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**RESPONSES TO QUESTIONS FROM SHAREHOLDERS FOR ANNUAL GENERAL MEETING TO BE HELD ON THURSDAY, 29 OCTOBER 2020 at 10.30 a.m.**

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The Board of Directors (the “Board”) of Sin Ghee Huat Corporation Ltd (the “Company”) and its subsidiaries (together the “Group”) would like to thank shareholders for submitting their questions in advance of our Annual General Meeting (“AGM”) to be held on Thursday, 29 October 2020 at 10.30 a.m., by way of electronic means.

The Company’s responses to the shareholders’ questions, which are relevant to the resolutions to be tabled for our AGM, are as follows:

**Question 1**

**Will the project and customer specific inventories that were written down be sold as scrap?**

As at 30 June 2020, an impairment of inventory of S\$2.9 million was recorded for project-and-customer-specific inventories. These inventories will not be sold as scrap in the foreseeable future as the Company continues to explore other avenues to dispose of these inventories.

**Question 2**

**What percentage of your remaining inventories is project-specific or customer-specific?**

As at 30 June 2020, our total inventories were approximately S\$47.8 million. Approximately 3% of our total inventories were project-and-customer specific.

**Question 3**

**For your Engineering & Construction segment, how much have orders fallen compared to pre-pandemic levels? What is the outlook for the segment?**

Our sales to the Engineering and Construction industry as follows:

	<b>FY2020</b>	<b>FY2019</b>	<b>FY2018</b>	<b>FY2017</b>
<b>Industry</b>	<b>S\$'000</b>	<b>S\$'000</b>	<b>S\$'000</b>	<b>S\$'000</b>
Engineering & Construction	8,772	19,025	12,403	9,759
YoY change (S\$'000)	(10,253)	6,622	2,644	NA
YoY change (%)	(54)	53	27	NA

*YoY denotes Year-On-Year*

*NA denotes Not Applicable*

The Engineering & Construction sector was exceptionally weak as the business stream for this sector mainly comprised of Singapore small to medium sized enterprises who were hard hit in the current pandemic. Based on the Singapore Business Federation's economic indicators 3<sup>rd</sup> quarter report, the YoY GDP percentage for the construction sector deteriorated from June 2020 (-11.4%) to September 2020 (-23.0%). Therefore, the demand for our products from our Engineering & Construction customers also registered a sharp decrease.

The outlook for this sector is expected to remain challenging; and we believed that overall improvement will largely be dependent on the gradual resumption of business activities in time to come.

#### **Question 4**

**Can you comment on the differences in impact and outlook on the various Oil & Gas customer sub-segments i.e. refineries, petrochemicals, gas terminals and oil rigs? How much have orders fallen compared to pre-pandemic levels?**

Our sales to the Oil & Gas and Petrochemical industry as follows:

	<b>FY2020</b>	<b>FY2019</b>	<b>FY2018</b>	<b>FY2017</b>
<b>Industry</b>	<b>S\$'000</b>	<b>S\$'000</b>	<b>S\$'000</b>	<b>S\$'000</b>
Oil & Gas and Petrochemical	9,057	9,024	7,149	6,200
YoY change (S\$'000)	33	1,875	949	NA
YoY change (%)	*	26	15	NA

*\* denotes less than 1%*

In the current situation, we believe that the different sub-segments of oil and gas were all adversely affected. However, we had some orders from shipbuilding for FPSO's and from our oil and gas customers. Therefore, there was not much difference in demand between FY2019 and FY2020.

The outlook for the Oil & Gas segment is that demand continues to be weak compared to pre-COVID-levels. We believe that the recovery in demand will largely be dependent on the extent and speed of recovery in world economies.

#### **Question 5**

**Please share with us the competitive advantage of our company and how are we going to leverage on our competitive advantage to compete effectively in the COVID-19 environment and post COVID environment. Kindly share with us what other future plans the company have going forward to keep the business sustainable.**

The stockist business model bridges the gap between producers and end-users. We believe this business model will continue to be relevant due to the gap in lead time, namely the end-users' time requirements of the materials and the production from the mills.

Based on our knowledge and experience of the market, we constantly adjust our product range to cater to our end-user customers' requirements.

We focus on tight control of our inventories to ensure that we are as lean as possible, as well as to restock with lower cost of materials once the market shows signs of improvement. We are pretty lean as it is and are constantly monitoring our costs; and conserve our cash reserves to ensure that we are able to weather difficult times and seize business opportunities when they become available whilst balancing the need to enhance shareholder value.

### **Question 6**

#### **Who are our competitors? How do we differentiate ourselves from them?**

Our competitors are other privately-held and public-listed stockists. We are able to compete with them based on price, range of product lines and quality. We also have a healthy financial position and established track record dealing with our suppliers and customers.

