VICPLAS INTERNATIONAL LTD
Incorporated in the Republic of Singapore
(Company Registration No. 199805362R)

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO THE ANNUAL REPORT 2024 AND ANNUAL GENERAL MEETING TO BE HELD ON 28 NOVEMBER 2024

The Board of Directors (the "**Board**") of Vicplas International Ltd (the "**Company**" and, together with its subsidiaries, the "**Group**") refers to the Company's annual report for the financial year ended 31 July 2024 ("**Annual Report 2024**") and notice of annual general meeting ("**AGM**") released by the Company on 6 November 2024 in relation to the Company's AGM be held at Devan Nair Institute for Employment and Employability, Event Hall 1 (Level 1), 80 Jurong East Street 21, Singapore 609607 on Thursday, 28 November 2024 at 3.00 p.m. (Singapore Time).

The Board would like to provide responses to questions from the Securities Investors Association (Singapore) ("**SIAS**") ahead of the AGM as follows:

Q1. For the financial year ended 31 July 2024 ("**FY2024**"), the group recorded revenue of $102.4 million, a decline of 20.8% from a year ago, mainly due to lower revenue from the medical devices segment. Loss for the year was $(1.36) million, compared to a profit of $4.2 million in the prior year.

Notably, the medical devices segment saw revenue drop by 30.3% to $63.1 million and reported a loss of $(4.2) million, compared to a profit of $3.4 million in FY2023. This decline was attributed to:

- customers reducing post-pandemic inventory levels, a trend observed since the second half of FY2023
- elevated operating costs linked to the Changzhou plant expansion, new business development, and the start-up of the new Mexico facility

(i) **Could management provide a detailed update on the progress of the new plant in Mexico? What is the current status of facility readiness, and when is production expected to commence?**

Company's Response

The Mexico plant is in the final stages of internal fitout with installed production lines currently being validated, and supporting infrastructure nearing completion. Additionally, the first batch of operators have been trained and have commenced work. Customer visits to the Mexico plant have also commenced, and the plant is awaiting its final ISO13485 *Medical devices - Quality management systems - Requirements for regulatory purposes* certification. The Mexico plant is targeted to start contributing to the Group's revenue in the second half of the financial year ending 31 July 2025 ("**FY2025**").

(ii) **How does management assess the risk of potential tariffs on exports to the United States? What is the projected impact on the plant's profitability and the group's overall supply chain strategy?**

Company's Response

The medical devices segment ("MDS") monitors its operating environment carefully and has established a multi-country manufacturing footprint with production facilities in Singapore, China, UK and Mexico to address its customers' needs and requirements. At this point in time, it is difficult to assess the impact on its customers of any possible new tariffs imposed by the United States, and any related impact on MDS' business operations. MDS remains in constant communication with its customers and will continue to support their outsourcing strategy with its multi-country manufacturing footprint.

(iii) With nearly $20 million invested in non-current assets in Mexico, does management consider the heavy investment phase to be over?

Company's Response

For context, the carrying amount of segment assets in Mexico of $21,544,000 on page 142 of the Annual Report 2024 includes the accounting treatment to recognise right-of-use assets from the long duration lease of the Mexico plant for which there are corresponding lease liabilities. As stated on page 142 of the Annual Report 2024, the capital expenditure relating to the Mexico plant for FY2024 is $11,146,000.

Yes, the initial heavy investment phase is over with the setting up of a clean room, production lines and supporting infrastructure at the Mexico plant. However, any further capital expenditure (such as relating to additional production equipment) will depend on the pipeline of new production programmes secured from customers moving forward.

(iv) Can management provide insights into the Changzhou expansion? What key enhancements have been made in terms of floor space, new manufacturing lines, and technological capabilities? When is the expansion expected to be fully operational?

(v) Similarly, given the heightened geopolitical tension, how does the board evaluate the potential impact of new or increased tariffs on the group's operations in China?

Company's Response

The Changzhou plant extension has doubled the capacity of the Changzhou plant in China. It is fully equipped with 10k cleanroom capability for both molding and assembly operations. The Changzhou plant extension is strategically positioned to cater to those multi-national and local product owners that want to manufacture in China to meet the demand of the local China market. However, this is an emerging trend and the process of acquiring these "China for China" production programmes from customers takes time.

With respect to the heightened geopolitical tensions and the imposition of possible tariffs on China exports, at this point in time it is difficult for MDS to assess the impact on its customers, and any related impact on its business operations. MDS remains in constant communication with its customers and will continue to support their outsourcing strategy with its multi-country manufacturing footprint.

(vi) Can management provide an update on the progress made in acquiring new customers, particularly in the medical devices segment?

