



GP Industries Limited
(Incorporated in the Republic of Singapore)
Co. Reg. No. 199502128C

**ANNUAL GENERAL MEETING TO BE HELD ON 27 JULY 2021 -
RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS FROM SHAREHOLDERS AND
THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)**

The board of directors (the “**Board**”) of GP Industries Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to its Notice of Annual General Meeting convening the annual general meeting of the Company to be held by way of electronic means on Tuesday, 27 July 2021, at 2:30 p.m. (Singapore time) (the “**AGM**”), and the announcement on alternative arrangements for the AGM, each dated 12 July 2021. The Company has received several questions from shareholders and the Securities Investors Association (Singapore) in relation to the resolutions to be tabled for approval at the AGM. The Company appreciates the questions raised and is releasing the responses to substantial and relevant questions, save for those requested information which are of a confidential nature or commercially sensitive and the disclosure of which may affect the Group’s competitiveness in the Group’s markets. The questions and responses are set out in the Appendix to this announcement.

By Order of the Board

Lee Tiong Hock
Company Secretary
26 July 2021

Appendix

Responses to Substantial and Relevant Questions from Shareholders and the Securities Investors Association (Singapore)

Q1. As noted in the chairman’s statement, FY2021 was one of the most challenging years faced by the group with the onset of the COVID-19 pandemic in the first half of the financial year and then the logistics capacity shortages in the second half.

Despite the challenges, the group’s consumer batteries segment reported a 18.8% year-on- year increase in revenue, with growth coming from all major markets. The increases were 36.8%, 22.1% and 5.1% in the Americas, Asia and Europe markets respectively (page 11). The batteries segment remains by far the most significant operating segment of the group, accounting for 80% of the total revenue.

(i) Can management help shareholders understand if the growth in the batteries segment is sustainable? How much of it could be attributed to the COVID-19 pandemic? In addition, what are the reasons for the significant increase in revenue (36.8%) from the Americas?

The growth of 18.8% over previous year is mainly contributed by the surge of batteries demand for computer peripheral products which benefited from particularly “Stay-at-Home / Work-from-Home” economy. Increase in “home improvements” and “medical & cleaning” segments also contributed to the growth in the Covid-19 environment. We expect the strong demand will continue to last for a period of time, but may not be at the same growth rate as last year.

The sales growth in the Americas market of 36.8% was due mainly to (a) overall demand growth; and (b) new business including the peripheral products mentioned above captured during the year.

(ii) Can the company provide shareholders with greater clarity on the group’s production facilities, including location, production capacity, product type, floor area, manpower etc. in the various countries (China, Malaysia and Vietnam)? The group has stated that it continues to make progress in rationalising its production facilities and have shifted its production capacity out of China to Malaysia and Vietnam.

An overview of the location of the current production facilities of the Group is set out below:

Location	Product type
Dongguan, Huizhou and Shenzhen, China	Automotive wire harness products Electronics and acoustics products Primary specialty and rechargeable batteries products
Ningbo, China	Primary cylindrical and specialty batteries products

Location	Product type
Malaysia	Primary specialty and rechargeable batteries products
Thailand	Electronics and acoustics products
Vietnam	Primary cylindrical batteries products

The detailed information on production capacity, floor area and manpower are commercially sensitive which may affect the Group's competitiveness in the Group's markets and the Group therefore does not disclose such information.

The group produces “primary specialty”, “primary cylindrical” and “rechargeable & others” batteries (page 3). For instance, management has mentioned alkaline cylindrical batteries, Nickel Metal Hydride (“NiMH”) rechargeable batteries, Lithium rechargeable batteries (customised and mainly for use in digital lifestyle products such as wireless headphones and wearable electronic products) and Carbon Zinc cylindrical batteries/Carbon Zinc 9- volt batteries.

(iii) What is the breakdown in revenue for the major battery product groups?

The revenue breakdown for the major battery product groups are commercially sensitive which may affect the Group's competitiveness in the Group's markets and the Group therefore does not disclose such information.

