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**Issuer:** AP Oil International Ltd

**Stock code:** 5AU

**Meeting details:**

Date: 27 April 2023

Time: 2.00 p.m.

Venue: 18, Pioneer Sector 1, Jurong, Singapore 628428

**Q1.** The group's financial highlights for the year ended 31 December 2022 can be found on page 5 of the annual report (reproduced below):

	2022	2021	2020
Revenue (S\$'000)	61,111	55,614	57,149
Gross Profit (S\$'000)	8,759	9,956	8,659
Gross Margin (%)	14.3	17.9	15.2
Profit Before Tax (S\$'000)	1,238	2,975	2,510
Net Profit After Tax (S\$'000)	1,098	2,741	2,153
Net Margin (%)	1.8	4.9	3.8
Earnings Per Share (cents)	0.67	1.67	1.31
Net Asset Per Share (cents)	35.11	35.94	34.25
Ordinary Shares	164,531,172	164,531,172	164,531,172

(Source: company annual report)

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%.

**4B. Profit or loss for the year and reconciliations**

	Manufacturing \$'000	Trading \$'000	Unallocated \$'000	Total \$'000
<b>2022</b>				
Revenue by segment	40,445	22,655	-	63,100
Inter-segment sales	(786)	(1,203)	-	(1,989)
Total revenue	39,659	21,452	-	61,111
Gross profit	6,742	2,017	-	8,759
Interest income			239	239
Other gains			454	454
Finance costs			(171)	(171)
Other losses			(351)	(351)
Unallocated expenses			(7,879)	(7,879)
Share of results of joint ventures			187	187
Profit before tax				1,238
Income tax expense				(140)
Profit for the year				1,098
<b>2021</b>				
Revenue by segment	28,189	29,224	-	57,413
Inter-segment sales	(699)	(1,100)	-	(1,799)
Total revenue	27,490	28,124	-	55,614
Gross profit	5,784	4,172	-	9,956

(Source: company annual report; emphasis added)

- (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).

**9. EMPLOYEE BENEFITS EXPENSE**

	Group	
	2022 \$'000	2021 \$'000
Employee benefits expense	6,372	6,432
Contributions to defined contribution plan	493	451
Others	135	239
	<b>7,000</b>	<b>7,122</b>
Included in:		
Cost of sales	1,982	1,822
Distribution costs	1,118	1,028
Administrative expenses	3,900	4,272
	<b>7,000</b>	<b>7,122</b>

(Source: company annual report)

- (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?**

**Q2.** 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.

**18C. Investment in Simple Agreement for Future Equity note of unquoted entity at FVTPL**

	Group	
	2022 \$'000	2021 \$'000
Fair value at beginning of the year	-	-
Addition	688	
Fair value loss (note 6)	(344)	-
Foreign exchange adjustments	(12)	-
Fair value at end of the year	<u>332</u>	<u>-</u>

In August 2022, the Group invested US\$500,000 in Simple Agreement for Future Equity note issued by Coval Technologies Pte Ltd. The Company accounted for this investment as other financial assets measured at FVTPL. The fair value of the financial asset, which is categorised within level 3 of the fair value hierarchy, was based on the adjusted net asset approach.

(Source: company annual report)

- (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?**

**Q3.** 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?**

*Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.*

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