VIBROPOWER CORPORATION LIMITED
Registration No. 200004436E
(Incorporated in Singapore)

RESPONSE TO QUERIES FROM A SHAREHOLDER AND SECURITIES INVESTOR ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT

The Board of Directors (the "Board") of VibroPower Corporation Limited (the "Company" (the "Company" and together with its subsidiaries, the "Group") wishes to announce that the Company has received questions from a Shareholder and Securities Investor Association (Singapore) ("SIAS") relating to the Company's on the Annual Report 2022 ("Annual Report"). The Company's responses to the corresponding questions from SIAS are set out below:-

Question 1 from SIAS:

As noted in the chairman's message, the group invested $1.0 million in a biomass power plant in Malaysia, based on its 40% equity interest in VibroPower Green Energy Sdn Bhd ("VGE"). The 20 megawatts power plant uses disposed empty fruit bunches of oil palm as feedstock for power generation.

The investment is a tangible step in the group's journey towards developing a clean energy business segment and the group is still on the lookout to expand its clean energy segment including other clean-energy businesses and products, such as new generation non-lithium batteries for use in electric vehicles.

(i) As the group seeks to expand its clean energy business segment, what is the group's competitive advantage in this segment?

The group's performance since 2010 is shown below. The group recognised large losses in 2015, 2019 and 2022. From having retained earnings of $8.1 million as at 31 December 2010, the group has since descended into a position of accumulated losses of $(3.6) million as at 31 March 2022.

Equity attributable to owners of the company was around $21-22 million in the early 2010s and have since dropped to $14.7 million as at 31 March 2022 despite the company raising additional capital of $3.76 million in FY2020.

FINANCIAL HIGHLIGHTS (S$MIL)

	2010	2011	2012	2013	2014	2015
Turnover	32.8	31.6	39.1	31.0	28.2	17.7
(Loss)/Profit before Tax	(0.4)	0.3	2.5	0.5	1.7	(8.3)
Shareholders' Equity, Attributable to Equity Holders of the Company	22.1	21.8	22.1	21.1	23.0	15.4
Total Assets	33.4	43.1	45.0	43.5	40.7	35.7

FINANCIAL HIGHLIGHTS (S$MIL)

	2016	2017	2018	2019	2020	2022
Turnover	25.0	14.3	15.5	11.0	12.3	**15.2**
(Loss)/Profit before Tax	0.6	0.5	0.8	(2.8)	0.1	**(3.3)**
Shareholders' Equity, Attributable to Equity Holders of the Company	16.4	16.4	16.9	13.8	17.7	**14.7**
Total assets	34.2	33.4	34.1	28.0	31.0	**28.3**

(Source: company annual reports)

Company's response:

Power or energy production and generation has always been the Group's core business. We understand energy generation and production. As mandates from around the world to generate and produce energy from non-fossil and renewable sources intensify, the Group has been laying the foundation for a shift towards energy generation and production from alternative and clean sources. The methane gas power plant in Shanxi, China was our initial foray into clean energy production and the biomass power plant in Malaysia is another concrete step towards this direction. The Group will apply its knowledge and expertise gained from over 30 years in the energy sector as well as practical market knowledge and business contacts towards developing its clean energy business segment in a prudent and sustainable manner.

The Group believes that its core competencies and competitive advantages gained over the years in the power and energy production sector as well as experience in securing approvals and operations in countries other than Singapore will stand the Group in good stead in its burgeoning clean energy segment. Where specialist skills and knowledge pertaining to clean energy production are required, the Group will rely on its business contacts, research and experience as well as joint ventures and or acquisitions, as and when appropriate.

Please refer to the annual reports of 2015, 2019 and 2022 for an explanation of the specific reasons for losses incurred during these financial years.

(ii) Can management help shareholders better understand how it has demonstrated its ability to create value for shareholders over the years?

Company's response:

The Group's core business of the supply of power generation sets and provision of customized power generation solutions is highly competitive and subject to sharp cycles of boom and bust in the mining, oil and gas, construction, engineering and shipbuilding industries which form the backbone of the Group's clients. Notwithstanding losses incurred during the years of 2015, 2019 and 2022 which contributed to the diminution of the Group's equity attributable to shareholders for those years, the Company has worked to improve value for shareholders amidst an already very challenging and unpredictable business environment as well as the crushing effects of the COVID-19 pandemic.

