



CSC HOLDINGS LIMITED
Co. Registration No. 199707845E

**ANNUAL GENERAL MEETING TO BE HELD ON 30 JULY 2024
– RESPONSE TO QUESTIONS FROM SIAS**

The Board of Directors (the “**Board**”) of CSC Holdings Limited (the “**Company**”), together with its subsidiaries (the “**Group**”) refers to the questions received from the Securities Investors Association (Singapore) (“**SIAS**”) with respect to the Company’s Annual General Meeting to be held by way of electronic means on 30 July 2024 (“**AGM**”).

The Company is pleased to present its response to questions received from SIAS in Appendix A.

Refer to its announcement dated 22 July 2024, the Company has not received any questions from shareholders of the Company in relation to the AGM.

BY ORDER OF THE BOARD

See Yen Tarn
Executive Director and Group Chief Executive Officer

Date: 29 July 2024

Question 1:

- (i) Given the substantial losses and decline in net asset value over the past years and especially the last two years, does the Board remain satisfied with the Group's long-term performance and thus its own effectiveness? If so, can the Board provide a detailed justification for its satisfaction with the long-term performance and its own effectiveness? How does the Board measure and evaluate its success in creating long-term value for shareholders?**
- (ii) How does the Board assess the Group's business foundation? Also, are there any potential liquidity concerns or going concern risk for the Company and its subsidiaries?**
- (iii) What is the total shareholder return ("TSR") over the past 3, 6, 10 and 18 years?**

Company's Responses:

In recent years, the Singapore construction industry has faced significant challenges due to the COVID-19 pandemic, ongoing geopolitical tensions like the conflicts in Ukraine and the Middle East, macroeconomic pressures including inflation, and operational disruptions such as high costs of construction materials and energy. Additional difficulties arose from manpower shortages, reduced foreign worker quotas, increased levies, a high-interest rate environment, and a general slowdown in construction activity.

Despite these formidable challenges, the Board remain satisfied with the Group's long-term performance and effectiveness for the following reasons:

- 1) Drawing on our extensive experience in the industry, we have successfully navigated these turbulent conditions. Our ability to withstand challenges that forced several other established industry players to exit demonstrates our operational resilience.
- 2) We adopt a cautious approach towards tendering for projects. This strategy helps in ensuring a continuous flow of projects without taking undue risks that could compromise financial stability.
- 3) We have implemented stringent measures to manage operational costs effectively, including reducing material wastage, which is an inherent aspect of our work due to the diverse and unpredictable conditions at construction sites, right sizing our workforce and optimizing our equipment fleet. These efforts have contributed to maintaining operational efficiency and mitigating financial pressures.
- 4) Our disciplined approach to financial management has been pivotal. Despite market volatility, we have maintained a prudent financial strategy to safeguard our financial health and sustain operations.
- 5) We stay vigilant by continuously adjusting our strategic direction in response to changing market conditions. This ensures our decisions prioritize long-term sustainability and shareholder value, while effectively managing risks and seizing opportunities.

The Board measures success in creating long-term shareholder value by focusing on actively tendering for projects with the aim of achieving sustainable margins and generating cash flows. Maintaining strong operational and financial discipline and adapting strategically to market changes. This approach is aimed at navigating challenges effectively and enhancing shareholder value over time.

The Board assesses the Group's business foundation based on key financial metrics and operational strategies aimed at sustaining growth and managing risks effectively. As of the end of FY2024, the Group's equity stood at \$105.3 million, with \$18.8 million in cash and cash equivalents. Despite losses in FY2023 and FY2024, the Group achieved positive EBITDA and was generating positive operating cashflow, driven by rigorous working capital management and efficient receivables collection.

Additionally, the Group maintains unutilised credit facilities amounting to \$31 million as of 31 March 2024, including overdraft facilities, to support ongoing working capital needs and day-to-day operations.

