

LEY CHOON GROUP HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 198700318G)

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The Board of Directors (“**Board**”) of Ley Choon Group Holdings Limited (“**Company**”, together with its subsidiaries, the “**Group**”) refers to the queries from the Securities Investors Association (Singapore) (“**SIAS**”) received on 21 July 2022, with reference to the Company’s announcement dated 14 July 2022 on the Company’s Annual Report and Related Documents for the financial year ended 31 March 2022 (“**FY2022**”). The Company did not receive any queries from Shareholders as of the stipulated deadline in the notice of Annual General Meeting and accompanying announcement both dated 14 July 2022. The Company’s responses to SIAS’s queries are set out below:

SIAS’s question:

Q1. With the rebound in construction activities and a favourable project mix, revenue for the year ended 31 March 2022 increased by 22.9% to \$92.9 million. Net profit after tax was \$4.8 million.

Nevertheless, the chairman also cautioned that despite the easing of measures worldwide, the group is still faced with manpower shortage, higher cost of construction materials and global supply chain disruptions. Management will continue to leverage its strong track record and expertise to prudently tender for more underground utility projects to maintain a healthy order book.

The group’s main segment, Pipes & Roads, contributed 96% of the overall revenue of the group for FY2022.

(i) **Market share: Does management have an estimate of the group’s market share in pipes and roads or underground construction works?**

Company’s response:

The Group’s pipes and roads business segment comprise:

- laying of small and large diameter water pipes
- repairs & maintenance of water pipes
- laying of gas pipes and cables
- rehabilitation of sewer pipelines
- airfield pavement construction and maintenance services
- milling and laying of asphalt premix

Although the Group has been providing the above services to various government agencies and government-affiliated companies primarily in Singapore, the Group does not have any access to the data on consolidated value of projects called and awarded by these agencies and companies each year. As such the Group is in no position to provide any estimate of the Group’s market share of the above services.

SIAS's question:

- (ii) **Manpower:** The group had around 1,000 employees prior to FY2020. Currently, the headcount is "about 900 employees" (page 26). **Has the group been able to recruit, train and retain its employees? Is this the optimal level to support the group's ongoing projects?**

Company's response:

The Group had a total employee headcount of up to 1,500 in the past, which is based on the workforce required for the size and the nature of the project mix. In terms of the profile of our employees, majority of our workforce are migrant construction workers of different nationalities. Subsequent to Covid-19, the total headcount decreased as the Group had difficulties in hiring workers due to border restrictions. These restrictions have since been lifted and the hiring process is now normalised. The Group is already in the process of hiring through various programmes and increasing the workforce gradually for on-going projects where required as well as for new projects.

SIAS's question

- (iii) **Order book:** At the end of the reporting period, the group's unfulfilled order book based on secured contracts stood at \$118.9 million (FY2021: \$187.0 million). **What are the reasons for the reduction in orders? What are the major challenges and opportunities in the next 18 months? How is management balancing the need to secure new projects and the need to maintain/improve its profit margin?**

Company's response:

The reduction in order book at the end of the reporting period is due to 1) the completion of the works under the contracts secured previously; 2) fewer contracts received during FY2022; and 3) the cyclical nature of the tendering and award of contracts by most government agencies and government-affiliated companies.

The outlook for construction industry is promising based on BCA forecast. It is particularly so in the business segments wherein the Group operates. Since the Group is in multiple business segments, it has better opportunities to bid for more tenders simultaneously. Notwithstanding that the Group has been bidding for projects prudently taking into consideration the competitive market environment and escalating costs. Based on our experience and past track record, the Group is confident that it would be able to secure enough contracts to sustain a healthy order book and maintain or improve the profit margin in the coming years.

The bidding for tenders is challenging due to uncertain market conditions which are beyond our control. The Group factors in price escalation while bidding; however, unforeseen sudden cost escalations may sometimes exceed our estimations due to various external reasons over the duration of our projects which are usually 24-36 months. However, since most of the works are repetitive in nature, the Group is able to control the costs and maintains the margin with better inventory management, optimal utilisation of assets, close monitoring of project execution using digital tools and better project and construction management to improve operational efficiency.

SIAS's question:

- (iv) **Sri Lanka: What is the scale of the group's operations in Sri Lanka? What is the impact on the group's operations given the recent socio-political instability?**

Company's response:

The contribution from the Group's operations in Sri Lanka is not significant and it does not have any material impact to the operations of the Group.

