

MIYOSHI LIMITED

(Incorporated in the Republic of Singapore)
Company Registration Number: 198703979K

RESPONSES TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The board of directors (the “**Board**”) of Miyoshi Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) would like to thank the Securities Investors Association (Singapore) (“**SIAS**”) for submitting their questions in advance of the Company’s Annual General Meeting to be held on 30 December 2021 at 10:00 a.m.

Unless otherwise defined, capitalised terms used herein shall have the same meaning as ascribed thereto in the Company’s annual report for the financial year ended 31 August 2021 and the announcement dated 16 December 2021 in connection with the proposed placement and the circular dated 15 December 2021 in connection with the proposed diversification.

The Company’s responses to the questions received from SIAS are set out below.

Question 1

Would the board/management provide shareholders with greater clarity on the following operational matters? Specifically:

- (i) **Automotive segment: Can the board help shareholders understand the factors that led to a 37% increase in revenue from the automotive segment? How sustainable is the increase in revenue from the automotive segment?**

Company’s response

The 37% increase in revenue from the automotive segment was mainly contributed by our production plant in China. The increase in revenue in FY2021 was also due to the low base in FY2020 when the Group’s operations were disrupted by the COVID-19 pandemic and the Fire Incident in the Philippines. Notwithstanding the aforementioned, the revenue from the automotive segment has been growing since FY2015, in line with the Group’s strategy as mentioned in the response to Question 1(ii) below. However, due to the uncertain economic outlook, the Group maintains a cautious outlook and expects the growth in revenue from this segment to remain the same in the next 12 months.

- (ii) **Data storage: Revenue from data storage dropped from \$8.4 million in FY2020 to \$3.5 million in FY2021. Following the fire incident, what is the progress made by management to secure new orders and/or to win back its old customers? Can management provide shareholders with an overview of the group’s strategy for the data storage business?**

Company’s response

The 58.3% drop in revenue is mainly a result of the loss of customers from the data storage segment in the Philippines after the fire incident as announced on 19 October 2021. Despite losing our customers, the Company continues to maintain contact with our customers on a regular basis. Notwithstanding, since FY2014, the Company has been emphasising the challenging operating landscape in the data storage segment as a result of intense competition and price pressure from our customers. The Group’s strategy of diversifying out of the data storage segment and focusing on other business segments remains on track, while continuing to look for other business opportunities that strives to build a business model that is both profitable and sustainable for the long-term.

- (iii) **Utilisation: What were the utilisation rates of the group's production facilities? Following the reconstruction of the production facilities in the Philippines, what is the new capacity?**

Company's response

The utilisation rate of the Group's stamping facilities is approximately 50% as at 31 August 2021 while the utilisation rate for plating facilities in the Philippines was full prior to the Fire Incident. Following the reconstruction of the plating facilities, the utilisation rate is approximately 30% as at 31 August 2021 due to the loss of customers as mentioned above.

- (iv) **Proposed diversification: The company has also proposed to diversify its core businesses to include the business of trading of commodities, with an initial focus on the trading of rice, sugar, corn and feed. Can the board help shareholders understand the competitive advantage of the group in the trading of commodities? Given that it is highly competitive and is capital intensive, what deliberations did the board have when it approved the proposed diversification? In particular, how does the group intend to create and capture value for shareholders in the trading of commodities? Lastly, has the board evaluated the company's diversification track record? The group's investment in Core Power has faced challenges and is currently inactive. The group had also ventured into high-tech indoor farming and optronics business which have not taken off.**

Company's response

The Company intends to diversify its existing business to include the business of trading of commodities, with an initial focus on the trading of rice, sugar, corn and feed. The Company believes that the market to trade in such soft commodities is still large within South East Asia and the Group has a competitive advantage with their current presence in various countries such as Malaysia, Thailand and the Philippines where agriculture is still a predominant industry. The Company had also considered the risks associated with the commodity trading business, the nature of expertise required and the economic conditions. The Company believes that given time, the commodity trading business will be beneficial to the Group by providing new revenue streams and prospects. The Company will continue to explore and evaluate other commodity trading opportunities which may further create value for shareholders. The Board has evaluated the Company's diversification track record and remains of the view that the Proposed Diversification is in the best interests of the Group.

Question 2

The group raised net proceeds of \$424,000 from its share placement in October 2021 at an issue price of \$0.0270 per placement share.

- (i) **Can the company help shareholders understand the major capital expenditure in the next 18-24 months?**

In addition, on 16 December 2021, the company announced a proposed placement of 48.3 million shares at an issue price of \$0.02070 per placement share for a total aggregate subscription amount of \$1.0 million. At the point of entering into the placement agreements, the NTA per share were 6.75 cents per share (prior to the placement) and 5.24 cents per share (prior to the placement) respectively.

