AEDGE GROUP LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 2019333214E)

RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The board of directors (the "**Board**" or the "**Directors**") of Aedge Group Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the queries received from the Securities Investors Association (Singapore) ("**SIAS**") inrelation to the Company's Annual Report for the financial year ended 30 June 2024. The Group did not receive questions from the Shareholders as at the date of this announcement. The Group sets out its responses to the queries raised by SIAS below:

QUESTIONS FROM SIAS

Q1. Would the Board/management provide shareholders greater clarity on the following operational and financial matters? Specifically

(i) Engineering services: Can management provide a breakdown of revenue among scaffolding services, insulation & passive fire protection and electrical engineering systems? What are the key growth drivers for each sub-segment?

Company's response to Q1(i)

BCA has highlighted that they expects a steady improvement in construction demand over the medium term, reaching between S$31 billion and S$38 billion per year from 2025 to 2028. Most construction projects will involve scaffolding services, insulation and passive fire protection as well as electrical engineering systems.

Having said that, as per our announcements, we expect competition to be keen and the Group will continue to tender for better margin contracts rather than competing on price to secure contracts.

We think it is not prudent to provide a breakdown of the revenue within our engineering business due to the highly competitive market that the business is operating in.

(ii) Transportation services: What is management's estimate of the Group's current market share in bus transport services? How does the Group differentiate itself from other service providers, and what strategic measures are being implemented to further strengthen the Group's competitive positioning?

Company's response to Q1(ii)

The bus transportation market in Singapore is very fragmented and diverse, ranging from many small players that operate less than 10 buses to the big players. In addition, there are different companies catering to different sectors, such as the travel industry, schools and commercial entities.

Having a listed status for the Company helps lend credibility and confidence to our clients, both in terms of financial backing as well as compliance. In addition, we have a dedicated team of experienced personnel supporting the bus operations.

The transport team is looking actively at tendering for larger public sector projects given our past experience in delivering such services.

(iii) Security and manpower services: Revenue attributable to the major customer decreased from $7.5 million to $5.2 million in FY2024. Can management elaborate on the main reasons for this drop? What is the profile of the major customer? How successful has the Group been at retaining customers? Can management also elaborate on how the Group has adapted to the Progressive Wage Model and how have these changes impacted profitability?

Company's response to Q1(iii)

The decrease in security and manpower services revenue was due to a marked decrease in the number of technicians outsourced to the aviation industry in FY2024. We are unable to disclose the profile of the customer due to client confidentiality. Many of the clients have been with the Group for many years.

The progressive wage model implemented by the government has indeed increased the cost of labour, but we see this as something that is faced by all our competitors and thus everyone compete on a level playing field. The grants disbursed by the government to mitigate the increase in costs has helped, and we will continue to engage with the clients when the contracts are due to factor in these increases.

Having said that, we expect the security and manpower services to grow and improve as we have secured new contracts that are of better margins.

(iv) Segment reporting: Under the "Others" segment, the Company continue to report a significant segment loss, amounting to $(2.54) million, which is greater than each of the identified operating segments. This makes Note 28 useless to the user of the financial statements. What are the challenges to allocating and charging the operating segments for management and administrative services? Are there proper and adequate systems in place to monitor operational and management performance? Why has "corporate" costs remained high at $(2.5) million even without SGX listing expenses?

28 SEGMENT INFORMATION (Cont'd)

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable operating segments:

	Engineering services S$'000	Transportation services S$'000	Security and manpower services S$'000	Total for reportable segments S$'000	Others S$'000	Inter-segment eliminations S$'000	Total S$'000
Period ending 30 June 2024							
External revenues	8,576	4,787	10,544	23,907	–	–	23,907
Inter-segment revenue	1,759	4	–	1,763	–	(1,763)	–
External cost of sales	(6,746)	(4,583)	(9,551)	(20,880)	–	–	(20,880)
Inter-segment cost of sales	(2,198)	–	–	(2,198)	–	2,198	–
Finance costs	(302)	(19)	(36)	(357)	–	–	(357)
Depreciation of property, plant and equipment and amortisation of intangible assets	(1,412)	(910)	(12)	(2,334)	(4)	–	(2,338)
Reportable segment (loss)/profit before tax	(292)	(225)	1,203	686	(2,537)	1,253	(598)

In addition, can the audit committee elaborate on the Group's transfer pricing policies? Specifically, how was inter-segment revenue determined, considering that inter-segment cost of sales exceeded inter-segment revenue? What measures are in place to ensure transfer pricing practices are in line with

national/international standards and regulations?

