

VICPLAS INTERNATIONAL LTD
Incorporated in the Republic of Singapore
(Company Registration No. 199805362R)

**RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN
RELATION TO THE ANNUAL GENERAL MEETING TO BE HELD ON 24 NOVEMBER 2021**

The Board of Directors (the "**Board**") of Vicplas International Ltd (the "**Company**" and, together with its subsidiaries, the "**Group**") refers to the Company's report for the financial year ended 31 July 2021 ("**Annual Report 2021**") and notice of annual general meeting ("**AGM**") released by the Company on 2 November 2021 in relation to the Company's AGM to be held by way of electronic means on **Wednesday, 24 November 2021** at 3.00 p.m. (Singapore Time).

The Board would like to provide responses to questions from the Securities Investors Association (Singapore) ("**SIAS**") ahead of the AGM as follows:

Q1. As noted in the statement by the chairman, the group continued to grow its revenue and profit despite the challenges of Covid-19. For FY2021, revenue increased by 28.2% driven by strong growth in the medical devices segment and the gradual recovery of the pipes and pipe fittings segment. Segment revenue of the two core businesses increased by 30.6% and 22.9% respectively.

In particular, revenue derived from the medical devices segment increased from \$61.4 million to \$80.2 million.

(i) **What was the group's utilisation rate in the medical devices segment in FY2021? How much more organic growth can the segment achieve without major capital expenditure and/or acquisitions?**

[Company's Response](#)

The utilisation rate for the Medical Devices segment ("**MDS**") averages in the region of 70 - 75% across all its plants, with the plant in Changzhou being almost fully utilised. To provide more capacity, MDS has in progress a 7,000 square metre extension of the plant in Changzhou, which will double its current size, and is targeted for completion in the second half of FY2022 to take on new projects.

MDS strives for growth year-on-year over the long term. However, the actual rate of growth is expected to moderate after four consecutive financial years of growth, due to a larger base. Taking a broader view, with the global medical device contract manufacturing market expected to grow over the next five years and with its funnel of already awarded projects currently being commercialised, combined with our expanding capabilities and track record of successful execution, MDS believes that the overall outlook is bright. Nevertheless, this optimism must be tempered by caution in the face of a global macro-environment of some uncertainty due to current international trading conditions, geo-political challenges and the on-going Covid-19 pandemic.

(ii) **Can management provide a breakdown of the segment revenue by products/classes of products?**

Company's Response

Due to competitive reasons, the Company does not provide a detailed breakdown of MDS' revenue. However, MDS currently operates in the following five major product segments:

- 1) airway management
- 2) drug delivery
- 3) endoscopy
- 4) surgical instruments
- 5) In-vitro diagnostics

Furthermore, over 90% of MDS' products are full/complete medical devices, and not components or sub-assemblies.

(iii) **How is the group sourcing for acquisitions?** It was mentioned in the chairman's statement that the group will be looking to expand the breadth and depth of its technological and manufacturing capabilities, specifically in the areas of in-vitro diagnostics, medical extrusions and electro-mechanical devices (page 2).

Company's Response

The Company considers synergistic M&A business opportunities as and when they arise, but the focus for MDS right now is on organic growth, namely, growing sales in a sustainable and profitable manner year-on-year. Any acquisitions will be considered in a strategic manner and would need to bring new capabilities in medical devices manufacturing, and/or new customers and additional revenue streams, which ideally would be earnings-accretive.

(iv) **Arrow Medical Limited: Has Arrow met management's expectations since the acquisition in November 2018 (for 20%) and in April 2020 (for the remaining 80%)? In addition, how has XentiQ performed since its acquisition?**

Company's Response

Arrow Medical is a continuing work in progress. It has been in business for some decades and has built up significant expertise in that time in the areas of silicone moulding and medical textiles, with capabilities in clean room assembly, RF welding and fabric sewing.

Arrow Medical was severely affected by the UK's Covid-19 shutdowns but has started to recover with orders improving as the UK opens up. The motivation for investing in our first UK plant was because it provided a low and cost-effective entry point into Europe and with a different customer base, there is a potential for cross-selling. Arrow Medical also has immediate capacity available, and with the UK re-opening, MDS believes that it can be part of its growth plans in Europe.

The acquisition of XentiQ allowed for an expansion in design and manufacturing capabilities beyond polymer devices to electro-mechanical devices. As a result, MDS is currently working with a number of both new and existing customers on electro-mechanical projects with a view to commercialisation in the future.

