TAI SIN ELECTRIC LIMITED

(Company Registration No. 198000057W)

(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS AHEAD OF THE UPCOMING ANNUAL GENERAL MEETING TO BE HELD ON 29 OCTOBER 2020

The Board of Directors of Tai Sin Electric Limited (the "**Company**") and together with its subsidiaries (the "**Group**") refers to the Company's Notice of Annual General Meeting ("AGM") and AGM Announcement both dated 14 October 2020.

The Company wishes to address all questions received from Shareholders and the Securities Investors Association (Singapore) ["**SIAS**"] ahead of the upcoming AGM to be held on 29 October 2020.

The questions submitted and the Company's response to those questions are set out below.

Question 1 [Shareholder]

May I know if net profit will be better or worst, for a higher copper prices? At 2nd paragraph of page 10 of Annual Report, CEO mention that one of the reason for the revenue drop is the drop in copper price. I recalled during one of the previous AGM, it was said that higher copper prices was one of the cause for lower profit. The information said at both instances are contradictory.

Is there any sensitivity test done, about the effect of copper price, on the Earnings Per Share?

Response 1

For Cable & Wire Segment, the results during the period will depend on the proportion of Cable & Wire that was delivered during the period and whether they were for "Long-Term Contract" or "Adhoc Contract".

For "Long-Term Contract" deliveries, higher or lower copper price will not affect revenue as selling prices are fixed, but margins will be affected and thus profit. For "Adhoc Contract", typically shorter in tenure and lower in value, revenue will move in tandem with copper prices. Profits will be based on mark-up based on competition in the market for the contract.

During FY2020, lower copper prices and lower tonnage of deliveries resulted in the lower revenue for Cable & Wire Segment.

No sensitivity analysis is performed on movement of copper prices on earnings.

However, assessment is performed for provision to be made for "Onerous Contract". "Onerous Contract" is as explained on page 96 of the Annual Report, Note 2 Summary Of Significant Accounting Policies.

At each reporting period, provision if any is based on the estimated losses arising from the differences between (1) the committed selling prices and estimated cost of sales for the unfulfilled sales quantities committed in respect of contracts for which delivery has substantially commenced by the end of the financial year and (2) the committed prices and estimated cost for the services committed in respect of uncompleted contracts.

For the years ended 30 June 2020 and 2019, no provision for onerous contracts was made.

Question 2 [Shareholder]

Share price has been sliding downwards. Can management do something about the business to boost up the price?

There is a total absence of analyst write up about the Company. Why?

Response 2

Over the years, the Management has undertaken many strategies to improve the business. However, share price is affected by many factors which are not within the control of Management.

Management policy is not to pay for research or write-up on the Group. However, at the request of analysts and/or fund managers, Management may meet and engage them as appropriate. These analysts or fund managers will decide on their own whether or not to publish a write-up about the Group.

Question 3 [Shareholder]

Due to Covid-19, construction activities in Singapore have come to a halt and have just resumed in September, albeit with safe-distancing measures. How much activity has resumed for our Company? Some major projects have inevitability been delayed, for example Changi Airport Terminal 5. Does management foresee further deterioration in the business environment?

Response 3

Resumption of business activities of the Group varies across the different business segments which could also operate in different geographical regions.

For Cable & Wire and Test & Inspection Segments, the pace of resumption of activities in Singapore is tied closely with construction activities that need to adhere to prescribed safe distancing measures.

For Electrical Material Distribution Segment, Singapore activities are not as affected by construction activities compared to the Cable & Wire and Test & Inspection Segments. However, their activities are affected by the adverse economic sentiment brought about by the COVD-19 pandemic.

Whether there will be further deterioration in the business environment will depend on many variables including further waves of COVD-19 outbreak, development of effective vaccines and their successful large scale deployment worldwide and the measures different governments take to mitigate the impact of the COVD-19 pandemic.

Question 4 [Shareholder]

May I know the reason for the surge in copper contracts (pg 116), is there any cap on the losses for such contracts if price of copper goes the other way?