Company’s Response

Over the years, MDS has continued to build up new production programmes from existing and new customers. Given the highly regulated nature of the industry and its demanding quality standards and lengthy auditing process, this onboarding process naturally takes time, and continues to be supported by the following development initiatives:

- Additional sales and marketing resources for USA & Europe markets
- Additional build-up of the technical teams in China and Singapore to support both global programs as well as “China for China” programs
- Establishment of a plant in Mexico
- Growth in new capabilities areas - Speciality Extrusion, Gene-Cell Therapy, Micro moulding, Electro-Mechanical Box build

Total headcount for the group increased by 14% to 1,001 employees as at 31 July 2024 despite the decline in revenue. In particular, the headcount in China has increased from 600 as at 31 July 2023 to 721 as at 31 July 2024, an increase of 20%.

(vii) Could management help reconcile the significant increase in staffing levels with the decline in revenue, especially in relation to the medical devices segment in China?

Company’s Response

The overall increased headcount is partly due to the addition of direct, indirect and management staff for the operationalisation of the Mexico plant. In addition, in relation to the headcount in China, the rightsizing of inventory program had already commenced in the second half of the financial year ended 31 July 2023 (“**FY2023**”) with the staffing at the Changzhou plant having reduced by approximately 32% in the 5 months leading up to the end of FY2023. The increased number at the end of FY2024 is due to a recommencement of necessary hiring in the last quarter of FY2024.

(viii) The group’s greenhouse gas emission intensity has increased across both the medical devices and the pipes & pipe fittings segments. Could management elaborate on the reasons behind this rise? What specific initiatives are being implemented to address and reduce emission intensity?

Company’s Response

As stated on page 23 of the Annual Report 2024, the increase in GHG emissions intensity (defined as total GHG (tCO_2e) / million revenue) in FY2024 for the medical devices segment was due to the decline in revenue for the segment as well as the expansion of its manufacturing facilities in Changzhou and Mexico. As for the pipes and pipe fittings segment, the increase in GHG emissions intensity was due to the increase in production volume.

The Group is constantly striving to improve the manufacturing processes for both its business segments so as to reduce GHG emissions intensity and make more efficient use of resources, energy and water.

Q2. In the remuneration report, the company states that it adopts a remuneration policy for staff that is primarily performance based.

FY2022

The remuneration paid to the top five key management personnel, including the Group Chief Executive Officer for FY2022, are set out below:

Remuneration band Name of top five key management personnel including the Group Chief Executive Officer	Salary	Bonus	Other Benefits	Total Remuneration
	%	%	%	%
S$500,000 to S$749,999				
Walter Tarca[(a)]	62	33	5	100
Cheng Liang[(b)]	65	30	5	100
S$250,000 to S$499,999				
Gan Ying Hui	61	32	7	100
Toon Chin Liang, Aiken	61	32	7	100
Cheng Hsheng	59	26	15	100

Notes:

(a) Mr. Walter Tarca was appointed as Group Chief Executive Officer on August 1, 2022. He is also the President of the medical devices segment.

(b) During FY2022, Mr. Cheng Liang was the Group Chief Executive Officer. Mr. Cheng Liang stepped down as Group Chief Executive Officer on July 31, 2022, and continues as Managing Director for the pipes and pipe fittings segment.

The aggregate remuneration paid to the top five key management personnel including the Group Chief Executive Officer (who are not directors) for FY2022 is approximately S$2,177,000.

FY2023

The remuneration paid to the top five key management personnel including the Group Chief Executive Officer for FY2023 are set out below:

Remuneration band Name of top five key management personnel including the Group Chief Executive Officer	Salary	Bonus	Other Benefits	Total Remuneration
	%	%	%	%
S$500,000 to S$749,999				
Walter Tarca	63	31	6	100
Cheng Liang	62	33	5	100
S$250,000 to S$499,999				
Gan Ying Hui	63	31	6	100
Toon Chin Liang, Aiken	63	31	6	100
Cheng Hsheng	60	28	12	100

Notes:

The aggregate remuneration paid to the top five key management personnel including the Group Chief Executive Officer (who are not directors) for FY2023 is approximately S$2,298,000.

FY2024

The remuneration paid to the top five key management personnel including the Group Chief Executive Officer for FY2024 are set out below:

Remuneration band Name of top five key management personnel including the Group Chief Executive Officer	Salary	Bonus	Other Benefits	Total Remuneration
	%	%	%	%
S$500,000 to S$749,999				
Walter Tarca	70	24	6	100
Cheng Liang	64	31	5	100
S$250,000 to S$499,999				
Gan Ying Hui	65	29	6	100
Toon Chin Liang, Aiken	65	29	6	100
Cheng Hsheng	59	29	12	100

Notes:

The aggregate remuneration paid to the top five key management personnel including the Group Chief Executive Officer (who are not directors) for FY2024 is approximately S$2,297,000.