Our new facility located at 32 Gul Crescent is equipped with a modern automated storage and retrieval system ("ASRS") which would give us expanded capacity within a limited space as well as further efficiencies in our day to day business operations. The new facility will also enable us to carry out value added machining processes which is a new business growth area for us. All these will put us in a good stead to navigate the challenges and emerge stronger in future.

### **Question 7**

#### **Is there any silver lining to our company given the COVID-19 pandemic?**

The COVID-19 situation might have made more customers realise the importance and benefits of working with a reputable partner with adequate supply to prevent any disruption to their supply chains. After this pandemic, we believe that the Company can continue to be the preferred partners for our clientele and recognized for the strength of our inventory. For example, some of our customers were deemed essential services during COVID-19 and they were pleased we had sufficient stock of material to prevent disruption to their production lines during this period and were also able to remain open to support them. This has definitely endeared us to the customers and cemented our relationship.

Another positive is that it has speed up our flexible working options and shown that the IT infrastructure that we have put in place is able to support such activities. This would allow our workforce to be leaner and more flexible in the future. This will be crucial in attracting new employees and retaining current ones.

### **Question 8**

#### **With reference to the response to SGX queries of 10 September 2020, the net trade receivable of S\$831,000 (more than 360 Days) from the New Zealand JV to be written-off upon statutory closure of FBSGM,**

**i) Kindly explain if the amount was accumulated over a period of time or a one-off lump sum trade?**

The net trade receivables of S\$831,000 comprised of a number of transactions.

**ii) If the amount is accumulated over a period, please share the duration of this accumulated losses**

The New Zealand joint venture company was set-up in 2015 and we supplied our products to our joint-venture company to cater to customers in the New Zealand market.

**iii) Any breach to the Company's Credit Control policy/procedure?**

The business transactions with our New Zealand joint-venture company were all in line with our credit control policy.

**iv) Please update what are the remaining funds available after statutory closure?**

The statutory closure is still in progress and the remaining funds to be finalised, but it is not expected to be material.

v) **Why is there a sudden huge inventory impairment of S\$4.636 million?**

The allowance for inventory impairment was made for: 1) slow-moving inventories in accordance with our policy, 2) write-down of inventories to net realisable value (“NRV”), and 3) specific inventories that catered to a specific customer and project which has since been delayed and there was no firm purchase commitment from the specific customer in the foreseeable future and no expected market demand from other customers.

Breakdown for allowance of inventory impairment as follows:

<b>FY2020</b>	<b>S\$'000</b>
<u>Allowance of inventory impairment:</u>	
Slowing-moving	1,477
Specific	2,859
Write-down to NRV	300
	<u><b>4,636</b></u>

Approximately 62% of the inventory impairment was due to specific inventories that catered to a specific customer and project which has since been delayed and there was no firm purchase commitment from the specific customer in the foreseeable future and no expected market demand from other customers.

**Question 9**

**With reference to the Company’s Business Update of 5 June 2020,**

i) **Please share with us the performance (Profit and Loss) of the SG Metals (Suzhou) Ltd and FBSGM over the last 5 years.**

Net profit / (loss) for the last 5 years as follows:

<b>S\$'000</b>	<b>FY2020</b>	<b>FY2019</b>	<b>FY2018</b>	<b>FY2017</b>	<b>FY2016</b>
FBSGM #	(287)	(84)	(236)	(115)	30
SG Metals (Suzhou) Ltd	(379)	(94)	(49)	(138)	(370)

# denotes company-level, prior to equity accounting

ii) **Why it take the Board so long to make the decision to close these loss making business units.**

The performance of all our Group companies has always been the subject of the Board’s review, and our financial results were also published on a periodic basis. The Board will consider, *inter alia*, the strategic intent for the set-up of our overseas entities, customer outreach, financial performance, capital requirements and long-term prospects; and will allow adequate time for the entities to operate before any decision is made for the cessation of business operations.

iii) **Who is responsible for these business units and who should be accountable for these losses?**

Although the head of each business unit is directly responsible for the performance of the unit under his /her charge, the Board is ultimately responsible for the overall stewardship and major decision-making within the Group. The Board will continue to be mindful of its duties and remains committed to overcome future challenges in order to take the Company forward.

- vi) **Given the tough market situation caused by COVID-19, what measures the company has taken to reduce the cost e.g. cost cutting measures? Despite revenue dropped by 25% (from \$ 49.856 million to S\$ \$37.475 million), Distribution cost and Administrative had only reduced by a mere 5% & 9% respectively. Is this sustainable?**

The Company is taking a progressive approach with regard to cost reduction. With the cessation of business operations in our China subsidiary immediately after the end of our financial year ended 30 June 2020, its performance will not continue to weigh on the Group. During FY2020, we have also reviewed our manpower structure and made certain rationalisation decisions. The Board will continue to be vigilant in monitoring our cost structure and take additional measures as necessary.

By Order of the Board

**Kua Ghim Siong**  
Chief Executive Officer  
Sin Ghee Huat Corporation Ltd.

28 October 2020