

BRC ASIA LIMITED

Incorporated in the Republic of Singapore
Company Registration No. 193800054G

RESPONSE TO SGX QUERY ON FIRST HALF AND SECOND QUARTER FINANCIAL STATEMENT ENDED 31 MARCH 2017

The Board of Directors of BRC Asia Limited (the “**Company**”) (the “**Board**”) refers to the query raised by the Singapore Exchange Securities Trading Limited on 1 June 2017 in relation to the Company’s First Half and Second Quarter Financial Results for the financial period ended 31 March 2017 (“**2Q2017**”) that was announced on 12 May 2017:

SGX Query:

On Page 12 of the Company’s 2Q2017 results, in relation to the provision for onerous contracts, the Company announced that “increase in provisions was mainly related to provisions for certain sales contracts for which the costs to meet the obligations were expected to exceed the economic benefits to be received under them”.

As the provision of S\$7 million is significant when compared to Company’s gross profit of S\$6.8 million and net profit of S\$107k in 2Q2017, please elaborate on the reasons why the costs of the sales contracts is expected to exceed the economic benefits by S\$7 million.

Company’s Response:

Intensive competition arising from industry-wide overcapacity in a weak construction environment has driven prices and profit margins to severely depressed levels. Although the Company’s raw material purchases are made against its sales order book, the weighted unit costs of inventory on hand and committed purchases have risen due to upturn of steel price from 2016 third quarter ended 30 June 2016 to 2017 first quarter ended 31 December 2016 (as reflected in the construction material market prices information published by the Building Construction Authority). Provision for onerous contracts, which is taken up under cost of sales, is made against specific contracts for which the costs to deliver for the balance of the contracted volume is expected to exceed the revenue to be received under them.

By Order of the Board
Seah Kiin Peng
Executive Director
5 June 2017