Annual Report page 5 five year record shows that turnover has been lacklustre while profit before tax and EPS has been falling. What do you think is the primary reason for this trend, will it continue, how do you plan to reverse this trend?

The age profile of senior management is getting older. Although they are experienced but with the digital transformation Tai Sin is embarking on shouldn't there be an infusion of new blood to bring new ideas?

Response 4

For the year ended 2020, the surge in “Copper Contracts” (derivative financial instruments) was because more contracts were purchased by the Cable & Wire Segment during the financial year when the price of the copper was deemed appropriate to hedge the “Long-Term Contract” that was secured. The Board of Directors has given Management a limit to the maximum amount of derivative “Copper Contracts” that the Group can purchase and hold for hedging against “Long-Term Contract” at any one time. This will mitigate the amount of losses should copper price turn unfavourable.

Annual Report, page 5, Five Year Financial Highlights are based on Group results that incorporate the Group’s four business segments namely 1) Cable & Wire; 2) Electrical Material Distribution; 3) Test & Inspection; and 4) Switchboard. Performance for each segment has varied over the past five years. The segment results found in the current Annual Report, page 146, Note 39 will give a better reflection of the business segments over the past years.

In general, the Cable & Wire business segment contributed substantially to the Group results. Therefore, fluctuation in this business segment would result in the trend as reflected in the Financial Highlight on page 5 of the Annual Report.

Cable & Wire Segment is closely related to construction activities and it faced intense competition over the past five years due to a decline in projects in the market. The delivery of the low margin “Long-Term Contract” during the financial year 2018 and 2019 also resulted in declining “Profit Before Income Tax” and “Earnings Per Share”. The movement in the “Turnover” in the Cable & Wire Segment is however largely due to movement in copper prices over the years.

To improve margins, management has been embracing Industry 4.0 since 2018. Management believes that through harnessing of data and use of artificial intelligence, the Group can drive automation and ramp up productivity and efficiency. This will in turn reduce cost, improve margins and tailor on-demand needs of urgent projects in various sectors that the Group operates.

The Group is aware of the age profile of the Group's Senior Management and is therefore constantly investing in training and development of our employees across all age groups. The Group regularly reviews its succession management plan to ensure smooth transition of the Group Senior Management.

Question 5 [Shareholder & SIAS]

As noted in the CEO's report to shareholders, the group recognised higher revenue in three of the four segments, namely Electrical Material Distribution, Test & Inspection and Switchboard. Revenue from the largest segment, Cable & Wire Segment, fell by 29.38% to $154.91 million for FY2020 due to lower sales volume and a decrease in copper prices.

As shown in the financial highlights, while turnover has fluctuated between $276 million and $336 million in the past 5 years, profit before income tax has been decreasing steadily from $27.58 million in FY2016 to $12.41 million in FY2020.

(i) For the benefit of new and long-standing shareholders, can management (re)state the key value drivers for the group?

(ii) Has management reviewed the main reasons for the lower profitability in the past 5 years? What are management's plans to improve its profit margins?

(iii) Has the group maintained its operational agility and kept itself updated on the technological advances to retain its competitiveness?

(iv) As shown in the consolidated statement of profit or loss and other comprehensive income (page 72), selling and distribution expenses held steady at $19.35 million and administrative expenses increased to $18.58 million even as revenue fell by 17.7% in the year. Can management provide shareholders with a detailed breakdown showing the major components of its expenses? In addition, what are management's plans to further optimise its cost structure as a response to the fast-changing market conditions?

(v) What is the group's market share in the Cable & Wire segment in Singapore? Has the group been able to grow its market share?

Response 5

(i) Management believe that the Group key value drivers are :

(a) Dominance by our respective business segments in Singapore. This is with regard to our i) Size; ii) History and iii) Brands and Name. Having that dominance allows each business segment to successfully compete in their respective sector and command the requisite recognition in the market.