SIAS's question:

- (v) **Digitalisation/Project management: Can management showcase some of the group's achievements in efficiency, cost savings and/or safety awareness from the use of digital tools?**

Company's response:

The Group has been constantly investing time and resources into the digitalisation of various business processes and process automation. It has been using various digital applications which include some real-time tools to monitor and control deployment of assets, workforce, project costs, and progress of the projects. One recent example is the capturing of the daily work done through process automation. It used to be done manually, but now with the new process automation tool, the entire process is completed instantaneously resulting in considerable savings of time and manpower.

SIAS's question:

- (vi) **Finance costs: The group paid \$2.40 million in FY2022 (FY2021: \$2.73 million) in finance costs. As at 31 March 2022, the loans from financial institutions bear interest rate of SIBOR + 3%. The carrying amount of the loans is \$27.9 million and they mature in 2024. How will the rising interest rate affect the group? Has management looked into ways to better manage its interest rate exposure?**

Company's response:

Currently, the Group's borrowings are the restructured loans from the lenders for which the interest rate is semi-fixed. Apart from this, there are no other borrowings save for hire purchase and lease liabilities. Although the interest expense may go up due to the increasing SIBOR rate or its equivalent for the restructured loans, it will not have a material impact on the financial performance of the Group, partly because of committed periodical repayments of principal to the lenders.

SIAS's question:

Q2. In August 2021, the company announced that it had obtained approvals from the lenders on further amendments to certain terms in the debt restructuring agreement ("**DRA**"), including the extension of repayment period from 31 March 2021 to 31 March 2024, fixed quarterly repayments of \$1.2 million until the final repayment date, revision of financial covenants, and change in six-month testing period to 30 September and 31 March.

- (i) **What are the non-core assets that have been identified for sale under the DRA? What are management's plans to maximise the value of any such sale under the current operating environment?**

Company's response:

The non-core assets comprise of certain specifically identified assets and any obsolete, redundant or surplus assets. The specifically identified non-core assets have already been sold subsequent to the debt restructuring exercise in 2016 and the sale proceeds have been fully utilised for the repayment of restructured loans to the lenders as per the terms of the Debt Restructuring Agreement dated 23 September 2016 ("DRA") and the Amendment and Restatement Debt Restructuring Agreement (collectively with the DRA, the "2021 DRA"). The sale of second category of non-core assets items is whenever necessary, mainly for the replacement of older assets, after going through the due approval process, and the sale proceeds have to be paid to the lenders pursuant to the 2021 DRA.

SIAS's question:

- (ii) **Can management elaborate further on the cash sweep mechanism in addition to the fixed quarterly repayment of \$1.2 million during the tenor of the amended DRA? How will it impact the group's working capital? Will the group have sufficient working capital to fund its operations and growth?**

Company's response:

As per the 2021 DRA, the lenders have set a progressive cash sweep threshold in addition to the fixed quarterly repayment. If the Group has cash balance as at the end of the financial quarter in excess of the cash sweep threshold, the excess cash amount will be paid to the lenders as repayment of borrowing. The Group's cash has so far not exceeded the cash sweep threshold in the last five years except for a couple of times in 2017. The Group has sufficient working capital to fund its operations and growth.

SIAS's question:

"In addition, the board is not recommending any dividends for FY2022 due to the terms in the DRA (and the amended 2021 DRA)."