Total shareholder return ("TSR") over the past 3, 6, 10 and 18 years are as follows:

	Annualised TSR (%)
Past 3 years	-20%
Past 6 Years	-12%
Past 10 Years	-9%
Past 18 Years	-2%

Question 2:

- (i) Can the Director, Mr See Yen Tarn, detail his specific contributions to the Group since his appointment as Group CEO in 2006? What tangible value has he created for shareholders during his tenure, particularly in terms of financial performance, capital value, and dividends?**
- (ii) If re-elected, what are the director's plans to return the Group to profitability?**
- (iii) Would the Remuneration Committee ("RC") help shareholders better understand the justifications for the 23% bonus paid to the executive director, Mr See Yen Tarn, especially considering the Group has suffered losses of almost \$50 million in the past two years, and the Group is now in an accumulated loss position of \$23.6 million?**
- (iv) What key performance indicators were used to measure the performance of the Group CEO?**
- (v) Can the RC elaborate further on how the current compensation practices align with shareholders' interests? Specifically, can the RC help shareholders understand if the level and structure of remuneration are appropriate and proportionate to the sustained performance and value creation (Principle 7 of the Code of Corporate Governance 2018)?**
- (vi) In addition, would the RC look into the option of compensating directors with company shares to ensure their interests are closely aligned with those of shareholders?**

Company's Responses:

The construction industry is cyclical, with periods of expansion and contraction driven by economic conditions, market demand, and other external factors.

Since the Group CEO was appointed in August 2006, both the Board and the Group CEO have made significant contributions that have positively impacted the Group's performance and shareholder value. Among other things:

- The Group declared dividends of 3.20 cents per share to shareholders from FY2008 to FY2024.
- The Group's net assets increased from \$53.6 million in FY2006 to \$105.3 million in FY2024.
- Kept EBITDA consistently positive throughout the Group CEO's tenure, indicating strong operational performance, particularly in those difficult years.
- Expanded the Group's presence through various acquisitions and maintained its leadership in foundation and geotechnical engineering specialties in Singapore and the region, which supported the continued securing of projects and sustainable growth for long-term shareholder value.
- In anticipation of a construction market slowdown in year 2015, the Group had conducted a Rights-cum-Warrants issue and raised \$9.6 million from the Rights issue in December 2015 and \$19.5 million from warrant conversions through December 2020, which were crucial for the Group to navigate market downturns following year 2015.
- Diversified the Group's operations into the property business to establish a separate income stream. In FY2021, the Group entered into a joint venture with LOGOS to redevelop the headquarters property at 2 Tanjong Penjuru Crescent and was completed in FY2023, unlocking its value and enhancing its long-term potential and usability.

The current downturn in the construction cycle has been particularly long drawn. However, the demand for construction services is expected to rise in the year ahead, supported by the combination of public and private residential projects, the expansion of the two integrated resorts and infrastructure projects such as Changi Terminal 5.

Operationally, we continue to right-size our workforce and equipment fleet based on expected market demand for better efficiency and productivity, while maintaining sufficient resources to meet an uptick in demand in FY2025. At the same time, we are exercising prudence in tendering for projects that would at least ensure positive operating cash flow. Financially, we continue to work closely with our customers to facilitate timely collections, further strengthening our financial position.

The RC review and recommend to the Board a framework of remuneration for the Board and Key Management Personnels on an annual basis. The RC will take into consideration remuneration packages and employment conditions within the industry and within similar organisation structure as well as the Group's relative performance and the performance of individual employee.

Our remuneration and reward system for Executive Directors and Key Management Personnels are designed to ensure competitive compensation (including the annual variable bonus) to attract, retain and motivate employees to deliver high-level performance.

The annual variable bonus is intended to recognize the performance and contributions of the individual, while driving the achievement of key business results for the Company. This bonus is tied to Key Performance Indicators (KPIs), which include both pre-determined financial and non-financial targets related to strategy, business processes, and organizational and people development. These KPIs are aligned with anticipated market conditions for the relevant period.