The Company believes that laying the foundation for, and taking concrete but prudent steps in developing, a clean energy business segment is the right direction towards creating better value for shareholders in the years to come.

(iii) How is management leveraging the group's "strong reputation and credibility in the generator industry built over the last 30 years" to generate sustainable and increasing profits for shareholders?

Company's response:

On a segmental basis, projects accounted for 76.1% of total revenue in FY2022 while power plant contributed 23.9%, which is an increase from 11.6% in FY2020. The overall revenue of the Group rose in FY2022 by 23.6% to $15.2 million led by a 153% surge in revenue from the power plant segment.

This speaks for the Group's strong reputation and credibility in the power and energy production industry which it has leveraged to grow its clean energy segment. Management believes that its strategy in developing a clean energy segment will drive future revenue in a sustainable manner and create value for shareholders in the years to come.

(iv) The last dividend paid out by the company was for FY2014, amounting to 1.5 cents per share. What guidance has the board given to management with regard to generating returns for shareholders via dividends?

Company's response:

As explained above, and reported in the Company's past annual reports and financial results released on the SGX-Net, the Group's core business of the supply of power generation sets and provision of customized power generation solutions is highly competitive and subject to sharp cycles of boom and bust of the industries its customers are in. Recognising the challenges posed by its traditional and core business segment, the Board has guided and worked closely with management to forge a strategy to develop a clean energy business segment which has seen increasing revenue contribution to the Group. The Board and management believe that this segment will continue to drive shareholders' value in the years ahead.

(v) Did the board review and assess the performance of management?
(vi) Is the board satisfied with the performance of the executive director and CEO?

Company's response (v) & (vi):

The Group's Executive Director and CEO, Mr. Benedict Chen Onn Meng, plays an instrumental role in developing the business of the Group and provides the Group with strong leadership and vision. He constantly reviews the Group's overall business strategy in the face of the ever-changing business environment and unexpected challenges that have been brought on by the COVID-19 pandemic and geo-political situation. In this connection and in ensuring good governance, the Board has directed the CEO and his team to provide regular updates of the progress of the Group's projects during scheduled board and ad hoc meetings. Where actual results deviated from plans, or where particular issues or challenges are encountered, the Board and management have worked together (and will continue to do so) to overcome any such issues or challenges.

In this way, the Board is kept abreast of the developments of the Group's projects and the performance of management. On an annual basis, the Nominating Committee conducts a formal evaluation of the Directors, including the CEO, and presents its findings and recommendations to the Board. For FY2022, the NC is of the view that the Board (including the CEO) and Board Committees operated effectively, and each Director contributed adequately to the overall effectiveness and objectives of the Company. Quite separately, the executive director has shown himself to be a person of integrity, drive, passion and foresight. He has worked tirelessly for the Group and brought the Group through various challenges in the past and new opportunities for the Group in the clean energy business.

(vii) Does the group have the necessary human resources in place for the group to meet its objectives?

Company's response:

Given the current size of the operations of the Group, the Company is of the view that it has sufficient human resources to meet its objectives. However, the Board and the NC will monitor and assess the requirements of the Group during business update sessions given by management and will actively consider, and where appropriate, recommend the recruitment of additional talents for the Group, subject to the overall objectives and strategy discussed and approved during Board meetings.

(viii) What is the depth of the group's leadership bench strength (and future pipeline) in the core functions of the group, such as operations, technical, logistics etc?

Company's response:

The key or core functions of the Group are helmed by the Group's CEO. He is assisted by a team of experienced managers and senior personnel of each of the Group's operational, engineering, sales and marketing departments. All managers and senior personnel have worked with the Group for more than 5 years, and have gained a good understanding of the Group's business and operations, and have the skills, knowledge and experience to move into positions of greater responsibility or to deputise for the CEO, as and when required. As mentioned above, the Company will consider recruiting additional talents for the Group, subject to the overall objectives and strategy discussed and approved during Board meetings.

(ix) Has the board evaluated the key man risk and whether there is an appropriate system of checks and balance in the group since the company does not have any other key management personnel in the operations except for the executive director and CEO?

Company's Response:

The NC has discussed the issue of key man risk with the Board and has a plan in place to recruit a "2IC" in relation to the CEO. However, this plan was put on hold with the onset of the COVID-19 pandemic and will be reviewed in the current financial year.