(b) Our geographical reach in Southeast Asia allows the Group to mitigate risk of overexposure and dependence in one market. This geographic presence also enables the Group to grow its business when our customers expand overseas to regions where we have presence.

(ii) Yes, Management is aware and has reviewed the main reasons for the lower profitability in the past 5 years.

The Financial Highlights mentioned in your question are based on Group results that incorporate the Group's four business segments namely 1) Cable & Wire; 2) Electrical Material Distribution; 3) Test & Inspection; and 4) Switchboard. Performance for each segment has varied over the past five years. The segment information found in the current Annual Report, page 146, Note 39 will give a better reflection of each business segment's performance over the past years.

In general, the Cable & Wire segment contributed substantially to the Group results. Therefore, fluctuation in this business segment would result in the trend as reflected in the Financial Highlights on page 5 of the Annual Report.

The Cable & Wire Segment is closely related to construction activities. It faced intense competition over the past five years due to a decline in projects in the market. The lower profitability leading to declining "Profit Before Income Tax" was worsen with the delivery of the low margin "Long-Term Contract" during the financial years 2018 and 2019.

To improve margins, Management has been embracing Industry 4.0 since 2018. Management believes that through harnessing of data and use of artificial intelligence, the Group can drive automation and ramp up productivity and efficiency. This will in turn reduce cost, improve margins and tailor on-demand needs of urgent projects in various sectors that the Group operates.

(iii) Apart from embracing Industry 4.0 since 2018 as mentioned in part (ii) above, the Group persistently reviews its internal resources, system and processes through digitalisation programmes. The Group believes that its digitisation programme, which covers front-end sales and marketing, manufacturing and support services, will provide Management with relevant and useful information through data analytics to transform the Group and give it the agility to compete and thrive in the dynamic environment.

(iv) Management is of the view that a detailed breakdown showing the major components of its expenses will not give a meaningful explanation or analysis of the Group's performance for the financial year. This is because the Group has 11 active subsidiaries in different segments and geographical region, each with varying performance.

However, we would like to explain the movement in "Administrative Expenses" as reported in both our Annual Report, page 9 "Chairman's Statement" and paragraph 8 in page 13 of our "Financial Statements And Related Announcement - Full Yearly Results" released on 28 August 2020, which reads as follows:

"Administrative and selling and distribution expenses for the periods fluctuated marginally despite reduction in business activities. The fluctuation was mainly due to the net impact from the adoption of SFRS(I) 16 Leases which resulted in higher depreciation charge and lower rental expenses, increased in staff costs as a result of increase in salaries and provision for unutilised leave."

The answer to the last part of the question on "plans to further optimise its cost structure as a response to the fast-changing market condition?" can be found in our response in (ii) and (iii) above, through the steps taken by the Group to embrace Industry 4.0 and its digitalisation programme.

(v) The Management does not have data on the Group's Cable & Wire Segment market share in Singapore and thus is unable to provide a response on its growth in market share.

Question 6 [Shareholder & SIAS]

The "Loss allowance for trade receivables" is a key audit matter (KAM) highlighted by the independent auditor (pages 65-69). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As at 30 June 2020, the group has trade receivables representing 32.0% of the group's current assets. The recoverability and expected credit loss ("ECL") assessments require the exercise of significant judgement, assumptions and estimates by management.

In Note 7 (page 113 – Trade receivables), the company shows the risk profile of trade receivables from contracts with customers based on the group's allowance matrix (reproduced below). While the group's revenue was lower by 18% in FY2020, gross trade receivables also showed a 36% improvement from $90.6 million as at 30 June 2019 to $57.9 million.

However, the amounts past due by more than 90 days increased from $6.81 million as at 30 June 2019 to $12.47 million as at 30 June 2020. The company has also recognised individually assessed lifetime ECL amounting to $1.60 million for FY2020.

(i) Would management help shareholders understand the profiles of the major debtors with long outstanding debts?

