FU YU CORPORATION LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number: 198004601C)
(the "**Company**")

ANNUAL GENERAL MEETING TO BE HELD ON 20 APRIL 2023 - RESPONSES TO QUESTIONS FROM SHAREHOLDERS AND SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS")

The Board of Directors of Fu Yu Corporation Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to thank shareholders for submitting their questions in advance of the Annual General Meeting ("**AGM**") to be held by way of electronic means on Thursday, 20 April 2023 at 2.00 p.m. (Singapore time). The Company also refers to the questions raised by SIAS in relation to its annual report for the financial year ended 31 December 2022 ("**FY2022**") ("**Annual Report**").

The following are Company's responses to substantial and relevant questions that were raised by shareholders as well as the questions from SIAS.

A. QUESTIONS RECEIVED FROM SIAS

SIAS QUESTION 1

As noted in the operations review, for the year ended 31 December 2022 ("FY2022"), the group reported revenue of $240.1 million, an increase of 22.8% from $195.5 million in FY2021. The increase was driven mainly by the supply chain management services which recorded its maiden full-year contribution in FY2022.

Revenue from the manufacturing segment was relatively stable, with revenue of $140.1 million compared to $143.7 million in FY2021. The supply chain management services business made up 41.7% or $100 million of group revenue in FY2022 (FY2021: 26.5%) and contributed a higher profit before tax of $1.9 million as compared to $1.3 million in FY2021.

1.1 With more than a year since the acquisition of Fu Yu Supply Chain Solutions Pte Ltd (formerly known as Avantgarde Enterprise Pte Ltd) in 2021, can management share the lessons gleaned from the new business?

The Group acquired Fu Yu Supply Chain Solutions Pte Ltd ("**FYSCS**") in 2021 to diversify its business beyond the core manufacturing business and assess avenues to centralise the procurement and logistics management of raw materials for its manufacturing business to reap potential cost savings.

The Group believes there are synergies between FYSCS and its manufacturing business as FYSCS is already helping the manufacturing business to optimise procurement activities to bring down its costs. In addition, FYSCS has also enabled the Group to benefit from new revenue and profit streams in FY2021 and FY2022.

1.2 Has the business performed up to expectations? What are the major commodities traded/supplied that contributed to the $100 million in revenue?

For FY2022, the supply chain management services business generated full-year revenue of S$100.0 million from trading activities related to physical commodities including renewable products and petrochemicals. This business unit's performance in FY2022 has met expectations set out by the management.

1.3 What are the key value drivers and the major risk factors in the supply chain management business?

FYSCS is primarily engaged in the provision of supply chain management services for commodities. Its key value drivers include market intelligence, operational efficiency, strong relationships as well as sound risk management and compliance practices.

To manage its risk exposure, FYSCS engages with high quality customers who are largely established and reputable multinationals. In addition, FYSCS conducts its trades on a back-to-back basis and requires all customers to post payment security from first class international banks. To further minimise any credit risk, FYSCS employs credit enhancement tools such as insurance cover and assesses customers' credit worthiness regularly. FYSCS also maintains good relationships with banks to assure its ability to access bank financing facilities when required.

1.4 Are there any synergies with the group's core manufacturing business?

Please refer to the Company's response to question 1.1.

1.5 What growth targets has the board set for the supply chain management business in terms of revenue and profit in the mid/long term?

The Group does not disclose specific financial forecasts or internal company targets. However, the management intends to maintain an opportunistic approach to grow FYSCS's revenue base by expanding the scope of products under its trading activities, while continuing to capitalise on the potential synergies between FYSCS and the Group's manufacturing business.

1.6 Does the group have sufficient capital to support the growth in the business?

With net cash of around S$72.0 million at the end of FY2022 and access to banking facilities, the Group believes it has sufficient liquidity to support the working capital requirements and expansion plans of its businesses.

1.7 Who are the key executives driving the new business? Is there sufficient breadth and depth in the management team to grow the business to the next level?

The team currently comprises senior staff that individually has over a decade of experience in their respective fields of experience including commodities supply chain management industry. The Group is continually looking to expand its talent pool with long-term hires at the junior level.

1.8 Similarly, what is the board's experience in supply chain management?

The Board has vast and broad-based experience in areas including legal, tax, cross border transactions, operations, trade and commodity financing, and banking and investments. Their diverse expertise underpins the Board's ability to provide strategic oversight and review of the supply chain management business with due considerations for the long-term interests of the Group.

<u>SIAS QUESTION 2</u>

Can the board/management provide shareholders greater clarity on the following operational and financial matters in the manufacturing business? Specifically:

2.1 China: How badly were the group's operations in China affected by COVID, and have the operations been fully restored since the COVID measures were lifted by the Chinese government?

The COVID-induced lockdown measures in China during 2022 had caused disruptions in the Group's deliveries to customers, as well as some degree of manpower constraints at its Suzhou plant as a result of the mobility restrictions. Nevertheless, the Group was able to mitigate the manpower shortage situation, thanks to its COVID measures that it had put in place at its factories in China since 2021. As such, the Group's factories in Suzhou, Dongguan and Zhuhai were able to remain fully operational in spite of the government's measures to curb the spread of COVID infections.