In respect of the second part of the query, the Board is well-aware of the risk of management override, and in this regard, there are safeguards in place to ensure that there is a procedure of checks and balances to mitigate against the potential risk of management override. Further, as explained above, the Board has directed management to provide regular updates of the progress of the Group's projects. In addition, the Group's financial controller will provide the AC with the Group's financial cash flow position on a regular basis, and as and when the AC determines that the cash flow projections prepared for a particular financial period requires review when unexpected issues or challenges present themselves. The Board members and the AC have direct and unobstructed access to the financial controller and her team, and maintain regular contact with her. Together with internal and external audits that are performed each financial year, the Board is satisfied that there is, at the current time, an adequate system of checks and balance in place.

(x) Separately, for the benefit of shareholders, can management provide an update on the progress of the lawsuit against the former business partner to recover $1.7 million? Who is representing the group?

Company's response:

The trials dates have been fixed in July 2023. The Group is represented by Messrs. Lee & Lee.

<u>Question 2 from SIAS:</u>

Based on the latest financial results, the group has net asset value of S$14.7 million. This was after the group recorded a net loss after tax of $(3.3) million which included $(1.0) million in provisions for slow-moving inventories and $(1.0) million in impairment losses on financial assets.

Given the current volatility in material prices, disruptions in the supply chain and escalating logistic and energy costs, management is cognisant of the heightened risks and will be selective and strategic in tendering for and pricing new projects. The group will perform additional and enhanced review of customer default risks (page 3).

As noted in the independent auditor's report, the "recoverability of trade receivables" and "allowance for slow-moving inventories" are the two key audit matters highlighted in the independent auditor's report (page 32).

The group recognised $(1.06) million in expected credit loss on trade receivables.

(i) For shareholders' information, can management provide greater clarity on the profile of the customer who had defaulted? Was a single customer responsible for the total amount?

Company's response:

Of the $1.06 million expected credit loss on trade receivables, approximately $0.93 million arose from amounts owing by Trans Equatorial Engineering Pte Ltd, which is a group company of TEE International Ltd, a company listed on the SGX-ST ("TEE"). TEE filed an application for Moratoria pursuant to sections 64 and 65 of the Insolvency, Restructuring and Dissolution Act 2018 on August 2021, and the Court granted the

Moratoria.

In the latest filing on 29 June 2022 by Tee on the SGX-Net, it was announced that the Court had on 29 June 2022, granted orders in terms of a further extension applications for Moratoria relief to TEE until 30 September 2022.

(ii) Did the board review if the group's credit framework and policies were observed?

Company's response:

Management will regularly update and highlight to the Board if they observe any irregularities of the group's credit framework and policies. In addition to this, the internal auditor will also review the Group's credit policy and highlight their findings to the Board.

The paragraph quoted above and which is set out in page 3 of the Company's annual report for FY2022, i.e., "***Given the current volatility in material prices, disruptions in the supply chain and escalating logistic and energy costs, management is cognisant of the heightened risks and will be selective and strategic in tendering for and pricing new projects. The group will perform additional and enhanced review of customer default risks***" is intended to convey that the COVID-19 pandemic has created new risks for businesses the world over, and to mitigate against these new risks, the Group will enhance its credit review procedure and will be more selective in tendering for projects in the future.

(iii) Does management monitor the group's customers with large trade receivables and contract assets regularly to assess the group's credit risks? Did management observe any deterioration in creditworthiness or any red flags before the customer went into liquidation?

Company's response:

The management performs reviews of monthly progress claim for big projects and the collection from these customers. Should there be any delay, management will follow up with the management staff or project manager/director of the customers before putting more resources for the projects. For instance, as regards to TEE, when the collection for the payment certificate was delayed, management met with the main contractor and owners of respective projects and was successful in obtaining payment directly from the main contractor to repay some of the overdue balances owed by TEE. Management has also negotiated with the main contractor and owners to enter into direct contracts for the balance works in order to minimize losses for the Company.

(iv) What were the reasons for the significant increase in provisions for slow-moving inventories?

Company's response:

The increase in provision for slow moving inventories by S$1.1 million was mainly due to the following reasons:-

(i) A full provision of S$0.6 million was made for inventories aged more than 5 years because no projects were allocated for these inventories and most of these inventories have exceed their shelf life warranty; and

(ii) A provision of S$0.5 million was made for the engine held by the Group for the former business partner's project which is currently undergoing litigation.