(ii) Please also disclose the country and the business segment of the customers with long outstanding debts.

(iii) What are the underlying reasons for the significant increase in trade receivables past due by more than 90 days?

(iv) How was the expected credit loss rate of 9.54% (FY2019: 11.14%) for trade receivables past due by more than 90 days calculated?

(v) Does management see this as an early sign of the deterioration of the credit quality of its customers given that the pandemic has caused unprecedented disruptions, especially for those in the construction sector?

(vi) What are the group's efforts to collect on the long outstanding debts?

Response 6

(i) The profiles of the major debtors with long outstanding debts that are more than 90 days are from the Construction and Oil & Gas industry.

(ii) These customers are from the Group's Cable & Wire and Test & Inspection Segments and are from Singapore, Malaysia and Indonesia.

(iii) The underlying reason for the significant increase was due to the COVID-19 pandemic. The collection cycle for debtors from these industries as mentioned in part (i) above are traditionally "longer". The COVID-19 outbreak worsened the situation.

(iv) The approach used to calculate the expected credit loss rate of 9.54% for trade receivables past due by more than 90 days is disclosed in the Annual Report page 105, Note 4 : Financial Instruments, Financial Risk And Capital Management (b) Financial risk management policies and objectives (iii) Overview of the Group's exposure to credit risk, footnote (i) which reads as follows :

"… simplified approach in SFRS(I) 9 to measure the loss allowance at lifetime ECL. The group determines the expected credit losses on these items by using an allowance matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions."

(v) Yes. Management see this as an early sign of deterioration of credit quality of its customers. With this outbreak, Management had been more cautious in granting credit facilities to customers in the construction sector. However, Management had to balance between credit risk and business opportunities.

(vi) Effort in collections include getting in-touch with customers constantly to gather information of customers financial health. Failure to receive regular payments will lead to issuance of an internal demand letter, then a lawyer issued demand letter, followed by a legal suit. Procedure will vary depending on judgement taking into consideration the chances of recoverability versus cost involved.

Question 7 [Shareholder & SIAS]

In Note 10 (pages 116 & 117 – Derivative financial instruments), the group disclosed that it has outstanding currency derivatives that were used to hedge significant future transactions. As at 30 June 2020, the notional contract value of the group's USD hedges amounted to $14.2 million.

For the group's exposure to copper prices, the group has outstanding copper contracts that were used to hedge significant future fluctuations in copper prices although there were no details of the group's contracts (page 117; reproduced below).

(i) Can management confirm that all its derivative financial instruments are only used to hedge the group's significant future transactions and are not speculative in nature?

(ii) What is the oversight by the board on the group's hedging activities?

(iii) In its risk management framework, does the group fully hedge its USD and its copper exposure? If not, what percentage of its total exposure does it hedge?

(iv) Would management be able to provide more clarity on the copper contract hedges, including the notional amount of copper hedged?

Response 7

(i) Yes. All its derivative financial instruments are only used to hedge the Group's contracts on hand and are not speculative in nature. Please refer to Annual Report, page 90, note 2, "Derivative financial instruments" disclosed as "….The group does not use derivative financial instruments for speculative purposes."

(ii) The Board is updated on a quarterly basis on the outstanding derivative financial instruments and the value of outstanding undelivered contracts. The Board has also set a limit on the maximum amount of derivatives that the Group can purchase and hold for hedging against outstanding undelivered contracts at any one time.

(iii) The Group partially hedges its USD and its copper exposure. The Management is unable to provide the percentage of its total exposure due to commercial sensitivity. However, as mentioned in part (ii) above, the Board has set a limit on the maximum amount of derivatives that the Group can purchase and hold for hedging against outstanding undelivered contracts at any one time.

(iv) The Group is unable to provide more clarity on the copper contract hedges including the notional amount of copper hedge due to commercial sensitivity.

BY ORDER OF THE BOARD

Mr. Tan Shou Chieh
Secretary

Singapore, 28 October 2020