Q1. Given the winding down of the Steel Merchandising business, the group's business model will be Singapore-centric, with core focus on the Fabrication and Manufacturing segment (page 5 of the annual report – Letter to shareholders).

a) Revenue from the Fabrication and Manufacturing segment dropped from $396 million to $315 million. **What is the tonnage delivered in 2016?**

> **<u>Company's Reply</u>**
> Q1(a) - Singapore's construction sector grew by a sluggish 0.2% in 2016, down from the 3.9% growth in 2015. While we achieved more than 500,000 m/tons in 2016, our revenue is impacted mainly by weaker steel prices and lacklustre private sector construction demand.

b) Does the group have an estimate of its share of the welded mesh market in Singapore?

In the Letter to Shareholders, it was said that the group "reduced its manpower headcount" but the Corporate Profile (page 1) still shows the headcount as "over 550 employees", unchanged from last year.

> **<u>Company's Reply</u>**
> Q1(b) - We are one of the leading suppliers of welded mesh in Singapore.

c) What is the group's current manpower headcount?

> **<u>Company's Reply</u>**
> Q1(c) – Due to the nature of our fabrication business, we have been heavily reliant on foreign workers. We have reduced our manpower headcount from high-500 in 2015 to mid-500 in 2016 and are aiming to reduce this further to low-500 in 2017.

d) What is the progress made in automating some of the group's manufacturing processes? Can management share some of the innovative practices and automation that has enhanced the group's productivity?

> **<u>Company's Reply</u>**
> Q1(d) – In our 2016 AGM, we explained to shareholders our capex for our new factory, new machinery and automation of production processes. We have invested extensively in our new factory as well as new and fully automated machines from European machine manufacturers. We have also procured a customised production software which enables full production traceability and reduces manual intervention, thus enhancing our production process flow.

e) How does management measure productivity?

> **<u>Company's Reply</u>**
> Q1(e) – We measure productivity principally on man-hour per output ton basis.

Q2. In the Independent Auditor's Report (pages 20 to 25), the group has listed (i) Impairment of trade receivables and (ii) Provision for onerous contracts as key audit matters. In Note 20 (page 71 - Trade and other receivables), the group had recognised an allowance for impairment of $1.14 million. The group has always been prudent and had not provided any impairment for several years.

a) Can management help shareholders understand the situation(s) that led to the allowance and what is the current financial situation of the debtor(s)?

> **<u>Company's Reply</u>**
> Q2(a) – We started to wind down our Steel Merchandising business since 2015, given the high risks, low margins and intense competition from China's steel imports. In our 2016 full year results announcement released on 21 Feb 2017, we updated that we had completed winding down this business segment by fulfilling all existing contracts. We made an allowance for impairment of $1.14 million mainly for our trade debts from our customers in Malaysia. Coupled with the volatility in the Malaysian Ringgit, the collectability of these debts was in doubt. Management continues to exert efforts to pursue and are in talks over the settlement of these debts.

In Note 25 (page 75 - Provision of onerous contracts), the provision for onerous contracts in 2016 was $6.79 million.

b) Shareholders would like to understand what led to the provision of $6.79 million. This is unusually large relative to the group's revenue and the lower volume of business carried out in 2016.

> **<u>Company's Reply</u>**
> Q2(b) - Owing to the fluctuations in the prices of steel during the period, certain of our suppliers were not able to secure supplies of steel; and, consequently were not able to fulfil our requirements fully.
> As a result, the Group had to seek alternative sources of supply which cost higher owing to the higher steel prices prevailing.
> In instances where our contracted selling price is lower than our purchase price of steel, provisions have been made for the anticipated losses.

c) Why was there a mismatch in contracted price and/or volume between the Group's committed supply contracts and sales contracts?

> **<u>Company's Reply</u>**
> Q2(c) – This is largely due to the timing, construction pace and progress of the projects under construction. Our committed sales contracts by and large are fulfilled over a period of time. We purchase inventories in advance to meet our obligations under our sales contracts. However inventory drawdown may not be in chronological sequence due to the construction pace and progress of the projects. In other words, the later committed sales contracts may have progressed faster and require inventory drawdown earlier than the prior ones, thus contributing to inventory locked in for prior contracts being drawn down for subsequent ones.

d) Are the group's hedging and/or risk management policies robust enough and have the policies been observed?

> **<u>Company's Reply</u>**
> Q2(d) – China is the main source of rebar supply and steel prices are volatile. We do not engage in inventory price speculation and believe that our hedging and risk management policies are adequate and effective in managing our operational risks. We review our policies regularly and take measures to ensure assessment and update of key policies to address changing business environment and uncertainties.

Q3. In Note 18 (page 68 – Asset held for sale under development), it is disclosed that the group had incurred development costs of $2.22 million (inclusive of capitalised interest costs) on the leasehold land that was acquired in 2015 at a cost of $12.2 million. The total amount recognised as asset held for sale under development is $14.4 million as at 31 December 2016.

In the company's "Third Quarter and Nine Months Financial Statements And Dividend Announcement" dated 9 November 2015, it was disclosed in note 5 that "asset held for sale increased by $12.7m due to acquisition of a freehold bungalow in prime district for redevelopment to a new luxury bungalow". Since then, there has been no meaningful update.

a) Can shareholders get more visibility into the current status of the freehold bungalow?

> **<u>Company's Reply</u>**
> Q3(a) - The subject property is still under construction.

b) Has the redevelopment work been completed?

> **<u>Company's Reply</u>**
> Q3(b) - We expect to obtain TOP in 2017.

c) How is the group going to market the freehold luxury bungalow in this economic condition?

> **<u>Company's Reply</u>**
> Q3(c) - After completion and obtaining TOP, we intend to market this property via property agents targeting high net worth Singaporean and new citizen buyers.

d) Separately, the group had previously participated in large-scale property development with other partners, such as Austville Residences, and the group had bidded for other projects as well.

e) Can management let shareholders know if the group is still actively evaluating other development projects on an on-going basis?

> **<u>Company's Reply</u>**
> Q3(d) & (e) - We have not participated in any Government Land Sale since our last unsuccessful bid for a mixed condo/commercial project in Potong Pasir. We are open and continue to be on the look-out for opportunities in property development with good prospective return and manageable risks.