(iv) For the benefit of new and long-standing shareholders, can management elaborate further on the applications and the growth drivers in each of the different battery types?

Shareholders can visit <https://international.gpbatteries.com> for more information on the complete product range of the Group's batteries products. In addition to marketing and sales of these batteries products under the Group's GP brand, the Group also manufactures such products for its private label customers. The main driver is the growth of the Group's eCommerce sale channel, new application of the Group's batteries products in medical and cleaning segments, computer peripheral products and home improvement equipment.

(v) Is the group able to tap the growth in the electric vehicle market?

Currently the electric vehicles are primarily powered by Lithium-ion rechargeable batteries. The Group does not manufacture Lithium-ion rechargeable batteries for use in electric vehicles.

(vi) As seen in the consolidated statement of cash flows (page 42), although profit before tax was higher in FY2021 at \$56.3 million, net cash generated from operating activities was significantly lower at \$12.4 million due to \$47.7 million and \$78.9 million in cash out flows for inventories and “receivables and prepayments” respectively while trade and other payables, and contract liabilities increased by \$95.0 million (cash inflow). In particular, trade receivables from third parties increased from \$138.5 million to \$202.4 million (page 83), an increase of 46%. What are the reasons for the significant increase in trade receivables due from third parties? What are the profiles of the debtors

with significant outstanding trade receivables? As at 31 March 2021, the group recognised \$61.3 million in gross trade receivables that are deemed “average risk” (page 104).

May I ask the Audit Committee how much of the \$202.395m trade receivables have been collected so far?

As explained in the Company’s announcement of unaudited results for the financial year ended 31 March 2021 (“FY2021”) released on 27 May 2021, *“increase in the Group’s receivables and prepayments was due mainly to an increase in trade receivables, as a result of a significant increase in revenue for the financial quarter ended 31 March 2021 (“4QFY2021”) when compared to that for the financial quarter ended 31 March 2020 (“4QFY2020”). The Group’s operations was adversely affected during 4QFY2020 due to the outbreak of COVID-19”*. As at 31 March 2021, trade receivables classified with “average risk” comprised mainly new customers of the Group.

The credit ratings of the trade receivables are disclosed in paragraph d) of Note 37 of the annual report for FY2021.

The financial information of the Group subsequent to 31 March 2021, including the trade receivable position, will be released in the subsequent financial reporting period of the Group.

Q2. For FY2021, revenue for the Automotive Wire Harness Business segment decreased by 6.1% as it was first affected by automotive factory shutdowns followed by component shortages and shipment capacity limitations.

On 31 May 2021, the company announced the proposed sale of the wire harness business to Time Interconnect Investment Limited. The proposed disposal constitutes an “interested person transaction (IPT)” under Chapter 9 of the SGX-ST Listing Manual.

The net asset value and book value of the disposal group as at 31 March 2021 was HK\$72,171,000 (approximately S\$12,343,000) and HK\$73,751,000 (approximately S\$12,613,000) respectively.

The consideration for the proposed disposal is HK\$69,000,000 (equivalent to approximately S\$11,800,000), subject to certain conditions. The company has also stated that no shareholder’s approval is required as the value of the transaction is below 5% of the latest audited consolidated NTA of the group even though the proposed disposal (as an IPT) will result in a loss of S\$813,000 based on the unaudited book value as at 31 March 2021.

(i) **Given that the automotive wire harness segment has been profitable, would management justify the proposed disposal at a loss, given that the proposed disposal is deemed an IPT?**

As explained in the Company’s announcement of proposed disposal of GP Industries Marketing Limited (“GPIM”) and Huizhou GP Wiring Technology Ltd. (“GPWT”) (the “Proposed Disposal”) released on 31 May 2021, paragraph 5.1 (Financial Impact of the Proposed Disposal), the financial impact included (a) a deficit of S\$813,000, representing the difference between the Consideration and the book value of the Target Group, based on

the Unaudited Book Value as at 31 March 2021, and (b) the aggregate cumulative exchange translation deficit attributable to GPIM and GPWT of S\$2,037,000 as at 31 March 2021, which was a non-cash item.