(v) What is the average age of the group's inventories following the write-down?

Company's response:

The average age of the group's inventories following the write-down is less than 2 years.

(vi) Was there under-provision in prior years for stock obsolescence and slow-moving inventories?

Company's response:

There was no under-provision in prior years for stock obsolescence and slow-moving inventories. The Group's policy is to provide for allowance for slow-moving inventories based on past 2 years' sales history and marketability. Where inventories do not fall under either of these 2 criteria, an allowance is made in accordance to the age of the inventory. The Company's external auditor has not noted any under-provision.

(vii) What is the level of oversight by the AC on the group's inventory and stocking policies?

Company's response:

The AC will conduct a yearly review of the Group's inventory policy, inventories aging and slow-moving inventories with management and separately without the presence of management with the Group's external auditors.

(viii) Would management be looking at how it could better optimise the restocking of its inventories so as to reduce/eliminate inventories write-down?

Company's response:

Management is reviewing potential sales to overseas market and customers who are looking to purchase such inventories at competitive prices, notwithstanding its ageing to clear them.

The challenges presented by what would be the optimum quantity of inventories to hold are not peculiar to the Group. This is an issue faced by many companies. The industry the Group operates in is highly competitive, any delay in the supply of equipment / machinery required to fulfill a project will result in either liquidated damages imposed and or loss of trust by its customers. Amongst the new risks brought about by the COVID-19 pandemic and geo-political situation, the risk and challenge of supply-chain disruptions have rendered a just-in-time form of inventory management to be unworkable , and there is a shift towards stocking sufficient quantity of inventories to mitigate against such risk. Notwithstanding, management will review its inventory stocking policy to ensure, as best as practicable, the appropriate level of inventory to hold, given the nature and requirements of its business, and to mitigate against various challenges including but not limited to supply-chain disruptions.

<u>Question 3 from SIAS:</u>

The composition of the board committees and the attendance of directors at board and board committee meetings are shown below:

Name of Director	Board Membership	Audit Committee ("AC")	Nominating Committee ("NC")	Remuneration Committee ("RC")
Benedict Chen Onn Meng	Executive Director and Chief Executive Officer	–	–	–
Ernest Yogarajah Balasubramaniam	Non-Executive Chairman	Member	Member	Member
Toh Shih Hua	Lead Independent and Non-Executive Director	Chairman	Member	Chairman
Tan Poh Chye Allan	Independent and Non-Executive Director	Member	Chairman	Member

The attendance of the Directors at meetings of the Board, Board Committees and Annual General Meeting, as well as the frequency of such meetings held during FY2022 are as follows:

	Board	Audit Committee	Nominating Committee	Remuneration Committee	Annual General Meeting
No. of meetings held	3	2	1	1	1
No. of meetings attended by the Directors					
Benedict Chen Onn Meng	3	2	1	1	1
Ernest Yogarajah Balasubramaniam	3	2	1	1	1
Toh Shih Hua	3	2	1	1	1
Tan Poh Chye Allan	3	2	1	1	1

(Source: company annual report)

As seen in the table above, the executive director and CEO, Mr Benedict Chen Onn Meng, attended all the board committee meetings even though he is not a member of the board committees. It would appear the board committee meetings are attended by all the directors, making them the same as board meetings.

Such board committee meetings would have included agenda items on interested person transactions, performance assessment, remuneration of the executive directors and the audit/financial reporting/internal controls of the group.

(i) Is it a board-approved practice for non-board committee members (i.e. the executive director) to attend board committee meetings?

Company's response:

The executive director attends board committee meetings by invitation, and where there are any items of agenda that should be discussed and resolved without his presence, he is asked to excuse himself. For instance, discussions with the internal and external auditors without the presence of management including the executive director are held without their presence. Similarly, issues pertaining to remuneration of the executive director and management are discussed and agreed without their presence.

(ii) What are the board's governance structure and "Chinese walls" that are put in place at the board committee meetings when the independent directors on the board committees may be reviewing and discussing matters that are related to or affect the executive directors?

Company's response:

Please see the response above.

(iii) Does the executive director also actively participate in the discussions during the board committee meetings? If so, how are board committee meetings different from board meetings?

