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

RESPONSE TO QUERIES RAISED BY SECURITIES INVESTORS ASSOCIATION (SINGAPORE) REGARDING THE GROUP'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2024

The Board of Directors (the "**Board**") of BRC Asia Limited (the "**Company**" or "**BRC Asia**", and together with all its subsidiaries, the "**Group**") refers to the following queries raised by Securities Investors Association (Singapore) ("**SIAS**") regarding the Group's annual report for the financial year ended 30 September 2024 ("**FY2024**") and would like to provide the following responses as set out below.

Question 1

As noted in the operations & financial review, the overall revenue decline was primarily attributed to lower steel prices, while delivery volumes in FY2024 "remained unchanged" compared to the previous year.

(i) What is the group's current market share in Singapore, and how has the group consolidated its market position in recent years?

Company's response

BRC Asia is of the view that it is the leading player in the steel reinforcement supply and fabrication sector in Singapore with a significant market share. In recent years, the effects of successfully integrating Lee Metal group into BRC's Better • Faster • Cheaper customer centric ecosystem has shone through post-COVID, further consolidating BRC as the partner of choice in the Singapore construction market for steel reinforcement solutions and supply.

(ii) To what extent is the group a price taker versus a price setter in Singapore's steel market?

Company's response

The Group operates primarily as a price taker in the Singapore's steel market. Steel prices are largely driven by global supply and demand dynamics as well as fluctuations in raw material and production costs. The Group aligns its pricing strategy with local market trends to ensure its offerings remain competitive while safeguarding profitability.

The group reported a record net profit of $93.5 million despite segment profit from "Fabrication and manufacturing" decreasing from $78.7 million in FY2023 to $76.2 million in FY2024. In FY2021, the group recognised a $(45.3) million charge in provision for onerous contracts, which has been largely reversed over the past three years, leaving just $2.12 million in provision remaining as at 30 September 2024.

(iii) Given the significant impact of provisions for onerous contracts (and their reversals) on the group's P&L, has the board or management explored ways to better manage this risk, particularly in light of steel price volatility and long-term contracts?

Company's response

The duration of the projects in the sales order book could range up to 5 years, and the actual deliveries of the contracts may not be in the same chronological sequence as the contracts were entered into. In time periods of up-trending steel prices, sales contracts delivered at current market prices utilising weighted average inventory costs would result in excessively high margins in the current period; on the other hand, as weighted average inventory costs increase in tandem with up-trending steel prices, there may be potential loss when certain fixed price contracts are actually delivered in the periods going forward. Provision for onerous contracts are made for such foreseeable losses and these provisions have to be reversed as and when contractual obligations are met or no longer exist or when the costs to meet the obligations no longer exceed the sales value.

To mitigate the impact of steel price volatility and long-term contracts, it is our practice to hedge the Company's steel raw material exposure of its sales order book in a timely manner and on an overall tonnage basis, subject to viable purchase shipment quantities. However, as steel raw materials drawn down could not be earmarked to specific projects, they are utilised as a pool (for both fixed and/or fluctuation pricing projects) and accounted for on a weighted average costs basis.

This raw material hedging procedure was put in place after extensive discussions between the Board and Management. The Board and Management are satisfied with the extent of hedging of steel raw material exposure of the sales order book currently in place to mitigate the risks associated with the volatility in steel prices which impact on the Group's accounting treatment for the contracts. Such procedures nonetheless continue to be periodically reviewed and evaluated by the Board and Management and the accounting treatment has been reviewed by the auditors as part of the audit.

Question 2

Based on Note 31 (Segment report; page 123), 86% of the group's total revenue (amounting to $1.28 billion) was derived from customers based in Singapore. Customers in Malaysia collectively ranked second, contributing $116.9 million in 2024 (2023: Thailand customers with revenue totalling $190.5 million).

Management has stated that it is actively seeking overseas expansion opportunities to penetrate regional markets.

(i) Can the board/management provide further details on the group's overseas expansion strategy, including targeted markets and key objectives? What are the financial and operational metrics being used to evaluate overseas expansion opportunities?

Company's response

The Group is actively pursuing overseas expansion as part of its strategy to tap into regional markets and further diversify its revenue streams. The Group has identified key growth opportunities in Southeast Asia, with a particular focus on Thailand and Malaysia, as well as markets further afield such as Hong Kong and Australia.