- (v) **Manufacturing: Can management elaborate further on the strategic value of potentially having a fifth manufacturing site in a location outside Asia and nearer to the USA? How cost-competitive would it be given that it might be located outside Asia?**

Company's Response

MDS has strategically placed its production facilities in different locations to provide a range of options to its customers as to where they would like to locate their production.

In FY2021, MDS embarked on the extension of its Changzhou facility to meet the demand by customers to manufacture in China for the emerging Chinese market. For customers seeking an alternative to China, our renovated facility in Singapore has increased in popularity for smaller projects that require more automation. As part of our planning to be well-positioned globally in the long term, MDS is looking to expand its manufacturing footprint outside of Asia, with the next plant to be established at a near-shore location to the US, to cater to the large number of US Medtech customers and provide the logistical advantages of being close by.

Several near-shore locations to the US are currently being evaluated and the Company believes that it can find a suitable location that is not only cost competitive but also provides the necessary infrastructure and expertise required to produce high quality medical devices for the growing global market.

- (vi) **Major customer:** As disclosed in Note 33 (page 109 – Segment information: Information about major customer), the group's largest customer contributed \$42.2 million in revenue. This accounted for more than two-thirds of the revenue in the medical devices segment. In the past three years, the revenue contribution by the major customer(s) has increased from \$12.1 million in 2018, to \$29.7 million in 2019 (2 customers) and to \$33.1 million in 2020. **What is the group's strategy to broaden its customer base and to develop/acquire other major customers?**

Company's Response

Today, MDS has a far more diversified customer base with many projects per customer as compared to six years ago when it had one customer (which is no longer a major customer) with one product type contributing 80% of its revenue. MDS' current major customer contributed approximately 50% of revenue in FY2021, but that is spread across multiple products and multiple divisions within the customer's organisation.

MDS has very few one-off or short-term customers. Due to the generally long period of time required for commercialisation in medical devices contract manufacturing, customers tend to continue to purchase during the lifecycle of the product and most enter into mid to long term supply agreements with MDS.

MDS' strategy is to continue to improve its capabilities and be a highly vertically integrated "one-stop shop" providing attractive design and manufacturing solutions for medical devices for new and existing customers. MDS will continue to commercialise projects from customers that have already been awarded, and these are expected to come on-line and generate revenue within the next 24 months. Therefore, MDS expects more growth from the sales of new products from other customers over time. MDS does not only focus growth on the current major customer but on growth from all other customers as well.

Q2. In the pipes and pipe fittings segment, revenue increased by 22.9% as the construction industry gradually recovered. Segment profit increased by 23.2% to \$3.2 million in FY2021 from \$2.6 million in FY2020.

(i) **How has the manpower shortage/tight labour market affected the pipes and pipe fittings segment in Singapore and in Malaysia?**

Company's Response

The tightening of the labour market and manpower shortage has resulted in the pipes and pipe fittings segment ("Pipes segment") scaling down its operations for Singapore and Malaysia. Despite this, the Pipes segment was able to cope with customer demand as construction projects were generally slower as well. When there was a surge in customer demand, both the Singapore and Malaysia operations managed to source for temporary operator staff to cope. The Pipes segment also put various staff retention programs in place to maintain a stable workforce for both operations.

(ii) **Can management help shareholders understand the headway the group has made in civil engineering projects? How much of the group's revenue in FY2021 was derived from civil engineering projects?**

Company's Response

The Pipes segment has been supplying uPVC piping systems for civil engineering projects as part of its ordinary course of business for a long time and intends to continue supplying to the new townships being developed and upcoming mega infrastructure projects in Singapore. Due to competitive reasons, the Pipes segment does not disclose a breakdown of its sales.

(iii) Details of the group's 49%-owned joint venture can be found in Note 16 (pages 91 and 92). The Cambodian JV is carried at \$1.8 million. The accounts for the JV remained exactly the same in FY2020 and in FY2021. **Can management help shareholders understand the sentiments on the ground in Cambodia? What is the current status of the JV?**

Company's Response

In FY2020 and FY2021, there were no activities for the Cambodian JV. This JV acquired a piece of land in Cambodia to build a new pipes manufacturing facility, but the manufacturing facility was not built due to challenging market conditions. The JV had and continues to explore alternative uses for the land, including selling it. Although the construction sector in Cambodia has gradually improved in 2021, general sentiment still remains weak and the Pipes segment will continue to sell products in that market through distribution arrangements.

