

TRICKLESTAR LIMITED

(Company Registration No.: 201837106C)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS RECEIVED FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”) ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2020 (“FY2020”)

With regards to SIAS’s questions in relation to the Company’s FY2020 Annual Report, the Board of Directors (the “**Board**”) of TrickleStar Limited (“**TrickleStar**” or the “**Company**”, together with its subsidiaries, the “**Group**”) response to each of the specific questions is set out immediately after the question. For the avoidance of doubt, the Company does not respond to the commentaries made by SIAS since they merely set out the context of the questions raised.

***Q1.** As noted in the letter to shareholder, the group responded to the market’s focus on price (over quality) and introduced a new brand, PlugLoad (page 5 of the annual report), which has fewer features than the premier brand, TrickleStar.*

(i) Can management help shareholders understand if this will lead to a gradual erosion of the group’s profit margin?

Response:

When TrickleStar listed in June 2019, the Company mentioned that a risk that the Group faced was reliance on a single product – the Advanced Power Strips (“**APS**”). In the FY2020 Annual Report and an Investor Relations PowerPoint that was issued on 26 February 2021 the Company mentioned that a range of new products are being introduced in the FY2021. The relevant companies within the Group have three new products ready for the market and the Group has increased the headcount of its sales team in the USA in preparation for a sales push for these new products. The Wi-Fi Smart Thermostat is already in field trials and a soft launch is expected in Q2 2021. The other 2 products will be launched in H2 2021. If sales of the new products achieve expectations, the margins of the Group’s consolidated results will not be so dependent on APS as it moves ahead.

The Company notes that significant points of the Group’s margin erosion are from the USA tariff on China products of 25%, increasing production costs due to increasing commodity prices, increased shipping costs, and price competition in the market. Moving a large portion of production to Malaysia in FY2020 has helped mitigate some of these issues tremendously. A company within the Group has also introduced a lower specification product (PlugLoad brand) to compete where customers are more price conscious, while continuing to defend the TrickleStar brand as an affordable premium product.

All these new products have high barriers to entry and different cost structures to APS. These products will be sold into USA as well as new countries for the Group, in Europe and Asia and the Company anticipates the results from these new products and initiatives to influence the Group's margins and profits in FY2021, mitigating the margin risk due to the APS products.

On page 6, the company disclosed that it has identified the following key risks in the business:

- *reliance on a single contract manufacturer*
- *over-reliance on a small number of products*
- *concentration on a small number of customers*

The group has made considerable progress to mitigate these key risks in the year despite the disruptions brought about by the pandemic.

(ii) Advanced Powerstrips: In the Offer document dated 3 June 2019, the company disclosed that revenue from advanced powerstrips contributed 98.8% of the revenue in FY2018. What is the percentage of revenue derived from the advanced powerstrips in FY2020?

Response:

In the notes to the Financial Statements in the Annual Report for FY2020 (page 97) it is stated, "The Group has only one primary business segment, which is that of developing and selling advanced powerstrips and surge protectors." There are figures that you may refer to there that guide the answer to this question, including the geographical segmentation. APS continue to account for a very high percentage of revenue.

(iii) Major customers: The group's top 5 major customers accounted for 86% of its revenue in FY2018. In FY2020, the top 5 major customers accounted for 81% of total revenue. What is the group's strategy to acquire new customers? How much progress has the group made in acquiring new customers? From Note 26 (page 101 – Segment information), it can be seen that revenue from Canada increased significantly from US\$27,751 to US\$751,862.

Response:

The central part of sales strategy is to sell APS to distributors for power utility company programs. That will continue as a high proportion of the APS business. However the new products will be targeted at wider distribution outlets and into new geographical areas outside USA and Canada. The Company hopes shareholders will begin to see evidence of this later in FY2021.

(iv) New products: The group has developed three new products to be launched this year, namely Wi-Fi Smart Thermostat, Wi-Fi Water Heater (both can be controlled via mobile applications on smartphones) and DryerSaver. Can management help

shareholders understand if the products are developed in partnership with certain customers and if there are already firm orders for the new products when they are launched? What is the typical development cycle for a new product?

Response:

There are no pre-orders. There are high barriers to entry for the abovementioned types of products, with numerous regulatory approvals required before the Group can begin sales.