Company's response:

As explained above, the executive director and management attend board committee meetings by invitation. The executive director normally listens in and makes comments of issues that are relevant or which is within his knowledge when asked by the board committee. The executive director does not approve nor does he have any standing to authorise decisions or recommendations made by board committees.

(iv) Are the independent directors able to conduct the board committee meetings without the executive director in attendance?

Company's response:

As said above, the executive director attends board committee meetings by invitation only. There is no requirement or compulsion to invite the executive director to attend any board committee meeting. The board committee meetings the executive director is invited to are the ones scheduled for during a financial year and which are held on the same day as scheduled board meetings. All decisions and recommendations of board committees are made independently by the members of the board committees without reference to the executive director.

(v) Are the committees able to make decisions objectively and independently?

Company's response:

The independent directors of the Company are independent and objective.

The practice of inviting the executive director and certain key management of the Company to board committee meetings is not unusual and is commonly practised by other issuers,. This provides efficiency to the meetings, as if there are any question or clarification required by the board committee on any matter, the executive director or management is there to respond. Further, there is no need to repeat decisions and recommendations of the board committees during the board meeting since every member of the board will have been present either by virtue of being a member of the board committee or by invitation, thereby achieving greater efficiency without compromising the independence of the committees.

Question 4 from a Shareholder:

What is the future business impact on the Company as Singapore executes Green Plan 2030? Will the demand for fossil fuel Genset be reduced and replaced by cleaner fuel? What is the management plan in the changing industry need?

Company's response:

As elaborated above, this is precisely why the Group has developed its clean energy business segment.

Question 5 from a Shareholder:

In recent years, there are multiple cases (at least 2) on customer default payment (being liquidation, non-collection, etc). This year's result is impacted by non-recoverable cost incurred for 1 customer that is undergoing liquidation. What is management plan to recover these losses and also prevent such cases in future?

Company's response:

The law mandates that no legal proceedings may be commenced against a debtor if the court grants an order of moratorium, judicial management or winding-up in respect of the debtor. Where the debtor goes into liquidation proper, for debts that are unsecured, creditors have to file a proof of debt to the liquidator appointed.

For debtors who are not under any insolvency proceedings, the Group will commence legal proceedings for recovery if it has exhausted all other non-litigious attempts at recovery. However, management will also take into consideration the costs of legal proceedings and likelihood of actual recovery when making decisions to recover losses by way of legal proceedings.

Question 6 from a Shareholder:

1 million SGD was provided for slow moving inventories, the amount represented at least 5 times of previous year and a significant amount of total Inventories. Why did the provision raise so much and so suddenly?

Company's response:

Please refer to response in Question 2 (iv) and (v).

Question 7 from a Shareholder:

Gross margin for Power Generation Project's gross margin is reduced by the cost increases due to 1) higher labor cost 2) higher material cost.

Company's Cost - there is a large percentage of Cost coming from Interested Person Transaction (IPT), are these interest parties(namely Mason Industries or Vibro Holdings) sharing the extra cost due to exchange rate? A big part of the cost increase should be absorbed by IPT partners.

Company's response:

The increase in the purchases of goods and services and subcontractor costs with related parties was due to higher revenue in the current financial year for the 15 months period, increase in steel materials costs and increase in labour costs for site installation works.

The Company has an established method and review procedure in relation to the recurring IPTs set out in the circular published on 12 July 2022 ("FY2022 IPT Circular") on the SGX-Net. The reasons for setting out the methods and review procedures in the FY2022 IPT Circular and seeking shareholders' approval for these recurring IPTs are to ensure they are entered into on normal commercial terms and are not prejudicial to the interests of the Company and its shareholders, in addition to complying fully and completely with the required disclosures under the listing rules of the SGX-ST.

Question 8 from a Shareholder:

Companies in SGX within the same industry are reporting profitability in 2021, is there a good reason why the Power Generation Project Segment is lagging behind competition and extremely poor in Gross Margin in 2022?

Company's response:

In FY2022, the Group's gross profit was adversely affected by unrecoverable costs incurred for the projects related to a customer's insolvency proceedings as disclosed in the Company's announcements and in response to the queries by SIAS above.

By order of the Board

Benedict Chen Onn Meng
Chief Executive Officer
23 July 2022