

FU YU CORPORATION LIMITED
(Company Registration Number: 198004601C)
(Incorporated in the Republic of Singapore)
(the “Company”)

CORPORATE AND BUSINESS UPDATE

1) INTRODUCTION AND SUMMARY OF STRATEGIC OBJECTIVES

The Board of Directors (the “**Board**”) of Fu Yu Corporation Limited (“**Fu Yu**” or the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that the Group has recently completed a strategic review conducted under the leadership of Mr David Seow, Fu Yu’s Group Chief Executive Officer.

The Company had embarked on an organisational assimilation after the Board was re-constituted (as announced on 18 January 2021) following the acquisition by Pilgrim Partners Asia of a 29.8% stake in the Company via a sale of vendor shares by the 3 original founders.

More than 2 years into the change of control, this strategic review comes amid emerging post-COVID opportunities and challenges in the operating environment, and builds upon the assimilation since early 2021 so as to better leverage Fu Yu’s experience of over 45 years in the design and manufacturing of plastics components. Fu Yu operates 6 facilities in Singapore, Malaysia and China.

The Board has outlined 5 major strategies to address the fresh challenges and opportunities:

- i) Back-to-basics emphasis on design and manufacturing of mould capabilities and efforts to improve Group-wide efficiencies revolving around a newly established ‘Smart Factory’ in Singapore as the hub to support plastics manufacturing;
- ii) Target higher-precision tooling and components for the bio-medical and life science industries, while enlarging its geographic and sectoral market reach;
- iii) Position Fu Yu as a partner in helping customers improve their sustainability efforts and reduce greenhouse gas emissions through initiatives such as use of renewable energy, alternative raw materials, additive manufacturing technologies, and data capture of carbon reduction throughout the manufacturing process;
- iv) Early-stage engagement with customers from the design level and planning for integration of product development so as to optimise manufacturing processes, shorten lead times, and improve cost efficiencies; and
- v) Increase shareholder value by forging alliances and collaboration globally, raising the Group’s profile and exploring merger and acquisition (“**M&A**”) opportunities.

2) ASSESSMENT OF OPERATING ENVIRONMENT

2.1 Overview of Operating Landscape After Pandemic and Recent Geopolitical Uncertainty

Despite the easing of travel and health restrictions following the COVID-19 pandemic, industries continue to wrestle with supply chain constraints. The challenges have been compounded by geopolitical uncertainty following the outbreak of conflicts in Ukraine and the Middle East, a rise in costs of energy, raw materials and overall operations, as well as higher interest rates.

For the 9 months ended 30 September 2023, Fu Yu reported a decline in revenue and a net loss due to slower demand and higher expenses incurred to improve its technological and engineering capabilities, including the Smart Factory. However, it maintains a healthy balance sheet with net cash of S\$56.7 million.

2.2 'China+1' Strategy, Asset-Light Approach & Business Expansion

Responding to these problems, industries and Original Equipment Manufacturers (“OEMs”) have continued to reduce over-dependence on China and relocate some production facilities to other parts of Asia. In rolling out their “China +1” strategies, these corporations seek not just to reduce costs and risks but also to review and diversify their entire supply chain and vendor list. This reset has also prompted some to tweak their business models, product portfolio and go-to-market strategies.

Increasingly, such customers seek vendors who can combine technology such as smart manufacturing and data analytics to facilitate continuous process improvement and anticipate potential risks and emerging trends including sustainability. They also prefer vendors with a cultural mindset that transcends costs and quality to an appreciation of customers’ business evolution.

2.3 Asset-Light Approach

Against this backdrop, many customers are adopting an asset-light approach that increases outsourcing of manufacturing as well as processes and functions that can reduce capital expenditure (“Capex”) and inventory holdings. To improve their own cash-conversion cycles amid high-interest rates, they prefer supplier relationships which emphasise operating expenditure (“Opex”).

This post-pandemic accelerated Capex-to-Opex shift favours plastics manufacturers who can offer expertise in “Agile Built-to-Print” solutions which can shorten time-to-market, have inter-operability within the manufacturing footprint and, where possible, possess strong balance sheets which can support inventory management and cashflow.

2.4 Bio-Medical Sector Experiencing Major Shifts

Among the sectors that Fu Yu serves or targets, the challenges have been acutely felt within the bio-medical sector. Brands offering bio-pharmaceuticals, medical equipment and medical consumables experienced strong demand during the pandemic. But as the health crisis abated, many players had to contend with the over-stocking of inventory. The resulting write-downs and sudden reduction of orders have led many to shrink their manufacturing footprint and review the supply chain.

