

Issuer: Hock Lian Seng Holdings Limited
Security: Hock Lian Seng Holdings Limited

Meeting details:

Date: 25 April 2018

Time: 9.30 a.m.

Venue: Hotel Re! @ Pearl's Hill, Level 2, Re! Union, 175A Chin Swee Road, Singapore 169879

Company Description

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=J2T)

Q1. As noted in the Letter to Shareholders, the Changi Airport joint venture project was the key driver of the group's performance in 2017. Even though no new civil engineering projects were added to the group's pipeline, total revenue for the year increased by 28% to \$151.1 million mainly due to contribution from the Civil Engineering segment which accounted for 99% of total revenue. The group also reported an order book of \$775 million as at 31 December 2017.

There are several opportunities in 2018, including major public sector infrastructure projects such as North-South Corridor, tenders for new MRT works and remaining package for Runway 3 by Changi Airport Group.

- a) **Can management help shareholders understand the group's strengths and value proposition that set it apart from other competitors?**
- b) **What is the group's strategy to boost its order book and to do so without sacrificing its profit margin? How does the group compete against its low-priced intensely aggressive competitors in the civil engineering sector?**

Separately, in the property development segment, what is the take up rate for Shine@tuassouth? With the completion expected in June 2018, other than continued "promotional efforts to market the units at Shine@tuassouth", what are management's other pro-active plans to achieve better returns from this project?

Q2. The "carrying value of held-to-maturity investment" is a key audit matter highlighted by the Independent Auditor in their report on the Audit of the Financial Statements of the company and its subsidiary corporations. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current year.

Held-to-maturity investments in quoted corporate bonds are carried at amortised cost of \$25.6 million and represented 13% of the net assets of the consolidated balance sheet.

As disclosed in Note 3 (page 63 - Significant accounting estimates and judgments: Key sources of estimation uncertainty: Carrying value of held-to-maturity investments), the impairment assessment of the quoted bonds requires significant management estimate as these quoted bonds are issued by corporations operating in various industries and countries, and management's impairment assessment requires consideration of the specific local market risks to which the corporations are subject to.

The impairment loss on held-to-maturity was \$(1.13) million in 2017 and \$(0.25) million in 2016.

- a) **Would the board help shareholders understand the purpose of holding on to such a large portfolio of held-to-maturity assets?**
- b) **What is the breakdown by issuer, by industry, by size and by geographical exposure?**
- c) **If the held-to-maturity assets are denominated in another currency, has the board/management considered the additional foreign exchange risks?**

As seen in Note 14 (page 72 – Investment securities), the total amount in bonds and equities adds up to \$32.3 million.

14. Investment securities

	Group	
	2017	2016
	S\$'000	S\$'000
Non-current		
Held-to-maturity investments (quoted)	17,621	22,524
Available-for-sale financial assets		
Equity instruments (quoted)	5,392	4,241
	23,013	26,765
Current		
Held-to-maturity investments (quoted)	7,996	3,251
Financial assets at fair value through profit or loss		
Equity instruments (quoted)	1,334	1,209
	9,330	4,460

Held-to-maturity investment in quoted corporate bonds were made for varying coupon rates ranging from 3.0% to 7.5% (2016: 3.15% to 7.0%) per annum, with maturity dates ranging from 2018 to 2027.

(Source: Company annual report)

- d) **How does the group manage its investment securities portfolio? What is the investment mandate and has management evaluated its mid-long term performance?**
- e) **What sort of risk framework does the group adhere to for the investment securities portfolio?**
- f) **Can the board and the Audit and Risk Management Committee (ARMC) help shareholders understand the level of oversight over the management of the investment securities portfolio?**

3. Since 2012, the group has established a Board Safety Committee (“BSC”) to oversee and monitor the establishment and maintenance of the safety practices and policies of the Group.

The BSC comprises Khor Poh Hwa (as chairman), Koh Lian Huat and Ong Seh Hong, all of whom are independent non-executive directors.

- (i) **Can the BSC update shareholders on its terms of reference and operating procedures?**
- (ii) **How many BSC meetings were held in the last financial year?**
- (iii) **Would the BSC benefit from having insights of executive directors who may be more familiar with workplace safety?**
- (iv) **As the group is involved in major large-scale and high profile infrastructure projects, how does the group develop and instill a culture of safety and raise the group’s safety awareness?**