Company's response to Q1(iv)
The Group has in place a management fee framework to back-charge corporate costs to the various operating entities. Having said that, it is still inevitable to have on-going corporate costs that cannot be charged to the operating entities. Examples are on-going listing expenses, audit expenses, as well as Group's HR and finance costs.

The Group's corporate costs have in fact continue to decrease as a result of the various cost rationalization initiatives that we have undertook. The "others" segment captured a cost of $2.5m because this includes the impairment of investment that is eliminated upon consolidation. The impairment of investment is due to the difference in net carrying value of the subsidiaries compared to the initial investments made due to the losses. There was no such impairment during the initial IPO year.

The Group's transfer pricing policies are based on market practices, and also vetted by the Group's external auditors to ensure that the Group's transfer pricing policies are consistent with the international standards and regulations. The inter-segment cost of sales not only includes cost related to inter-segment revenue, but also certain costs that have no corresponding inter-segment revenue. For example, one of the Group's entities has signed a lease with a third party, but shares that space with another of the Group's entities. Thus, there is an inter-company billing to share the costs of the rental.

Q2. As noted in the chairman's message, the Group is exploring opportunities in adjacent sectors to diversify its income streams and achieve steady, recurring revenue. At the upcoming annual general meeting, the Company is seeking shareholders' approval to diversify into property business.

In fact, the Group has acquired 9 Tuas South Street 11 which has 11 years remaining at an aggregate cost of $9.42 million. The Group is also set to acquire 4 Tuas South Street 11 at a purchase consideration of $8.5 million.

Net debt has increased from $3.7 million to $10.2 million as at 30 June 2024. The net debt-to-equity ratio has increased from 0.31 times to 0.90 times. This excludes the proposed acquisition of 4 Tuas South Street 11 which expected to complete by 15 December 2024.

(i) Can management confirm if the primary purpose of acquiring both properties is to support the growth of its engineering business? Why is 9 Tuas South Street 11 classified as an investment property in the financial statements rather than as an operational asset?

Company's response to Q2(i)
The acquisition of both properties is to support the growth of our engineering business. The ownership of these 2 properties will allow us to reliably forecast the cost, such as, *inter alia*, rental and storage fees, that is related to the engineering business. Excess spaces for the 2 properties will be rented out and thus we classify it as an investment property in the financial statements.

(ii) Are there secured contracts or confirmed projects that justify the significant increase in floor space? What is the expected utilization rate of the new facilities in the coming financial years?

Company's response to Q2(ii)

Our tenancies with third parties, for spaces used to store our equipment, have ended and we have shifted our equipment to our own premises. This has resulted in costs savings for the Group. We envisage this to be the same for 4 Tuas South Street 11 after the completion.

We expect close to full utilisation for these facilities in the coming financial years.

(iii) What proportion of the acquired properties will be allocated for workers' dormitory? Could management provide clarity on the number of units or beds to be made available, and how this aligns with regulatory compliance and demand projections?

<u>Company's response to Q2(iii)</u>

We intend to allocate 49% of 9 Tuas South Street 11 for workers' dormitory, which would allow for close to 300 beds. Demand for workers dormitory remains resilient and such conversions will result in costs savings for the Group.

We have not decided on the conversion of 4 Tuas South Street 11 to a workers dormitory at this point in time.

Assuming a similar loan-to-value (LTV) of 80%, a loan of about $6.8 million will be required to complete the acquisition of 4 Tuas South Street 11. It is estimated that net debt will increase to $17.0 million. The net debt-to-equity ratio will increase to 1.5 times.

