NAM LEE PRESSED METAL INDUSTRIES LIMITED
Company Registration No. 197500362M
(Incorporated in Singapore)

RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS FOR THE PURPOSES OF THE ANNUAL GENERAL MEETING TO BE HELD ON 21 JANUARY 2022

Nam Lee Pressed Metal Industries Limited (the "Company", and together with its subsidiaries, the "Group") would like to thank shareholders for submitting their questions in advance of the Annual General Meeting to be held by electronic means on 21 January 2022. The following are the questions submitted by shareholders and the responses of the Company.

Question 1

Despite achieving record profit and high Earnings Per Share ("EPS") of 6.49cents in FY2021, dividend payout ratio is at a historic low of 30.8%. Based on historical 5 year results, dividend payout ratio range between 47% - 57%.

Why is the company retaining so much earnings and not sharing the fruits with shareholders? Will the company resume interim dividend for FY 2022?

Company's Response

Nam Lee has a dividend policy of approximately 33% dividend payout ratio based on reported PAT after NCI attributable to shareholders in respect of any year. However, in considering the level of dividend payments, we take into account various factors such as:

i. the level of our available cash and cash equivalents;
ii. return on equity and retained earnings; and
iii. projected levels of capital expenditure and other investment plans.

We will need to strike a balance between distributing dividends and retaining capital for financial flexibility and funding growth. The following factors were considered in proposing the FY2021 dividends.

(i) Cash reserves need to be retained to pay principal and interest on a bank loan taken to finance capital expenditure on a new property at 4 Gul Way including upgraded production capacity for efficiency and flexibility. The move from the older property was necessitated by the approaching expiry of lease of the older property.
(ii) The Company mitigated the effects of supply chain disruptions and surge in raw material prices brought about by the COVID-19 pandemic by replenishing earlier and carrying more inventories. This requires more cash funding.

Management will consider the feasibility of interim dividend after the financial results of first half FY 2022 is available.

Question 2

Are the operations in Malaysia affected by the recent flood?

Company's Response

Our operations in Johor, Malaysia were not affected by the flood in early January 2022 as our factories are located in districts unaffected by the flood.

Question 3

What is the effect of Coronavirus-19 ("COVID-19") and the business outlook?

Company's Response

Apart from ensuring good management of daily operations under strict safe management measures, we are also facing the challenging operating conditions, including additional COVID-19 safe management expenses, high labour and shipping costs and surge in construction raw material price.

However, the Company has always been very prudent in cost management. We are focused on optimising our cost structure and improving productivity.

All of our business activities in Singapore and Malaysia have been fully restored. Barring unforeseen circumstances and any further significant adverse developments in the coronavirus pandemic, we expect to remain profitable in the next financial year.

Question 4

Is there any issue with the trade receivables? It has grown quite substantial to $37.96 million.

Company's Response

The increase in trade receivables was in tandem with the increase in revenue. The customers repay us in accordance with the credit term given. As of today, we have collected 99% of it.

Question 5

In FY2021, revenue from the major customer increased by 45% to $146 million (2020: $101 million) in the aluminium segment. The major customer accounted for 74% (2020: 86%) of the group's total revenue.

(i) How much visibility does management have on the demand by the major customer? How much of the increase can be attributed to the global shipping container shortage and the shipping crisis? Does management see any structural change in the container refrigeration sector as a result of the pandemic? How sustainable is the heightened demand? Is there a significant risk that demand will normalise in the near future and that there will be an oversupply in the market? How is management managing the uncertainties in the market?

(ii) What is the board/management actively doing to maintain and to consolidate its position as the "only worldwide third-party manufacturer of aluminium frames for container refrigeration units in the world" for the major customer? The relationship with the major customer for refrigerated container mainframe business was started in 1993, nearly 30 years ago. What are the threats to this long-term relationship? For example, a customer's risk management framework may require it to introduce supply chain redundancy/resilience as a result of the pandemic.

(iii) When was the last contract signed with your US customer? How long is the current contract?

Company's Response

(i) We understand that global increased demand for container refrigeration units induced by the pandemic result from a number of factors including longer turnaround time at ports. The congestion and inefficiency in usage of the containers is not expected to be corrected in the near term in 2022.

(ii) With the many years of experience in the business, the Group's vertically-integrated production structure, well-equipped facilities and skilled staff, the Company is able to offer the major customer complete service from design right through to manufacture of product. We seek to keep abreast of market developments; provide tested, reliable and responsive services, product ranges and quality; and stay continually relevant to customer needs. Integrity, quality, customer, satisfaction and innovation are the pillars of the Company's success in maintaining the long-term relationship with the customer.

(iii) The current contract with the major customer was renewed in January 2020 for a period of 5 years.

Question 6

Can the board/management provide shareholders with greater clarity on the other segments of the group's operations? The turnover by activities is shown on page 15 of Annual Report.

Mild steel: What is the group's competitive advantage in the mild steel segment? Revenue in the past 5 years has fluctuated significantly. The segment last reported a segment profit of $130,000 in FY2017 and the net cumulative losses from FY2017 to FY2021 amount to $(9.9) million. Can management elaborate further on its business model and describe in greater details management's plans to turnaround the segment?

