



TEE INTERNATIONAL LIMITED

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

RESPONSE TO THE QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED (“SGX-ST”) ON THE DISPOSAL OF TEE HONG KONG LIMITED

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 14 May 2021 in relation to the disposal of TEE Hong Kong Limited (“**TEE HK**”) dated on 12 May 2021 (the “**Disposal Announcement**”).

Query No 1

Please provide further information on the purchaser Yeung Kwok Ching: -

- a. When did he commence working in TEE HK and what is his designation/role and responsibilities in relation to his appointment in TEE HK.
- b. What is his reason for purchasing over TEE HK despite it having a negative book value of HK\$2.4 million.

Company’s Response

Mr. Yeung Kwok Ching (“**Mr. Yeung**”) joined TEE HK in 2013 as a Project Engineer and he was promoted gradually to Project Manager, Senior Project Manager, and Project Director from 2013 to 2017. As a Project Director, he is responsible for planning, overseeing, and leading TEE HK’s projects from ideation through to completion. Mr. Yeung became the acting Managing Director of TEE HK upon the resignation of the previous Managing Director of TEE HK more than a year ago. Mr. Yeung is not related to any of the directors and/or substantial shareholders of the Company.

The Company had initially decided to voluntarily cease the business in TEE HK after taking into consideration the following factors:

- 1) the Company’s strategic intention to focus on its businesses in Singapore;
- 2) in view of the prospects and challenges of TEE HK in the engineering and construction industry, the limited resources of the Group as well as (1) above, TEE HK is unlikely to participate in any new projects in Hong Kong in the near- to mid-term future (i.e. at least for the next two to three years);
- 3) restrictions and challenges arising from the COVID-19 pandemic which has resulted in, *inter alia*, difficulties in deploying manpower from the Group’s Singapore office to the Hong Kong office to manage TEE HK’s existing project and participate in potential projects; and

- 4) TEE HK's revenue has been declining significantly in recent years and, as it has not secured any new projects, it does not currently have any expected future revenue. Notwithstanding this, the Company would still have to inject additional cash to fund TEE HK's fixed operating costs as well as any other costs which may arise in connection with certain completed projects of TEE HK which are presently still within the relevant defects liability period.

In view of the above, and also taking into consideration TEE HK's financial position and its current and potential liabilities, it was the Company's intention to cease operations in TEE HK. However, Mr. Yeung has offered to purchase the Company's shareholding interests in TEE HK.

It is noted that, as a longstanding employee of TEE HK and as a Hong Kong resident, Mr. Yeung is familiar with TEE HK's business and projects as well as any applicable Hong Kong laws and regulations. Mr. Yeung will also be able to continue his career in TEE HK as its owner. As such, rather than ceasing TEE HK's operations, the Company has agreed to sell its shareholding interests in TEE HK to Mr. Yeung at a nominal value of HK\$1.00.

Query No 2

Please disclose the pre-tax profit / loss reported by TEE HK in the last 3 financial years, when did TEE HK first report a net liability position and elaborate what were the main factors which contributed to the significant losses incurred by TEE HK.

Company's Response

The pre-tax and post-tax profit / loss reported by TEE HK in the last 3 financial years are as follows:

	<u>FY2020</u>	<u>FY2019</u>	<u>FY2018</u>
	S\$'000	S\$'000	S\$'000
Pre-tax (loss) / profit	(129)	52	286
Post-tax (loss) / profit	(129)	(29)	286

TEE HK was incorporated on 30 August 2012 and only reported a net liability position amounting to S\$0.3 million (or equivalent to approximately HK\$1.7 million) in its first financial year ended 31 May 2013.

During FY2020, the only ongoing project of TEE HK was under an Extension of Time ("EOT") and, as at the date of this announcement, is near completion. As such, TEE HK's revenue decreased by 74% in FY2020 as compared to FY2019, however, administrative expenses only decreased by 36% in FY2020 as compared to FY2019, which was the main contributing factor in relation to the losses of S\$129,000 in FY2020.

For the nine-months financial period ended 28 February 2021, the pre-tax loss of TEE HK was S\$51,000, mainly due to a significant decrease in revenue to S\$140,000.

Query No 3

Please disclose what was the Company's invested capital in TEE HK to-date and to quantify the amount of loans that have been extended to TEE HK (if any).