Over the past three financial years, the total remuneration paid to the top five key management personnel (KMPs) was $2.18 million in FY2022, $2.30 million in FY2023, and $2.30 million in FY2024. Despite a decline in profit from over $10 million in FY2021 to a loss of $(1.4) million in FY2024, the bonus component of KMP remuneration remained consistent at approximately 30% each year.

(i) **For the benefit of shareholders, could the remuneration committee (RC) provide a detailed explanation of how the variable compensation for KMPs is adjusted in relation to the company's financial performance? In light of the recent decline in profitability, what specific criteria were used to justify the consistent bonus payouts, and how does this support the principle of pay-for-performance?**

(ii) **What is the weighting of different KPIs in the evaluation of KMP performance? How do financial metrics such as revenue growth, profitability, and return on equity compare in importance to non-financial metrics like customer satisfaction, strategic initiatives, and ESG compliance?**

Company's Response

The Company has a remuneration framework in place for the Group Chief Executive Officer and key management personnel of the Group. It is in line with the Group's remuneration policy to attract, retain and motivate a pool of executive talent to provide good operational stewardship of the Company and to manage the Company for the long term.

For FY2024, it should be noted that the bonus composition has come down for senior management members, namely Group Chief Executive Officer and President of MDS Mr. Walter Tarca, Chief Financial Officer Ms. Gan Ying Hui and Technical Director of MDS Mr. Toon Chin Liang. The Group has an internal framework for determining remuneration which has different weightages applied to different KPIs which include but are not limited to, financial metrics that are customised to the different individual management roles, as well as non-financial metrics like implementation of strategic priorities in relation to setting up new plant(s), customer satisfaction, ESG, new customer acquisitions and orders, and regulatory compliance.

(iii) **Can the RC provide clarity on how the current remuneration framework aligns with shareholders' interests and the group's long-term performance and value creation (Principle 7 of the Code of Corporate Governance 2018)?**

Company's Response

As the management remuneration covers both individual and business segmental/Group performance, as well as other non-financial metrics, it is intended to remunerate the key management executives from an overall perspective and thereby aligning with shareholders' interest and the Group's long-term performance and value creation.

Q3. Mr Ng Cher Yan will be retiring upon the conclusion of the forthcoming annual general meeting (AGM). Mr Ng Cher Yan was first appointed in May 2010.

Mr Yeo Wico was first appointed in June 2008. However, the company has stated that Mr Yeo Wico will be redesignated as non-independent chairman immediately after the conclusion of the AGM.

Mr Yeo Wico, who sits in all the board committees, is currently:

- the chairman of the board,
- a member of the audit and risk committee,
- a member of the remuneration committee,
- a chairman of the nominating committee (NC), and
- the chairman of the strategy committee.

(i) Could the board provide a detailed breakdown of the total shareholder return over the past 5, 10, and 16 years (since June 2008)?

Company's Response

According to the Company's calculations, total shareholder return (which includes both capital gains and dividends) for:

- The past 16 years (FY2009 – FY2024) is an increase by 113%
- The past 10 years (FY2015 – FY2024) is an increase by 94%
- The past 5 years (FY2020 – FY2024) is an increase by 61%

		16 years (FY2009 to FY2024)	10 years (FY2015 to FY2024)	5 years (FY2020 to FY2024)
Share price at 31 July 2024	A	$0.10100	$0.10100	$0.10100
Share price at start of period	B	$0.07660	$0.08040	$0.07340
Total dividend during period	C	$0.06225	$0.05475	$0.01725
Total return [(A – B) + C]	D	$0.08665	$0.07535	$0.04485
Total return % [D / B *100%]		113%	94%	61%

The inaugural dividend payment of the Company was in respect of the financial year ended 31 July 2010, after Mr. Yeo Wico had assumed the position of Chairman of the Board on 22 September 2009.

(ii) Could the board elaborate on the specific competencies that make Mr Yeo Wico's continued presence critical to the board? Has the board conducted a skills gap analysis, and are there plans for a structured transition back to an independent chairman in line with current corporate governance standards?

(iii) Would the redesignation of Mr Yeo Wico delay the progressive renewal of the board?

Company's Response

Mr. Yeo Wico has been in legal practice for over three decades and a director of listed companies for more than a decade. He has acquired extensive knowledge and experience over the Group's business through different business cycles over the past 16 years with the Group. As such, he provides leadership to the Board and guides management on strategy and key business initiatives.