- (ii) **Has the board evaluated its capital structure and looked for cheaper sources of funding?**
- (iii) **What are the reasons for the company to repeatedly place out new shares to raise relatively small amounts of money?**
- (iv) **Given that the NTA per share was 6.75 cents and 5.24 cents when the company entered into the placement agreements, did the board (especially the independent directors) consider the dilutive impact of the placement especially for minority shareholders? If so, would the private placement be beneficial to the company and to the minority shareholders?**

(v) Did the board estimate the group's cost of capital?

Company's response

In view of the current competitive business situation, the Group maintains a cautious outlook in the next 18 months. Accordingly, the Company does not foresee any major capital expenditure in the next 18 months.

The Group's bank borrowings amounted to approximately \$9.2 million as at 31 August 2021. The Company had considered the dilutive impact of the placement exercise to the Shareholders, and in its effort to raise funds to meet the financial needs of the Group, the Company had explored various options and factors before undertaking the equity fund raising exercise as it is deemed more suitable at this point in time. The Company had considered, and is mindful of the dilutive impact of share placement exercises and therefore only undertook the placements in small tranches. The Company is considering the option to use 80% of the net proceeds from the placements to pursue, subject to the shareholders' approval for the proposed business diversification at the upcoming extraordinary general meeting, business opportunities under the commodity trading business.

The Company is of the view that the placement exercise is in the best interests of the Company and the Shareholders as a whole as it will support the future growth of the Group and augment its working capital. The Group has assessed and estimated that its cost of capital is in line with the interest rate of bank borrowings from various financial institutions in FY2021.

Question 3

At the annual general meeting scheduled to be held on 30 December 2021, two independent directors, namely Mr. Lim Thean Ee (also chairman of the board) and Mr. Wee Piew, will not be offering themselves for re-election and will retire as independent directors at the conclusion of the AGM. Both directors serve on all three board committees and hold the chairmanship of the nominating committee (NC), the remuneration committee and the audit committee (AC). Currently, there are 4 directors on the board, comprising 2 independent directors, a non-executive non-independent director and one executive director. Following the cessations, the company would not have any independent director on the board. In addition, the AC would not have a minimum of 3 members.

(i) Can the NC elaborate further on the board succession plan? Would the cessation of both independent directors disrupt the board?

Company's response

Board succession planning is carried out through the annual review by the NC of the Board's composition as well as when a Director gives notice of his or her intention to retire or resign, so that the Board will have the necessary competency to be effective. The NC evaluates the Directors' mix of skills, and experiences that the Board requires to function competently and efficiently. Board succession planning also takes into account the need to maintain flexibility to effectively address succession planning and to ensure that the Company continues to attract and retain highly qualified individuals to serve on the Board. The Company continues to be mindful of having a succession plan in place so as to ensure business continuity of the Group.

The NC is of the view that there will not be any disruption to the Board functions of the Company arising from the cessation of the two independent directors as there are still two directors that remain on the Board, each having served as a director of the Company for at least six (6) years, and have sufficient competencies to deal with the Board's affairs competently and efficiently.

- (ii) **Has the NC reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**

Company's response

In undertaking its duty of reviewing and making appointment recommendations to the Board, the NC, periodically and on an on-going basis, reviews the size, structure, composition and competencies of the Board. Candidates for appointment to the Board are considered and assessed by the NC against a range of criteria including the candidates' demonstrated business sense and judgement, skills and expertise, and market and industry knowledge. The NC uses such skills matrix to determine the skills gaps of the Board. The NC and the Board also considers diversity factors such as age, education, skill, competencies, business and professional background of its members in determining the optimal composition of the Board in its Board renewal process.

- (iii) **What are the channels being used by the NC to source for new directors?**

Company's response

The NC has multiple and diverse sources for its director candidates and does not rely on any single source and should the need arise, the NC will also tap on to the resources of the Directors' personal contacts and associations such as the Singapore Institute of Directors that are independent of the Group or any of its Directors to assist with the identifying and short-listing of potential candidates to be appointed as independent directors of the Company in compliance with the Singapore Code of Corporate Governance.

- (iv) **What is the progress made in shortlisting and appointing new independent directors? What is the level of involvement by the two retiring NC members in the company's search for new independent directors?**

Company's response

The NC is in the process of selecting suitable independent director candidates to fill the vacancies of the two retiring NC members as soon as practicable and the Company will announce their appointment upon confirmation. The two retiring NC members remain committed to fulfil their duties and have assisted in identifying and selecting suitable candidates.

BY ORDER OF THE BOARD

Andrew Sin Kwong Wah
Executive Director and CEO

24 December 2021

This announcement has been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "Exchange") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.

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