorporated in the USA. This right was a pledge given to IPH by Demaga Ringkasan Trading Sdn Bhd following their indication that they were unable to repay a fixed deposit of S\$7.5 million plus accrued interest due to IPH as at 31 December 1998.

SFC is a Washington State, USA, limited liability company, and its sole asset was a property ("Property") comprising of approximately 450 acres of raw land, known as Fennel Creek in Washington State, USA.

The land is the subject of a Proposed Planned Development district, which has received preliminary plat approval from the local county. Subject to compliance with the conditions of the preliminary plat, it has been provisionally approved for development as a residential community with 979 residential lots, a commercial center and an 18-hole golf course. The project management was left in the charge of the project manager, James M. Healy Jr. of Lodestar One, LLC. Progress in the project has been slow.

On 18 July 2001, IPH entered into an agreement with Messrs. Lim Sin Khong and Lim Kian Peng (collectively the "vendor") to acquire 16.7% of the issued and paid-up common units of US\$1.00 each in SFC for a purchase consideration of US\$1.2 million. IPH paid US\$84,000 as partial consideration and the balance was to be paid not later than nine months from the date of the agreement, viz. April 2002.

At that time, the then directors of IPH felt that the Property could be developed if SFC had sufficient working capital. Since 1999, none of the other members of SFC had injected or were willing to inject any funds into SFC and IPH could not make the appropriate decisions for SFC because of its 50 percent equity interest in SFC. IPH upon the completion of the acquisition would have 66.7% equity interest in SFC and would have been able to provide such financial assistance to SFC.

On 7 September 2001, IPH entered into a sale and purchase agreement with Newton Centre Development Ltd ("Newton") to acquire their entire interest in SFC representing 33.3% of the issued and paid-up common units of US\$1.00 each in SFC, for a purchase consideration of US\$1.75 million. IPH paid US\$175,000 to Newton as partial consideration. As with the decision to enter into the agreement of 18 July 2001, the agreement on 7 September 2001 was entered into so that the Company will be able to provide further financial assistance to SFC and also reap the full financial benefit of the investment as SFC would have become a wholly owned subsidiary of IPH.

In early 2002, IPH decided to terminate the agreement dated 7 September 2001 with Newton because of its weak cash position and uncertain cash flow; the uncertain economic outlook in U.S. and global economy following the "September 11" terrorist attacks in the United States, and the huge financial obligations of SFC.

SFC's outstanding liabilities was about US\$3 million, consisting of about US\$2 million to the Trustee of the Property and another US\$900,000 in real estate tax liability to the IRS and a further US\$600,000 to other creditors. SFC's monthly cash requirement was about US\$50,000 consisting of project management fee of US\$9,000 to Lodestar One, LLC and other professional fees such as engineering, surveying and legal.

SFC bought the Property from a Chapter 11 Trustee and about US\$2 million was owing to the Trustee. An installment of US\$500,000 was due to the Trustee in July 2002. SFC did not have the funds to pay this installment and if SFC had defaulted on this payment, it would have lost the Property.

Therefore, a termination agreement was signed between IPH and Newton on 25 February 2002 to terminate the sale and purchase agreement dated 7 September 2001. Pursuant to the termination agreement dated 25 February 2002, Newton undertook to:

1. use its best effort to procure the termination and release IPH of the agreement of 18 July 2001 entered into between IPH and the vendors.
2. assume immediate control and management of SFC pursuant to terms and conditions of the Amended and Restated Limited Liability Company Agreement.
3. assume the responsibility to deal with and settle all SFC's outstanding liabilities to all other parties, and its commitments.

As such, IPH relinquished its nominees as managers of SFC and Newton appointed Messrs Teoh Hooi Leong and Chiang Kuei Chuan as the new managers of SFC.

The cost of investment of SFC in IPH's books is S\$5.8m while loans and advances amounted to S\$9m resulting in a total investment of about S\$15m. The rationale of the sale of the Property was to ensure that IPH does not lose its entire investment in SFC and to limit further financial obligations in the Property. The disposal of the Property by SFC does not fall within the ambit of IPH nor its shareholders as SFC was not in the control of IPH but with its managers.

BY ORDER OF THE BOARD
INNO-PACIFIC HOLDINGS LTD

Lee Koh Sing
Company Secretary

Submitted by Lee Koh Sing, Company Secretary on 16/12/2002 to the SGX