The rationale and benefit of the Proposed Disposal is set out in paragraph 2.5 of the announcement dated 31 May 2021.

Management would also like to point out that (a) the consideration of HK\$69 million represented a 6.9 times price earnings ratio (“**PER**”) based on the profit before taxation of the Automotive Wire Harness Business for FY2021; (b) on a profit after tax basis the implied PER based on a HK\$69 million consideration is estimated to be about eight times; and (c) dividend declared by GPWT, the subsidiary incorporated in China, is subject to withholding tax, whereas the proceeds from the Proposed Disposal is not expected to be subject to any taxation. Thus, the Proposed Disposal enables the Group to monetize the non-core business more efficiently and therefore is in the interest of the Company.

(ii) What role did the independent directors play, if any, in safeguarding the interests of shareholders?

Please see our reply to Q2 (iii) below.

(iii) Did the independent directors approve the proposed disposal at the board level? What is the justification to support the proposed disposal at a consideration that is below the net asset value of a profitable business?

The Audit and Risk Committee, which comprised Non-Executive Independent Directors, reviewed the terms of the transactions and after considering, *inter alia*, the rationale for the proposed disposal, the business strategy of the Group, the relative insignificance of the contribution of the Automotive Wire Harness Business and management’s assessment, were of the opinion that the Proposed Disposal was on normal commercial terms and not prejudicial to the interest of the Company and its minority shareholders. With the recommendation of the Audit and Risk Committee, the Board, with Mr. Victor Lo Chung Wing abstained from voting on the matter, approved the Proposed Disposal.

(iv) Given that the proposed disposal is an IPT, did the independent directors consider it appropriate to appoint an independent valuer to value the automotive wire harness business?

Please see our reply to Q2 (iii) above.

(v) In addition, would the company consider seeking shareholders’ approval on the proposed disposal?

The Proposed Disposal does not require approval by shareholders of the Company according to the rules of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Q3. At the company's annual general meeting to be held on 27 July 2021, the company is seeking shareholders' approval for the payment of directors' fees of S\$498,000 for the financial year ended 31 March 2021 (2020: S\$356,800).

(i) Can the board help shareholders understand the reasons for the significant increase in directors' fee from \$356,800 to \$498,000?

Please see our reply to Q3 (ii) below.

The directors did not propose a final dividend for FY2021 to allow the group to better weather the anticipated financial and business turbulences although the board expects the company to resume dividend payment for FY2022.

(ii) Instead of increasing directors' fees, did the directors consider a voluntary reduction in directors' fees to help the group during this challenging period and to show solidarity with stakeholders who have been affected by the pandemic?

As disclosed in the Company's business update announcement released on 2 June 2020, the Non-Executive Directors of the Company volunteered a 20% reduction in directors' fees for the financial year ended 31 March 2020 ("FY2020"). Without the 20% reduction, directors' fees for FY2020 would have been S\$446,000.

In addition, during FY2021, the Company has appointed two new Non-Executive Independent Directors on 1 April 2020, followed by the retirement of a Non-Executive Non-Independent director on 1 October 2020. As a result, the Company has six Non-Executive Independent Directors as at 31 March 2021, compared to five as at 31 March 2020.

The basis for determining the remuneration of the Non-Executive Directors for FY2021, as disclosed on page 142 of the annual report for FY2021, remains unchanged from FY2020.

In addition, Mr. Lim Ah Doo and Mr. Allan Choy Kam Wing would be seeking a two-tier vote for their continued appointment as independent director. Mr. Lim Ah Doo has been an independent director since 15 May 1997, lead independent director since 14 August 2013 and chairman of the audit and risk committee since 2 January 1998.

(iii) As the lead independent director, would Mr. Lim Ah Doo be holding himself to higher governance standards and lead by example, especially in setting the tone with regard to the tenure of independent directors?

