VIBRANT GROUP LIMITED
Company Registration Number: 198600061G

RESPONSES TO QUESTIONS IN RELATION TO THE FY2021 ANNUAL REPORT

The Board of Directors (the "**Board**") of Vibrant Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the questions from shareholders / Securities Investors Association (Singapore) in relation to the FY2021 Annual Report and sets out its responses as follows:

Q1. <u>SIAS Question</u>

As shown in the financial highlights (page 11 of the annual report), the group recognised revenue of $162.9 million, 11.2% higher than in FY2020, with the freight & logistics segment being the main contributor accounting for 96% of the group's revenue.

The group offers a comprehensive range of integrated logistics services including international freight forwarding, chemical storage and logistics, warehousing and distribution, and record management. As stated in the message to shareholders, the pandemic and the closure of the Suez Canel, coupled with an increase in international shipping volume from e-commerce shipments, caused container shipping surcharges and premiums to surge and reach record freight prices (page 4).

In FY2021, the group reported a segment profit of $9.99 million (before unallocated corporate costs) on higher revenue in the freight & logistics segment. In FY2020, the $40.9 million in segment profit was boosted by the one-off gain of $41.3 million from the sale (and leaseback) of 121 Banyan Drive. In FY2019, the segment profit was $3.75 million.

(i) For the benefit of new and long-standing shareholders, can management elaborate further on the business model in the Freight & Logistics segment? What are the key value drivers and how does management capture value in the segment? How has the group adapted to the challenges caused by the pandemic?

(ii) What was the proportion of revenue derived from freight forwarding? In particular, what is the group's value proposition in the freight forwarding business?

(iii) How much of the increase in revenue can be attributed to the higher freight rates (and how much to the increase in the business volume)?

(iv) Separately, can management elaborate further on the situation in Vibrant Pucheng Logistics (Chongqing) Co., Ltd?

<u>Company's response:</u>

(i) The Group designs, engineers and manages integrated logistics solutions, leveraging on its in-depth domain knowledge, innovative capabilities and global logistics infrastructure. The Group's freight and logistics segment consist of international freight forwarding, warehousing and logistics, chemical storage and logistics.

The Group is one of the market leaders in the non-vessel operating common carrier business supported by a global network of owned offices in Malaysia, Thailand, South Korea, People's Republic of China and Myanmar and over 120 freight forwarding agents reaching out to more than 600 destinations worldwide. The Group's international freight forwarding services span the full gamut of freight forwarding, including less than container load (LCL) consolidation, container freight station (CFS) operations, ocean and air freight services, consolidation and deconsolidation, transshipment, project cargo, shipment documentation, customs clearance and transportation, as well as land transportation to Peninsula Malaysia.

The Group's warehousing and logistics business unit provides integrated logistics services at its strategically located facilities in Singapore, Malaysia, South Korea and the PRC. By harnessing information technology and automation such as the Automated Storage and Retrieval System, the Group is able to offer a range of supply chain services which include developing solutions to warehousing transportation, distribution, track and trace, customs brokerage, managing inventory and other value-added services, and has the expertise to create customised space solutions from build to suit, as well as financial solutions and management expertise.

The Group also operate container freight station operations within the Free Trade Zone at Keppel Distripark. This strategic initiative has allowed the Group to internally manage the vital operations of a truly integrated logistics provider with warehousing and freight consolidation capabilities.

For chemical storage and logistics, the Group is a leading chemical logistics solution provider in Singapore and Malaysia which caters to global players in the petrochemical industry. The range of services include warehousing and storage facilities for dangerous goods, bulk liquid and dry box haulage, drumming, chemical transportation in bulk tankers and ISO-tanks containers, container haulage and packaged goods transportation, plant management logistics, international freight forwarding services, emergency recovery services and safety escort services. This business is supported by the technical knowledge of its well-trained workforce as well as a portfolio of more than 200 prime-movers, 680 trailers, 290 ISO-tanks and storage capacity of over 80,000 pallet positions across various chemical warehouses.

Challenges caused by the pandemic includes market demand for alternative freight and logistics routes amidst control measures disrupting shipments across the world. The Group managed to meet the demand for flexibility by working closely with our expanded agencies coverage. In order to address the evolving operational challenges due to regulations implemented by the Government, we have also established a business continuity plan. To illustrate, the Group faced mandatory safe management measures by regulators. We adapted by improvising and implementing new procedures, such as heightened remote support for employees working from home, redistribution of manpower for employees working on site and improving our processes by enhancing our digitalisation efforts.

(ii) Approximately 47.9% of the revenue derived from freight forwarding business. Please refer to (i) above on the Group's value proposition in the freight forwarding business.

(iii) Approximately 18% of the increase in revenue was mainly attributed to the higher freight rates. However, the business volume decreased by approximately 2.6%.