In line with this strategy, the Group has recently established operations in Thailand, with business activities commencing in September 2024. This new venture represents a significant milestone in the Group's regional expansion efforts and is expected to serve as a platform for further growth in the ASEAN region.

The key objectives of BRC Asia's overseas expansion include market diversification, geographical expansion and volume growth. To evaluate overseas expansion opportunities, the Group uses a combination of financial and operational metrics, including return on investment, market potential and demand forecasting, operational efficiencies and overall risk management.

(ii) Are the group's success factors in Singapore transferable to other markets?

Company's response

Yes, the Group's renowned expertise is in customising, fabricating and supplying reinforcing steel products and solutions to construction projects on a just-in-time basis. The Group is well-positioned to replicate its success in other regional markets with similar building and infrastructure development needs, in line with its strategy for overseas expansion.

The Group remains prudent and recognises the need to adapt to each market which comes with its own unique challenges, including varying levels of competition, local preferences, and regulatory environments.

(iii) In identifying regional opportunities, has the group established a structured framework to evaluate potential acquisitions versus organic growth, considering market entry risks and synergies?

Company's response

Yes, the Group has developed a broad framework to assess regional opportunities, in line with the Group's long-term strategy, operational needs, and risk profile. Generally, the Group would incrementally build presence in a new market and understanding of market entry risks. The Group may expand through acquisitions, joint ventures and strategic alliances with parties who create synergistic values with the Group's existing business and core competencies. Should such opportunities arise, the Company will seek approvals from the Shareholders and the relevant authorities as may be required by prevailing laws and regulations.

Question 3

Resolution 4 in the notice of annual general meeting seeks shareholders' approval for directors' fees of $650,000 for the financial year ending 30 September 2025. This represents a significant 30% increase from the $500,000 directors' fees approved for FY2024.

The board currently comprises ten directors: four independent directors, three non-independent non-executive directors, and three executive directors, including the chief executive officer, the chief procurement officer and the chief operating officer.

(i) Has the nominating committee benchmarked the board's size and composition against comparable listed companies, particularly in terms of governance best practices and board effectiveness?

Company's response

The Nominating Committee regularly reviews the composition, size, and effectiveness of the board to ensure that it aligns with best governance practices and meets the evolving needs of the Group. The Board is structured to ensure an appropriate level of independence and diversity of thought, comprising four Independent Directors, three Non-Independent and Non-Executive Directors and three Executive Directors. Directors come from diverse industry and professional backgrounds and enables the Group to benefit from varied perspectives and innovative solutions as well as effective leadership and direction. This composition ensures that there is a balance between independent oversight and deep operational insight. Shareholders may wish to refer to the Corporate Governance Report in relation to the Directors' core competencies as set out in Company's annual report.

(ii) For the benefit of shareholders, what factors drove the significant 30% increase in proposed directors' fees? Given that no external remuneration consultants were engaged, can the board elaborate on the methodology and framework used to determine the revised quantum?

<u>Company's response</u>

The Remuneration Committee carried out a review of the Group's growth trajectory and strategic developments during FY2024 and in the financial year ending 30 September 2025 ("FY2025"), the corresponding expansion in roles and responsibilities of the Directors during FY2024 and the projected workload of the Directors in FY2025, and considered data in respect of directly comparable companies listed on the Singapore Exchange (in terms of net tangible assets and market capitalisation), before providing its recommendations for the proposed 30% increase in directors' fees which was approved by the Board and proposed to the Shareholders at the upcoming AGM.

(iii) To promote transparency and informed voting by shareholders, will the company provide a more granular disclosure of director remuneration, including fixed, variable, and committee-specific components, to enable shareholders to evaluate the appropriateness of the proposed fees?

<u>Company's response</u>

The Company will not disclose the exact amount and breakdown of the remuneration of each individual Director and Chief Executive Officer, given the competitive environment that the Company is operating in and the confidentiality of remuneration matters. However, Shareholders may refer to the remuneration (disclosed in percentage terms and in bands) as set out in the Company's annual report for FY2024.

The Company will disclose the exact amount and breakdown of remuneration being paid to the Directors and the Chief Executive Officer in future annual reports, in line with the new remuneration disclosure requirements introduced by the Singapore Exchange Securities Trading.

By order of the Board

Seah Kiin Peng
Executive Director and Chief Executive Officer
21 January 2025