HOCK LIAN SENG HOLDINGS LIMITED
(Company Registration No. 200908903E)
(Incorporated in the Republic of Singapore)

RESPONSES TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL GENERAL MEETING ("AGM") TO BE HELD ON 24 APRIL 2024

The Board of Directors of Hock Lian Seng Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the queries raised from Securities Investors Association (Singapore) in relation to the Company's AGM for the financial year ended 31 December 2023 ("**FY2023**") and appends the replies as follows:

<u>Question 1:</u>

Q1. As at 31 December 2023, the group has an existing order book of $708 million in the civil engineering segment. This mainly relates to the contracts for the Aviation Park and Serangoon North station projects. The group expects to complete the Changi Airport joint venture project in the first half of 2024. A project highlight featuring the Aviation Park Station project can be found on page 7 of the annual report.

Management has noted that the group is faced with rising cost pressure and acute manpower constraints in a highly competitive business environment. It will continue to adopt a cautious stance towards evaluating opportunities in civil engineering projects.

In FY2023, revenue and gross profit amounted to $169.4 million and $11.5 million respectively (2022: $138.8 million and $9.4 million respectively).

(i) **As the Changi Airport JV concludes, could management elaborate further on its strategy for growing the order book in light of inflationary pressure and manpower constraints?**

(ii) **For the understanding of both new and long-standing shareholders, can management elaborate further on the specific qualities that set the group apart from its peers in the civil engineering sector, particularly highlighting its operational strengths and financial performance?**

(iii) **What are the core operations of First Shine Enterprise Pte Ltd and why has management allowed its ownership stake to be diluted from 60% to 51%?**

(iv) **Separately, the group's residential project at Mattar Road, The Antares, obtained TOP status in December 2022, with the sales revenue booked in the previous year. What is management's perspective on the residential market in Singapore? Is the company actively seeking to acquire new land bank for private residential development? In addition, what are the plans for FSKH Development Pte Ltd, the 45%-owned joint venture with Keong Hong Holding and TA Corporation?**

(v) **Considering there are just 21 years remaining on the lease at Shine@TuasSouth, would it be prudent for the group to increase its efforts in selling the units?**

<u>Company’s responses</u>

i. The Group will continue to monitor the tender price index closely and tender selectively for projects that suit our strength and capabilities and could provide better economy of scale.

ii. The Group has been successful in tendering and executing infrastructure projects with profit. Both our accumulated project costing and management experience, of more than 50 years, are key in navigating through the current competitive and inflationary environment.

iii. First Shine Enterprise Pte Ltd is an earthwork contractor, which is an essential scope of most civil engineering projects. Our partner is the key party managing and running the projects, therefore it is for the interest of the partner and the Group to increase the partner’s participating interest.

iv. With unit selling price increments stabilising and the take up rate slowing down, the management sees the residential market as relatively risky in the current high interest rate and high ABSD environment. Land prices appear to have lowered but the plot sizes or price quantum of available sites tend to be fairly large. The management has been looking for suitable opportunities and will continue to monitor the market. FSKH Development is an special purpose vehicle (SPV) set up specifically for The Antares project and a new SPV will be set up for each new project.

v. To promote the sales of units at Shine@TuasSouth has been the key focus of the Management since the completion of the project. Any quick disposal will not be in the interest to the Group. Most the unsold units were leased and generating rental income for the Group.

Question 2:

Q2. As noted in the board statement on sustainability[1], the board is cognisant that building a sustainable business is vital to the group's continued success and that the group must be fully accountable for its impact on the environment, customers, its people and its community as well as the financial performance.

The group has formed a Sustainability Management Committee ("SMC"), comprising the group's senior management, which is chaired by the executive director, Ms Chua Siok Peng.

