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Issuer: Hock Lian Seng Holdings Limited

Security: Hock Lian Seng Holdings Limited

Meeting details:

Date: 23 April 2019

Time: 9.30 a.m.

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

Company Description

Hock Lian Seng Holdings Limited, an investment holding company, primarily provides civil engineering services to public and private sectors in Singapore. It operates through three segments: Civil Engineering, Properties Development, and Properties Investment. The Civil Engineering segment is involved in infrastructure construction and civil engineering works for bridges, expressways, tunnels, mass rapid transit, port facilities, water and sewage facilities, and other infrastructure works. Its customers include government and government-related bodies. The Properties Development segment develops residential and industrial properties. The Properties Investment segment invests in properties for renting and/or for capital appreciation and others. The company is also involved in the rental of workers' dormitory; and lodging and accommodation related activities. Hock Lian Seng Holdings Limited was founded in 1969 and is based in Singapore.

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

1. As noted in the “Letter to shareholders”, the group was faced with “an intensely competitive year” as many new big foreign players contend for the large government projects.

While the group reported a 39% increase in revenue to \$197.8 million, mainly arising from the Changi Airport project, the group did not secure any new infrastructure projects in the year. It is the second year that the group has reported that it did not add any projects in the financial year.

Property development contributed \$1.5 million in gross profit as units at Ark@Gambas and Shine@TuasSouth were sold.

Would the board/management provide shareholders with better clarity on the following operational and financial matters? Specifically:

- (i) Infrastructure projects: For the benefit of new and long standing shareholders, would management help shareholders understand its competitive advantage in infrastructure projects? What is its value proposition? How does it differentiate itself from other construction/civil engineering companies?**
- (ii) Business model: Can the board articulate the group’s business model to show how the group creates and captures long term value for shareholders?**
- (iii) Opportunities: What are the major infrastructure projects that would be up for tender in the next 12-24 months? How does the group intend to compete against the newcomers who have little consideration for profit?**
- (iv) Workshop: Can the company help shareholders understand how the new central workshop will improve the group’s efficiency and cost structure?**
As can be seen from the statement of financial position, the group’s property, plant and equipment increased from \$15.6 million as at 1 January 2017 (restated) to \$37.7 million as at 31 December 2018.
- (v) Shine@TuasSouth: The project has sold 12 units out of its 179 units, despite having obtained its Temporary Occupation Permit. Based on the company’s commentary, it appears that the group will market the units more aggressively when the Tuas Mega port is open in 2021. Are the units rented out in the time being? What is the cost of holding on to the completed units?**
- (vi) Sustainability report: The group has disclosed that it will be releasing its Sustainability report via SGXNet at a later date. Some other listed companies have already published their second Sustainability report. Has the company already identified its material factors? If so, could the company share its board statement on sustainability and list down the material factors?**

2. Fresh from its Skywoods project, the group, through a joint venture company, secured a new residential project in Mattar Road in a tender in May 2018. The partners in the joint venture company, FSKH Development Pte. Ltd., are Keong Hong Holdings and TA Corporation Ltd.

The 99-year leasehold residential site is next to the Mattar MRT station and has an area of 6230.2 sqm with a maximum gross floor area of 18,691 sqm (201,188 sq ft). The joint venture company won the highly competitive tender with a top bid of \$223 million or S\$1,109 per sq ft per plot ratio (psf ppr).

- (i) What is the track record of the consortium partners in launching and selling residential projects of this size and location/market positioning?**
- (ii) Can the company provide shareholders with better visibility on the launch plans of the ~250 units Mattar Road residential project? How have the cooling measures affected the plans for the development project?**
- (iii) Is it prudent or common to commence the construction (2Q2019) before launching the project in the following quarter (3Q2019)? What is the advantage of doing so?**
- (iv) What is the level of involvement by management in the strategic and operational matters of FSKH given that there are three partners with stakes varying from 20%-45%?**
- (v) With a land cost of \$1,109 psf ppr, what is the projected developer's margin that can be achieved given the current market conditions? Can this development project be profitable?**

3. As at 31 December 2018, the group invested \$32 million in investment securities. This accounts for 16% of the group's total equity of \$202.2 million.

In Note 14 (pages 84 to 86 – Investment securities), the group has over \$7 million invested in quoted securities of financial institutions, as follows:

	Group 2018
	S\$'000
At fair value through other comprehensive income	
- Equity instruments (quoted)	
HSBC Holdings PLC	998
UBS Group Funding (Switzerland) AG	1,746
United Overseas Bank Limited	1,550
Others	2,727
	<u>7,021</u>

(Source: Company annual report)

The group has more than \$25.6 million in held-to-maturity investments (quoted corporate bonds) with varying coupon rates ranging from 3% to 7.5% per annum and with maturity dates ranging from 2019 to 2028.

The group also dealt with structure note amounting to US\$2 million which was redeemed at cost subsequent to year end.

- (i) Can the audit and risk committee (ARC) help shareholders understand if the investments into quoted equity securities is aligned with the group's strategic direction?**
- (ii) Has the board considered if the group is exposed to risks that is outside its core business (i.e. exposure to financial institutions)?**
- (iii) Did the ARC consider a need to form an investment committee to oversee the group's investments?**
- (iv) Do the investments into equities, structured notes and bonds alter the risk profile of the group?**
- (v) Who is in charge of the investment decisions? What is the level of risk management and oversight?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Hock%20Lian%20Seng%20Holdings%20Ltd&cid=6391,4557>

The company's response could be found here: -----