

TAI SIN ELECTRIC LIMITED

(Company Registration No. 198000057W)

(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS AHEAD OF THE UPCOMING ANNUAL GENERAL MEETING TO BE HELD ON 29 OCTOBER 2021

The Board of Directors of Tai Sin Electric Limited (the “**Company**”) and together with its subsidiaries (the “**Group**”) refers to the Company’s Notice of Annual General Meeting (“**AGM**”) and AGM Announcement both dated 14 October 2021.

The Company wishes to address all questions received from Shareholders ahead of the upcoming AGM to be held on 29 October 2021.

The questions submitted and the Company’s response to those questions are set out below.

Questions from Shareholder 1

Regarding the provision of \$22.7 million for “onerous contracts”, I understand that its due to the fluctuation of copper prices after the fixed contracts were signed.

But could you kindly briefly share the mechanisms behind how this provision is being derived?

Will a rise in copper price, further widen this provision, or narrows it?

Is this provision for “onerous contracts” reviewed annually, after considering all outstanding signed fixed contracts for the next 5 years?

With high volatility in copper prices occurring more often in recent years, is the company exploring the use of variable contracts, instead of the current fixed contracts?

Company’s Response to Shareholder 1

The methodology applied in the estimation of “Provision for onerous contracts” is explained in Note 3 of the Notes To Financial Statements on page 99 of the Annual Report 2021, under Critical Accounting Judgements And Key Sources Of Estimation Uncertainty paragraph (b) (iv) – Provision for onerous contracts, which reads as follows: -

“The policy for provision of onerous contracts for the group is based on management’s judgement and evaluation of the estimated losses arising from the differences between (1) the committed selling prices and estimated cost of sales for the unfulfilled sales quantities committed in respect of contracts for which delivery has substantially commenced by the end of the financial year and (2) the committed prices and estimated cost for the services committed in respect of uncompleted contracts.

A considerable amount of judgement is required in assessing the unavoidable costs of meeting the obligations under the contract. This determination requires management to evaluate and estimate, among other factors copper prices, the outstanding quantity of copper for future delivery and the timing of future delivery, the hedged copper quantity, the quantity of finished goods on hand that can be used to fulfil onerous contracts and the percentage of copper costs in cables.”.

A further rise in copper prices does not necessarily mean that there will be an increase in “Provision for onerous contracts”. The assessment needs to take into consideration other variables mentioned above, such as (a) the outstanding quantity of copper for future delivery; (b) the hedged copper quantity; (c) the quantity of finished goods on hand that can be used to fulfil onerous contracts; and (d) the percentage of copper costs in cables. However, should all the variables remain unchanged and copper prices rise further, there will be an increase in the “Provision for onerous contracts”.

All outstanding contracts are reviewed on a quarterly basis and when there is a surge in copper prices that could cause a contract to become categorised as “onerous”.

The Company is unable to entirely switch to “variable contracts”, as this is based on market forces of supply and demand. Customers generally place their order in advance because they do not wish to be exposed to material fluctuation in prices, preferring to pass such risks to the manufacturer.

Questions from Shareholder 2

1. Has the board looked at orientating TS as a “low carbon” supplier of electrical wire and components. Such accreditation could position TS to compete beyond price as the world focuses on ESG matters.
2. With the onset of electric vehicles, are there opportunities for Tai Sin to look at testing, inspection and even maintenance of electrical components for EV chargers as a recurring source of revenue for the future?

Company’s Response to Shareholder 2

- 1) The Board recognises the growing impact and benefits with the world focusing on ESG matters. We have been conscious of and have taken into consideration ESG matters in our corporate strategies. In fact, the Group began publishing its “Sustainability Report” since Financial Year 2018. Management also strives to progressively improve on ESG matters and will continue to incorporate this into future strategies whilst balancing cost and benefits.
- 2) The Group’s Test & Inspection Segment provides testing and inspection for civil construction. Electrical testing is not within the T&I Segment’s activities and expertise. However, increasing popularity of Electric Vehicles in Singapore will present opportunities in the infrastructure construction and component supply businesses. This will benefit to the Group’s Cable & Wire, Electrical Material Distribution and Test & Inspection Segments.

Questions from Shareholder 3

1. The GP% was only 10.1%, it has never been so low for many years . Please help to explain the drop.
2. You have a derivative asset of current and non-current of \$7.24 million and \$6.64 million respectively, in total of \$13.88 million, if this is for hedge against copper price rise, may I know what is the floating profit as at 30/6/2021.
3. You have provision for onerous contracts amounting to \$22.68 million which is quite huge as at 30/6/2021, if the copper price were to go lower from the above date, it will reflect as profit in the

next reporting period, similarly if the copper price were to move higher in the next reporting period, you have a hedge copper position to offset the rise in copper price. Just my own understand, very much appreciate your insight please. Thank you.

Company's Response to Shareholder 3

1) Based on our "Consolidated Statement Of Profit Or Loss And Other Comprehensive Income in the Annual Report 2021, the gross profit percentage was 13.9% for the year ended 30 June 2021 vs 16.0% for the year ended 30 June 2020. The gross profit percentage for the financial year ended 30 June 2021 is lower because of the "Provision for onerous contracts" of \$22.69 million which was charged to cost of sales. Excluding this "Provision for onerous contracts", the Group's gross profit percentage would have been higher.

2) The total "Current and Non-Current Derivatives Financial Instruments" of \$13.881 million are disclosed in Note 10 of Notes To Financial Statements on page 114. These are made up of both Copper contracts derivatives of \$13.276 million and Forward foreign exchange contracts derivatives of \$0.605 million respectively.

The amount recognised in the Consolidated Statement Of Profit Or Loss for year ended 30 June 2021 is as disclosed in Note 30 of Notes To Financial Statements on page 139 under "Fair value adjustment on derivative financial instruments taken to profit or loss" of \$10.802 million.

3) Should the price of copper go lower, it does not necessary mean that there will be a decrease in "Provision for onerous contracts". The assessment needs to take into consideration other variables such as (a) the outstanding quantity of copper for future delivery; (b) the hedged copper quantity; (c) the quantity of finished goods on hand that can be used to fulfil onerous contracts; and (d) the percentage of copper costs in cables.

The above variables are mentioned in Note 3 of the Notes To Financial Statements on page 99 of the Annual Report 2021, under Critical Accounting Judgements And Key Sources Of Estimation Uncertainty paragraph (b) (iv) – Provision for onerous contracts, which was quoted in our response to Shareholder 1 above.

Hypothetically, should all the variables remain unchanged and copper prices go lower, there will be a decrease in the "Provision for onerous contracts". The difference will be written back and reflected in the Consolidated Statement Of Profit Or Loss.

In the next reporting period, the outstanding amount of copper contracts derivatives on hand will be revalued and marked to market prices and the difference taken to the Consolidated Statement Profit Or Loss. Assuming that the amount of copper contracts derivatives on hand is the same and copper price moves higher, there will be a gain in "Fair value adjustments on derivatives financial instruments taken to profit or loss".

BY ORDER OF THE BOARD

Mr. Tan Shou Chieh
Secretary

Singapore, 28 October 2021