



GSS Energy Limited
(Incorporated in the Republic of Singapore)
(Company Registration No. 201432529C)
(the "Company")

**RESPONSES TO THE SUBSTANTIAL AND RELEVANT QUESTIONS RECEIVED FOR THE
ANNUAL GENERAL MEETING TO BE HELD ON 22 JUNE 2020**

The Board of Directors (the "Board") of GSS Energy Limited (the "Company" and together with its subsidiaries, the "Group") refers to the Notice of Annual General Meeting dated 30 May 2020 relating to the Annual General Meeting ("AGM") of the Company to be held by way of electronic means on 22 June 2020 at 10.00 am, and would like to provide responses to substantial and relevant questions raised by shareholders and Securities Investors Association (Singapore) ("SIAS").

The Board confirms that to the best of their knowledge, all material disclosures, facts and information have been provided and announced and are not aware of any facts, information or disclosures, the omission of which would make any statement in this announcement or disclosures misleading.

The questions and responses are as follows:

Questions from SIAS

Q1. On 23 January 2020, the company announced an unsolicited, non-binding offer from Mr. Yeung Kin Bond, Sydney ("Mr. Yeung"), an executive director and group chief executive officer of the company, to acquire Giken Sakata (S) Limited ("GSL"), a wholly-owned subsidiary of the company.

On 7 February 2020, the company announced that it had decided to proceed to negotiate with Mr. Yeung. Approximately three weeks later, on 27 February 2020, the company announced that Mr. Yeung has withdrawn the offer and he will focus his efforts to manage the two sectors of the group's business in view of the challenging macro environment arising from the COVID19 virus.

(i) Given that the board followed up on the offer from Mr. Yeung to buy GSL, can the board help shareholders understand its view of the long-term prospect of GSL?

Company's response:

The offer was eventually withdrawn, as announced on 27 February 2020, and the Group continues to focus on growing the precision engineering business. It has made in-roads into the mobility vehicle and embarked on design functions for our customers to create greater value for their services and products. This will help GSL move up the value chain in the long term.

(ii) What is the strategic value of GSL in the group's long-term growth plans?

Company's response:

The Group will continue to grow its GSL's business as one of its main operations and major revenue generating business unit for the Group in the coming years. We will emphasize

on higher value add and diversified range of products and new product initiatives and effective cost-management to have greater addition to the Group's value.

- (iii) **Was the capital reduction carried out by GSL meant to facilitate the potential sale?**

Company's response:

The capital reduction exercise was carried out by GSL to return to the Company capital that is in excess of that required by GSL for its operations and not as a means to facilitate the potential sale.

- (iv) **Given that Mr. Yeung withdrew the offer citing the challenges arising from the COVID-19 outbreak, can management help shareholders understand the impact due to the pandemic?**

Company's response:

We understand that Mr Yeung was looking at the effect of the outbreak on the broad economy and market in withdrawing the offer.

Our factories at Singapore, Batam and Changzhou continue to operate and fulfilling orders during the lock-down period. We are in close communication with customers and suppliers to manage current uncertainty, continuity and ensure the minimal impact to the supply chain. We are glad that our customers and suppliers remain supportive. We continue to monitor the situation and stay vigilant as economic condition remains challenging.

- (v) **As noted in the CEO's message, the group entered into a partnership with a South Korea company to build and distribute mobility vehicles in Thailand and Vietnam in late FY2019. Can management provide shareholders with greater clarity on the "partnership"? What is the group's contribution, involvement and risk in the manufacturing and distribution of mobility vehicles in Thailand and Vietnam in this partnership?**

Company's response:

The partnership was to develop and market the mobility vehicles in the various markets. Work is still in progress. The Group will be involved in the assembly of the vehicles and assist in sourcing for dealers and distributors in these markets.

- Q2. In Note 43 (page 126 – Events subsequent to reporting date), the group reported that the declining oil prices since the end of February 2020, if continue to persist, may have an adverse impact on the exploration and evaluation project undertaken by an associate of the group.**

This refers to the 20% stake in GSS Energy Trembul Limited ("GETL") following the disposal of 80% of the issued and paid-up share capital in June 2019.

Following the disposal of shareholding in GETL, the investment in GETL is accounted as investment in an associate company with cost amounting to \$2,791,000 and \$9,392,000 in amount due from an associate ("remaining interest").

The "assessment of impairment of the remaining interest in an associate" is also a key audit matter in the independent auditor's report in their Report on the audit of the financial statements.

- (i) **Can management elaborate further on the key assumptions used to justify the collectability of the \$9.39 million due from an associate?**

Company's response:

The collection of the amount due will be a share from the sale of oil and gas from the concession field. Work is in progress.