The Group has also developed some of these products to be firmly in the IoT (Internet of Things) sphere. These are not just developed as stand-alone products, they include software packages and platforms to make them very user-friendly. The development cycle takes time, years, not months, and patents need to back up and protect the knowledge and assets the Group develops. The products have been developed independently where possible and with the use of expertise from third parties (through what the Company considers to be normal commercial relationships) when electronic design, firmware or manufacturing expertise is required, such as the Wi-Fi Smart Thermostat. The manufacturer is solely responsible to ensure the hardware works according to specifications. Within the TrickleStar range of products, TrickleStar owns all the IP for the portals, applications (apps), industrial design, and tooling. TrickleStar Limited Hong Kong (the Group's Hong Kong subsidiary) owns all of the IP and patents. This allows continuity in the philosophy of being lean and having a low headcount with, at the end of FY2020, just 18 employees. Ultimately though, the TrickleStar brand is one of the core assets owned within the Group and one that is defended this vigorously.

The development cycle of new products within the group is quite unique to ensure a fit with utility needs, manufacturer selection, design and cost considerations, and IP protection. Due to the commercial sensitivity of the Group's business, the development cycle of new products is kept confidential.

(v) B2C: Has management explored a direct-to-consumer business model where the group's key products are sold online?

Response:

Products available online at www.tricklestar.com and in some retail outlets e.g. The Home Depot (part of Home Depot Product Authority, LLC) and Lowe's (part of LF LLC) in the USA. It is the considered opinion of management that retailers are demanding on margins, require considerable management and that a better return for less effort can be achieved by selling through utility programs.

Q2. *The group designs and supplies simple, easy to use energy saving products to help customers reduce their energy consumption in their homes and workplaces. The group has a lean organisation structure, with the majority of its 18-person workforce in engineering and customer service departments.*

While the group has previously depended on a single independent contract manufacturer in China, it has now diversified its manufacturing to partners in Malaysia.

(i) Intellectual property (IP): How does the group ensure that its IPs are well protected with the outsourcing arrangement?

Response:

The Group ensures that its IPs are well protected with the outsourcing arrangement by working with well-established, reliable partners and with well documented manufacturing service agreements with clear ownership of IP and provisions for dealing with theft of IP. The arrangements have clear ownership of tooling, certifications, hardware designs and so on.

For most of the new products, ownership of the IP is 100% within the Group. With software, steps have been taken to obfuscate code. With embedded devices these steps include controls so that manufacturers either receive pre-programmed micro-controllers (thus controlling source code and providing information on exactly how many units have been manufactured) or locked programming is used on relevant computer hardware and software that are involved in the manufacturing premises that control production programming. Additionally, companies within the Group have an active program for the filing of patents, design registrations and trademarks. Where companies infringe these intellectual properties, the Group is prepared to take them on and hold them to account. This has been done in the past and will continue to be done when necessary.

The Company is well aware of the need to protect intellectual property to ensure the Group has sustained competitive advantages from its investments in R&D and brand development.

(ii) Value proposition: Would management help shareholders understand how it is positioned to compete against low-cost competitors?

Response:

As was mentioned in the Group's Annual Report for FY2020, there was price sensitivity for the first time in FY2020 in the APS market with the introduction of products into some utility programs. The PlugLoad brand was developed in FY2020, specifically to respond to that new challenge and FY2020 sales of that brand has been promising. There is in-house knowledge within the Group that enables it to respond to this kind of competition if necessary. Product categories have life cycles and, as categories mature, there needs to be ensured that there is a steady pipeline of new products that can grow and replace products that are in their sunset phase. This is why there is heavy investment into R&D and products were chosen that had high barriers to entry and protectable IP.

(iii) Platform: Is the group working to make its products compatible with other IoT/smart home platforms such as Google Home, Amazon Echo or Apple HomePod?

Response:

The new connected products will connect with Google Home and Amazon Alexa. The mobile applications work with Android and iOS. The R&D work is particularly focused on connecting platforms that are created for the products with as many of the utility demand response and aggregation platforms as possible. This is a major initiative over the next 12-24 months.

(iv) Research and development: How does the group stay abreast of latest market trends, and ensure that its products can meet the ever-changing market's demand? What are some examples of R&D and/or commercial feasibility studies conducted prior to new product launches?

Response:

TrickleStar products are regularly promoted at trade shows and industry conferences. A number of Group staff sit on the boards of energy efficiency organisations keeping their ears close to the ground. Interacting regularly with utility partners and listening to end-users gives a feel for the 'voice of the customer'. This information leads the Group to understand many of the problems and challenges that utilities face and the regulatory framework they operate within. This provides feedback for what is going on in the market, the problems and the needs of utilities and consumers. Third party market research is utilised, but many manufacturers do not disclose full information for competitive reasons so, whilst useful, this research needs to be used in conjunction with market knowledge and market experience.