The Board has considered the continued service of Mr. Lim Ah Doo as a Non-Executive Independent Director to be invaluable as his vast experience has contributed to the effectiveness of the independent elements of the discussion and decision making of the Board and the Board Committees. However, the Board took cognizance of his long service and asked the Nominating Committee to rigorously evaluate his independence pursuant to Guideline 2.4 of the Code of Corporate Governance 2012 before recommending the shareholders to vote on his re-election. The Nominating Committee is of the

view that Mr. Lim Ah Doo has, *inter alia*, demonstrated strong independent character and judgement over the years in discharging his duties and responsibilities as a Non-Executive Independent Director with utmost commitment in upholding the interest of non-controlling shareholders, and the length of his service does not in any way interfere with his ability to act in the best interests of the Company.

Mr. Lim Ah Doo's continued appointment as a Non-Executive Independent Director of the Company is also subject to the "two-tier voting" required under Rule 210(5)(d)(iii) of the Listing Manual of SGX-ST which will take effect from 1 January 2022.

The Company, with the assistance of the Nomination Committee, has been progressively refreshing the Board which currently comprises six Non-Executive Independent Directors, of whom four have served on the Board for less than four years.

- Q4. On page 8 of the Annual Report 2020-2021 under Outlook, the Chairman & CEO, Mr. Victor Lo, mentioned that rapid increase in prices for some raw materials and electronic components and insufficient shipment capacity presents significant business challenges and exert more pressure on the Group's working capital. What is the Board and Management's strategy to manage these pressures if GP Industries is not able to pass the cost to the customers? Can you share some illustrations of the impact on your working capital and what are your options to manage this?**

Some of the short-term strategies adopted to counter the adverse impact from rapid increase in prices of raw materials and components and a surge in shipping rates include increasing research on use of alternative material to diversify the source of supply, increasing the holding of inventory to buffer the adverse impact of shortage of raw material, and using derivative financial instruments to hedge the cost of raw materials.

The Group's long-term strategy is to continue to invest into promoting GP brand batteries products and KEF brand audio products, and increase its revenue from sales of the Group's own brand products, which contribute higher gross profit margins. Therefore, the Group continue to invest in building its brands and strengthening its eCommerce capabilities to capture more business-to-consumer (B to C) businesses.

- Q5. With the ongoing escalation of Covid-19 infections in Asia, your factories in Vietnam, Thailand and Malaysia seem to be experiencing challenges in set up and production. Please provide an update on how the factories are currently doing in each of the locations. How much losses is attributable to each of these factories that are operating on a monthly basis?**

As disclosed in the Review of Operations (page 12 of the annual report for FY2021):

- (a) *"relocation of some of the production facilities for NiMH rechargeable batteries to Malaysia resumed in FY2021. Production at the new Malaysian factory has started during 2HFY2021"; and*
- (b) *"production of Alkaline cylindrical batteries at the Vietnam factory under the 70%-owned Zhongyin (Ningbo) Battery Co Ltd also started during FY2021".*

For the factory in Thailand, production of professional audio products has started after 1 April 2021.

Information on the results of operations of individual factory are commercially sensitive which may affect the Group's competitiveness in the Group's markets and therefore the Group does not disclose such information.

Q6. On page 75, please help me to understand is your subsidiary Ningbo Fubang Battery Co Ltd in a net cash loss position? If yes, what are the reasons for the negative cash position?

Ningbo Fubang Battery Co Ltd is a subsidiary of Zhongying (Ningbo) Battery Co Ltd and reported a net decrease in cash of S\$6.76 million due mainly to increase in working capital and payment of dividend during FY2021.

Q7. On page 88, your report mentioned that a subsidiary operating in Malaysia was not able to comply with certain financial covenants. Can you share what these covenants are? And why could this subsidiary not fulfil its financial obligations? Is it a going concern? What are the risks to GP Industries if the subsidiary goes under?