(i) **Could management or the SMC provide further details on the group's initiatives in reaching the target of achieving net-zero carbon emissions by 2050?**

(ii) **What are some of the key sustainability related strategies and guidelines set by the board in recent years to future-proof the group's operations?**

Some of the group's performance and targets for the GHG emission, water management and energy are reproduced below:

Performance and Targets

● : target met ● : target not met

Material Topics	2023 Performance	Targets
GHG Emission	0.03kg/$ ●	Short term target: To maintain or reduce Scope 1 & 2 GHG emissions intensity in FY 2023 (FY2022: 0.03kg/$) Mid and long term targets: To reduce Scope 1 & 2 GHG emissions intensity by 50% by 2037 and to be net zero or carbon neutral by 2050. Perpetual target: Maintain zero cases of material non-compliance with laws relating to environment protection including, but not limited to, the Environmental Protection and Management Act of Singapore.
Water Management	FY2023: 0.00058 CuM/$ ●	Short term target: To maintain or reduce water consumption intensity in FY 2023 (FY2022: 0.00056CuM/$) Mid term target: To reduce water consumption intensity by 3% per year for 2 years from 2023.
Energy	FY2023: 0.0048kwh/$ ●	Short term target: To maintain or reduce electricity consumption intensity in FY 2023 (FY2022: 0.0026kwh/$) Mid term target: To reduce energy consumption intensity by 3% per year for 2 years from 2023.

(Source: company sustainability report; emphasis added)

(iii) **Has the board or SMC examined the reasons behind any unmet short-term targets, and what guidance have they provided to management to address these issues?**

(iv) **In addition, does the board see the group ready to take more concrete steps in setting more meaningful and quantifiable targets, other than to maintain or reduce emission/consumption intensity?**

(v) **Also, did the board/SMC review why the accident frequency rate (AFR) and accident severity rate (ASR) increased to 0.32 and 11.86 respectively, considering the group achieved a rate of 0 for both measures in 2021 and 2022?**

(vi) **What is the timeline for developing a comprehensive decarbonisation plan for the group?**

[1] https://links.sgx.com/FileOpen/Sustainability%20Report%202023.ashx?App=Announcement&FileID=794935

Company's responses

i. As stated in the 2023 SR, the initiatives include attempts to reduce resources consumption, improve efficiency of machineries and equipment, utilise more PVs to generate renewable energy, using greener construction material and exploring the procurement of green electricity when it is available.

ii. The Group has continued to focus on providing sufficient training for the employees to not just enhance safety but to keep up with the technological changes in the industry. Other than complying with regulations, the company also compare with industry peers and take on good practices to improve the welfare of our employees, particularly the ones working on sites.

iii. As mentioned in our SR (page17) , depending on the projects we have on hand, the emissions data can fluctuate from year to year. It was also noted in page 21, after the table, that due to the varied work stages involved in civil engineering projects, the reductions might not happen in a linear fashion.

iv. As stated in our SR (page 17), the Group has been exploring the use of electrical machinery and equipment but the costs of such machines are currently prohibitive and availability is limited to those with smaller capacity. Large electrical construction machineries and the means of powering them are not readily available in the market. Our setting of targets is partly dependent on the development of the construction industry and ecosystem. It was also stated in page 19 that renewable energy generated off site is not readily available in the market as yet so it is not easy for us to set mid to longer term targets.

v. Safety is a top concern for the Group and safety records are reported at every Board meeting. The Group maintain and uphold strict workplace health and safety policies and practices, safety trainings in all construction sites. The permanent target of the group is to achieve 0 AFR and ASR.

vi. As stated above, the setting of targets is dependent on the development of the construction industry and ecosystem, and the availability of renewable energy sources. We hope to be able to come up with a comprehensive decarbonisation plan in the next few years.

Question 3:

Q3. As shown in Note 37 Capital management (pages 106 and 107), the group is in a net cash position of $(132.5) million.

37. Capital management (cont'd)

The Group monitors its capital structure as follows:

	Note	Group 2023 S$'000	Group 2022 S$'000
Cash and short-term deposits	21	**(132,464)**	(108,839)
Net cash		**(132,464)**	(108,839)
Equity attributable to owners of the Company		**258,685**	237,310

The Group will continue to be guided by prudent financial policies of which gearing is an important aspect.