(iv) The management had disclosed the situation in Vibrant Pucheng Logistics (Chongqing) Co., Ltd as per the announcement dated 29 June 2021 in relation to unaudited financial statements, the announcement dated 11 August 2021 in relation to SGX queries and in the FY2021 Annual Report.

Q2. <u>SIAS Question</u>

As at 30 April 2021, the group has segment assets amounting to $500.4 million (page 133 – Operating segments). Segment assets in the real estate and financial services segments were $160.2 million and $45.1 million, or 32% and 9% respectively.

In addition, the company has investments in associates with carrying value of $61.7 million as at the end of the financial year. Details of the associates can be found in Note 9 (pages 101 to 108 of the annual report).

(i) Can management elaborate further on the plans for the group's investments in Changshu Fervent Industrial Park 1 & 2? Are there opportunities to crystallise the value once the assets have matured?

(ii) What is the current status of 139 Cecil Street? What is the level of influence and control over the day-to-day and strategic matters of Ececil Pte Ltd given that the group's ownership interest in the associate is 40%? Similarly, is the group looking to monetise the investment?

In addition, as noted in the review of operations, the group has halted its leasing activities in China during the year due to significant business risks posed by the uncertainties amidst the Covid-19 pandemic (page 14). The financial services segment reported a net loss of $(2.5) million as compared to net profit of $3.1 million mainly due to the tax credit and the exceptional one-time gain from the disposal of subsidiaries in the previous financial year.

(iii) What is the group's competitive advantage in the leasing business in China?

(iv) Who is driving the group's financial services segment? Has the board evaluated the long-term results in the financial services segment?

<u>Company's response:</u>

(i) Changshu Fervent Industrial Park 1 & 2 is a testament to our success in delivering returns in our real estate business segment. The average occupancy rate has been at least 85% and has been delivering income to the Group since its completion. Notwithstanding, the Group will consider any opportunity that might arise for the Group to monetise the investment.

(ii) The management of Ececil Pte Ltd is actively marketing the property for lease and sale. Ececil Pte Ltd is an associate with 40% stake held by the Group's wholly-owned subsidiary. The Group has one board representative and has significant influence to participate in the financial and operating policy decision of Ececil Pte Ltd. Similarly, the Group will consider any opportunity that might arise to monetise the investment.

(iii) The Group started the leasing business in China with a team of well-connected and knowledgeable partners. The Group is constantly looking for strategic partnerships with complementary capabilities and expertise to gain further inroad to the financial leasing industry.

(iv) The Group's CEO and CFO are driving the Group's financial services segment. The Board has evaluated the long-term results in the financial services segment and believes that it will complement the other segments of the Group. However, due to the pandemic, this segment has slowed down.

Q3. <u>SIAS Question</u>

On 11 August 2021, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 30 April 2021 following the finalisation of audit.

The announcement on unaudited financial results for the financial year ended 30 April 2021 was first released via SGXNet on 29 June 2021. The announcement on material variance came more than 6 weeks after the company first announced the unaudited financial statements.

Some of the changes and reclassifications that were made following the finalisation of audit include:

- understatement of government grant income recognised and received
- reclassification of government grant received from financing to operating activities
- increase in amount paid for the purchase of intangible asset
- reclassification of advances received from a related party from trade and other payables under operating activities to financing activities.

The announcement by the company did not clearly explain why some of these accounting entries were wrongly recorded or classified. For instance, the amount of government grant received was increased from $3.03 million to $3.39 million while the group had initially recognised advances from a related party as "trade and other payables" in cash flow from operating activities instead of cash flow from financing activities.

The company also announced material discrepancies between the unaudited and audited accounts for the financial years 30 April 2020 and 30 April 2019, making it three consecutive years of announcing material variances following the finalisation of audit.

The audit committee comprises Mr. Sebastian Tan Cher Liang (as chairman), Mr. Khua Hock Su and Mr. Derek Loh Eu Tse.

(i) Can the audit committee (AC)/management elaborate further on the underlying reasons for the material changes following the finalisation of audit?

(ii) Is the group (including its officers) familiar with the Singapore Financial Reporting Standards (International) (SFRS(I))?

(iii) What were the deliberations by the AC in its review of the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements?

(iv) How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?

(v) Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?

(vi) What changes have been made/will be made to the group's financial reporting systems and processes?

Company's response:

(i) The Group wish to clarify that the variances noted in (a) the cash flows from operating activities (net) of $658,000 and (b) the cash flows used in financing activities of $464,000 between the unaudited and audited financial statements were in fact not significant to the total net cash generated from operating activities of $26.5 million and total net cash used in financing activities of $40.7 million. They in fact represented 2.5% and 1.1% respectively. The variances in the consolidated statement of cash flows were identified during the preparation of the financial statements and accompanying notes and deemed not material.

