

TRICKLESTAR LIMITED
(Company Registration No. 201837106C)
(Incorporated in the Republic of Singapore)

**RESPONSE TO QUESTIONS RECEIVED FROM THE SECURITIES INVESTORS
ASSOCIATION (SINGAPORE) (“SIAS”) ON THE ANNUAL REPORT
FOR FINANCIAL YEAR (“FY2022”)**

The Board of Directors (the “**Board**”) of TrickleStar Limited (“**TrickleStar**” or the “**Company**”), together with its subsidiaries, the “**Group**”) refers to the notice of annual general meeting (“**AGM**”) released by the Company on 9 March 2023 in relation to the Company’s AGM to be held by electronic means on 29 March 2023 at 10.30 a.m.

The Board would like to provide response to each of the specific questions received from SIAS prior to the AGM as follows. For the avoidance of doubt, the Company does not respond to the commentaries made by SIAS since they are merely set out context of the questions raised.

Q1. On 1 November 2022, the company announced the resignation of Mr Bernard Christopher Emby as the chief executive officer of the company. Mr Emby also resigned as the executive chairman a month later, on 7 December 2022.

Mr Gunananthan Nithyanantham has been designated as the acting CEO of the company, on top of his roles as executive director and chief operating officer, with effect from 1 November 2022.

In the announcement of cessation, it was stated that the company has chosen to pursue a business strategy that is less capital intensive and that prioritises risk reduction versus growth in uncertain market conditions whereas Mr Emby wishes to pursue opportunities which align more with his skills in new product development and growth in cleantech and renewable energy solutions.

In the annual report, it was further disclosed that the board undertook a review of the connected products portfolio in mid-2022 and decided to stop the development of Smart Thermostat due to large investment needed. The group will continue to commercialise the Water Heater Controller.

Revenue for the financial year increased by 22.4% to US\$13.82 million, boosted by strong demand for the group’s core Advanced Powerstrips (APS) products.

- (i) *What are the underlying challenges faced by its customers in the key market (USA)?*

Company’s Response:

TrickleStar’s main customers are large electric utilities. The underlying challenges that they face are therefore quite wide and are generally considered to be:

- Legacy Infrastructure.
- Problems Related to Data Gathering.
- Unpredictability.
- A Data-Rich Future.

These issues are probably not directly in their minds when considering TrickleStar’s own products, which are products sold into energy-saving targets that the utilities are expected to achieve. In terms of TrickleStar’s products, their key issues would be whether the

products are achieving the best energy savings when considered against usage by consumers and cost.

How strong is the consumer confidence given that inflation has been running high in 2022?

Company's Response:

From the response above, it should be clear that the customers are not end users, but the utilities that have targets to meet under energy-saving programs. The question on consumer confidence is not therefore one that is of significant concern to TrickleStar at this time, but we monitor the situation in case it might affect the utilities' programs.

Also, do high energy costs improve the adoption rate of APS?

Company's Response:

Utilities should be able to prove greater energy savings from APS as energy prices rise. Therefore, so long as APS remains a competitive product for control of energy consumption, APS will continue to have a market. However, TrickleStar is of the view that, as more "smart" or IOT products become available, the use of APS will decline, hence why the group has been seeking to develop new products for the market.

- (ii) *Can the board/management help shareholders better understand the working capital needs for the APS business?*

Company's Response:

We are reluctant to be too specific for commercial sensitivity reasons. In broad terms, from time of delivery to TrickleStar to receipt of payment from customers, there is a time lag of approximately 90 days during which we must make payment to our contract manufacturer. At any one time, the working capital requirement for this part of the business could be up to US\$1.5 million.

- (iii) *Did management look into securing external financing to fund the working capital needs of the APS business?*

Company's Response:

The financial statements for FY2023 reflect that TrickleStar had a bank line from Citibank since 2020. The line was for working capital and was secured inter alia by a cash deposit. However, as the financial results of the Group deteriorated, the bank reduced the credit line and in 2022 TrickleStar decided to pay down the bank line in full and free up the security. It remains available to re-open if TrickleStar wishes.

- (iv) *For FY2022, the group continued to report a loss before tax of \$(156,782) (2021: \$(1,723,225)). Has the group been able to maintain or increase its gross profit margin?*

Company's Response:

Gross profit margin, excluding a US\$0.22 million net provision against the stock, increased to 26.9% in FY2022 from 20.6% in FY2021. (Including the stock provision, the gross margin of FY2022 was 25.3%.) This was mainly attributable to the impact of a decrease in logistics costs.

Going forward, what are management's priorities to improve the profitability of the group?