(iv) Has the Board set an upper limit for the Group's gearing ratio, considering the increased borrowings and future obligations?

<u>Company's response to Q2(iv)</u>

Whilst the Board has not set an upper limit on the Group's gearing ratio, each project is deliberated and discussed extensively at Board level. This includes but not limited to the financing facet of the project such as costs and cashflow.

The Group is cognizant of the cashflow as well as financial obligations related to the acquisition of such projects. The acquisition of 4 Tuas South Street 11 was done with a joint venture partner to reduce the capital expenditure requirements of the Group.

(v) Has the Board conducted a detailed risk assessment regarding the acquisition of industrial properties with short land leases? What were the key findings of the due diligence, particularly in terms of mortgage payment obligations and expected cash flow generation?

<u>Company's response to Q2(v)</u>

Each proposed acquisition is accompanied by a detailed cashflow as well as sensitivity analysis which is discussed extensively with the Board.

Beyond just financial obligations, the Board was also briefed about the outlook of industrial properties for Singapore, as well as other risks accompanied with such acquisitions. These were all considered prior to the acquisitions. In fact, there were projects that were discussed at the Board level but did not proceed further after due discussions about the risk-reward profile of these projects.

(vi) Did the Board perform a cash flow stress test for these acquisitions? If so, can management share the findings?

<u>Company's response to Q2(vi)</u>

As shared in our responses to Q2(v), each proposed acquisition is accompanied by a detailed cashflow as well as sensitivity analysis which is discussed extensively with the Board. The management works on the basis that each investment will have a payback period of about 5 years or less.

Q3. The Group has developed a sustainability materiality matrix that highlights the key material aspects aligned with the Group's core business and operational risks.

The chairman has also stressed that sustainability has long been an integral part of the Group's operations, with continuous efforts to incorporate more sustainable practices across its business activities.

(i) Workplace safety: Has the Board conducted a thorough review of the root causes behind recordable injuries in the workplace in FY2024? What specific improvements have been implemented by management, and how does the Board ensure rigorous oversight in maintaining workplace safety standards?

WORKPLACE SAFETY

Performance indicators	Units	FY2022	FY2023	FY2024
Fatalities in the workplace	Number	0	0	0
High-consequence injuries in the workplace	Number	0	0	0
Recordable injuries in the workplace	Number	0	1	3
Recordable work-related ill health cases in the workplace	Number	0	0	0
Regulatory and compliance incidents relevant to workplace safety	Number	0	0	0

Company's response to Q3(i)

A thorough review of the root causes behind the recordable injuries in FY2024 has been conducted. Specific improvements include a) repeated reinforcements reminders to wear PPE in the course of work done in the daily toolbox meetings before start of work; b) on-site supervisors are instructed to conduct more frequent and random PPE compliance checks; and c) issuance of warning letters for repeated non-compliant offenders. The Board are constantly kept up-to-date of the health and safety incidents and root cause investigation during quarterly board meetings. Any serious or fatal incidents will be reported to Board as immediately as possible**.**

(ii) Anti-Corruption: Can the Board provide more details on the Group's risk assessment procedures for corruption? It appears that the Group has not yet started its anti-corruption training for high-risk individuals as highlighted in the sustainability scorecard. What are the plans to introduce such training in FY2025, and how will the Board monitor its effectiveness?