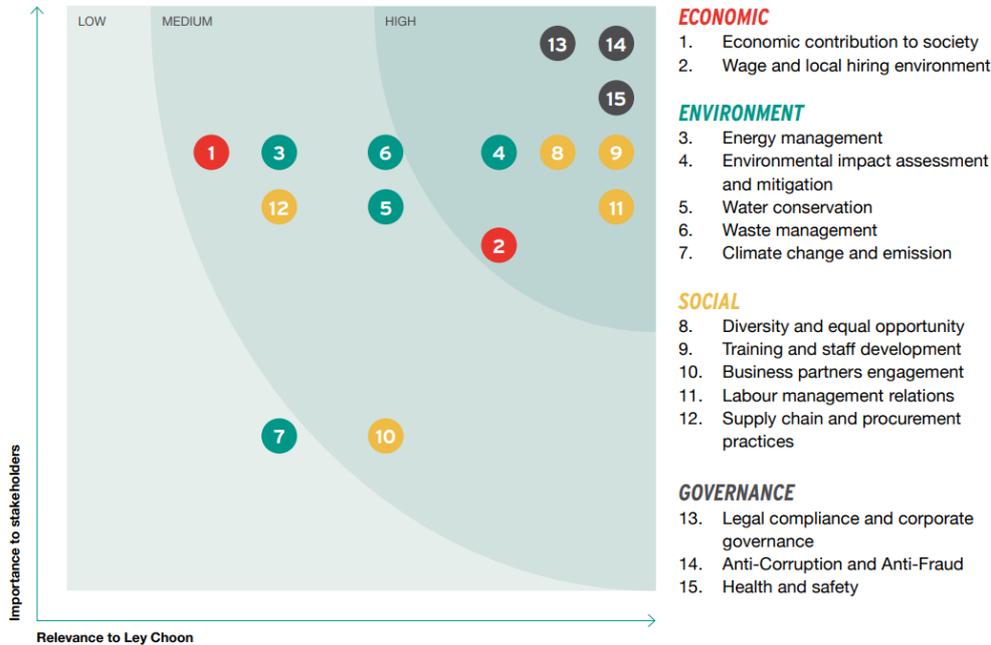
- (iii) **What are the DRA conditions and terms restricting the company from paying dividends? Is the company restricted from paying dividends to shareholders until the end of the repayment period (31 March 2024) or for as long as the DRA is still in place?**

Company's response:

The Board did not recommend any dividend payment for FY2022. As per the 2021 DRA, payment of dividends to the shareholders of the Company is restricted until the restructured loans under the 2021 DRA are fully settled. If the dividend is paid, the fixed portion of the interest rate will be doubled as per the terms and conditions of 2021 DRA. As disclosed in the Company's annual report for FY2022, the Company does not have a fixed dividend policy. The form, frequency and amount of dividends will depend on the Company's earnings, general financial condition, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the Directors may deem appropriate.

SIAS's question:

Q3. As shown in the company's sustainability report, the company has identified 15 relevant sustainability issues and ranked the importance of the material issues based on meetings and interviews with stakeholders (see below).



(Source: company sustainability report)

The top three issues (in the top right-hand corner) are legal compliance and corporate governance, anti-corruption and anti-fraud and health and safety. Specifically, for health and safety, management has a target of zero accident rate and zero occupational health incident at workplace.

ASPECTS	OBJECTIVE	TARGETS	PROGRESS	POLICY
Occupational Health and Safety				
Prevention/Reduction of Accident or Incident	• Provide safe working environment	• Aim for zero accident rate at workplace	●	• We aim for zero accident rate at workplace. • We provide for a safe and well-designed workplace to ensure our employees are safeguarded against any foreseeable accidents.
Occupational Health	• Provide a healthy environment and protection for employees at workplace	• Aim for zero occupational health incident at workplace	●	• We aim for zero occupational health incident rate at workplace.

(Source: company sustainability report) Page 5 of 6

The group's reportable incidents and non-reportable incidents since 2019 are as follows:

	Reportable incidents	Non-reportable incidents
FY2019	3	42
FY2020	0	13
FY2021	8	28
FY2022	3	13

- (i) **Has the board/management analysed the effectiveness of its Safety Enhancement Programme (“SEP”), Environmental Health & Safety (“EHS”) and safety training hours?**
- (ii) **What is the level of oversight and ownership by the board and senior management on workplace safety? In particular, what are the safeguards put in place to ensure that there is deployment of appropriate/sufficient manpower to projects and worksites (to avoid overworking the workers which lead to higher accident and occupational health incident rates)?**
- (iii) **Has management analysed past incidents to further improve workplace safety?**
- (iv) **What are management’s strategies and plans to meet the goal of zero accident rate?**

Company’s response:

The Board and Management analysis on SEP/EHS & training

A Safety Enhancement Program (“**SEP**”) is an integral part of the overall Environmental Health and Safety (“**EHS**”) management system that governs safety standards and lowers the Accident Ratio (AFR and ASR). In accordance with our project management policy, the Project Management Office (“**PMO**”) convenes meetings with all key project personnel, including the EHS Manager, on a monthly basis to review the project status and safety compliance.

