**LEY CHOON GROUP HOLDINGS LIMITED**
(Incorporated in the Republic of Singapore)
(Company Registration No. 198700318G)

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**RESPONSES TO QUESTIONS FROM THE SHAREHOLDERS AND THE SECURITES INVESTORS ASSOCIATION (SINGAPORE)**

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The Board of Directors ("**Board**") of Ley Choon Group Holdings Limited ("**Company**", together with its subsidiaries, the "**Group**") refers to (i) the queries from Shareholders received as of the stipulated deadline in the notice of Annual General Meeting dated 15 July 2024; and (ii) the queries from the Securities Investors Association (Singapore) ("**SIAS**") received on 19 July 2024, with reference to the Company's announcement dated 15 July 2024 on the Company's Annual Report for the financial year ended 31 March 2024 ("**FY2024**").

The Company's responses to Shareholder's queries are set out below:

**<u>Shareholder's query:</u>**

1. **The Company's press releases have previously referred to an ongoing replacement cycle at scale for Singapore's underground utility infrastructure.**

   a) **Can you give examples of projects dealing with the replacement underground infrastructure that Ley Choon has won recently?**

   b) **Can you cite other potential upcoming projects that may be put out for tender?**

   c) **What year will this replacement cycle peak and return to normal?**

   **<u>Company's response:</u>**

   The projects involving the replacement of underground utility infrastructure encompass the supply and/or installation of water pipes, gas pipes, and cables. Aside from tenders called for by our clients, who are predominantly government agencies, the Group is not currently aware of any upcoming projects that may be available for tender. While the Group has been delivering these services to various government agencies and government-affiliated companies, primarily in Singapore, it does not have any access to the data on the replacement cycle on a consolidated basis.

**<u>Shareholder's query:</u>**

2. **The Company's press release said it is "optimistic about replenishing and expanding our order book in the coming year." Does the orderbook have the potential of growing by at least 2X from end-FY2024's $259 million?**

   **<u>Company's response:</u>**

   The Group has been prudently bidding for projects in underground infrastructure utilities construction, leveraging its strong track record and expertise. While we are actively pursuing new opportunities and striving for significant growth, the expansion of our order book will depend on various factors, including market conditions and competitive dynamics that can impact our ability to secure new contracts.

**<u>Shareholder's query:</u>**

3. **In FY2025 and FY2026, does the Company expect its capex to rise materially? What about its workforce headcount?**

   **<u>Company's response:</u>**

   Currently we do not have any planned significant increase in capital expenditure or workforce for the next two years. However, it is important to note that these factors may change depending on new contract wins and the associated requirements. We are committed to maintaining a flexible approach that allows us to adapt to market opportunities and operational needs as they arise.

**<u>Shareholder's query:</u>**

4. **After declaring the first dividend since 2014, what is the Company's dividend policy going forward? Can shareholders expect consistent annual payouts?**

   **<u>Company's response:</u>**

   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.

**<u>Shareholder's query:</u>**

5. **How does Ley Choon plan to utilise its financial flexibility now that it has settled the bullet repayment?**

   **<u>Company's response:</u>**

   The Group remains committed to a balanced utilisation of our available cash flow. Our priorities include honoring declared dividend payments, optimising working capital, and gradually resuming the capital expenditures which were deferred last year to prioritise debt repayment. We will continuously adapt our financial strategies to align with evolving business needs and our strategic objectives.

The Company's responses to SIAS's queries are set out below:

**<u>SIAS's question:</u>**

**Q1. For the financial year ended 31 March 2024, the group experienced a 4.2% year-on-year growth in revenue, reaching $129.1 million, accompanied by a 28.9% increase in gross profit to $21.1 million. Net profit after tax increased by 18.1% to $10.9 million. FY2024 was a watershed year for the group, characterised by substantial improvements in financial and operating performance and the early settlement of its debt restructuring.**

**The group has an order book of $258.5 million.**

**(i) Can the board and management help shareholders better understand how it is managing input cost escalations, especially for its long-term contracts? What strategic levers are available to management to maintain and improve profitability margins while being competitive in tenders?**

**<u>Company's response:</u>**

Generally, the duration of our contracts ranges from 24 to 48 months. Our strategic and multifaceted approach to effectively manage the input cost escalations and improve profitability margins particularly for long term contracts while staying competitive in bidding includes: a) factoring estimated cost escalations to a reasonable extent during the bidding process, b) procurement of materials from multiple sources instead of relying a single source, c) close monitoring of cost, progress and billing through our business intelligence systems which is accessible from mid to senior management level, d) employing adaptive project management by our Project Management Office team without compromising safety and quality, e) periodical meetings with the project managers and operations team to review the progress and address challenges of the projects and f) continuously enhancing operational efficiency by live tracking the usage of operational assets such as machinery and equipment used in the projects.

**(ii) Is the group the market leader in the underground utilities infrastructure construction segment? Were there any opportunities to acquire smaller players or complementary companies?**

**<u>Company's response:</u>**

The Group is a well-established, comprehensive provider of underground utilities infrastructure construction, road, and airfield works services, and recognised as an active player in the market. Additionally, the Group collaborates and executes projects jointly with other key market players within specific business segments. While there are occasional opportunities for acquiring businesses within the value chain, the Group primarily focuses on organic growth. Nonetheless, it has historically acquired businesses that offered operational synergies.

