TEE INTERNATIONAL LIMITED
(Incorporated in Singapore with limited liability)
(Company registration number 200007107D)

RESPONSE TO THE QUERIES FROM THE SINGAPORE STOCK EXCHANGE SECURITIES TRADING LIMITED ("SGX-ST") ON THE THIRD QUARTER / NINE MONTHS FY2020 FINANCIAL RESULTS ANNOUNCEMENT

The Board of Directors (the "**Board**" or the "**Directors**") of TEE International Limited (the "**Company**", and together with its subsidiaries, the "**Group**") would like to respond to the following queries raised by SGX-ST on 13 May 2020 in relation to the Company's Third Quarter / Nine Months FY2020 financial results announcement for the period ended 29 February 2020, dated on 14 April 2020.

<u>Query No 1</u>

The Company reported that revenue decreased by S$1.9 million due to lower contribution of revenue from infrastructure business. However, cost of sales increased by S$5.1 million in the infrastructure businesses and engineering projects, resulting in an overall gross loss position.

a. Elaborate on the factors that resulted in the lower revenue from infrastructure business;
b. To explain the reasons that contributed to the increase in cost of sales in the infrastructure business despite a lower revenue contribution; and
c. To explain the reasons that contributed to the increase in cost of sale in the engineering projects.

<u>Company's Response</u>

a. The lower revenue from infrastructure business is due mainly to lower demand and rates for recycling services, which is exposed to fluctuations in the recyclable commodities price and customers' demand, as well as the non-renewal of low-margin service contracts for the waste management business.

b. The increase in cost of sales in the infrastructure business is due mainly to the operating costs of a paper and plastic recycling plant.

c. The increase in cost of sales in the engineering projects is due mainly to writing off of certain costs which are no longer recoverable from the customer in Malaysia who had become insolvent, additional costs incurred during the defect liability period of certain completed projects and additional costs to complete certain projects.

<u>Query No 2</u>

Income tax expense increased by S$2.3 million due mainly to under provision of income tax in respect of prior years from an overseas subsidiary.

a. To provide information on the overseas subsidiary;
b. To reconcile the increase of S$2.3 million income tax expense against the amount of income tax which the Company had made provision for in the previous years; and
c. To provide details on the Company's policy in income tax provision for its subsidiaries.

Company's Response

a. This under-provision of income relates to a foreign subsidiary which has since became inactive. It was engaged in the business of providing mechanical and electrical engineering services, as well as in building and construction activities.

b. The S$2.1 million under-provision by this subsidiary was due mainly to the financial years ended 31 May 2012 and 2013. The amount previously provided for was based on tax submission by the subsidiary's tax agent. Subsequently, the tax authorities disallowed certain expenses and issued higher tax assessments against the subsidiary for these two years. The Management is in the process of preparing an appeal, together with all the relevant supporting documents, for submission to the tax authorities. The Management is of the view that such expenses should be tax-deductible. However, on grounds of prudence, the additional provision was made for additional tax assessment received in respect of these previous years.

c. The Company's policy is that current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Company's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Query No 3

Please elaborate on the following:

a. Other operating expenses increased by S$0.7 million due mainly to trade receivables written off from an overseas subsidiary. To disclose identity of subsidiary and the reason why the trade receivables had to be written off;
b. Finance costs increased by S$1.5 million due mainly to full redemption of notes payable. To elaborate on what led to an increase in finance costs when the notes payable was redeemed. Please quantify the amount of notes redeemed; and
c. the increase in the Right-of-use assets amounting to S$24.25 million in the Statement of Financial Position.

Company's Response

a. TEE E&C (Malaysia) Sdn Bhd, our Malaysian subsidiary, is principally engaged in the business of general construction and the provision of related engineering services. The trade receivables were written off due to insolvency of its client.

b. The finance costs increased by S$1.5 million due mainly to the payment of redemption interest expense of S$1.7 million on the US$15 million 3-year notes payable which was prematurely redeemed in February 2020. Under the terms of the notes, which was issued in December 2017, redemption interest is payable from the redemption date to 19 December 2020, the original maturity date of the secured notes.

c. The Right-of-use assets amounted to S$24.25 million due mainly to the non-cancellable operating lease commitments of over 15 years on the 4 plots of lands held under the Company's subsidiary Arrow Waste Management Pte. Ltd. The corresponding lease liability amounted to S$24.83 million. This increase is due to the adoption of the new accounting standard SFRS (I) 16 Leases with effect from 1 June 2019.

Query No 4

The Company reported a decrease in cash and cash equivalents from S$60.88 million to S$24.68 million as at 29 February 2020 and that the borrowings repayable in one year or less amounted to S$55.38 million (secured) and S$6.96 million (unsecured). In addition, it reported a net loss from continuing operations of S$14.9 million. Please elaborate whether and how is the Company in a healthy financial position and will be able to meet with its debt obligations as they fall due.

Company's Response

As at 29 February 2020, the Company's lower cash and cash equivalents of S$24.7 million excluded TEE Land's cash (31/05/2019: S$35.8 million) following the disposal of the TEE Land Group.

The S$55.38 million secured borrowings related to project financing for the Company's ongoing engineering projects, which would be repayable from the project's cash collection.

The S$6.96 million unsecured borrowings are general financing lines that are used mainly for general working capital.

The net loss from continuing operations of S$14.9 million included one-off cash and non-cash items, and interest on the secured notes which had been redeemed, totaling S$6.4 million as shown below

One-off cash and non-cash items	**S$'000**
Amortisation of intangible assets	558
Professional fees incurred for special audits reviews	974
Trade receivables written off	698
Start-up cost for infrastructure's new business	359
Secured notes costs	3,781
	6,370

The Company's order books as at 29 February 2020 amounted to S$298.0 million.

In view of the above, the Company will be able to meet with its debt obligations as and when they fall due.

By Order of the Board
TEE International Limited

Saw Chin Choo
Executive Director
14 May 2020