

HI-P INTERNATIONAL LIMITED
(Company Registration No.: 198004817H)
(Incorporated in the Republic of Singapore)

**RESPONSE TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION
(SINGAPORE) AND SUBSTANTIAL AND RELEVANT QUESTIONS FROM SHAREHOLDERS**

The Board of Directors of Hi-P International Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) would like to state the following in response to the questions raised by the Securities Investors Association (Singapore) (“**SIAS**”) relating to the Company’s Annual Report for the financial year ended 31 December 2019 (“**Annual Report 2019**”) issued on 9 April 2020, as well as the substantial and relevant questions from the shareholders.

SIAS Question 1:

As noted in the chairman’s statement, the Group made a strategic acquisition in 2019 with the purchase of 100% in South East Asia Moulding Company Pte. Ltd. (“**SEAMCO**”), a manufacturer of high-volume and high-precision engineering plastic components.

As stated in the Annual Report 2019, SEAMCO is synergistic with the Group’s businesses and is strong in processing ultra-precision thermoplastic and thermoset components for a specific product category. This also widened the Group’s client base to include a renowned blue chip multinational customer.

- (i) Has SEAMCO’s integration with the rest of the Group completed?

Response: The integration of SEAMCO into the Group’s operations has been done in phases with priority given to human resources, finance, IT systems, reporting structures and material management. Following completion of the acquisition, the majority of the integration process has been completed.

- (ii) Can management help shareholders understand the opportunities to cross-sell?

Response: The synergistic acquisition of SEAMCO has presented the Group with opportunities to cross-sell its products and services to a key high-growth multinational customer. For example, the Group’s vertically-integrated technological capabilities and expertise in turnkey and Final Assembly, Test and Pack (FATP) solutions have opened new business opportunities. In addition, leveraging on SEAMCO’s know-how in thermoset molding and precision motor component manufacturing, the Group now has the opportunity to offer these solutions to existing and new customers and broaden its product mix to new sectors such as the automotive market.

- (iii) Can the board elaborate further on the Group’s acquisition strategy? Would the focus be to acquire technology and capabilities, access to certain sectors/industries, enlarge its customer base or to expand to new geographic areas?

Response: The acquisition of SEAMCO allowed the Group to gain access to a key high-growth multinational customer. As part of the Group’s acquisition strategy, the Group plans to increase its presence in segments such as high-end personal grooming products while exploring opportunities within the automotive and

healthcare sectors. The Group also intends to expand its geographic footprint to gain closer proximity to both existing and potential new customers.

SIAS Question 2:

The tension between nations dominated the headlines for much of FY2019. Not only had it impacted the overall business environment, businesses are having a rethink about their global supply chain.

The Group has 13 manufacturing plants globally located across five locations in the People's Republic of China (Shanghai, Chengdu, Xiamen, Suzhou and Nantong), Poland, Singapore and Thailand.

- (i) For the benefit of new shareholders, can management help shareholders understand the production capability and capacity of the different plants?

Response: The Group's capabilities include Original Equipment Manufacturing (OEM), Original Design Manufacturing (ODM), design and fabrication of mold, precision plastic injection molding, precision metal stamping, metal Computer Numerical Control (CNC), spray painting, pad printing, Surface Mount Technology (SMT), anodizing, laser welding, assembly & packaging and other ancillary value-added services such as surface finishing services.

Shareholders may refer to the company's website www.hi-p.com for the various capabilities of the relevant plants. While each manufacturing location may specialize in certain capabilities, the Group is able to provide customers with its full suite of services by subcontracting projects to other manufacturing locations within the Group's operations if needed.

- (ii) As noted in the chairman's statement, the Group grew its manufacturing capacity in Thailand in 2019. What other major adjustment has the Group made to its workflow and processes to minimize the impact of the trade war and to offer alternatives to its customers?

Response: In order to mitigate the impact from the trade war, the Group has strengthened its business development team while taking proactive measures to diversify its business into different regions and sectors such as the automotive industry. In addition, the Group is focused on widening its geographic footprint outside of China by exploring merger and acquisition opportunities. With our new team and core competency, there will be opportunities for the Company to further expand its business.