Q3. As disclosed in the corporate governance report, with the appointment of Mr. Ng Beng Tiong on 28 April 2021, three of the five directors are independent directors. The independent directors are Mr. Yeo Wico (chairman), Mr. Ng Cher Yan and Mr. Ng. Beng Tiong.

Mr. Yeo Wico and Mr. Ng Cher Yan were first appointed on 10 June 2008 and 3 May 2010 respectively. Accordingly, both directors have served more than nine years on the board. At the annual general meeting scheduled to be held on 24 November 2021, Mr. Yeo Wico and Mr. Ng Cher Yan would be seeking a two-tier vote by shareholders for their continued appointment as independent directors.

The profiles of the directors can be found on page 8 of the annual report. Additional information on directors seeking re-election can be found on pages 26 to 31.

(i) Can the board/nominating committee elaborate further on the plans (including pace) for the progressive renewal of the board (Principle 4 of the Code of Corporate Governance 2018) given that the two long tenured independent directors are seeking their re-election?

[Company's Response](#)

The Board currently comprises of five Directors (including a female Director) and all are non-executive directors. This year, the Company appointed an independent director, Mr. Ng Beng Tiong on 28 April 2021. The Board intends to appoint an additional independent director in 2022 and will announce the appointment when a suitable candidate is found.

(ii) How effective was the NC in determining the independence of directors and in making recommendation on the re-appointment of directors? The NC comprises Mr. Yeo Wico, Mr. Ng Cher Yan and Mrs. Jane Rose Philomene Gaines-Cooper (who is a non-executive director).

[Company's Response](#)

On Page 18 of the Annual Report 2021, the Company has described its process for the evaluation of the performance of the Board, its board committees and its directors, including the annual evaluation of the independence of a director. To further elaborate on the effectiveness of the NC in determining the independence of directors and in making recommendation of the re-appointment of directors, there is a transparent process whereby every member of the Board completes annual evaluation forms namely, Board Evaluation Questionnaire, Committees Evaluation Questionnaire, Board of Directors Competency Matrix, Director Peer Evaluation, Evaluation of Individual Director by Self-Assessment. After completion, all of these forms are made available to all members of the Board for review.

Additionally, the independent directors of the Company also confirm their independence in a separate form of Declaration of Director's Independence on an annual basis. The NC deliberates annually to determine the independence of a director bearing in mind all of the above. Apart from the NC members, Mr Ng Beng Tiong (the newly appointed independent director) was also present during such deliberations.

In the section on additional information on retiring directors seeking their re-election, it was disclosed that Mr. Ng Cher Yan is a practicing Chartered Accountant and sits on the board of several public listed companies. On page 29, it was disclosed that a summon was issued against Mr. Ng Cher Yan (on 7 July 2020) as a nominee director of SFL-Boiler Installation Pte Ltd (SFL) relating to a failure by SFL to file annual return within the requisite period. A fine of \$1,200 was paid to resolve the issue.

(iii) Would the director help shareholders understand his role as a nominee director in SFL?

Company's Response

All companies in Singapore are required to have at least one director resident in Singapore and this is a provision under Singapore laws. Mr. Ng Cher Yan provides the services of a nominee director for Singapore companies in the normal course of his work. In his capacity as the nominee director of SFL, he is not involved in any executive function nor in the operations of SFL. Mr. Ng Cher Yan is non-executive and he was appointed a nominee director of SFL to comply with Singapore's regulatory requirements.

(iv) How does the summon and the fine reflect his ability to serve as a director of a listed company?

Company's Response

This summon was issued on 7 July 2000 and not 7 July 2020, and hence it is not a new development. The year was erroneously set out on page 29 of the Company's Annual Report 2021. This summon was also disclosed in the Company's Annual Report 2019, with the correct date.

As a nominee director of SFL, Mr. Ng Cher Yan has reminded the management of SFL to comply with, amongst other matters, the filing of SFL's annual return within prescribed timeline. The annual return of SFL was not filed within the requisite period. The summon and the fine does not affect Mr. Ng Cher Yan's ability to carry out his duty as a director of a listed company nor affect his understanding of his responsibilities as a director of a listed company.

(v) What deliberations did the NC have?

Company's Response

Mr. Ng Cher Yan had disclosed the matter in his annual declaration to the NC. As mentioned in the response to 3(ii) above, the NC had deliberated on his re-appointment based on the evaluations and declarations as so described (including peer assessment from every other director).

BY ORDER OF THE BOARD

Cheng Liang
Group Chief Executive Officer
20 November 2021