The Chief Executive Officer (“**CEO**”) of the Group also regularly participates in the said PMO meetings to observe and validate the EHS concerns brought up. Based on the importance and requirements of the EHS related issues, he makes executive decisions (e.g. training, additional manpower/supervisors and other resources) immediately to support the required EHS efforts.

The Corporate Safety Manager presents group-level EHS statistics and the Project Management Director (“**PMD**”) thoroughly examines them, providing guidance to the project and EHS team in regard to areas that require improvement.

- Overall Safety
- Occupational Health and
- Personal Health (Physical and Mental Well-Being)

The Corporate Safety Manager also oversees the monthly refresher (in-house) training sessions conducted by the respective project Work Safety and Health (“**WSH**”) Officer at the site office to educate all field staff (Supervisors/ Foreman / Operators) on the importance of environmental protection (i.e. spills, contamination of waterways, construction debris, etc.) and the health and safety (i.e. PPE importance, work at height, confined space, machinery conditions checking and operations, personal hygiene, rest of the works, etc.). Our construction workers have attained adequate EHS training through external service providers. Internal refresher training sessions are also focused on the EHS system requirements.

Management Commitment on EHS

The PMO is committed to workplace safety and health and takes responsibility for it. Participating in the monthly PMO meetings allows the CEO and senior management to gain a deeper understanding of the EHS status at the worksite. Additionally, the CEO and senior management have access to a WhatsApp group dedicated to EHS so that they can receive updates and make quick decisions when necessary.

Safeguards Emphasised

In conjunction with the respective Project Managers (“PM”), the PMD plans the resources (direct and indirect) required for construction activities according to the nature of the work, productivity, and schedule requirements. To ensure compliance with regulatory requirements, the PM must ensure that there is a sufficient number of workers on the job site. In addition, the PM must discuss with the respective WSH officers on the arrangement of the appropriate safety personnel.

Effective project management involves planning ahead for each site activity to be carried out in accordance with the construction schedule. The PMD evaluates the manpower histograms and the look ahead schedule for the site work in order to determine the appropriate allocation of resources. As a result, there would be no need to reduce the allocation of resources and increase the working hours of the employees. The PMD is in charge of, *inter alia*:

- Selection of allocation appropriate workers with the right skill set for the works
- Planning ahead the man hours required for the works to be carried out

For good management, it is imperative that workers receive adequate rest upon returning from the workplace, and that sufficient resources are allocated to their tasks.

Safety incident analysis

During the PMO meeting, the Group CEO and PMD analyse safety incidents and near misses (recorded in the previous month) and the root causes, including Incident Investigation Reports (“IIR”) recorded in the previous month. The in-depth analysis together with the PMs helps them gain a greater understanding of EHS issues so that they can implement the required safety practices at the work sites in order to prevent recurrence and eliminate such risks.

There would also be a detailed discussion of best practices in EHS and industry regulatory advisories during the meeting, as well as sharing such critical information through real-time communication channels (a WhatsApp group dedicated to EHS issues) and ensuring that the matter of concern reaches the ground team (i.e. WSH Safety Officers, Safety Coordinators, Construction Managers, Supervisors) during Tool Box Meetings (“TBMs”) at the site.

Managements’ strategies

Ley Choon Group's board and management take EHS requirements very seriously. The following are the strategies and plans for achieving zero accidents:

1. Implementation of the SEP and in-depth review during the monthly meetings of the PMO.
2. Establishment a consistent training program for the existing workers and staff on EHS and provision of effective internal refresher training at the work site regarding environmental and safety & health issues.
3. Ensuring that the right talent is recruited and retained in all divisions (from the project to the EHS department).
4. Organizing mass TBMs on a regular basis and rewarding workers who adhere to safe work practices.
5. Ensuring that the buddy care system is in place at all workplaces in order to ensure that each other is cared for.
6. Enhancing the worker's dormitory facilities to ensure that workers get adequate rest after work.
7. In addition to improving workers' awareness of EHS, the management team visits the worksite to demonstrate the management's commitment to EHS.

Consequently, the EHS team was assigned under the direct supervision of the PMO headed by a PMD with extensive experience in the field. This improved the monitoring of the EHS programme.

BY ORDER OF THE BOARD

Toh Choo Huat
Executive Chairman and Chief Executive Officer
26 July 2022

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, RHT Capital Pte. Ltd. (the "**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").*

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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