The variances announced for the financial year ended 30 April 2021 were isolated and restricted to the presentation and classification of certain items in the consolidated statement of cash flows as explained in the preceding paragraph. There were no material variances identified between the statements of financial position as at 30 April 2021 nor consolidated statements of comprehensive income and changes in equity. Nonetheless, the Group disclosed the variances in line with financial transparency practices. This demonstrated the Group's commitment towards the preparation of a set of financial statements that present fairly the financial position, financial performance and cash flows of an entity.

Over the years, we have invested and improved the Group's financial reporting process, both accounting system, policies and procedures, to ensure that the results of the Group's subsidiaries in different geographical regions are reported to the Group's finance team on a timely basis. Reporting templates have been designed and used by the finance teams within the Group for internal reporting purposes. Our Group finance team has been working closely with our auditors and set specific reporting timeline for the significant and material subsidiaries to complete their audits prior to the release of the unaudited financial results for the full year which is due within 60 days from the balance sheet date.

a. On the difference between the initial government grant amount of $3.03 million included in the unaudited results announcement and the audited amount of $3.39 million, it was not due to errors in recording, but was due to the inclusion of other types of government grants that had been recognised under "other income" upon receipt, which was not material.

b. On the reclassification of government grants received from financing activities to operating activities, the grants received mainly relates to the Jobs Support Scheme (JSS) received from the Singapore Government to help employers to retain our local employees during the period of economic uncertainty as a result of Covid-19.

Accordingly, we have further assessed it is more appropriate that these cash inflows received from our government to be classified as operating than financing in nature.

c. On the increase in amounts paid for the acquisition of intangible assets, the amount paid represent milestone payments made to the vendor for the implementation of the new ERP system, which are also not material.

d. The reclassification of advances received from a related party from operating activities to financing activities is in line with the disclosure requirements for changes in liabilities arising from financing activities in accordance with SFRS(I) 1-7 *Statement of Cash Flows*.

(ii) As stated and explained in the preceding paragraphs, the variances announced for the financial year ended 30 April 2021 were isolated and restricted to the presentation and classification of certain items in the consolidated statement of cash flows. There were no material variances identified between the statements of financial position as at 30 April 2021 nor consolidated statements of comprehensive income and changes in equity. This demonstrated the Group's commitment towards the preparation of a set of financial statements that present fairly the financial position, financial performance and cash flows of an entity. The Group and its officers are familiar with the Singapore Financial Reporting Standards (International) (SFRS(I)). The CFO and finance team are regularly updated and attend continuous training on developments in accounting standards. Where needed, the finance team stand guided by its auditors for presentation and for clarity on complex accounting issues. Majority of the Group's finance team are members of worldwide recognised professional accounting bodies such as Institute of Singapore Chartered Accountants and the Association of Chartered Certified Accountants.

(iii) The Board recognises the importance of providing accurate and relevant information. During the financial year, the Audit Committee reviewed the audit planning and audit completion memorandums and discussed the findings noted by the external auditors during the audit committee meetings. The significant financial reporting issues and judgements have been disclosed in the audit opinion issued by the Company's auditors.

The Audit Committee continues to hold quarterly meeting to review the Group's unaudited financial performance although the Company is no longer subject to mandatory quarterly reporting under the Listing Rule 705(2) following the resolution of the issues raised by the Company's predecessor auditors for the financial year ended 30 April 2019 and had obtained an unmodified opinion from the Company's current auditors without any material uncertainty relating to going concern.

(iv) As mentioned in the preceding paragraphs, we have invested and improved the Group's financial reporting process, both accounting system, policies and procedures, to ensure that the results of the Group's subsidiaries in different geographical regions are reported to the Group's finance team in accordance with the financial reporting standards on a timely basis. In the previous financial year, the Group has invested and successfully implemented a new accounting system that streamline and automate our financial processes, eliminating much of the manual accounting activities. The Group's management believes that such investment would further enhance and improve our financial reporting process.

(v) The AC has reviewed and evaluated the background of the finance team and is satisfied that the Group is currently adequately staffed with qualified and experienced finance personnel. The AC will continue to assess whether the finance team is adequately resourced with the relevant capabilities to meet the Group's requirement to ensure the integrity of the financial statements.

(vi) As mentioned in the preceding paragraph, the Group has invested and has successfully implemented a new accounting system which effectively improved the entire financial reporting process. The Group will continue to improve and make changes to the financial reporting systems and processes by increasing its review and oversight function for the financial reporting process with more thorough analysis of the financials information. The Group will also produce greater accountability of the work done by the staff during the preparation of accounts.

BY ORDER OF THE BOARD

Eric Khua Kian Keong
Executive Director & CEO
27 August 2021