**SIN GHEE HUAT CORPORATION LTD**
Company Registration No:197700475Z
Incorporated in Singapore

# RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS") ON ANNUAL REPORT FOR FINANCIAL YEAR ENDED 30 JUNE 2016 ("FY2016")

The Board of Directors of Sin Ghee Huat Corporation Ltd refers to the questions from SIAS relating to the Company's Annual Report for FY2016. Our responses are as follows:

**Questions 1:**

Despite a very challenging trading environment, the group has performed rather credibly and remained profitable. The group appears to be prudently managed- the balance sheet is strong and backed by cash and cash equivalents of $26.0 million (page 9 of the annual report - Financial Highlights). Cash flow from operations in the financial year was strong (+$12.5 million) and the group has manageable liabilities. Receivable turnover has dropped to 75 days in FY2016 as well.

However, since FY2008, the group has not been able to substantially improve the return on assets. For the past 8 years since FY2008, return on assets averaged 3.8%.

| | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on assets (%) | 21.0% | 13.4% | 1.6% | 4.2% | 5.9% | 6.0% | 4.6% | 4.0% | 3.8% | 0.0% |

Source: Sin Ghee Huat Annual Reports

**Shareholders would like to ask the board/management for more clarity on the prospects of the group's core business as a major stockist and "one-stop" distributor of stainless steel products. Could the current business model of being a stockist be outdated or be disrupted? What are the pro-active efforts that management has taken/will be taking to capture more value for shareholders during weak markets?**

**Company's response:**

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' 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. Disruption is possible if producers come and set up stockholdings themselves.

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 conserve our cash reserves to ensure that we are able to seize business opportunities when they are available and to weather difficult times whilst balancing the need to enhance shareholder value.

We are taking advantage of the downturn to implement our plans including a new Enterprise Resource Planning ("ERP") system which would increase efficiencies in our business operations, as well as embarking upon the next phase of development plans for the Group.

**Question 2:**

The group's sales volume and revenue have decreased as many customers in the oil and gas and related industries reduce or suspend their activities. In terms of working capital(page 8), the group's inventory has been reduced by 13% to $38.8 million but inventory turnover days still hit a high of 358 days in FY2016. Looking at the past 10 years, the inventory turnover days ranged from 225 to 260 days, except during the Financial Crisis (FY 2009 & FY 2010) and the past two years where the figure exceeded 300 days.

From FY2014 to FY2016, the group has written down more inventories to net realisable value each year - $36,000 (FY2014), $243,000 (FY2015) and $663,000 (FY2016).

**Has the group been agile enough to finetune the business model based on market conditions?** For instance, distribution costs decreased by 2% and administrative expenses were flat even though the group's revenue dropped 13%. **Also, what is the policy on the level of inventory (months of stock carried)? Has this been reviewed by the board/management as a key risk metric?** On the other hand, this could be an opportunity for the group as well as since prices of stainless steel products have fallen by about two-thirds from the peak, according to figures published by MEPS. **Can the board help shareholders understand the concrete steps the group is taking to "emerge even stronger" when the storm subsidies (page 6 – Letter to Shareholders)?**

**Company's response:**

We are pretty lean as it is and are constantly monitoring our costs. We will act should the market continue to worsen.

Our inventory purchase policy is based on moving averages and replenishment based on demand. This means that we buy based on demand. If demand decreases, so does our level of replenishment. Our inventory is key to our business and is where our cash is tied up. We review our inventory levels on a monthly basis to ensure that the levels correlate to market situations.

We have just completed the implementation of a new ERP system together with barcoding which will make our processes and workflows more efficient. We will be embarking on the redevelopment of one of our existing warehouses so that we will have another 20-30 years of lease.

This new facility will have increased space as well as a modern automated storage and retrieval system ("ASRS") which would give us expanded capacity within the same limited space as well as further efficiencies in our day to day business operations.

This ASRS will be able to interface with our ERP system to bring about greater accuracy. This will enable us to increase our inventories which in turn would support our plan for expanding our overseas business.

The new facility will also enable us to carry out value added machining processes which is a new business growth area for us.

**Question 3:**

Can management also talk about the prospects and key drivers of the subsidiaries and joint venture? Specifically:

- SG Specialty Metals**: How different are the specialty steel products from the core business and what is the progress on the value-added processing services by the subsidiary?**
- SG Metals (Suzhou) Ltd: As the Suzhou subsidiary enters its seventh year, **what would be the minimum required performance to warrant its continued operations?**
- First Break SG Metals ("FBSGM"): Despite being established in February 2015, the early signs are promising and FBSGM reported a profit for the year ended 30 June 2016. **What has contributed to the early success of this Joint Venture and what is the potential of the New Zealand market?**

**Company's response:**

The products in SG Specialty Metals ("SGSM") are chromium and nickel alloys which are specifically catered to the oilfield services industry which Sin Ghee Huat did not participate in previously. When the oil and gas market recovers, we would be poised to capture more market share. Due to the current downturn, demand has decreased and thus development of our value-added processing services is still a work-in-progress.

For SG Metals (Suzhou) Ltd, a clear demonstration of sustainable new revenue sources would warrant its continued operations. We are in the midst of working towards achieving this.

The experience and contacts of our joint venture partner in New Zealand have enabled us to secure sales orders quickly which we are able to fulfill from our stock range in Singapore. New Zealand has several industries such as oil and gas, mining, marine as well as dairy and wine which require stainless steel.

On behalf of the Board of Directors
Sin Ghee Huat Corporation Ltd

Kua Ghim Siong
Chief Executive Officer

20 October 2016