Company's Response:

The Group's financial results have been impacted by the need to write off substantial amounts that were spent on the development of new products that have taken too long to commercialise and/or which TrickleStar decided it is not able to commercialise.

A period is needed to restore strength to the Group's balance sheet, during which TrickleStar has to concentrate on cost containment, and cash generation, which may hamper the speed of future growth. The priority is to maximize sales of APS which continue to enjoy adequate margins.

We have asked management to be focused on profitability and cash generation. We have ceased the investment in most product development and will focus on a smaller selection of new products which are close to commercialisation.

TrickleStar remains intent on growth through diversification and we will consider opportunities that arise, whilst maintaining focus on sales of our current product range.

- (v) *Separately, how much capital is needed to commercialise the Water Heater Controller business?*

Company's Response:

The original budgets for the Water Heater Controller are being reviewed. A precise figure is difficult to give at this time as users may ask for adjustments to its specifications during the field trial process. We believe that TrickleStar has sufficient funds to dedicate to commercialisation of the product provided APS sales continue as expected.

- (vi) *What was the initial feedback on the Smart Thermostat?*

Company's Response:

Budgeted sales of thermostats in 2021 were not achieved as there were no sales and therefore no market feedback. The group took a substantial write down for the product in 2021 and a new and reduced revenue budget for 2022 was put in place, but again the sales generated were minimal. Feedback from the market was interpreted in two ways among the Board members. One consideration was that the product was not given enough opportunity and that sales channels were on the verge of issuing substantial orders and that further financial back-up was needed in Q4 2022 to exploit the expectations. Some considered that the orders were not materializing, that further adjustments to the product and supporting software continued to emerge and evolve, and that TrickleStar did not have the capital to meet demand.

Are there plans to revisit the commercialisation of the Smart Thermostat in the near future?

Company's Response:

No.

Has management considered monetising Smart Thermostat via third-party licensing/royalty arrangement(s)?

Company's Response:

In management's opinion, the product was not market-ready for selling through TrickleStar's traditional utility channels, where detailed proof of the product and benefits are required to be shown. Management had begun to try and sell through what is known as HVAC (heating, ventilation and air conditioning) channels but once TrickleStar made the decision not to promote the product, management made it clear that any further effort to sell through those channels would be futile. Therefore no licensing/royalty arrangements were considered.

In addition, TrickleStar owned limited amounts of IP in the product.

Q2. *Jeremy John Figgins was appointed as non-executive independent chairman on 7 December 2022 and resigned on 8 December 2022. Ling Hee Keat was appointed as non-executive independent chairman on 8 December 2022 in place of Jeremy John Figgins.*

- (i) *Can the nomination committee (NC) help shareholders better understand the selection process and the circumstances leading to the appointment¹ and resignation² of Mr. Jeremy John Figgins as chairman in December 2022?*

Company's Response:

Soon after NC and Board approved Mr Figgins appointment (Mr Ling was also considered for the position), he was made aware that he needed surgery. In view of the likelihood that he would not be 100% fit to meet the demands of the Chair role during a difficult phase for TrickleStar, Mr Figgins stood aside in favour of Mr Ling. Mr Figgins underwent surgery in December 2022 and January 2023 and has made a good recovery and at all times has contributed to the Board's discussions.

In addition, the company is seeking shareholders' approval to re-elect Mr. Bernard Christopher Emby who is retiring pursuant to Regulation 89 of the Constitution. Additional information required pursuant to Rule 720(5) of the Catalist rules on directors seeking re-election can be found on pages 69 to 74. Mr Emby's biography can be found on page 12.

Mr. Emby will, upon re-election as a director, remain as executive director and the CEO. He is currently serving his notice period until 28 April 2023, following which he will become a non-executive non-independent director.

- (ii) *Can the board help shareholders better understand Mr Emby's role in the group after his cessation as executive director and CEO?*

Company's Response:

Mr Emby continues to be the single largest shareholder of TrickleStar and intends to remain on the board to continue oversee and contribute to the progress of the company. He has an excellent knowledge of the energy optimization space and the Group hopes to be able to receive the benefit of his expertise.

In the past year, CircleBright Limited significantly reduced its shareholding in the company from 28.3% to 11.1%. Mr Emby is deemed interested in the shares held by CircleBright as he is entitled to exercise or control the exercise of not less than 20% of the votes attached to the voting ordinary shares in CircleBright.