With regards to Board renewal, changes to the Board composition have occurred over the years and in line with annual Board evaluations. In particular, new Independent Directors will continue to be appointed going forward and upon the conclusion of the AGM, the new role of a Lead Independent Director will be created and changes will be made to the ARC, NC and RC so that they will be chaired by an Independent Director and the majority of these Board committees will comprise Independent Directors. Therefore, as part of the proposed changes, Mr. Yeo Wico will be relinquishing his role as a member of the NC, and hence will not continue as NC chairman.

(iv) How did the NC deliberate on the board renewal/succession plans given that both independent directors (including the NC chair) are long tenured directors and the third member of the NC is a non-independent non-executive director? Are the NC members conflicted and what measures are in place to ensure objective decision-making?

Company's Response

As stated on page 43 of the Annual Report 2024, there are periodic reviews of the Board composition, including selection of candidates for new appointments to the Board, as part of the Board's renewal process. Apart from the NC members, Mr. Ng Beng Tiong (Independent Director) and Mr. Yeo Kah Chong Mark Andrew (Independent Director) had attended and participated in the NC meetings.

In addition, in Note 6 Related party transactions (page 111), the company disclosed that the group paid legal fees of $50,000 to an entity in which a director is a partner. The amounts were $120,000 in FY2023, $146,000 in FY2022, $63,000 in FY2021, $151,000 in FY2020 and $294,000 in FY2019.

(v) For the benefit of shareholders, can the board/NC provide a detailed explanation of how they assessed that the provision of legal services by a director's law firm does not impair the director's independence? Given the recurring nature and significant value of these transactions, what criteria and safeguards were applied to ensure compliance with corporate governance standards? Have this relationship and the justifications been consistently disclosed in the company's annual reports since the inception of these legal services?

(vi) For greater transparency, would the board disclose the identity of the director and the law firm involved in the related party transactions?

Company's Response

The related party transactions refer to legal services provided to the Company by the law firm, Allen & Gledhill LLP. Mr. Yeo Wico is a partner of Allen & Gledhill LLP and does not own a stake of more than 5% in the firm.

Mr. Yeo Wico was not involved in the selection of Allen & Gledhill LLP as legal services provider to the Company, nor was he part of the legal team providing legal services to the Company.

Separately, on 22 January 2024, the company announced the appointment of Mr Yeo Kah Chong Mark Andrew as an independent director.

(vii) **Would the NC elaborate further on the rationale, selection criteria, board diversity considerations and search and nomination process, that led to the nomination and appointment of Mr Yeo Kah Chong Mark Andrew, as required in the SGX template?**

(viii) **While the board has stated that potential candidates may be identified by external channels or through contacts or recommendations, can the board confirm if Mr Yeo Kah Chong Mark Andrew was recommended by a current director? If so, how does the board ensure that the selection process remains independent and objective?**

Company's Response

As stated on page 43 of the Annual Report 2024, the NC conducted a broad-based search and evaluated potential candidates identified by external channels or through contacts or recommendations (including, but not limited to, the introduction by a current director of Mr. Yeo Kah Chong Mark Andrew to the rest of the Board as a possible candidate to succeed Mr. Ng Cher Yan, given his background and experience). In considering candidates for new appointments to the Board, the NC takes into account various factors, including the current and mid-term needs and goals of the Company, as well as the relevant expertise of the candidates in core competencies such as accounting or finance, business or management expertise, or industry knowledge and their potential contributions to the Board. The NC will also take into consideration whether a candidate had previously served on the board of companies with adverse track records or a history of irregularities, and assess whether a candidate's resignation from the board of any such company would cast any doubt on his ability to act as a director of the Company. Candidates would be considered against objective criteria, having due regard to the benefits of diversity on the Board. Accordingly, the selection and appointment process of Mr. Yeo Kah Chong Mark Andrew included interviews by the Directors who were not previously acquainted with him and a review of his background and experience.

(ix) **Given the impending redesignation of the chairman to non-independent status, his membership in all board committees (including two as board committee chair), and the recent appointment of a director potentially sourced through personal networks, how is the board ensuring a balanced governance structure, strong independent oversight, and diverse perspectives? What specific measures are being implemented to promote effective decision-making, mitigate risks of groupthink, and uphold best practices?**

Company's Response

After the changes to the Board and the Board committees (with the appointment of a Lead Independent Director, chairmanship of the ARC, NC and RC by an Independent Director and majority of these Board committees comprising Independent Directors), half of the Board will remain independent, which ensures its independent oversight function. In addition, the Board has implemented proper governance and transparency procedures as disclosed in the Corporate Governance report of the Annual Report 2024 (pages 37-53).

BY ORDER OF THE BOARD

Walter Tarca
Group Chief Executive Officer
25 November 2024