The Company would like to point out that the subsidiary has met all of its financial obligations by meeting all loan repayment and interest payment and did not require any waiver in this respect. The subsidiary only did not comply with certain financial covenant which involved an "earnings to loan repayment" ratio. During FY2021, the earnings of the subsidiary in Malaysia was adversely affected by the Movement Control Order imposed by the Malaysian Government, which resulted in (a) the factory operating below its optimal level; and (b) increase in overheads due to the delay in the commencement of the new rechargeable battery production lines for production. A waiver was granted by the relevant bank before 31 March 2021. Management expects upon returning to normal operating level and commencement of production of rechargeable batteries, the subsidiary is not expected to have problem in meeting its financial covenants.

Q8. I refer to page 10 of the Annual Report about "Review of operations", particularly "Batteries Business". In the last paragraph, at its last sentence, it was stated that "The Group's investments in eCommerce contributed to significant sales increase through internet sales channels". In FY2021, how many % of the S\$945.6m Batteries Business came from such internet sales channels?

The Company would like to point out the "significant sales increase through internet sales channels" mentioned in "Review of operations" on page 10 of the annual report for FY2021 refers to the 12% increase in sales of GP brand batteries products, not the 18.8% increase in total revenue of the batteries business to S\$945.6 million.

Information on revenue generated from different distribution channels are commercially sensitive which may affect the Group's competitiveness in the Group's markets and the Group therefore does not disclose such information.

- Q9. I refer to page 77 of the Annual Report about “Interest in associates”, particularly “Meiloon Group”. Why revenue of Meiloon Group declined by 16.8% from \$172.929m in FY2020 to \$143.864m in FY2021? What went wrong in its “development, manufacturing and marketing of acoustic and audio-visual equipment”?**

To the best of the understanding of the Company, the decline in revenue of the Meiloon Group was due mainly to the adverse impact of COVID-19 on demand from its customers and its supply chain. Shareholders can visit the website of Meiloon Group at www.meiloon.com for more information about the Meiloon Group.

- Q10. I refer to page 16 of the Annual Report about “Review of operations”, particularly “Automotive Wire Harness Business”. In the last paragraph, it was stated that “As announced on 31 May 2021, the Group has entered into a conditional agreement to dispose of the Automotive Wire Harness Business to Time Interconnect Investment Limited, an effectively 24.35%-owned associate and a wholly-owned subsidiary of Time Interconnect Technology Limited (“Time Interconnect”).” What are the strategic reasons behind divesting both the Automotive Wire Harness Business as well as 38.13% network cable manufacturing business (Linkz Group) to Time Interconnect? How much divestment gains will the Group likely to enjoy?**

The Company would like to point out that the Company did not enter into an agreement to dispose of “38.13% network cable manufacturing business (Linkz Group)” as mentioned in this Q10. The concerned statement mentioned that Time Interconnect Investment Limited is a wholly owned subsidiary of Time Interconnect Technology Limited (“**Time Interconnect**”) and therefore is an effectively 24.35%-owned associate of the Group.

Please refer to our reply to Q2 (i) above for information on the profit and loss impact on divestment and rationale for the Proposed Disposal.

- Q11. I refer to page 117 of the Annual Report about “Assets classified as held for sale”. Under point (ii), it was stated that “land and building and investment property of GP Batteries (China) Limited (“GPB (China)”) and Huizhou Modern Battery Limited (“Modern Battery”), which was being actively marketed for disposal.” Like the \$48.622m gain from disposal of land and buildings in Huizhou by GP Electronics (Huizhou) Co. Ltd as well as the \$13.7m gain on disposal of land and buildings in Suzhou by Meiloon, based on valuations, how much gain can shareholders expect from Huizhou Modern Battery and GPB (China)? Where will each of their manufacturing of batteries operations be relocated to?**

As announced on 31 January 2021, the Group entered into agreements to disposal of its entire interests in GP Batteries (China) Limited (“**GPB (China)**”) and Huizhou Modern Battery Limited (“**Modern Battery**”). As such, the land and building held by GPB (China) and Modern Battery will be effectively disposed of. Accordingly, such properties were presented under “assets classified as held for sale” as at 31 March 2021. As disclosed in paragraph 3.4 of the announcement dated 31 January 2021, the estimated aggregate gain from the disposal of GPB (China) and Modern Battery is approximately S\$9.8 million before tax and approximately S\$7.2 million after tax.