Many are also tweaking their product portfolio and business models. These changes include migration from a purely business-to-business (B2B) model to include business-to-consumer (B2C). Increasingly, many seek to reach end-customers directly; in turn, following the pandemic, these end-customers have become more health-conscious and more discerning in their pursuit of wellness and personal care.

Rapid medical advances are also prompting many players to venture into or increase exposure to the design and manufacture of biomedical devices for new procedures and therapeutics. These shifts require suppliers, including manufacturers of precision and specialty plastic components, who can offer significantly higher precision and attention to quality to meet regulatory approvals (e.g. FDA, HSA) across multiple jurisdictions.

2.5 Growing Emphasis on Sustainability

Growing concern around climate change is increasing emphasis on energy usage and the carbon footprint of raw materials, manufacturing processes and supply chains. Brand owners need to demonstrate to end-users and regulators empirical data of continuous improvements in carbon reduction from sourcing to final delivery of equipment, drugs and medical/nutritional consumables to pharmacies, hospitals and the home, i.e. Scope 1, 2 and 3 emissions.

This journey to net zero is leading to a global reset of the supply chain. This reset favours suppliers who can help the brand owners and OEMs themselves to improve sustainability to appease their increasingly sustainability-conscious customers. Suppliers now also need to be able to source and process carbon-friendly or even bio-degradable raw materials and harness technology effectively to improve operational processes, employ sustainable and green manufacturing practices and comply with global sustainability reporting standards.

3) CORPORATE STRATEGIES

3.1 Strategy #1 Improving Tooling, Increasing Precision & Roll-out of Smart Factory

A central pillar of Fu Yu's strategic transformation revolves around a back-to-basics emphasis on core engineering and tooling capabilities. While Fu Yu has 45 years of industry experience, its capabilities in designing and creating such custom metal moulds for injection moulding – involving machining, finishing and assembly – had lagged behind its peers.

To restore its leadership in designing and manufacturing moulds, Fu Yu has added more than 10 high-precision engineering specialists over the past year, doubling the number of in-house engineers based in Singapore. By improving capabilities such as scientific moulding, reverse engineering, and New Product and Design innovation, the Group will be able to handle advanced injection moulding, including liquid silicon rubber.

3.1.1 Smart Factory and Improving Internal Efficiencies

One of the first steps of the Group's transformation has been to establish its Smart Factory facility at 9 Tuas Drive 1 in Singapore. Completed in December 2022 (involving Capex of S\$22 million as of October 2023), the Smart Factory occupies a usable space of 9,348 sqm (2,781 sqm previously), with the shopfloor layout optimised for workflow.

Equipped with Industry-4.0 machinery, it will be one of Asia's most advanced precision manufacturing facilities. It will have advanced technologies such as 3D metal printing for rapid prototyping and manufacturing of complex mould inserts. State-of-the-art cooling technologies will further boost production efficiency, and an automated high-performance machining work cell will be set up to support production of inserts with complex geometries and contours with exceptional accuracy and precision.

The Group is also implementing high levels of automation; expected to be completed by 2H2024, it will allow production even overnight and over the weekend from start to finish with minimal human intervention, thereby reducing downtime by 40% compared to a typical facility.

The manufacturing processes are monitored via a cloud-based Manufacturing Execution System (MES), which enables real-time tracking and data analytics. It anticipates problems, facilitates instant rectifications and has self-learning capabilities to improve processes and quality.

This flagship facility has enabled Fu Yu to raise standards for higher-precision manufacturing significantly, accelerate cycle times and improve yields. The Company is confident that this Smart Factory will attract clients demanding higher precision and quality, including those from the bio-medical sector.

Singapore's good infrastructure and legal framework, have allowed the Group to build a "hub and spoke" model; the Smart Factory in Singapore serves as the hub for high-tech fabrication, design and manufacturing of mould operations which in turn supports its 'spoke' facilities in Malaysia and China. This process not only ensures consistency of quality but also protects the intellectual property of its customers' designs.

Already, the Group has been able to reduce dependency on outsourcing of moulds. As of September 2023, in-house moulding operations have increased to 90% from 70% a year ago, with the Group's facility in Suzhou, China, bringing its operations entirely in-house.