- (iii) *Even though Mr Emby remains the largest shareholder with direct and deemed interest of 42.1% as at 13 February 2023, can Mr Emby clarify his long-term commitment to the group given that he has sold substantial shares in the company and is stepping down from his executive role?*

Company's Response:

Mr Emby will be stepping down from his executive role and redesignated to Non-Executive and Non-Independent Director where he will still be part of the Board to continue contributing to TrickleStar's future. He had not sold shares in TrickleStar since IPO in 2019 and has in fact increased his shareholding since IPO. CircleBright's drop in shareholding of TrickleStar was caused by a distribution of shares in CircleBright to its shareholders on a pro-rata basis.

- (iv) *Given that Mr Emby has stated his intention to pursue opportunities in new product development and in cleantech/renewable energy solutions, would there be a conflict of interest with the group? Is there a non-compete clause?*

Company's Response:

Mr Emby will not engage in activities that are in competition to TrickleStar in its territories whilst he remains a director and substantial shareholder of TrickleStar. Without Mr Emby's full time expertise available to it, TrickleStar believes it will not be in a position to develop new products in this space and is more likely to develop in this area through the acquisition of products rather than expensive in-house development.

Is there a non-compete clause?

Company's Response:

Yes.

Q3. As disclosed in the corporate governance report, the internal audit function of the group is outsourced to GovernAce Advisory & Solutions Pte. Ltd. (IA) (page 64). The IA is adequately resourced and staffed with persons with the relevant qualifications and experience and complies with the standards set by the International Professional Practices Framework ("IPPF") issued by the Institute of Internal Auditors, an internationally recognised professional body.

- (i) *What were the scope, key findings and recommendations by the internal auditor for FY2022?*

Company's Response:

For FY2022, the internal auditor reviewed the areas on procurement, inventory management, warranty claims and insurance coverage on inventories. The key findings included a lack of proper documentation on justification for selection of suppliers where a minimum of three (3) quotations were not obtained, lack of formalised standard operating procedures to address stock aging and warranty claims process, and some minor variance (less than US\$10,000) in the stocks kept in US. The recommendations from the internal auditor included the need to maintain proper documentation on justification for selection of suppliers when minimum quotations for comparison was not obtained, the need to develop formalised standard

operating procedures for addressing stock aging and warranty claims process so that there is a more structured and consistent approach for staff to handle stock aging and warranty claims. Finally, setting the requirement for conducting monthly reconciliation of physical stock against the SAP system and any variance will need to be investigated. Management approval must be sought before any stock adjustment can be made in the system.

- (ii) *Can the audit committee (AC) confirm that the major foreign subsidiaries in Hong Kong, Malaysia and United States of America were included in the internal audit?*

Company's Response:

The internal audit plan, approved by the AC, is developed after assessing the operations and risks documented in the Company's risk register as well as concerns from the AC. For FY2022, the foreign subsidiaries in Malaysia and US were included in the internal audit. Hong Kong was not included as the business was dormant and the Company has begun to deregister the Hong Kong subsidiary.

How was the internal audit carried out for these foreign subsidiaries?

Company's Response:

The internal audit for the foreign subsidiaries was carried out through a combination of onsite audit and virtual due to the unpredictability of the coronavirus and to continue to take precautionary measures to curb the spread of the coronavirus.

- (iii) *What is the level of oversight by the AC on the actions taken by management to follow up on the recommendations?*

Company's Response:

There is a formal process in which the IA works with management to address any concerns arising through the audit. Management responses and actions are presented to the AC and solutions to any problems are discussed directly with management and the IA confirms whether it is satisfied with the solution (in all cases solutions have been accepted). Where policies, operating procedures are required, they are prepared by management and reviewed by the AC and IA before being presented to the Board for approval.

Separately, it was disclosed that the external auditor, Paul Wan & Co, had expressed their intention not to seek re-appointment at this AGM.

- (iv) *Has the AC met with the external auditor to understand their reasons not to seek re-appointment as the external auditor?*

Company's Response:

The Chairman of AC had a meeting with the external auditor on the reasons and these have been discussed among the AC and accepted. Their reasons for resigning are particular to the firm and specifically not related to any issues or concerns of the audit of TrickleStar. A circular will be issued in due course explaining the reasons and the identity of the new auditor.

(v) *How is the AC carrying out the search for the new external auditor? What progress has been made?*

Company's Response:

The AC, working with management, will source for a new external auditor, obtain quotes and will review the candidates background and expertise. The Company's sponsor will also be involved in the review process. The Company is still in the midst of shortlisting .

By Order of the Board

Gunananthan Nithyanantham
Executive Director, Chief Operating Officer and Acting Chief Executive Officer

23 March 2023

This announcement has been reviewed by the Company's Sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "Exchange") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.

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