GOVERNANCE

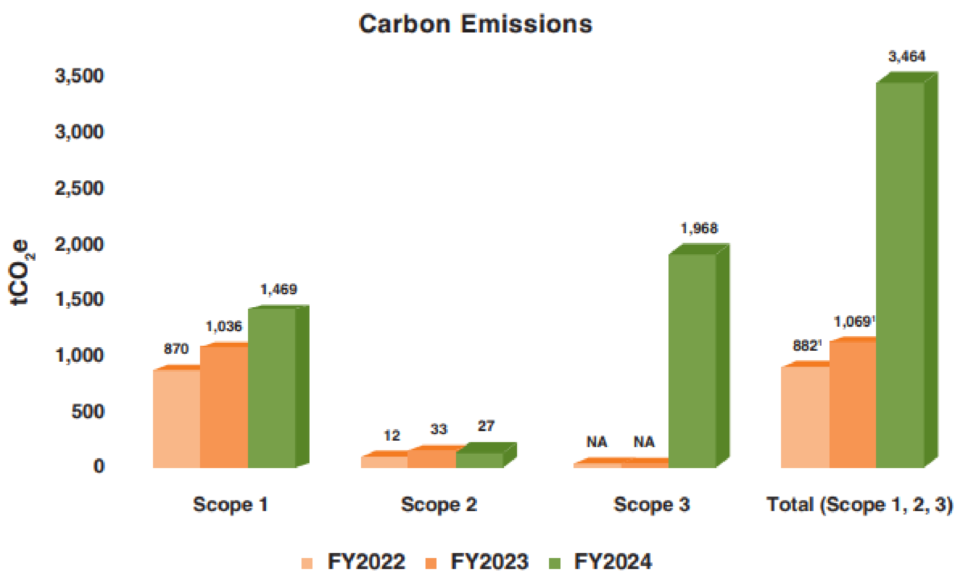
Performance indicators	Units	FY2022	FY2023	FY2024
Independent Directors	Number (%)	3 (60%)	3 (60%)	3 (60%)
Female on the Board of Directors	Number (%)	0 (0%)	0 (0%)	0 (0%)
Females in Senior Management	Number (%)	10 (28%)	10 (28%)	10 (28%)
Whistleblowing complaints	Number (%)	0 (0%)	0 (0%)	0 (0%)
Confirmed incidents of corruption	Number (%)	0 (0%)	0 (0%)	0 (0%)
Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Number (%)	0 (0%)	0 (0%)	0 (0%)
Employees who received anti-corruption training	Number (%)	0 (0%)	0 (0%)	0 (0%)

Company's response to Q3(ii)

The Group has in place Standard Operating Procedures ("**SOP**") that provides a clear framework for governance, defining the principles and practices we follow. These procedures are vital for directing the Group's employees in their engagements with stakeholders, ensuring that the Group's governance standards are consistently applied. The essential SOPs the Group have established to ensure strong corporate governance and adherence to ethical practices include but not limited to Anti-corruption and Bribery Policy, Whistleblowing Policy and Enterprise Risk Management.

Till date, the available policy, procedures and channels are working well, as there are no incidents of corruption or bribery cases reported. The Group currently does not have high-risk individuals, and thus, no anti-corruption training was conducted. However, the Group will conduct relevant training for high-risk individuals, when identified, to further reinforce anti-corruption mindset. Any reported or suspected corruption cases are also reported to the Board on a quarterly basis.

(iii) **Carbon emissions: The Group reported an increase in both absolute carbon emissions and carbon emissions intensity, despite having a 3% reduction target, due to heightened activities in the transport sector. What is the current average age of the bus fleet, and has management considered upgrading to meet Euro 6 standards, which Singapore adopted in 2018? Moreover, has the Board evaluated the potential long-term benefits of electrifying its fleet to establish a first-mover advantage in the transport sector?**



<u>Company's response to Q3(iii)</u>

The current average age of the bus fleet is about 7.5 years. Some of our buses purchased after 2017 met Euro 6 standards. The Group is mindful of the current limited infrastructure necessary to support EV buses, which require typically a larger space for charging due to the size of buses, as well as larger capacity chargers required.

Having said that, the Group will explore the adoption of EVs as replacements when the Certificate of Entitlement for our existing buses expire. In addition, we will also continue to assess the development of the infrastructure necessary to support EV buses in Singapore to ensure a smooth transition to the electrification of our fleet.

By Order of the Board

Mr. Poh Soon Keng
Executive Chairman and Chief Executive Officer
22 October 2024

This announcement has been reviewed by the Company's sponsor, UOB Kay Hian Private Limited (the "Sponsor"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (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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