SEE HUP CONSOLIDATED BERHAD
Registration No. 199601018726 (391077-V)

APPENDIX A

Response to Queries from Minority Shareholders Watch Group

Operations & Financial Matters

1. The Group reported a loss after taxation of RM6.1 million, mainly due to trade receivables' impairment linked to construction industry challenges and rising material costs from geopolitical tensions, causing project losses (page 11 of Annual Report (AR) 2023).

(a) **What is the outlook for the construction industry given the challenges mentioned in the statement?**

The construction industry's outlook continued be weak, with slow growth attributed to challenges such as labour supply issues, inflation, and global economic uncertainties. In so far as the Group is concerned, these challenges are currently manageable particularly because the project is nearing completion. The Group will continue to closely monitor, among others, market conditions, economic trends and government policies before arriving at its decision.

(b) **What are your specific measures or strategies to address the challenges faced by the construction industry and prevent similar losses in the future?**

Measures / strategies deployed to address challenges faced by the construction industry are as tabulated:

Stages	**Actions to be taken**
Before undertaking the project	• Conduct risk assessment and feasibility studies • Clarify the terms of the contract • Develop detailed financial plans and budget, including cashflow projection, simulation of profit and loss for projects • Carry out sensitivity analysis to assess impact of unforeseen events such as global economic uncertainty, political stability, increase in costs or another pandemic
During implementation of project	• Review and update regularly on the financial projections • Implement effective costs, cashflow and collection control • Monitor closely progress billing, stages of completion and the performance of subcontractor(s)

	• Create contingency plans to manage unforeseen circumstances • Compare actual results against projections to assess performance to determine variances and implement corrective action plans
Completion of project	• Results of comparison between actual results and projection can be used as benchmark in new project

2. **The trading, machinery for hire, and subcontracting segment generated RM16.0 million in revenue, up from RM14.8 million the previous year. The increase was primarily attributed to progress claims from ECRL Project's subgrade works (page 11 of AR 2023).**

(a) **What is the timeline for completing the subgrade works, and is the project on schedule?**

The project is on schedule and will be completed by the end of this year.

(b) **How long is the estimated revenue stream from this project expected to continue before tapering off within the business segment?**

The revenue contribution from this segment is expected to continue until December 2023 which is the end of the project.

3. **Other operating income dropped sharply from RM35.6 million in FYE2022 to RM1.3 million in FYE2023 (page 75 of AR2023).**

What is the composition of the other operating income, and what factors contributed to the significant decline in the Group's other operating income?

The absence of the one-time gain on land disposal (RM32.54 million) in FYE2023 is the primary reason for the drop in other operating income compared to FYE2022.

Other operating income consists of dividend income, interest income and gain on disposal of property, plant and equipment.

4. **The accumulated impairment losses due from subsidiary companies increased significantly from RM168,000 in FYE2022 to RM7.2 million in FYE2023 (page 160 of AR2023).**

(a) **What specifically caused the impairment losses and which subsidiaries contributed to the impairment? What is the likelihood of further impairment in the near term?**

The increase in impairment losses was due to the financial support provided to two (2) subsidiaries, SH Moment Builder Sdn. Bhd. and See Heng Company Sdn. Bhd., both of which are involved in construction projects.

This financial support was crucial to help these subsidiaries fulfil their contractual obligations, particularly given the extraordinary challenges stemming from the unprecedented events of the Covid-19 pandemic and the war in Ukraine. These circumstances led to a substantial increase in material costs, especially diesel, and labour shortages.

The recognition of impairment losses became necessary due to the impact of discounting on the net present value, as mandated by the MFRS standard. This was because the repayment timeline from these subsidiaries had extended beyond one year, and as a result, it was necessary to consider the time value of money in assessing the recoverability of the financial support.

As of now, the Management does not anticipate significant impairment going forward because repayment schedules had been finalised with these subsidiaries.

(b) **What is the likelihood of further impairment or reversal or recoverability in FY2024?**

The likelihood of further impairment is low since the Group is on track to complete the project by the end of this year. Management is actively pursuing new and profitable construction projects as part of the Group' strategy to recover from previous losses. However, it's important to note that the success of any recovery efforts will also depend on the prevailing market conditions.

5. The allowance for impairment losses on amounts due from associates increased significantly from RM806,381 in FYE2022 to RM1.1 million in FYE2023 (page 84 of AR2023).

(a) **What were the reasons for the substantial increase in impairment losses on amounts due from associates?**

The associate company in Thailand has been experiencing a slowdown in its business arising from challenges posed by the Covid-19 pandemic and high operating costs from inflation. As a prudent financial measure, the Management has recognised an impairment to account for this potential risk.

(b) **Are the impairments expected to increase going forward?**

No significant impairment is expected, as all the amounts due have already been fully impaired for FY2023.

6. The allowance for impairment losses on trade receivables grew substantially from RM385,955 in FYE2022 to RM7.8 million in FYE2023 (page 84 of AR2023).

(a) **What were the causes for the substantial increase in allowance for impairment losses on trade receivables?**

The substantial impairment is attributed to a customer in the construction segment which had encountered financial difficulties stemming from the implementation of the Movement Control Order (MCO) to stem the spread of the Covid-19 pandemic and cost overruns, specifically, the substantial increase in diesel prices.

(b) **How much of these impairments have been recovered to-date?**

The recovery and negotiation processes are currently ongoing and approximately RM244,000 have been recovered to date.