On a wider scale however, these restriction measures in China contributed to a slowdown in business and consumer activities, and affected the country's economy in 2022. Against this backdrop, the Group's China segment saw a 5.9% decline in revenue to S$54.8 million in FY2022 compared to S$58.2 million in FY2021. As a percentage of the manufacturing business' revenue, China segment contributed 39.1% in FY2022 compared to 40.6% in FY2021.

2.2 Profitability: In the manufacturing segment, the group achieved a higher gross profit margin of 24.2% versus 23.8% previously. However, net profit for the year decreased by $3.2 million mainly due to the increase in selling and administrative expenses of $22.9 million in 2022 compared to $19.5 million in FY2021. What was the increase in selling and administrative expenses attributable to the manufacturing segment? For the benefit of shareholders, please provide a breakdown of the increase in selling and administrative expenses by business segment.

Net profit declined by S$3.2 million to S$14.4 million in FY2022 from S$17.6 million due mainly to due to increased selling and administrative expenses, lower foreign exchange gain and reduction in other income.

As explained on Page 5 of the Annual Report, the increase was attributed mainly to the consolidation of staff expenses from the supply chain management services business, and Fu Yu Restricted Share Plan ("**RSP Awards**").

Of the total selling & administrative expenses of S$22.9 million in FY2022, around S$20.9 million was attributed to the manufacturing business with the remaining S$2.0 million due to the supply chain management services business.

Manufacturing business saw an increase in selling and administrative expenses of around S$2.4 million in FY2022 compared to FY2021, due mainly to the expenses related to the RSP Awards. The supply chain management services registered an increase in selling and administrative expenses of around S$1.0 million in FY2022 due to an expansion in headcount, and longer accounting period of 12 months versus six months in FY2021 as FYSCS was consolidated as part of the Group only from the second half of FY2021 following the completion of acquisition.

2.3 Fu Yu Biomedical: The group plans to enter the higher precision biomedical devices, life sciences products, and consumables segment. These products, such as endoscopes, vials, syringes, and in vitro diagnostics, require more stringent tolerances. What is the market entry strategy? How does the group intend to overcome the challenge of being a newcomer with little or no direct track record in biomedical devices/products?

Fu Yu already manufactures medical devices as the Group possesses the underlying assets, technology and know-how in the medical space. Our manufacturing facilities in Singapore, Penang (Malaysia), Suzhou (China) and Zhuhai (China) are ISO 13485: 2016 certified.

To develop the medical space as a key industry focus and build a stronger platform for future growth, the Group has set out plans to expand its reach and elevate its range of products for the medical industry. To this end, the Group has established Fu Yu Biomedical to pave its entry into the production of higher precision biomedical devices, life sciences products and consumables that require more stringent tolerances.

To strengthen the Group's know-how in the medical segment, we have made strategic hires of personnel with decades of experience in this field. Fu Yu Biomedical is being led by our Chief Operating Officer, who has more than 25 years of experience in the precision engineering field supporting a wide range of industries including medical and life sciences. The Board is confident that he will bring immense value to the Group with his specialised know-how and lead the Group into manufacturing more advanced medical products.

Fu Yu Biomedical is actively engaging potential customers while leveraging on the Group's new smart factory in Singapore to propel Fu Yu into the new biomedical arena. To enhance its competitiveness and build customer base, Fu Yu Biomedical plans to distinguish itself with integrated value chain capabilities to enable delivery of sustainable design-to-fulfilment services to customers. The Group's long term goal is to grow Fu Yu Biomedical's footprint and reputation in the global biomedical, life sciences and in vitro diagnostics ecosystems.

2.4 Smart factory: What is the level of automation in the new factory? What are some of the high-end technical capabilities?

The new "smart factory" meets the standards of Industry 4.0 and will serve as a showcase of the Group's advanced manufacturing competencies. With the enhanced infrastructure and strengthening of our talent pool with new hires at both senior and mid management levels, this will increase our technical know-how to augment capabilities in high precision engineering, R&D, product design, materials engineering, rapid prototyping and additive manufacturing. In addition to higher precision manufacturing capabilities and increased automation, the factory's layout allows for efficient, seamless workflow across its tooling, moulding and assembly operations.

The factory has a very high level of automation with some lines already fully automated. The Group is in the process of implementing a cloud-based Manufacturing Execution System ("**MES**") to track real-time operational data and provide data analytics capabilities. With the MES, the Group can also use Statistical Process Control to measure and control the quality of our products.

<u>SIAS QUESTION 3</u>

As noted in the corporate governance report, KPMG LLP will retire and will not seek re-appointment at the forthcoming AGM.

Further in the EGM circular, it was noted that KPMG LLP has served as the auditors of the group since the financial year ended 31 December 2007 and was last re-appointed at the annual general meeting on 26 April 2022.

The board and the audit committee (AC) believe that it is timely to change auditors for the forthcoming financial year ending 31 December 2023 considering, among other factors, that KPMG LLP has served as the group's auditors for about 16 years and it is an opportune time to benchmark the audit fees and realise cost efficiencies.

