AP OIL INTERNATIONAL LIMITED
Registration No. 197502257M
(Incorporated in Singapore)

RESPONSE TO SUBSTANTIAL AND RELEVANT QUESTIONS FOR ANNUAL GENERAL MEETING

The Board of Directors (the “**Board**”) of AP Oil International Limited (the “**Company**”), together with its subsidiaries) refers to the announcement dated 8 April 2022 on the alternative arrangements for its Annual General Meeting to be held on 28 April 2022 (“**AGM**”), in particular the invitation to shareholders to submit questions in advance of the AGM. The Company would like to thank the shareholders for the questions submitted.

The Appendix I sets out the Company’s response to the questions received from the shareholders that are relevant to the AGM resolutions and the business of the Company.

By Order of the Board

Ho Chee Hon
Group Chief Executive Officer
21 April 2022

Appendix I

Question 1: *From the annual report for FY 2021, the cash and cash equivalents are $32.77 million. The market cap is $28.10 million as at 11 Apr 2022.The share price at $0.171 (as at 11 Apr 22) is well below its net asset value, NAV of $0.359. It is even below its cash holding as indicated above. It appears that the company has excess cash beyond its near-term needs. In view of this, I will like the management to share what are the rationale to hold so much excess cash level and whether they have other plans. Otherwise, the management should consider measures to counter the above such as share buyback or return excess capital back to the shareholders.*

Answer:

The Group cash and cash equivalents of $32.77 million is required for working capital and capital expenditure requirements of the Group, and for merger and acquisition projects as determined and undertaken by the Company to enhance shareholder value and seek out new business growth.

The quantum of dividend declared each year will take into consideration the Group's profit growth, projected capital requirements for business growth and other factors as the Board may deem appropriate. The Board has proposed a final tax-exempt dividend of 1.00 cent per ordinary share for financial year 2021, to be approved at the Annual General Meeting on 28 April 2022.

Question 2: *Refer to page 05 of the AR, Group financial highlights, the revenue of the company has been declining from 62.8m in FY2019 to 55.6m FY2021. However, the NPAT for FY2021 was at its highest of S$2.7m in FY2021 versus S$2.3m as a result of improve in profit margin.*

i. What were the reasons that attributed to the declining revenue trend?
ii. What are the plans by the company to reverse this worrying trend of declining top line going forward?
iii. May the company share what are the reasons for the improvement in profit margin in FY2021? Will the good profit margin be maintained going forward?

Answer:

i) The lower 2021 revenue of S$55.6M was mainly due to the decline in manufacturing revenue as customer demand was weaker due to Covid-19 pandemic fallout.

ii) The Company has and is continually adding new customers to strengthen our market base.

iii) The higher FY 2021 profit margin was mainly due to one-off trading opportunities which the Company optimized in FY 2021 when prices rose in first half FY 2021. Going forward, we expect the global theme of broad-based inflation, from cost of goods, services and employee wages to put pressure on margins.

Question 3: *Refer to page 6, in the Chairman's statement, "With funds accumulated over the years, we are in a strong position to continually seek new business opportunities and pursue our long-term development policy"*

i. May the company share with shareholders on what new business opportunities the company is looking *into? Can the management share what were the new business opportunities that were evaluated by the company?*

ii. May the company also share what is the long-term development plan and in which product segments, ie. lubricant oil or Specialty chemical?

Answer for (i) and (ii):

The Company's long-term plan has always been to grow the existing businesses and to pursue M&A and business alliances. Top management pursues and evaluates numerous projects every year. Opportunities examined included Lubricants, Specialty Chemicals and related industries. For opportunities outside of our core business, we look towards alliances with people who know the business. Our previous partnerships with Systematic Laundry; and our current JV in Chongqing with Zongshen and Moneymax are examples of these alliances.

Question 4: *Refer to page 8, in the CEO's message, "The new filling and packing machinery are being built overseas and scheduled to be installed in our new premises in the 3Q this year. The installation of new tanks and blending facilities will start in the 4Q once our vendors can reorganize their workforce".*

i. May the management provide more details on the above new expansion plan? Which are the segments these new equipment/tanks are for? Is it for lubricate oil or specialty chemical? What is the amount of capital expenditure allocated for the above new investment?
ii. What is the rationale of the addition of new equipment? Is it as a result of new orders/demands from customers or replacement of older equipment?

Answer for (i) and (ii):

The new equipment relates to the lubricants business. This had been planned and budgeted along with our new building. The machinery will add productivity, capacity and automation to our existing production lines and enable the Company to pursue opportunities for growth.

Question 5: *Refer to page 79, note 4B, financial information by operating segments, there is an improvement of gross profit margin in trading segment from 8% to 14% in FY2021.*

i. May the company share what are the causes of this improvement of profit margin? Is the improvement of margin a one-off event? Is the improvement in margin for trading sustainable going forward
ii. In page 15, Review of operations, it was stated that "Royalty revenue from the franchisees has not been material and sourcing of additional franchisees would no longer be the group focus", May the company explain on the reason of change in strategy of not focusing of sourcing of additional franchisees to group the trading segments?
iii. In page 82, note 5, there is a rental revenue of 1.014 mil, may the company kindly elaborate what is this item of "rental revenue" from? Is it from the rental of our investment property?

Answer:

i) The higher FY 2021 profit margin was mainly due to one-off trading opportunities which the Company optimized in FY 2021 when prices rose in first half FY 2021.
ii) The Franchising model is historical and not economically efficient. Going forward, the Company believes that the segment as announced describes the business activity more accurately.

iii) The rental revenue of S$1.014M relates to the renting of dishwashing equipment provided by our subsidiary GB Chemicals Pte Ltd to customers in the food & beverage business.

Question 6: *Refer to page 90, note 13, under property, plant and equipment, the 18 Pioneer sector 1 property which is expiring in 2023 and in page 93 note 14, the company stated that it is reasonably certain for the group to meet the conditions of extending the lease term by investing at least S$10.556 mil for another 20 years by 4th Jan 2023.*

i. May the company share the details on the plan of capital investments and the breakdown the nature of investment for the above property?
ii. How much has the company been invested and how much more is the company going to invest going forward in the current financial year?

Answer:

(i) As at 31 March 2022, the Company has invested total of $10.3M for the administration building and plant and machinery in the property.
(ii) It is estimated another $1M to $2M to be invested in 2022.

Question 7: *Refer to page 100, note 18b Investment in equity interests of unquoted entity at FYTPL on the stake and performance of Chongqing Zongshen Financial Leasing.*

i. Did the above investment contribute a yearly dividend to our company?
ii. How has the performance of this investment performed so far? Has the performance of this investment met the company's expectation?
iii. What is the company plan for the 12.5% stake of the above investment? Is the company going to hold for the long-term? What is the company exit strategy for the investment?

Answer:

i. Dividends have been received, these are subject to the JV's Governing Board and shareholders' discretion.
ii. The performance of the JV, that commenced in 2017, has been satisfactory and in line with the Company's expectation.
iii. This JV is a strategic investment, a collaboration with Zongshen Power Machinery, a lubricant business partner. It is an expansion of the existing supplier and customer relationship. Zongshen Group is a China 500 Listed Company. The Company regularly reviews this investment to evaluate its performance and the appropriate timing to exit, in order to enhance shareholder value.