



(Incorporated in the Republic of Singapore)
Company Registration Number: 200410181W

RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED IN RELATION TO THE UNAUDITED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE SECOND HALF YEAR AND FULL YEAR ENDED 30 JUNE 2020

The Board of Directors (“**Board**”) of Union Steel Holdings Limited (“**Company**”, and together with its subsidiaries, “**Group**”) refers to the Company’s announcement in relation to the unaudited financial statements and dividend announcement for the second half year and full year ended 30 June 2020 released on 28 August 2020. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited on 2 September 2020 (“**SGX Query**”) as follow:

SGX Queries

- (a) Please explain the material variances in the following line items on page 1 of the Financial Statements: (i) revenue; and (ii) cost of sales.
- (b) Please provide a breakdown of the line item “other income” and “other operating expenses” and explain the material variances therein.
- (c) The Company disclosed on page 5 of the Financial Statements an increase in the allowance for doubtful debts from \$438,000 in FY2019 to \$986,000 in FY2020. The Company also stated on page 10 of the Financial Statements that there are “higher expected credit loss allowance”. In this regard, please explain: (i) what these doubtful debts relate to; (ii) the aging of these debts; and (iii) the Company’s plans to recover these debts.
- (d) We note that the Company disclosed an “impairment of goodwill” on page 10 of the Financial Statements. Please provide the nature and basis for the impairment.



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Company's Response to SGX Queries

(a) Material variances in (i) revenue and (ii) cost of sales.

The company disclosed in announcement page 10 para (a) Review of financial performance and page 12 para14 segmented revenue and results for business that the drop in sales was mainly felt in the metals sector of both trading and recycling operations. Cost of sales also decreased correspondingly.

	Metals business	Scaffolding services	Mechanical Engineering	Total
	S\$'000	S\$'000	S\$'000	S\$'000
FY2020				
Revenue	38,594	5,076	16,072	59,742
Cost of sales	(33,132)	(3,139)	(12,479)	(48,750)
	<u>5,462</u>	<u>1,937</u>	<u>3,593</u>	<u>10,992</u>
FY2019				
Revenue	54,213	4,691	9,701	68,605
Cost of sales	(47,114)	(3,344)	(7,420)	(57,878)
	<u>7,099</u>	<u>1,347</u>	<u>2,281</u>	<u>10,727</u>
Variance				
Revenue	(15,619)	385	6,371	(8,863)
Cost of sales	<u>13,982</u>	<u>205</u>	<u>(5,059)</u>	<u>9,128</u>

(b) Breakdown of the line item "other income" and "other operating expenses", and explanation on the material variances.

(b1) Other Operating Income

	FY2020	FY2019	Change
	S\$'000	S\$'000	S\$'000
Rental of leasehold properties	1,490	1,563	(73)
Rental of investment property	929	1,067	(138)
Government grant	(i) 983	83	900
Logistic and storage	(ii) 317	188	129
Gain on disposal of fixed assets	27	123	(96)
Interest income	78	86	(8)
Other sundry income	257	561	(304)
Total	<u>4,081</u>	<u>3,671</u>	<u>410</u>



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(b1) Other Operating Income (continued)

- i) Increase in government grant was mainly attributable to the Job Support Scheme.
- ii) Increase in logistic and storage was due mainly to increased volume of handling and storage for steel products.

(b2) Other Operating Expenses

		FY2020	FY2019	Change
		S\$'000	S\$'000	S\$'000
Land and rental expenses	(i)	1,239	3,650	(2,411)
Amortization of Right-of-use assets (SFRS(1) Leases)	(i)	2,153	-	2,153
Fair value loss on investment property	(ii)	3,062	2,188	874
Impairment on goodwill *		2,530	2,100	430
Provision for doubtful trade debts *		986	438	548
Assets written off	(iii)	399	-	399
Allowance for inventories	(iv)	1,507	-	1,507
Other operating expenses		7	190	(183)
		<u>11,883</u>	<u>8,566</u>	<u>3,317</u>

* to be explained in note (c) and (d).

- i) The decrease in land and rental expenses was due to the adoption of SFRS(I) 16 Leases since FY2020 whereby qualified leases have been recognised as Right-of-use assets and are amortised through their respective lease periods.
- ii) The fair value loss on investment property is attributable to softer property market and shorter remaining lease term of the property.
- iii) Assets written off relate to the wear and tear of sheet piles, steel plates and beams rented to customers.
- iv) Allowance for inventories is mainly for obsolescence of certain engineering stocks.



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(c) Increase in the allowance for doubtful debts from \$438,000 in FY2019 to \$986,000 in FY2020

Explanation to: (i) what the doubtful debts relate to; (ii) the aging of the debts; and (iii) the Company's plans to recover the debts.

i) The doubtful debts mainly relate to expected credit losses on trade receivables. The debtors are largely from construction sector which have been disrupted due to Covid-19 pandemic.

ii) Aging of debts

	FY2020	FY2019	Change
	S\$'000	S\$'000	S\$'000
Not past due	1,320	3,316	(1,996)
Past due for 1 - 90 days	3,422	4,986	(1,564)
Past due for 91 - 180 days	1,280	854	426
Past due for > 180 days	4,012	3,213	799
Loss allowance	(3,367)	(2,381)	(986)
	<u>6,667</u>	<u>9,988</u>	<u>(3,321)</u>

iii) Company's plans to recover the debts

The Company has issued legal demand letters and filed claims in some cases. In other instances, the Company is in vigilant contact with and also visits customers to push for payment.

(d) Nature and basis for goodwill impairment

The goodwill impairment is mainly attributable to scaffolding business.

In compliance with SFRS(I) 1-36 Impairment of Assets, cash generating units containing goodwill are tested for impairment at least annually. If the recoverable amount of the cash generating unit is less than its carrying amount, the impairment loss is allocated first to goodwill and then to the other assets.

Estimated future revenues for the scaffolding unit have been adjusted to reflect the Covid-19 pandemic. The revised cash flow forecasts resulted in impairment of goodwill.

By Order Of The Board

ANG YU SENG

Executive Chairman and Chief Executive Officer

7 September 2020