Company's Response

TEE HK is a wholly-owned subsidiary of the Company. As at the date of the sale and purchase agreement (the "SPA") in relation to the disposal of TEE HK, the Company's invested capital in TEE HK amounted to HK\$1.00 (equivalent to approximately S\$0.16), being the issued and paid-up share capital of TEE HK. As at the date of the SPA, the total outstanding loans extended by the Company to TEE HK amounted to S\$2.07 million.

Query No 4

If there have been loans extended to TEE HK, please disclose whether the amounts owed by TEE HK will be repaid to the Company. If not, to disclose the adjusted NAV and adjusted PBT of TEE HK taking into account the waiver of debts from the Company.

Company's Response

The Company has agreed that the outstanding loans extended by the Company to TEE HK amounting to S\$2.07 million will be waived in full. As at the Company's last financial year ended 31 May 2020, this outstanding loan of S\$2.07 million was fully impaired in the books of the Company. Accordingly, this waiver will have no financial or accounting impact on the Company. Please also refer to the Company's response on query number 1 and query number 6.

Query No 5

Please elaborate what are the main assets of TEE HK and whether there are any real estate or property, plant and equipment held by TEE HK. If so, to disclose and quantify the book and market values of these Non-Current Assets.

Company's Response

As at 28 February 2021, TEE HK's total assets amounted to S\$3.03 million. The main assets of TEE HK comprise contract assets of S\$2.66 million, trade receivables of S\$0.33 million, and cash and cash equivalents of S\$0.02 million. TEE HK does not own any real estate or property as at the date of SPA, except for fixed assets with net book value of less than S\$1,000 as at 28 February 2021, consisting of mainly office equipment, computers and printers and renovation.

Query No 6

Please explain why the Company is disposing off its entire stake in TEE HK at a nominal value of HK\$1.00 and whether any valuation was undertaken to support this consideration and provide the AC's views why the fair value of TEE HK is only HK\$1.00.

Company's Response

No valuation of TEE HK was undertaken. The consideration of HK\$1.00 was arrived at on a willing-buyer willing-seller basis after taking into account the following factors:

- (1) the Company's strategic intention to focus on its businesses in Singapore;
- (2) TEE HK's sole ongoing project is currently subject to an EOT and is near completion. The contract assets of TEE HK (which relate to this same ongoing project) are subject to the client's approval. Due to the complexity of the project and the terms in the EOT agreement, TEE HK concludes that the recoverability of its contract assets amounting to S\$2.66 million is in doubt and further costs will be incurred to recover the contract assets after conducting internal due diligence. Taking into account the potential impairment of contract assets, the adjusted Net Liability and adjusted loss after tax of TEE HK would have been approximately S\$0.17 million and S\$0.64 million;
- (3) cash and cash equivalents of S\$0.02 million, trade and other payables of S\$0.32 million and income tax payable of S\$0.22 million;
- (4) the past financial performance of TEE HK;
- (5) the prospects and challenges of TEE HK in the engineering and construction industry as well as the limited resources of the Group. In particular, in view of the challenging market environment, it is noted that TEE HK is unlikely to participate in any new projects in Hong Kong in the near- to mid-term future (i.e. at least for the next two to three years);
- (6) TEE HK's revenue has been declining significantly in recent years and, as it has not secured any new projects, it does not currently have any expected future revenue. In order to support TEE HK and to keep it afloat, the Company would have to inject additional cash to support TEE HK's fixed running costs as well as any other potential costs which may arise in connection with certain completed projects of TEE HK which are presently still within the relevant defects liability period; and
- (7) in view of TEE HK's financial position and its current and potential liabilities, the Company would have commenced action to cease its operations if Mr. Yeung had not offered to purchase TEE HK from the Company.

In view of the above, the Audit Committee and the Board were of the view that the nominal consideration of HK\$1.00 is reasonable. Upon completion of the disposal of TEE HK, the Company will be discharged from the responsibility of taking care of TEE HK in all respects and will therefore reduce the risk of uncertainties and any further liabilities arising from TEE HK. The Company also does not have to incur any additional costs to cease operations in TEE HK.

By Order of the Board
TEE International Limited

Ong Beng Hong
Company Secretary
18 May 2021