Building on the ongoing transformation, the Group intends to combine its manufacturing expertise with product designers to co-develop specialised products in several new industries. One such example is the accelerated shift towards EVs which require high-efficiency diaphragms, cooling systems and sensor housings.

Other industries include diaphragms for the biomedical space, as well as the realm of acoustic engineering.

3.1.2 Micro-Injection/Sub-micron Moulding

These enhanced capabilities have allowed Fu Yu to manufacture higher-precision products, as demand for increasingly intricate products continues to grow, driven by technological and medical advances and enhanced performance expectations. Previously operating within a precision range of 10 to 20 microns, Fu Yu is advancing to products with 2 to 5 micron precision. This strategic shift will allow Fu Yu to differentiate itself amid intense market competition.

Already, the Group has commenced the production of high-precision moulds for U.S., European and Asian customers in the medical and consumable sectors. As Fu Yu moves up the value chain, it will increase 'stickiness' with customers while higher-precision products, which command better profit margins, will positively impact to financial performance.

Maiden revenue contributions from the high-precision product business will commence in FY2024, and the Group expects revenue mix between high precision and normal precision to reach 70% and 30%, respectively, in the next 2 years.

3.2 Strategy #2 Enlarging Market Presence, Emphasising Bio-Medical Sector

This confluence of multiple challenges and market shifts outlined earlier offers a once-in-decades opportunity for Fu Yu to review its product segmentation and increase exposure to the bio-medical sector. This strategic intent is a major reason for the renewed emphasis on engineering expertise starting from tool-making.

Beyond the emphasis on higher precision, the Group is moving towards the export of tooling, whereby it offers its tooling expertise to other moulding companies and plastics manufacturers who lack specialised equipment and capabilities.

The demand for export tooling is expected to rise, driven by advanced manufacturing and higher precision required in sectors such as electric vehicles, medical devices, pharmaceutical and consumable goods.

Already, the Group has established a toolroom for customers to develop tools and has secured 2 Purchase Orders for soft tools. Revenue contribution from export tooling will commence in FY2024, with profit margins of 20% – 30%, and is expected to lift revenue contribution from the tooling segment to 15 – 25% of Group revenue, compared to 8% currently.

3.2.1 Establishment of Fu Yu Biomedical Pte. Ltd.

Reflecting the emphasis on this sector, the Company established wholly owned Fu Yu Biomedical Pte. Ltd. in February 2023. This subsidiary provides components for higher-precision biomedical devices that require stringent tolerances and highly complex designs. These include endoscopes, vials, syringes and in-vitro diagnostics devices such as microtiters and microfluidic trays.

Fu Yu has commenced engagement with potential biomedical customers and believes that a major differentiator will lie in its ability to produce moulds and components with precision levels of between 2 to 5 microns.

In order to meet the higher quality demands of the biomedical industry, the Group intends to revamp its facility at 5 Tuas Drive 1 to include new cleanroom facilities measuring approximately 1,200 sqm. Work will commence by 1H2024. By the end of 2024, the Group expects to have 7 Class-100,000 cleanrooms and 1 Class-10,000 cleanroom with add-on biolaboratories in Singapore.

3.2.2 Increasing Partnerships & Adjacencies

Another thrust of the Group's strategy is to forge partnerships with leading manufacturers offering technology or capabilities that can unlock adjacent opportunities. Since August 2023, Fu Yu has signed 2 such strategic partnerships.

The first is with Fujikura Composites Inc. ("**Fujikura**"), a leading Japanese elastomer manufacturer. Both sides can combine capabilities to offer new products, Fu Yu can also tap into Fujikura's extensive Japanese customer base to offer its tool-making, injection moulding and box-build capabilities. The

second is to be the exclusive plastic partner for JLK Technologies, a Singapore-based niche contract manufacturer specialising in product design and electronics.

The Group is on the lookout for niche metal stamping players, who can offer assembly services, to add to its suite of capabilities.

3.3 Strategy #3 Accelerating Sustainability

Recognising the urgency surrounding climate change, Fu Yu has committed to Science-Based Targets Initiatives (SBTi), with an aim to reduce its Scope 2 emissions by 30% by 2030 and optimise energy consumption.

Fu Yu is establishing a strategic partnership with a solar energy system developer to install photovoltaic solar panels across the rooftops of its plants in Singapore and Malaysia. The energy generated will be used to power in-house operations.