- (iii) With the trade war and the COVID-19 pandemic as headwinds, has the Group further finetuned its long term plans, including the pace of adopting Industry 4.0 and increase capacity beyond China? If so, what are they?

Response: As the manufacturing industry gears up for Industry 4.0, the Group is working relentlessly on the automation and computerization of its operations with artificial intelligence aided processes such as Manufacturing Execution System (MES) and Advanced Planning & Scheduling (APS) to enhance system flows. By doing so, the Group intends to reduce its reliance on labour and eliminate unnecessary paperwork. One of our long-term plans has also been to diversify our manufacturing footprints in Southeast Asia in order to cope with the trade war impact. Furthermore, we plan to focus on developing the China domestic business.

- (iv) Gross profit margin increased from 5.2% in FY2015, to 11.9% in FY2016 to 16.3% in FY2017, before slipping to 14.6% in FY2018. In FY2019, the gross profit margin declined further to 13.7%. How does management ensure that the Group maintains/improves on its profit margin given the constant price pressure from the customer and the intense competition in the market?

Response: To mitigate the impact from price pressure and competition, the Group is focused on broadening our products and services, tightening cost controls, enhancing capacity utilization, increasing automation and making improvements to manufacturing yields.

SIAS Question 3:

Would the board provide shareholders with better clarity on the following governance issues? Specifically:

- (i) **Attendance:** The attendance of directors at the board, board committee and shareholder meetings is shown on page 10 and reproduced below:

During the year under review, the Board held four meetings and the attendance of each Director at the said meetings is set out below:-

Name	Board		Audit Committee		Nominating Committee		Remuneration Committee		General Meetings ⁽¹⁾
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	
Mr. Yao Hsiao Tung	4	4	-	-	-	-	-	-	2
Madam Wong Huey Fang	4	4	-	-	-	-	-	-	2
Mr. Yeo Tiong Eng	4	4	-	-	-	-	-	-	2
Mr. Chester Lin Chien	4	4	4	4	2	2	1	1	2
Madam Leong Lai Peng	4	3	4	3	2	2	1	1	0
Mr. Gerald Lim Thien Su	4	4	4	4	2	2	1	1	2
Mr. Seow Choke Meng ⁽²⁾	-	-	-	-	-	-	-	-	-
Mr. Ho Kheong Chun ⁽²⁾	-	-	-	-	-	-	-	-	-

(Source: Annual Report 2019)

As noted in the table, Madam Leong Lai Peng was absent from the general meetings held on 29 April 2019. In fact, Madam Leong has not attended the shareholder meetings for 3 consecutive years, from 2017-2019. Madam Leong has also missed board meetings and audit committee meetings.

Would the board help shareholders understand if there were extenuating circumstances that led the director to miss the general meetings from 2017-2019? As the general meeting is an important platform for shareholders to engage directors, how can the Company work together with the directors to ensure that all directors attend the general meetings?

Response: Madam Leong was unable to attend the relevant general meetings as she was away from Singapore due to personal commitments at the relevant times and no provisions were available for her to call into the general meetings. She recognizes that general meeting is an important platform for shareholders to engage directors, and has assured that she will use her best endeavors not to miss the general meeting of the Company in the future. As for the one board meeting and audit committee meeting that Madam Leong missed during the year under review, she was away from Singapore on a group study

mission and unable to dial in the meetings because of poor infrastructure facility. For all the meetings she missed, she did inform the Company in advance with reasons. The Company will continue to work closely with the directors to ensure that all of them attend the general meetings of the Company. The Company will obtain directors' confirmation of their availability when the tentative date of the general meeting is fixed. Thereafter, the Company will send periodic reminders to the directors to remind them of the date of general meeting.