In FY2024, the Group managed to reduce the losses by 24% from \$27.1 million in FY2023 to \$20.5 million, representing an improvement in financial performance.

Currently, the Company does not have any long-term incentive, share option scheme or share award scheme within the Group. RC constantly reviews and assesses different forms of compensation, including share-based incentives, to ensure they are in line with the industry remuneration practices.

Question 3:

- (i) What is the rationale of the Company doing share buybacks in the current circumstances? Can the Board explain the strategic intent of the low-value share buyback?**
- (ii) What is the level of oversight by the independent directors regarding the share buyback programme? What criteria are used to decide the price paid for each share, the quantity of the buyback, and the timings?**
- (iii) What framework does the Board use to prioritise capital allocation between debt reduction and share buybacks? Would it be more beneficial for management to focus its efforts on the core business rather than engaging in capital market activities?**
- (iv) What is the Company's cost of capital?**
- (v) What are the plans by management to reduce its borrowings and finance costs?**

Company's Responses:

The current Share Buy-Back Mandate was originally approved by Shareholders at the annual general meeting ("AGM") held on 29 July 2021 and subsequently renewed the AGMs held 28 July 2022 and 27 July 2023. Approval is being sought from Shareholders at the AGM to be held on 30 July 2024 for the proposed renewal of the Share Buy-Back Mandate. Details of the proposed renewal had been communicated to Shareholders in the Letter to Shareholders dated 15 July 2024 (the "Letter to Shareholders"), which stated clearly on the rationale and terms of the Share Buy-Back Mandate. Shareholders are encouraged to review the Letter to Shareholders.

Internally, Management put forth an annual Share Buyback Budget to the Board for approval for execution of share buybacks during the relevant period. Details of all Share Buybacks are being reported to the Board on the day of purchase and tabled quarterly at the Board meetings.

For FY2023 and FY2024, at an average share buyback price of \$0.008 – \$0.013, the Company's shares were trading below the Group's net asset value per share of \$0.030 – \$0.035. As such, the Company considered the shares being under-valued by 63% - 73%. The total considerations of \$45,000 in FY2024 and \$128,000 in FY2023 amounted to only 0.04% - 0.10% of equity.

The Company performed the share buybacks under the rationale and terms stated in past and current Share Buy-back Mandate, which are in accordance with the Companies Act and the Listing Manual. All share buyback transactions were also being announced on SGXNet on the same day of purchase after market closes.

The Group had reduced its unsecured banks loans by 26% to \$23.1 million as at 31 March 2024 (from \$31.1 million as at 31 March 2023). This was achieved through the rigorous working capital management and efforts to expediate the collections of receivables which generated a positive operating cashflow of \$17.4 million in FY2024 (on top of the FY2023 positive operating cashflow of \$10.6 million).

As at 31 March 2024, the Group's cost of working capital arising from bank loans are ranging from 2.00% p.a. to 7.12% p.a.

As part of its plan to reduce borrowing costs, the Company had also launched a \$20.00 million multi-series Commercial Paper Facility Programme on 1 December 2023 and had raised \$11.6 million working capital fund from the Commercial Paper Facility in FY2024. The interest rate of these commercial papers ranges from 5.70% p.a. to 5.90% p.a., which is approximately 20% lower in pricing as compared to the highest priced bank loans at 7.12% p.a.

In addition, the Group has also been exploring to refinance its unencumbered equipment. This will better align the financing against the average equipment economic useful life of 15 years while achieving longer financing tenures.

The Group continues to stay on track with its diligent working capital management, continual efforts in receivables collections and identifying non-performing equipment for disposals to generate higher positive operating cashflow to further reduce the Group's borrowings and finance costs.

BY ORDER OF THE BOARD

See Yen Tarn
Executive Director and Group Chief Executive Officer
29 July 2024