As disclosed in paragraph 4 of the announcement dated 31 January 2021, “*The manufacturing facilities in the Properties will be relocated to the newly leased factory*”

premises in Dongguan, PRC, and the factories in Southeast Asia to improve the efficiency and effectiveness of the Group's operations."

- Q12. I refer to page 81 of the Annual Report about "Intangible assets". In the 2nd last paragraph, it was stated that "If management's estimate of discount rate increases or decreases by 1%, the amount of value in use would decrease by S\$13,158,000 (2020: S\$12,110,000) or increase by S\$11,274,000 (2020: S\$13,952,000) respectively." If discount rate for FY2021 of 12.7% reverts back by 1.2% to FY2020's discount rate (i.e. at least 13.9%), may I ask the Audit Committee does it mean the value in use would decrease by at least S\$13m and the entire Intangible assets would likely be impaired?**

The discount rate used for determining the recoverable amount of a CGU at a particular reporting period end is arrived at based on the conditions prevailing at the end of that reporting period, and the sensitivity analysis of the effect of 1% increase or decrease in discount rate on the recoverable amount of the CGU was disclosed in the annual report for FY2021 as additional information to stakeholders. The financial effect of the sensitivity analysis of discount rate was applied to the recoverable amount of the CGU, not to the net book value of the intangible assets, and compared with the carrying value of the CGU to assess if impairment is required. As disclosed in Note 16 of the annual report for FY2021: *"As at 31 March 2021, management has determined that the recoverable amounts of the Relevant CGUs are appropriate, after considering, inter alia, the value in use calculations based on the key assumptions and taking into account the sensitivity analysis above. In addition, any reasonably possible change to the key assumptions applied is not likely to cause the recoverable amount to be below the carrying amount of the respective CGU. Accordingly, no allowance or further allowance for impairment loss is required."*

- Q13. I refer to page 87 of the Annual Report about "Derivative financial instruments", particularly "Interest rate swaps". It was stated that "In March 2021, the final instalment of the Floating Rate Loan was fully prepaid ahead of its due date. As the Hedging IRS were not settled upon prepayment of the Floating Rate Loans, the Hedging IRS were re-designated as speculative IRS (the "Speculative IRS") as at 31 March 2021." What have the Audit Committee planned to do about these \$10.2m speculative interest rate swaps?**

The Floating Rate Loan was prepaid in March 2021, ahead of its due date of 24 May 2021. As disclosed in Note 24 of the annual report for FY2021, the Speculative IRS matured on 24 May 2021.

- Q14. I refer to page 68 of the Annual Report about "Property, plant and equipment". In FY2021, there were additions in "Construction in progress" of \$59.518m. Where were these "Construction in progress"?**

The construction in progress as at 31 March 2021 comprised mainly the new properties located at factories in Ningbo, China and Vietnam.

Q15. I refer to page 71 of the Annual Report about “Right-of-use assets”. In FY2021, there were additions in “Leasehold buildings” of \$33.827m. Where were these leasehold buildings?

Leasehold buildings under right-of-use assets refers to office and factory space rented by the Group for its operating use and are situated in (a) Singapore, where the Company operates; and (b) places where its subsidiaries operate. Please refer to Note 38 of the annual report for FY2021 for further information on place of business of the subsidiaries.

Q16. How will the capital commitments trend be like over the next 2-3 years? How will they be funded?

Barring unforeseen circumstances (a) the Group expects its capital expenditure for the next two to three years to gradually decrease when compared to S\$80.44 million incurred in FY2021; and (b) the Group expects to fund such capital expenditure with a combination of internally generated fund and bank borrowing.