Stainless steel: Similarly, stainless steel has been an insignificant contributor of revenue and profit to the group. How viable is the stainless steel business in the long run?

Company's Response

The Mild steel market remains competitive. Although we incurred losses for the past 4 years, we have obtained new contracts which will generate revenue in future. We expect these new projects will help to turnaround the Mild Steel segment.

We will continue the Stainless steel business as this is part of our complementary offering to customers in the Mild steel segment. We have more than 30 years of experience in these businesses.

Question 7

The Annual Report for FY2020 mentioned delay in deliveries to and installation at customers' sites due to Covid-19 restrictions. How much of this backlog has been completed / delivered?

Company's Response

The backlog of FY2020 continues to persist in FY2021 although it has gradually eased. All construction projects with new schedules were agreed with developers and main contractors.

Question 8

In relation to the HDB project, do you see more volume or better margins in the current positive environment for new BTOs?

Company's Response

We expect more volume and an improvement in margins based on the projects we have tendered and obtained.

Question 9

There has been a successful transfer of leadership to the next generation of executives with the following changes:

- Mr Yong Koon Chin retired as the executive chairman and appointed as an advisor of the group with effect from 5 October 2020
- Mr Yong Kin Sen retired as a managing director and member of the nominating committee (NC) and was appointed as an advisor of the group with effect from 16 December 2019
- Mr Yong Poon Miew retired as an executive director and a member of the NC and was appointed as an advisor of the group with effect from 1 August 2020

The board currently comprises 6 directors, made up of three executive directors and three independent directors. Profiles of the directors can be found on pages 8 to 13 of the annual report.

(i) Can the board elaborate further on the near-term plans to meet Provisions 2.2 and 2.3 of the Code of Corporate Governance 2018? Provisions 2.2 and 2.3 of the Code provide that the independent directors are to make up a majority of the board when the chairman is not independent and the non-executive directors are to make up a majority of the board respectively.

(ii) Has the NC reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?

(iii) In addition, the three former executive directors remain as advisors to the group. The remuneration of the three advisors can be seen on page 26 of the annual report.

The three advisors received between $2.0 million to ~$2.3 million in total in FY2021, with the profit-sharing component ranging from 56% to 64%. This is substantially higher than the remuneration received by them in FY2020 (which amounted to $1.0 million to $1.75 million in total) even though they have retired as executive directors.

(iv) Can the board help shareholders understand the roles of responsibilities of the advisors? Do the advisors still have executive/P&L responsibilities? What are the deliverables by the advisors? Are the advisors “working” fulltime? Do the advisors report to the executive directors?

(v) Are the service contracts for the advisors for a period of three years (and non-renewable) from the respective date of transition from executive director to advisor?

Company's Response

(i) Provisions 2.2 and 2.3 of the Code provide that the independent directors are to make up a majority of the board when the chairman is not independent and the non-executive directors are to make up a majority of the board respectively.

As disclosed in the Annual Report for FY2021, the Board is of the view that there is an appropriate level of independence and diversity of thought and background in its composition to enable the Board to make decisions in the best interests of the Company. Therefore, the Board has no plan in appointing additional non-executive independent directors in the near term.

(ii) In the annual performance assessment conducted on the Board and Board Committees for FY2021, the Nominating Committee ("NC") considered the competencies, diversity of relevant skills, knowledge and experience of the Board and the size of the Board. The NC is of the view that individual Directors and the Board Committees have each contributed to the overall effectiveness of the Board. The NC has not identified any significant gaps in skills or competencies that would require to be addressed in future appointment of director. Nonetheless, the NC will continue to evaluate individual Director's performance and competencies, reassess their roles from time to time as the needs of the Group evolve, fine tune performance criteria and make recommendations to enable continual effectiveness of the Board and Board Committees.

(iii) The advisors have a service contract with the variable component of the remuneration tied to the financial performance of the group as measured by the consolidated profit of the Group. The increase in the remuneration of the three advisors is solely attributable to the increase in the consolidated profit of the Group.

(iv) Advisors are working full time and remain as the executive directors of subsidiaries.

(v) As disclosed in the page 25 of Annual Report, the service contracts of the Advisors are each for a period of three years from the respective date of transition from Executive Director to Advisor. This is consistent with a three-year succession plan that was conceived with the assistance of an external remuneration consultant and approved by the Board in May 2019.

Question 10

Automation: How much automation has the group introduced in its production facility in Malaysia?

Company's Response

Automation is an ongoing project. Implementation and progress have been constrained by disruptions caused by the pandemic.

Question 11

4 Gul Way: Has the group completed its shift to 4 Gul Way? What cost savings and/or productivity improvements can be expected?

Company's Response

We have relocated our office and factory to 4 Gul Way. It is necessitated by the imminent expiry of lease of the old premises. We upgraded the production line to increase productivity and meet increase in customer demand. The new premises is bigger and enables the storage of more stocks needed to mitigate supply disruptions and mitigate future price increases.

BY ORDER OF THE BOARD

Eric Yong Han Keong
Managing Director
Date: 20 January 2022