A good example of market research is the Wi-Fi Smart Thermostat. Multiple distribution partners and utilities provided feedback on issues that could be improved for them and their customers and this helped in the Group's market analysis as to what alternatives would be welcome.

Detailed market analysis revealed an opportunity to provide a competitive product which, with the right industrial design and manufacturing partner, could help customers solve their problems. Ultimately businesses exist to solve problems. By listening to customers' problems, assessing market size and potential, the Group determines if, in its opinion, its customers have the capacity and willingness to pay and whether it is possible to deliver a solid solution with defensible IP.

(v) Key man risk: With a team of 18 in the entire organisation, how robust is the management bench strength? How does the group manage its key man risks?

Response:

On page 24 of the Corporate Governance report in the FY2020 Annual Report [*unless otherwise defined, all capitalised terms used in this announcement shall bear the same meaning in the FY2020 Annual Report*], it is stated "As regards succession planning, in FY2019, the NC noted that this needed to be improved in TrickleStar and, in FY2020, it has been a focus for the NC. Succession planning has been developed by the NC

with Management to the point where the Board is now satisfied with TrickleStar's succession planning." It is an area that has been addressed, and will continue to be addressed as well as possible, bearing in mind the stage of the Group's development and the resources available to it. Management is lean – that is part of strategy – and there is a wish to keep it that way despite the risks (which have been considered) that might arise in the event of a sudden, unexpected vacancy arising. The employees within the Group all understand the thinking behind this approach: any person who under-performs tends to be called out and is assisted when shortcomings arise, meaning team attitudes and support are very strong among management and staff.

Q3. *The board comprises five directors, three of whom are deemed independent. The biographies of the board directors can be found on pages 9 to 11 of the annual report.*

As disclosed in the board diversity section in the corporate governance report, the company recognises the importance and benefits of diversity in all ways, including gender, background and other distinguishing factors/qualities. Currently, the ages of the directors are between 49 and 67 and all the directors are male (page 24). The independent directors are Mr. Jeremy John Figgins (lead independent director), Mr. Chuah Jern Ern and Mr. Ling Hee Keat. All three independent directors have formal legal training.

(i) Can the board elaborate further on how the current board, as a group provide an appropriate balance and mix of skills, knowledge, experience, and other aspects of diversity such as gender and age, so as to avoid groupthink and foster constructive debate?

Response:

Whilst 3 Directors have formal legal training, only Mr Ling Hee Keat (“**Mr Ling**”) has maintained a practicing role, both Mr Jeremy John Figgins and Mr Chuah Jern Ern have diversified into wider roles embracing very wide expertise and experience. Even Mr Ling's career has not been exclusively in practicing law as he, too, has kept many other commercial interests. The demonstrated skills our Directors bring to the Board cover: accounting, finance, legal, patent protection, business, management, operations, strategic planning, information technology and global business as well as familiarity with regulatory requirements. The Board is able to carry out constructive and focused discussions among the Directors in both formal and informal environments. The Board has informal discussions, almost every month, on issues facing the business. A larger Board at this stage of TrickleStar's development might hamper these kinds of discussion and contrast with our Group philosophy of keeping headcount lean. We will expand the Board when suitable candidates are available. During FY2020 TrickleStar made an offer to a lady in USA who the Nomination Committee felt would bring additional skills and diversity to TrickleStar, but the proposal was not taken up. TrickleStar is always alert to possibilities that will improve TrickleStar.

The company has adopted a board diversity policy although the nominating committee (NC) has not recommended any measurable quantitative objectives to be tracked at this stage of the company's growth.

(ii) What are some of the key objectives of the board's diversity policy?

Response:

The Board's diversity policy aims to promote and maintain diversity with a view to achieving a sustainable and balanced development. TrickleStar sees diversity in its Board as an important element in supporting the attainment of strategic objectives. The policy requires the Nomination Committee to consider diversity from a number of aspects, including but not limited to skills, knowledge, experience, gender, age, ethnicity, culture, geography and tenure.

By Order of the Board

Bernard Emby

Executive Chairman and Chief Executive Officer

25 March 2021

*TrickleStar Limited (the "**Company**") was listed on Catalist of the Singapore Exchange Securities Trading Limited (the "**Exchange**") on 18 June 2019. The initial public offering of the Company was sponsored by PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**").*

This announcement has been reviewed by the Company's Sponsor. It has not been examined or approved by 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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