- (ii) **Nominating committee (“NC”):** The NC comprises three directors, namely Mr. Chester Lin Chien (chairman), Madam Leong Lai Peng and Mr. Gerald Lim Thien Su. As all three members of the NC have served on the board for more than 9 years, their independence was subjected to review by the NC. On page 14, the Company has stated the following:

The NC had reviewed the independence of Mr. Chester Lin Chien, Madam Leong Lai Peng and Mr. Gerald Lim Thien Su and was of the view that Mr. Chester Lin Chien, Madam Leong Lai Peng and Mr. Gerald Lim Thien Su had demonstrated strong independent character and judgment in discharging their duties and responsibilities as Independent Directors over the years... Mr. Chester Lin Chien, Madam Leong Lai Peng and Mr. Gerald Lim Thien Su had each abstained from the discussion and taking a decision in respect of their own independence.

Can the NC elaborate further on how it had carried out the review of the independent directors? Was it done in a round-robin format where Mr. Chester Lin Chien and Madam Leong Lai Peng evaluated Mr. Gerald Lim Thien Su, and then Madam Leong Lai Peng and Mr. Gerald Lim Thien Su reviewed Mr. Chester Lin Chien and finally Mr. Gerald Lim Thien Su and Mr. Chester Lin Chien assessed Madam Leong Lai Peng? Considering that all three NC members are subject to the review of their independence, how effective was the NC in discharging its duties?

Response: The NC carried out the review of the independence of the relevant independent directors in a round-robin format. The NC adopts the Code of Corporate Governance's definition of what constitutes an independent director, which are mainly objective criteria, in its review. Each director is required to submit an annual return of independence to the Company Secretary of the Company as to his/her independence, who will submit the returns to the NC for review. In view of the above, whilst all three NC members are subject to the review of their independence, the board is of the view that it does not hinder the NC from discharging its duties effectively in reviewing the independence of the relevant directors. In addition, during the year under review, the independence of the NC members are subject to the review and approval by the board comprising two (2) other independent directors (namely, Mr. Seow Choke Meng and Mr. Ho Kheong Chun) and three (3) non-independent directors (namely, Mr. Yao Hsiao Tung, Madam Wong Huey Fang and Mr. Yeo Tiong Eng) who have affirmed the independence of the NC members.

Question 1 from Shareholder:

COVID-19 is here to stay for some time even if vaccine is available. Has Hi-P captured the current opportunity to provide and/or further expand its manufacturing services catering to medical and WFH (Work From Home) sector?

Response: The Group has seen an increased demand in orders for products related to computing peripherals and accessories, hard disk drive storage and coffee machines as the result of the stay at home economy. However, this increase was at the same time offset by a decline in demand for other products.

The Group's overarching strategy for growth has been to continue to diversify its customer base and widen its product mix while expanding its business into new geographic regions. Furthermore, the Group remains committed to exploring mergers and acquisitions which are synergistic to the Group's business in the automotive and healthcare sectors. The Group is also leveraging on the synergies with the recent acquisition of SEAMCO to strengthen its presence in segments such as high-end personal grooming products while exploring opportunities within the automotive and healthcare sectors.

Question 2 from Shareholder:

If globalisation is taking a back seat and wages affected thus consumer spending will be greatly affected, what is Hi-P's strategy to improve the bottom line in the next 3 years?

Response: As mentioned above, internally, the Group is focused on broadening our products and services to enlarge revenue, tightening cost controls, enhancing capacity utilization to maximize the economies of scale effect, increasing automation and making improvements to manufacturing yields in order to mitigate the impact from any macroeconomic uncertainties. In addition, as the manufacturing industry gears up for Industry 4.0, the Group is working relentlessly on the automation and computerization of its operations with artificial intelligence aided processes to enhance system flows. By doing so, the Group intends to reduce its reliance on labour in the long term.

Question 3 from Shareholder:

How prepared is Hi-P for future US-China trade frictions? What is Hi-P doing to improve preparedness?

Response: To mitigate the impact arising from US-China trade frictions, the Group has taken proactive measures to expand its manufacturing presence outside of China. For example, the Group has significantly expanded its manufacturing operations in Thailand. This initiative has yielded positive results as the Group secured new projects from a key customer to manufacture coffee machines from its Thailand plant. The Company plans to continue growing the operations and business of its Thailand plant. Moving forward, the Group will continue to focus on growing its operations in Southeast Asia, as well as to develop the Group's domestic business in China.

By Order of the Board

Yao Hsiao Tung
Executive Chairman and Chief Executive Officer

12 June 2020