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

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS")

The Board of Directors (the "**Board**") of AP Oil International Limited (the "**Company**"), together with its subsidiaries) refer to the announcements dated 6 April 2023 on the Annual Report 2022 and the 2023 Annual General Meeting.

In this connection, the Company has received several questions from SIAS on the Company's business and sustainability report. The Appendix I sets out the Company's response to the questions received from SIAS.

By Order of the Board

Ho Chee Hon
Group Chief Executive Officer
26 April 2023

Appendix 1

Question 1:

As shown in the financial highlights, the gross profit margin for the group declined from 17.9% to 14.3%. Specifically, the gross profit margin in manufacturing decreased from 21.0% to 17.0% while the gross profit margin in trading fell more significantly, from 14.8% to 9.4%.

(i) *Can management elaborate on the main factors that affect gross profit margins in the manufacturing and trading segment? Furthermore, what factors contributed to the decrease in gross profit margins in 2022?*

(ii) *In addition, why are the margins so volatile in the trading segment in 2022?*

In the CEO's message, it was mentioned that the "tight workforce situation in Singapore also resulted in higher wage cost to ensure employee retention. Subsequently, gross profit fell by S\$1.2 million to S\$8.76 million" (page 8). However, staff costs were lower at \$7.0 million (Note 9 Employee benefits expense; page 80).

(iii) *Can the CEO/company clarify on the higher staff costs affecting profits? It would have appear that employee benefits expense were lower in 2022.*

(iv) *Separately, what is the capacity of the state-of-the-art, fully automated rotary filling line? Would this help to increase the volume of products sold in the year?*

Company's Response:

(i) Manufacturing revenue gross margin declined mainly due to broad based increase in raw material costs (particularly base oil, lubricant components and specialty chemicals) with the elevated inflation on direct material costs, to packaging material to vendors service costs. The tight workforce situation in Singapore also resulted in higher labour costs to retain employees and recruiting to fill requirements. The high interest rate environment also resulted in weak market conditions, so not all of the increased costs can be passed onto buyers of our product. Refer to part (ii) for response to trading segment gross margin.

(ii) Trading in any raw material is generally a low margin activity. Higher trading margins may be achieved if there is disruption in the market and if there are opportunities for the Company to take advantage of such disruptions. The exceptionally high trading margins achieved in FY2021 was such a confluence of disruption and opportunity. This is consistent with our response to questions for annual general meeting (questions 2 and 5) published 21 April 2022. And also our 1st half 2022 financial statements (para 8(ii)) published 12 Aug 2022 and the financial year 2022 financial statements (para 8(ii)) on 27 Feb 2023. In the absence of further market disruptions, we expect trading margins to return to pre-Covid levels.

(iii) In 2022, staff salaries increased by 8.5% year-on-year due to higher salary increment action to retain employees and recruit employees to fill the requirements that was affecting production run. This was offset by lower directors' performance incentive booked in 2022, as the Group profit after tax threshold was not achieved. Consequently, employee benefit expense was lower than 2021.

(iv) The Company declines to publish the speed of the rotary line for competitive reasons. Any significant variance in volumes would depend on the Company's effort to sell on the entire product range, not just small bottles. The new line is equipped with automatic case packer and robot arm palletizer, require minimal human intervention, improves productivity and result in labour cost saving. Main advantages of the line are reduced reliance on manpower and improvement in bottling quality assurance by minimising manual input. On current technology, bottle filling process cannot be automated more than this.

Question 2:

During the financial year, in August 2022, the group invested US$500,000 (S$688,000) in Coval Technologies Pte Ltd and recognised a fair value loss of $(344,000) at the end of the reporting period.

(i) *What is the core business of the investee, Coval Technologies Pte Ltd? Are there potential synergies between Coval and the group?*

(ii) *How was the group introduced to Coval? What was the investment thesis and did the board approve the investment?*

(iii) *What was the level of due diligence carried out prior to the group's investment and what are the reasons the investment has been written down by 50% in 4 months?*

Company's Response:

(i) Coval Technologies Pte Ltd ("Coval") is a chemical manufacturer specialising in innovative coating technology. The coating technology is built off a polymer that covalently bonds with the substrate and with itself; interacts on the molecular level to chemically bond and link into the substrate regardless of surface roughness or porosity. This high-tension crosslinking creates an entirely new surface that is extremely hard, totally waterproof and highly resistant to abrasion, acid, stain, mold and corrosion.

The Group has business contacts for Coval to offer their products and services. The Coval investment is intended to diversify the Group's investment in adjacent segments and potentially enhance shareholder returns.

(ii) Coval was introduced through a business contact to participate in the startup's venture funding. Financial projection, intellectual property rights and founders' profiles were provided to the Group for due diligence. The product sufficiently outperforms current coatings to require potential buyers to commission trials as a new to market product. Based on the business potential assessed, financial projections, growth potential and business contacts synergy, the Board approved this investment.

(iii) Coval is still not profitable because it is still at the stage where durability trials are being carried out by customers. Durability is proven by time and there is a gestation period before the trials convert into sales. In line with fair value accounting, the external auditors have recommended that the fair value be adjusted lower. Management and Audit Committee have assessed Coval's financial position and took the decision to adjust the fair value lower by $344,000.

Question 3:

As noted in the Sustainability report, a Sustainability Committee has been formed to assist the board. The sustainability committee is headed by the Group chief executive officer and includes senior executives from the company and the major subsidiaries.

In its board statement, it was stated that the board has considered sustainability issues in strategy formulation. It has determined and endorsed the material ESG factors included in the sustainability report. The board provides oversight of management; and monitoring of the material ESG factors, identified by the Sustainability Committee, through periodic review of the sustainability performance.

(i) Could the board provide further insight into the roles played by the directors in the sustainability governance framework, particularly in driving, governing, and managing the sustainability function within the group? Did the board consider appointing board directors to the Sustainability Committee?

(ii) How frequently and to what extent does the board review the group's sustainability strategies and progress? Is this review conducted only during the twice-yearly board meetings or more frequently?

(iii) Are material ESG risks integrated into the group's overall risk management framework, monitored and reported to the board? If so, could management provide some examples of such risks?

Company's Response:

(i) The Board is represented by the Directors Ho Chee Hon and Chang Kwok Wah on the sustainability committee ("SC"). These Directors provide direction and manage the sustainability function of the Group through review and discussion of the material ESG factors and risks, to minimise the impact on the business and stakeholders.

(ii) The material ESG factors are reviewed on semi-annual basis to monitor the trend, variances year-on-year and implement action for improvement. The strategies and progress are reviewed periodically by the SC members and reported in the sustainability report, which is submitted to the Audit Committee and Board for review.

(iii) Risk examples include material ESG factors, namely, wastewater, hazardous waste and workplace accidents. These are reviewed regularly to check against business activity and volumes, to minimise impact on the business and stakeholders. In particular, safety is a priority for employee welfare and critical to business continuity, hence no accidents is a must.