- (ii) **In addition, in the base-case scenario, when does management expect GETL to be able to generate sufficient cash flow to start paying the amount due to the company?**

Company's response:

Work on the concession field is in progress. Due to the nature of the oil and gas field drilling operations, there are many variable factors affecting the revenue and cash flow including, among others, flow rate of the oil and gas and lifting cost. This will again depend on the changes in these factors. It would not be meaningful at this point in time to give any projection, estimates or timeline.

- (iii) **Given the significant drop in oil price, has management revised its estimations and projections?**

Company's response:

The management is mindful of the fluctuations in oil prices. Please see Company response to Q2(ii).

- Q3. On 21 May 2020, the company provided an update on its disclosure of the internal audit function. It clarified that:**

The Company has disclosed at page 39 of the AR2019 that the internal audit function of the Group is carried out by the Group internal auditors, and that the internal audit function is independent, adequately resourced and effective. The Board wishes to add that the internal audit is carried out by a team of staff from *finance department*, [emphasis added] who are qualified and experienced ex-auditors, handling audit and tax-matters for companies of different sizes and industries. The team maintains its independence as the members do not handle direct operational matters or maintain the accounts for the business units that they are auditing within the Group.

- (i) **Do the finance department staff who are tasked with the internal audit function have dual reporting lines, one for their finance function and one for their internal audit function (which should be the audit committee ("AC"))?**

Company's response:

The internal audit function is carried out by staff from the corporate (HQ) finance department on the various operating units.

For the finance function, they report to the Financial Controller and the Chief Financial officer, whereas for the internal audit function, they report to the Chief Executive Officer and the internal audit reports are shared with the Management Committee and the external auditors. Any material non-compliance or failures in internal controls and recommendations for improvements are reported to the AC. The AC also reviews the effectiveness of the actions taken by the Management on the recommendations made by the internal auditor in this respect.

- (ii) **Did the AC ensure that the internal auditors comply with the standards set by nationally or internationally recognised professional bodies for internal audit?**

Company's response:

As explained above, the internal audit task is carried out by staff from corporate (HQ) finance department. They are all qualified with financial qualifications and the scope of audit for each unit is designed based on the specific operating conditions in the unit. The internal audit was conducted based on International Standards of Auditing.

- (iii) **Would the AC be reviewing the current arrangement and re-evaluate if changes can be made to further improve the independence and the standing of the internal audit team?**

Company's response:

The team plans to review the current arrangement with the AC and, where necessary, implement ways to further improve the independence and the standing.

Questions from shareholders

- Q1. Refer you to Note 20, kindly advise what is the status of GETL especially in respect to the extension of the exploration period till February 2022? Has the formal approval for extension of exploration period been received, is work currently ongoing for GETL and is generating revenue.**

Company's response:

We understand from our partners that preliminary extension of the exploration has been obtained and they are in the process of fulfilling the requirements before receiving the formal approval. Work is in progress but yet to generate revenue.

- Q2. Kindly provide more details and information on GETL to allow shareholders to have a better understanding of its long term potential to GSS Energy, example beyond February 2022, when is the end of the final exploration period, how much cost it will incur to get further extension beyond February 2022 etc? What level of oil price will allow it to breakeven for GETL and what kind of production level for how many years at what oil price will allow GSS Energy to be able to recover the amount due from GETL in the future conservatively?**

Company's response:

With the balance of 20% stake in GETL, our partner is managing the concession field. We understand from our partners that preliminary extension of the exploration has been obtained and they are in the process of fulfilling the requirements before receiving the formal approval. Beyond the extension period, GETL will not need to incur further cost in extension if it completes the work programme within the extension time frame. The cost in completing the current work programme will be fully funded by our partner.

With regard to the breakeven point and period take to recover the amount due from GETL, please refer to Company's response to question Q2(ii) from SIAS.

Q3. How is the oil business doing in which we have a 20% stake left? No revenue has been generated since years ago. Can we expect some revenue and most importantly profits from the oil business?

Company's response:

Please refer to Company's response to question Q2(ii) from SIAS.

Q4. In view of the current depressed oil price environment, are we at risk of any impairment for our investment in GETL?

Company's response:

As at the current date, there are no significant factors that warrant impairment of the remaining interest in an associate.

Q5. GSS Energy by name sounds like it's an energy company. Does the company plan to explore new business opportunities in energy or focus solely on precision engineering?

Company's response:

The Group intends to continue its current business model and explore for new business opportunities in both business segments.

Q6. A briefing on the Company oil and gas business please. Years ago, much publicity was given on this business, including giving out share options/performance shares award to the then ED in charge of this business.

Company's response:

Please refer to Company's response to question Q2 from SIAS, and question Q1, Q2 and Q5 from shareholders.

Q7. I refer to Chairman and CEO Statement.

(i) Good to know that we are making in-roads with our new mobility vehicle venture. Are the advanced orders made to both Thailand and Vietnam (or more perhaps Indonesia?). Do we see more follow up orders beyond the first advance orders?