(Source: company annual report)

(i) **Has the board evaluated the optimal capital structure to support the group's growth strategy and enhance shareholder value?**

(ii) **Could management provide insights into the major projected capital outlays or investments?**

(iii) **Would it be reasonable to assume that the group is overcapitalised given the scale of its current operations?**

Based on SGX StockFacts (see diagram below), the company trades at a price-to-book value of ~0.6 and has a market capitalisation of $161 million, as compared to a net cash position of $132.5 million.

In recent years, stock exchanges and regulators, including Tokyo Stock Exchange and Korea's Financial Services Commission, have started to recognise that "corporate values" of listed companies have to improve and that the main driver in enhancing corporate value is the company itself. Efforts have been targeted at companies that trade below a price-to-book ratio of below 1 and they have started to ask companies to set up and disclose valuation boosting plans. The initiative focusses on increasing awareness and literacy of the cost of capital, capital efficiency and stock prices of listed companies[2].

[2] https://www.jpx.co.jp/english/news/1020/p1j4l400000014ul-att/p1j4l400000014x9.pdf

Hock Lian Seng (J2T/HLSG.SI) ▼ 0.305 -0.01 (-3.175%)

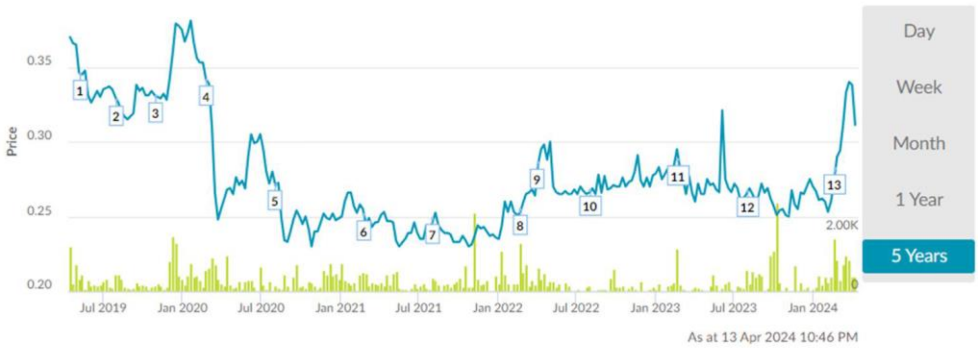
Industry: Industrial & Commercial Services, Construction & Engineering

This company reports in this currency: SGD

For latest update, please refer to Company Announcements.

Cum Dividend/ Distribution

Prices & Chart | Company Information & News | Financial Statements | Company Announcements | GTI



Overview | Valuation | Financials | Dividends | Ownership

Previous Open Price	SGD 0.300	Previous Day High/Low	SGD 0.315 - 0.300
Previous Day Volume	117K	Previous Close	SGD 0.305
Previous Close Date	12 Apr 2024	52 Week High/Low	0.370 - 0.240
5-Year Beta	0.64	Shares Outstanding	512.10M
Average 3-month Volume	3.00M	Normalised Diluted EPS	0.05
Sector	Construction	Total Market Cap	161.31M

(Source: SGX StockFacts https://investors.sgx.com/securities/stocks?security=J2T)

(iv) **Beyond attributing share price fluctuations solely to external factors, would the board consider formulating, disclosing and implementing strategic initiatives aimed at enhancing capital efficiency and bolstering corporate valuation, thereby crystallising value for all shareholders?**

<u>Company's responses</u>

For (i), (ii), (iii) and (iv)

The Board does not hold the view that the Group is overcapitalised or its financial resources are not deployed to maximum returns. One of our key competitive strengths is our strong financial liquidity, it has allowed the Group to achieve lower cost structure and headroom to increase order books.

Both civil engineering and property development businesses are capital intensive in nature.

As the Group continue to bid for new infrastructure projects in the public sector, the Group must maintain liquidity (financial resources) to undertake successful bids. The Group has undertaken projects with contract value of above $500 million with execution period more than 5 years.

Property development projects would require high capital outlay and holding power is also essential in the event of slow take up.

The Group maintains a stable dividend payout of about 30% of the Group's total net profit after tax.

By Order of the Board

Siau Kuei Lian
Company Secretary
18 April 2024