Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Vicplas International Ltd

Security: Vicplas International Ltd

Meeting details:
Date: 29 November 2018
Time: 2.30 p.m.
Venue: Devan Nair Institute for Employment and Employability, Event Hall 1 (Level 1), 80 Jurong East Street 21, Singapore 609607

Company Description

Vicplas International Ltd, an investment holding company, researches, designs, develops, manufactures, and assembles medical devices in Singapore, Malaysia, and China. The company operates through two segments, Pipes and Pipe Fittings, and Medical Devices. It also manufactures, trades in, and distributes piping systems for various industries, including waste and potable water systems for residential homes, schools, and commercial and industrial buildings; underground electrical and internal building wire piping systems; and data and signal line piping systems by telecommunications companies. The company markets its products under the VicPlas brand in Singapore, the Middle East, Bangladesh, and the Asia Pacific. In addition, it engages in the sale of medical and pharmaceutical products; and the provision of project design and engineering services. The company was founded in 1993 and is based in Singapore. Vicplas International Ltd is a subsidiary of Venner Capital S.A.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=569)

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

1. Would the board/management provide shareholders with better visibility on the following operational matters relating to the medical devices segment? Specifically:

(i) **Revenue:** Even as revenue for the segment grew by 21.8% to $30.4 million, the segment loss increased to $(1.4) million due "*primarily to costs incurred for new projects as well as lower income from building fewer tools for customers*". For FY2018, the group's largest customer accounted for $12.1 million of the total revenue. **Would management help shareholders understand its strategy to grow the medical devices segment? Did management prioritise growing its customer and revenue base over profitability/margin? Can management also provide a further breakdown of the revenue according to the class/type of products and customer profile?**

(ii) **Inventory:** In the operational and financial review, it was disclosed that inventories increased from $5.9 million at the end of FY2017 to $12.0 million at the end of this reporting period "due to higher inventory level in the medical devices segment to cater for the increase in customer orders". As shown in Note 10 (page 74 – Inventories), the largest component of inventory and the largest increase came from raw material, which increased from $2.64 million to $6.05 million over the same period. **Can management confirm that the increase in the level of inventory (especially in the raw material carried as at the end of the reporting period) was due to higher level of firm customer orders? What is the typical turnaround time needed to fulfill a customer's order? Would management consider disclosing the order book of the group on a regular basis?**

(iii) **XentiQ: Can management also update shareholders on the progress made since the acquisition of XentiQ in February 2016 to expand the manufacturing capabilities of the group's medical devices segment beyond polymer devices to electromechanical devices? What are some of the tangible benefits or achievements, in terms of revenue or new products?** The 81% subsidiary has yet to turn profitable given that profit attributable to the non-controlling interests were $(22,000) in 2018 and $(40,000) in 2017.

(iv) **Trade war: Has the group been affected by the on-going and escalating trade tension between the US and China? What would be the impact of a full-blown trade war on the group?**

2. Segment revenue from pipes and pipe fitting remained stable while the segment profit slipped to $6.0 million in 2018 from $7.5 million a year ago "*due primarily to decreased margins from higher costs and increased competition*". The segment is expected to continue to face strong headwinds in Singapore in the short to medium term.

(i) **Has management estimated the group's market share (of the residential home segment and of the civil engineering segment) in Singapore?**

(ii) **What are the pro-active measures by management to improve on the profitability of the pipes and pipe fitting segment?**

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Subsequent to the financial year, on 18 October 2018, the group made a third partial capital injection in its Cambodian joint venture company to fund the acquisition of land and the related construction works. The total capital injection to date is US$1.309 million.

(iii) Can management provide shareholders with a holistic overview of the expansion plans in Cambodia? Please include details such as the scale and capacity of the new manufacturing facility, total capital expenditure, key milestones, growth prospects, size of addressable market and the level of management's oversight and control.

3. The directors have recommended a total dividend of 0.75 cents per share for the fourth year running, subject to the final dividend of 0.5 cents per share to be approved by shareholders at the forthcoming annual general meeting.

In the chairman's statement (page 3), it was stated that:

> *The Group's ability to sustain this track record of 0.75 cents per share of total dividend per annum is dependent on its business performance and fundamentals as well as its capital requirements to support the business. Going forward, to provide greater flexibility for managing the Group's capital needs throughout the year, this 0.75 cents per share of total dividend per annum will be payable in a single lump sum as final dividend rather than through a combination of interim and final dividends.*

Further in the operational and financial review, it was disclosed that the group's cash balance dropped by $8.4 million from $16.3 million to $7.9 million at the end of FY2018. After taking into account its bank borrowings and finance leases of $3.1 million, the company has a net cash position of 0.9 cents per share, compared to 2.9 cents per share at the end of FY2017. Cash and cash equivalents were as high as $18.5 million as at 31 July 2016.

The company needs $3.8 million in cash to sustain a dividend payment of 0.75 cents per share each year.

(i) Has the board re-evaluated the optimal capital structure for the group, taking into account the performance and growth prospects of the medical devices segment and the pipes and pipe fittings segment?

(ii) Net cash used in investment activities amounted to $(3.5) million in 2016, $(3.4) million in 2017 and $(7.6) million in 2018. **Is the board able to provide shareholders with better visibility on when the heavy investment phase will be over?**

(iii) Would it be timely for the board to explore the introduction of scrip dividend?

A copy of the questions for the Annual Report for the financial year ended 31 July 2017 and 31 July 2016 could be found here:

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

https://sias.org.sg/qa-on-annual-reports/?company=Vicplas%20International%20Ltd

The company's response could be found here: -----