Company response:

Our PE segment is making in-roads into the future of mobility with venture into mobility vehicle and it is still in the development stage. The delivery for the advance orders will be made to Vietnam upon completion of assembly in our Batam factory. We will have more information on the follow up orders after we deliver the first advance order.

(ii) Aside from the new mobility vehicle business, how is the other customer segments on the PE business? Do we see bright-spots in the healthcare / medical segment alluding to the Covid19 situation?

Company's response:

We have received enquiries in the healthcare / medical segment and we are in discussions with the prospective business partners on possible collaboration. This will be another stream of revenue flow if materialised.

- (iii) Is our factories in Singapore, Batam and Changzhou in operation during this lock-down period?**

Company's response:

Our factories at Singapore, Batam and Changzhou continue to operate and fulfilling orders during the lock-down period.

- (iv) While the second Batam factory is ramping up, the number of employees have reduced by almost 20% (Pg 16 Sustainability Report), could you clarify the reductions?**

Company's response:

The manpower requirements are based the projects the company engages and the execution of plans. Adjustments will be made according to orders size. This will allow us to weather through when orders are low.

- (v) With the second factory coming on-stream, what is the planned capex for the coming year**

Company's response:

The capex for the second factory will depend on the project taken in. There will be no committed capex before the project is firmed up.

- Q8. What is the outlook for recovery for rest of the year? Manufacturing and industrial sectors have and will continue to be hit through the rest of the year with consumer demand impacted. What is your outlook for GSS balance sheet recovery through 2020 and 2021?**

Company's response:

Please refer to the Company's response to Q1(iv) from SIAS.

- Q9. Could you please update shareholders on the current status of your various business segments, and the outlook for 2020 and beyond?**

Company's response:

Please refer to the Company's response to Q1 and Q2 from SIAS, and Q1 to Q5 and Q7 from shareholders.

- Q10. How does the company intend to grow in the coming year(s)? What are the plans to increase revenue, profits, and boost market capitalization?**

Company's response:

The Group will continue to explore new business opportunities in both business segments to provide the business with sustainable growth. This in return will help to increase the revenue, profit and enhance the market value.

Q11. Referring to the previous announcement that CEO Mr Yeung was issuing an unsolicited bid to acquire Giken Sakata, what is the actual intended reason for Mr Yeung's plan to acquire the entirety of the PE business? The precision engineering business is now profitable and removing this subsidiary from the group level seems akin to cutting away the profitable arm of the company. Once the profitable arm of the company is cut off, there will no longer be recurring profits. This action induces uncertainty and feels as though the company is not intending to create value for the shareholders.

Company's response:

The Company has all along intended to keep the two business models separate. Acquisition of PE business was one of the means to separate the business models. This allows concentration of resources for business development, and enhance efficiency in making financial and operation decisions. At the same time, it allows investors, analysts and stakeholders to perform risk assessment more effectively.

Q12. Why is the directors' fee for 2019 higher than 2018? I believe that the directors' fees should be correlated to the financial performance of the company. GSS energy reported a lower net profit and earnings per share (EPS) in year 2019 compared to year 2018.

Company's response:

Directors' fee is only paid to Independent Directors. The annual directors' fee has not changed since 2015. A small adjustment has been made this year and the increase is within the industry standards.

Q13. Could you also share any extra-ordinary measures taken by the company due to Covid-19 and how much more additional cost is borne by the company?

Company's response:

The Group has implemented health checks, social distancing measures, split team arrangements, telecommuting and others measures based on the advisories provided by the various authorities and to comply with the existing Covid-19 regulations. At this point in time, we do not foresee substantial costs in implementing these measures.

Q14. Refer you to page 41 of the annual report, on dividend policy, note the dividend policy for FY2018 and FY2019, for both year we are profitable but there are no dividend issued despite the dividend policy, while the rationale of the board decision is given and noted, kindly note the disappointment of the shareholder(s). And there is no mention of dividend policy for future period, do we take it as given what has transpired in respect of dividend in the past 2 financial year, the board has decided to do away with a dividend policy?

Company's response:

Note the disappointment. We did not declare a dividend policy for FY2020 as the Company is concerned with the evolving COVID-19 situation and the possible impact, availability of limited resources and use of funds to further support growth in precision engineering sphere.

In proposing/declaring payment of dividend(s) in future, the Board may take into account the financial performance of the Company at the relevant time, the future financial requirements of the Company and any other factors the Board may deem in the interest of the Company and its shareholders.

Q15. Some years back, the Company announced its dividend policy. When will the Company start paying out dividends?

Company's response:

Please refer to Company's response to Q14 from shareholders.

Q16. Any updates on dividend distribution?

Company's response:

Please refer to Company's response to Q14 from shareholders.

BY ORDER OF THE BOARD

Ng Say Tiong/Wong Liong Khoon
Company Secretaries
19 June 2020

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

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