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 11 June 2020 on the alternative arrangements for its Annual General Meeting to be held on 29 June 2020 (“**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 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. The Company has also provided response to the questions received from the Securities Investors Association (Singapore) (SIAS).

By Order of the Board

Ho Chee Hon
Group Chief Executive Officer
29 June 2020

APPENDIX

Q1. What is AP Oil doing to mitigate the effect of reduced marine vessels calling at Singapore port?

A. AP Oil does not sell marine lubricants directly to marine vessels. We blend for several multi-national brands, with a business presence in Singapore, to onward supply to customer vessels in Singapore. We are actively building up a customer base in marine lubricants. We have added 2 brand owners in the past 3 years.

Q2. Is AP Oil benefiting from increased use of cleaning chemical?

A. There was a short-term increase in demand for cleaning chemicals during the start of the Circuit Breaker period. The increase was insignificant and offset by the slump in demand from the Food & Beverage sector.

Q3. Manufacturing: Would Management help shareholders understand the breakdown of revenue by product and by industry?

A. The Group's manufacturing activities are split into 2 product categories:

- Lubricants, carried out by AP Oil Pte Ltd (APOPL), and
- Chemicals, carried out by A.I.M. Chemicals (A.I.M.) and GB Chemicals (GB).

For Financial Year (FY) 2019, the percentage (%) split between the Lubricants and Chemicals product by revenue is 71 : 29. It is important to note that this split is not only affected by volume, but also by price fluctuations of raw materials. There are many different raw materials involved in the making of Lubricants and Chemicals and the cost of which do not necessarily rise and fall in the same proportion.

A major shift in the revenue split occurred in FY 2017/FY2018 when a major customer Aegean Marine Petroleum Network Inc. filed for Chapter 11 proceedings. This reduced the proportion of contribution from Lubricants in manufacturing. Going forward, it is premature to estimate the effects of COVID-19 on the revenue split.

Q4. 30 Gul Crescent Office: The Group has maintained production at this factory and will be installing new equipment at the site to support new customers. What is the combined capacity of the Group's manufacturing facilities? Will this site be kept to support the Group's growth?

A. The Combined capacity of the Group's Manufacturing facilities is 56,000 MT blending comprising 40,000 MT at APOPL and 16,000 MT at A.I.M.

Yes, the 30 Gul Crescent factory is important and it will be kept to support the Group's growth. The installation of the new equipment had been put on hold during the circuit breaker measures but will commence once the contractor is able to do so.

Q5. Franchising: There was a significant drop in revenue from the franchising segment, from $9.3 million in 2018 to $3.9 million in 2019. What were the reasons for the drop in franchising revenue? How is Management building up its franchisee base so that the Group receives a steady and growing franchising revenue over time?

A. The Franchising revenue derives mainly from sale of raw materials to our franchisees for producing lubricants under our brand name. AP Oil retains first right of refusal to participate in the sourcing and supply chain of the franchisees. It is not a stable and recurring royalty income. The decrease in revenue occurred when the franchisees were able to procure similar raw materials from other sources at a better price in an increasingly competitive industry. The franchisees were able to find replacement suppliers.

The franchise model for lubricant manufacturing is not readily replicable. The Group does not intend to scale this model.

Q6. As noted in the key audit matter, the Company has an outstanding investment in Chongqing Zhongshen Financial Leasing Company Limited (JV) with a carrying value of $4.91 million as of 31 December 2019.

- Can Management help shareholders understand the progress made by the investee in the leasing business in China?
- What is Management's oversight and influence of the investee?
- Were the terms and pricing of the option denominated in RMB?
- What are the long-term prospects of the financial leasing business? Are there plans to monetize the investment in the near term?
- Does Management have visibility on the financial position of the JV which granted the Company the put option?

A. The JV commenced operations mid-FY 2017. It is performing to expectation. The Company has received dividends from the results of the first operating year.

The Company has the right to a Board seat and a Supervisory Committee seat. Several matters in relation to the operations of the JV are reserved matters that require unanimous Board approval.

Yes, the put option in the JV is in RMB, it can be exercised by the Company effective from 1 January 2018. The Company believes the long-term prospects of the business are good, especially in Chongqing, one of the highest GDP growth cities in China. There is currently no plan to monetize the investment in the near term. The company that granted the put option is listed on the Shenzhen stock exchange. The value of the put option is to be assessed by a mutually agreed valuer.

Q7**. In the Corporate Governance report, the Board stated that it sets high standard of corporate governance and its Management are committed to ensure that effective self-regulatory corporate practices exist to protect the interests of its shareholders and maximise long-term shareholder value.**

Provision 2.2 of the Code of Corporate Governance 2018 (Code) states that independent directors make up a majority of the Board where the Chairman is not independent. Provision 2.3 provides that non-executive directors make up a majority of the Board.

The Board has stated its opinion that based on the Group's current size and operations, its not necessary to have independent directors make up a majority of the Board. Pursuant to Rule 710 of the SGX Listing Manual, where there are variations from the Provisions of the Code, the issuer must explicitly state the provision from which it has varied, give the reasons for variation, and explain how the practices it had adopted are consistent with the intent of the relevant principle.

The Board has just stated that it is "not necessary" due to the Group's current size and operations. In addition, the Board did not expressly address the deviation from Provision 2.3 To comply with the Code, would the Board further justify and help shareholders understand how the current practices are consistent with the intent of Principle 2, which requires the Board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the Company. Would the Board / Nominating Committee elaborate further on the plans (including the pace) to refresh the membership of the Board to comply with the new 2018 Code in good time? Reconstituting the Board early to comply would avoid undue disruption and help to maintain institutional knowledge and continuity in the Board

A. All the Board Committee meetings are chaired by the Independent Directors. Decisions made at these meetings are achieved by majority consensus. Independent Directors make up a majority of all the Board Committees. Management regularly puts up proposals or reports for Board approval, for example, proposals relating to specific proposed transactions or general business direction or strategy of the Group. The Independent Directors evaluate the proposals made by Management and provide guidance on relevant aspects of the Group's business.

   To institute a progressive renewal of the Board membership, the Nominating Committee had commenced the search process to select a new independent director. The increase in independent directors' fees proposed in Resolution 5 was made in anticipation of another independent director joining the Board in FY 2020.