(c) **What percentage of these impairments are expected to be non-recoverable?**

The Management is presently unable to provide a definite estimate for the expected recoverable portion of these impairments. Having said that, active efforts and negotiations are still ongoing to facilitate the recovery of these impairments.

(d) **Will the impairments likely go up in the future?**

Management does not foresee any major impairment going forward.

6. The Group's trade receivables credit impaired that were past due more than 90 days have increased notably from RM1.6 million in FYE2022 to RM2.6 million in FYE2023 (page 163 of AR2023).

(a) **What were the difficulties faced by the Group in the collection of the trade receivables that were past due more than 90 days as the outstanding amount increased?**

The delays in payment were from our long-standing customers due to the challenges they faced while recovering from the impact of the socio-economic crisis. On a positive note, these customers have history of being reliable with no prior default records. The Group is following up with these customers to recover the outstanding balances.

(b) **Who are the customers and who make up this category (past due 90 days) of the Group's receivables on FYE2023 and what are their profiles?**

These customers, who are involved in construction, manufacturing, and trading, have good credit history.

(c) **To-date, how much of the overdue amount has been collected?**

The Group has collected RM0.63 million of the past due debts that were overdue by more than 90 days with additional repayments expected in the coming quarter.

Corporate Governance

1. **The Group has deviated from Practice 1.2 of the Malaysian Code of Corporate Governance (MCCG), as the position of Chairman of the Board has remained vacant since 2000. According to page 4 of the Corporate Governance (CG) Report for 2023, the role of Chairman for board meetings is currently rotated among the Directors. This rotation is intended to provide each person with an opportunity to experience and learn the roles and responsibilities expected of a Chairman.**

   Nevertheless, these prolonged vacancies and inconsistencies in board leadership contradict the principles of good corporate governance. The Chairman plays a critical role, and appointing one is essential to ensure accountability in the execution of the Chairman's duties and the overall functioning of the board, as outlined in Guidance 1.2 of MCCG.

   Has the Board identified potential candidates for the Chairman position? If so, how many candidates were shortlisted, and when is the appointment expected to take place?

   If not, what are the reasons for not appointing a Chairman, especially considering that the Group has operated without one since its listing on Bursa Malaysia 23 years ago?

   The board of directors of See Hup ("Board") is cognisant of the benefits of having a permanent chairman of the Board ("Chairman").

   In so far as the Board is concerned, the absence of a permanent Chairman has not hindered board activities nor good governance. On the flipside, the absence had accorded Directors of See Hup opportunities to assume the role and responsibilities during meetings of the Directors. The Chairman at every Board meeting leads robust discussion of issues at hand and builds up consensus on decisions.

   Nonetheless, the Board noted the constructive comments from MSWG and would take this into consideration going forward when evaluating candidates for the "chairman" position.

2. **The Group has departed from applying Practice 5.2 of the MCCG, which stipulates that at least half of the board should consist of independent directors. For Large Companies, the board should predominantly comprise independent directors (page 19 of CG Report).**

This practice underscores the importance of having a Board composition that promotes impartial and autonomous deliberation, evaluation, and decision-making. A board with a significant number of independent directors enhances its ability to effectively oversee management, in alignment with Guidance 5.2 of MCCG.

Currently, The Board consists of (5) members, comprising two (2) Executive Directors, one (1) Non-Independent Non-Executive Director and two (2) Independent Non-Executive Directors.

Is the Board planning to appoint additional Independent Directors to comply with this practice? If so, please provide information about the timeline for achieving this goal?

The present composition of the Board meets the requirement of para 15.02(1) of the Main Market Listing_Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") ("MMLR").

The composition and size of the Board are adequate and commensurate with the scale of operations and business activities of the Group.

At this juncture, the Board views that compliance with the MCCG is voluntary and the Board would review the need as part of its annual evaluation of, among others, board composition and size as well as skills set and expertise.

3. **The existing composition of the Board lacks diversity, with only two female Directors, constituting just 20% of the total. This falls below the recommended 30% target outlined in Practice 5.9 of the MCCG (page 26 of CG Report 2023).**

Given the current lack of diversity on the Board, are there ongoing initiatives to identify suitable female candidates for upcoming Director positions within the Group? If such efforts are in progress, when do you anticipate achieving this objective?

The Board believes candidates should be selected based on merit taking into consideration, among others, expertise, professional experiences, skill sets and their ability to contribute to the Group's long success and goals.

Ms. Ng Shiek Nee is sole female Director on board. Her presence ensures compliance with the MMLR which mandates presence of at least one (1) female director on board.

Whilst the Board is cognisant of the MCCG, compliance is voluntary and the Board would review the need as part of its annual evaluation of, among others, board composition, skills set and expertise.

Within the Group, there are four female Directors who are potential candidates for future leadership positions.

Response to Queries from Shareholder

1. **Shareholder:**
Noticed from the Annual Report that See Hup had diversified into construction sector. What is the future prospect of the Company in construction sector as it is different from the core business of the Group? What is the target of See Hup?

Answer:
The business activities of a subsidiary, See Heng Company Sdn. Bhd. is primarily engaged in providing sub-contracting works and machinery rental within the construction sector. Management is leveraging the Group's current resources and facilities to facilitate business diversification and expansion. This initiative is further complemented by a significant opportunity for the Group to participate in the construction and completion of a section of the subgrade works for the East Coast Rail Link (ECRL) Project.

The outlook of the construction sector is not so promising, attributed to the government's limited spending capacity in this field. The Management would evaluate the situation first before venture into any new projects.