The board highlighted that the proposed change of auditors is not the result of any disagreement with KPMG LLP.

3.1 Can the AC clarify if KPMG's decision not to seek re-appointment follows the AC's communication of its intention to KPMG that it would be looking to appoint a new auditor?

The Board held discussions with KPMG on its views to consider appointing alternative audit firms to gain fresh perspectives, as well as to benchmark the Company's audit fees and realise cost efficiencies as part of its ongoing efforts to manage the Group's overall business costs and expenses amidst the challenging business climate. The Board's decision to change auditors is in no way the result of any disagreement with KPMG LLP.

3.2 How many proposals did the company receive, and how did the AC carry out the evaluation of the proposals?

The Company received three proposals.

In the evaluation process, the AC reviewed and deliberated on the proposals received from each of the audit firms by taking into consideration several factors. These included the adequacy of resources and expertise of the audit firms, the experience of the audit engagement partner to be assigned to Fu Yu, other audit engagements of the audit firms, the number and experience of supervisory and professional staff to be assigned to the audit, the fee structure and audit arrangements proposed and how these would satisfy the Group's audit requirements given the size and complexity of our business and operations.

3.3 Is the AC satisfied that the proposed incoming auditors will be as effective as, if not more than, KPMG, considering that the group has a regional footprint in Singapore, Malaysia, and China?

The proposed incoming auditor, Baker Tilly TFW LLP is an audit firm registered with ACRA and approved under the Accountants Act. The AC has determined that it is best suited to meet the existing needs and audit requirements of the Group. The AC is also satisfied that Baker Tilly TFW LLP has the requisite expertise and network in the region to be as effective as KPMG. Baker Tilly TFW LLP is one of the top 10 largest accounting and business advisory firms in Singapore and has 19 partners and staff strength of more than 300. It has significant experience acting as auditors for companies listed on the SGX-ST and is an independent member of Baker Tilly International, which is globally among the 10 largest accounting and business advisory network by combined revenue and with member firms in more than 148 territories.

Baker Tilly TFW LLP will be the auditors for the company and its subsidiaries incorporated in Singapore. Its network of other independent member firms will be the auditors of the company's foreign-incorporated subsidiaries.

3.4 In 2022, the audit fees paid/payable to the KPMG LLP, overseas affiliates of KPMG LLP and other auditors for FY2022 amounted to $365,000, $175,000 and $54,000 respectively. What are the expected cost savings?

The Company estimates it will benefit from cost savings of about 40% compared to the audit fees paid previously.

B. <u>QUESTIONS RECEIVED FROM SHAREHOLDERS</u>

Q1. Last year, the company reported stronger revenue but weaker profit levels, with net profit reducing by less than 20%. The dividend went from 4.95 cents to 1 cent only. Notwithstanding the fact that the dividend paid last year includes a special dividend component, it should be noted that the company cash and bank balances remain very strong, at around 80 million SGD. The shareholder equity of the company is around 150 million. This means that more than half of the shareholder equity comprises of cash and bank balances. In my view, the company has a lot of excess cash and more of this cash should be returned to shareholders so as to reward shareholders and allow for a more efficient capital structure. Do you agree or otherwise? Please kindly explain and elaborate. Please explain clearly the rationale of drastically reducing the dividend to shareholders when the company still has ample and excessive cash and bank balances in its balance sheet. Please also indicate what is the ideal or target capital structure that management envision for the company to have.

The Board's decision on the dividend payment for FY2022 was made after taking into consideration the business environment and investments required to execute the Group's transformation plan to enhance long term shareholder value. The dividend for FY2022 also remains in line with the Company's policy to distribute at least 50% of its net profit as dividends.

Given the challenging business conditions expected in 2023 and the rising interest rate environment, the Board has adopted a prudent stance to ensure the Group has ample liquidity to ride out any slowdown in business activities and finance higher working capital requirements. In addition, the cash resources will be required to support the Group's plans for further capital investments and expansion of talent pool as Fu Yu undergoes a transformation phase. The Board believes these initiatives will place Fu Yu in a stronger position to seize new market opportunities and enhance its growth profile for the long term.

By Order of the Board
Janet Tan
Company Secretary
Singapore, 14 April 2023

About Fu Yu Corporation Limited

Fu Yu provides vertically-integrated services for the manufacture of precision plastic components and the fabrication of precision moulds and dies.

Since its inception in 1978, the Group has grown to become one of the largest manufacturers of high precision plastic parts and moulds in Asia. Today, the Group has established a strong presence in the region with manufacturing facilities located in Singapore, Malaysia and China.

Leveraging on over 40 years of operating history, the Group has built a broad and diversified customer base of blue chip companies in the printing and imaging, networking and communications, consumer, medical, automotive and power tool sectors.

To broaden its revenue base beyond the core manufacturing business, the Group formed a new business arm in July 2021 under Fu Yu Supply Chain Solutions Pte Ltd which is engaged in the business of providing supply chain management services for commodities.

For further information on Fu Yu, please visit the Group's website at: http://www.fuyucorp.com/

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