In line with this commitment, the Group's hydraulic machinery will be progressively replaced by electrically powered ones, which will enhance operational efficiency and reduce oil consumption. The Group has also implemented 3D printing and additive manufacturing technologies to use only the exact amount of materials required, thereby minimising waste and contributing to cost efficiency.

The Group recently transitioned to an integrated cloud-based platform, paving the way for completely paperless mould-making. This transition not only eradicates paper consumption, but also streamlines the mould-making process, improves accuracy, efficiency, real-time collaboration, and enhances the quality and speed of production.

Fitted out with sensors and hardware, the Group's Smart Factory will be capable of measuring energy usage as a first step to help customers track their carbon footprint across the supply chain. These efforts will also strengthen the foundation for Fu Yu to position itself at the forefront of the plastic ecosystem, wherein such data will be critical for customers' sustainability efforts.

The Group is also collaborating closely with partners to turn recycled materials into resin powder. It is also in active discussions with a supplier of biodegradable bio-resin sourced from sugar cane fibre. This bio-resin can be used to produce disposables, consumables and packaging caps. The Group is also closely working with customers, whose preferences significantly influence product development, to implement bio-resins in their products.

As demand for more environmentally friendly solutions rises, Fu Yu's ability to harness bio-resins will position it strategically in a market increasingly conscious of eco-friendly credentials.

3.4 Strategy #4 Integrating Product Design

In line with efforts to move up the value chain, Fu Yu has established a New Product Introduction ("**NPI**") team to proactively engage with customers at the design level, enabling a seamless transition from design to manufacturing.

The NPI team will leverage Design for Manufacturability principles to collaborate with customers at the design level to tailor product design, simplify the production process, and standardise components to reduce production complexity. Combined with Fu Yu's deep domain expertise, products can reach mass production quicker even as product quality improves, with lower scrap rates and better product yields.

The ability to offer these services will provide more touchpoints for collaboration, enabling us to grow our customer base while creating "stickiness" with the Group's customers. Such early engagement further enhances product development and optimises manufacturing processes. The Group will collaborate with customers and partners to improve their go-to-market strategies with shorter lead times, and better cost efficiencies

3.5 Strategy #5 Raising Investor Profile, Exploring M&A Opportunities

The Board believes that the change in leadership of the Company is coinciding with very significant shifts in various industries requiring the use of plastics. Beyond the investments and operational changes that are being executed across its 6 facilities, the Group also intends to raise its international profile and investor awareness.

With net cash of S\$56.7 million as at 30 September 2023, Fu Yu is able to pursue collaboration and partnerships to enhance shareholder value as part of its strategic transformation. One of the first M&A initiatives since the change of control was the acquisition in July 2021 of Fu Yu Supply Chain Solutions (“**FYSCS**”), which procures and sells commodities to end-purchasers. Building upon this, Fu Yu will explore other strategic M&A opportunities that can complement the Group’s core capabilities and long-term vision.

In FY2023, Fu Yu began centralising resin procurement processes and improved control procedures and is working closely with experienced commodity suppliers and traders to grow the business. The Group will conduct a strategic review of FYSCS to align the latter’s goals and strategies with Fu Yu’s broader strategic objectives.

In August 2023, Fu Yu was selected as one of 12 local companies to participate in Enterprise Singapore’s prestigious Scale Up Program. The program will allow the Group to sharpen its overseas expansion strategies and fine-tune its business strategies. This accolade and inclusion will support the ongoing transformation while supporting the Group’s efforts to raise brand awareness and investor profile.

4) CONCLUSION & OUTLOOK

The economic slowdown in China, rising interest rates and geopolitical tensions will pose challenges to Fu Yu’s financial performance for FY2023. That said, Fu Yu believes the transformation strategies outlined above will build a much stronger business foundation, open up new business opportunities and enhance shareholder value. Accordingly, the Group expects, barring unforeseen circumstances, that:

- 1) Financial performance for FY2024 will improve compared to FY2023 in view of
 - a. Higher topline, driven by the launch of the Smart Factory;
 - b. Revenue contribution from export tooling will rise significantly; and
 - c. Business recovery as earlier stockpiling issues ease

- 2) Gross profit margin will improve in FY2024 compared to 9.0% achieved in 1H2023, driven by higher margins in the biomedical segment, advances in smart manufacturing and Group-wide efficiencies.

The Group expects to announce its unaudited results for FY2023 in late February 2024.

BY ORDER OF THE BOARD
FU YU CORPORATION LIMITED

David Seow Jun Hao
Group Chief Executive Officer
Singapore, 28 November 2023