**(iii) Given the industry's tight labor market, what specific strategies and initiatives has management implemented to attract, retain, and develop skilled workers? How effective have these measures been in addressing the challenges posed by the limited supply of workers?**

**<u>Company's response:</u>**

The Group has implemented a range of strategies and initiatives to attract, retain, and develop skilled workers. We are committed to offering fair, non-discriminatory, and competitive remuneration packages that align with employees' experience and skillsets. Specifically, we provide competitive salaries and attractive performance incentives to motivate employees to remain in the industry and enhance their skills. Our open recruitment approach ensures we attract top talent from diverse backgrounds. The Group's upskilling and training initiatives provide opportunities for lifelong learning and skill development, offer clear career pathways and detail the skills and competencies required for various roles. Additionally, our efforts to improve working conditions have successfully reduced job-related risks and enhanced job satisfaction. While these measures have had positive impacts, the overall challenge of a limited supply of workers remains.

**(iv) Reflecting on the pre-2016 period that led to the debt restructuring, can the board identify the key factors that contributed to the company's financial troubles? In addition, what specific governance, risk management, and financial controls have been established post-restructuring to prevent similar issues in the future and ensure long-term financial stability?**

**<u>Company's response:</u>**

Several factors led to the need for debt restructuring. In particular, rapid expansion resulted in numerous challenges, such as stretched resources, increased operational complexities, and unintended inefficiencies. To address these challenges, the Group implemented various measures, including: a) identified the weaknesses and shortcomings in overall project management with the assistance of professionals, b) implemented additional internal controls with respect to project management, c) established periodical tracking of progress, costs and billing through digital platforms, d) optimisation of usage of operational assets such as construction machinery, motor vehicles and equipment, e) tightened control over capital expenditure spending, f) improved the bidding process using historical data and market analysis to derive the best possible cost estimates, g) implemented review processes post-completion and post-bidding of the projects and h) divestment of non-core assets.

**<u>SIAS's question:</u>**

**Q2. "Revenue recognition over time" is a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.**

**In the KAM, the independent auditor noted the following:**

> ***For the long-term projects where the group satisfies its performance obligations over time, the group has determined that a cost-based input method provides a faithful depiction of the group's performance in transferring control to the customers, as it***

***reflects the group's efforts incurred to date relative to the total inputs expected to be incurred on the projects. The measure of progress is based on the costs incurred to date as a proportion of total costs expected to be incurred up to the completion of the projects.***

**The audit committee (AC)'s response with regard to revenue recognition over time can be found on page 92 of the annual report.**

**(i) What is the group's experience in estimating the total costs of a long-term project? In a high inflationary period, are there heightened risks of underestimation? How often or infrequently does the group experience cost overruns?**

**<u>Company's response:</u>**

Estimating the total costs of a long-term project involves numerous factors, including materials, labour, overhead, and external market conditions. Generally, the estimation of future costs is based on historical data and trends from similar projects. During the bidding process, project costing is carried out at a detailed level through a bill of quantities. Our past experience and expertise significantly aid in identifying potential risks and accounting for unforeseen costs and cost escalations to a reasonable extent possible. Notwithstanding that cost estimation during periods of high inflation is challenging, due to the volatility in material prices, supply chain bottlenecks and increased labour costs in the current environment, as applicable to most companies in similar industries, the Group performs detailed reviews of its total budgeted costs, factors in any increase in the projected costs, and updates the projected costs constantly on a monthly basis or whenever actual circumstances warrant such revisions. Due to various measures adopted by the Group during both the bidding and execution phases, cost overruns have been relatively uncommon in recent years, and their impact has not been material to the Group.

**(ii) How does management ensure the accuracy and completeness of the costs incurred to date for long-term projects? What specific controls and procedures are implemented to prevent and detect errors in cost reporting?**

**<u>Company's response:</u>**

Please refer to the Company's consolidated response to queries (ii) and (iii) below.

**(iii) What is the process for periodically reviewing and updating the estimates for long-term projects?**

**<u>Company's response:</u>**

Ensuring the accuracy and completeness of costs incurred to date for long-term construction projects is crucial for effective project management and accurate financial reporting. Project costs are recorded in our integrated IT systems, which are specifically designed for our project management and financial reporting needs, on an almost daily basis and closely monitored. Multiple authorisation levels are established within the IT system to approve, record, and review costs, in order to detect errors and prevent fraud. Phase codes and cost codes are utilised to track and periodically compare actual costs against budgeted costs. Periodical cost forecasting is performed by project management and reviewed by both the Finance department and the management team mainly to monitor the costs and update the estimates, if necessary.

Additionally, we hold regular meetings with stakeholders to review project costs and address any concerns or discrepancies. These controls and procedures ensure the accuracy and completeness of cost reporting for long-term construction projects, thereby enhancing the effectiveness of project management.

**(iv) What specific expertise and experience does the AC possess to effectively oversee the cost-based input method and revenue recognition for long-term projects? How does the AC ensure it has the necessary knowledge to engage in detailed and constructive oversight discussions with management?**

**Company's response:**

Our Audit Committee ("**AC**") is composed of highly qualified members who collectively bring to the Group over 100 years of experience in financial management, corporate governance, project development and management, construction accounting, the construction and property industries, and the formulation of corporate strategies and policies. They possess deep familiarity with the unique aspects of construction accounting, including cost estimations, percentage of completion, and revenue recognition. Additionally, some of our AC members with technical expertise in engineering and project management provide valuable insights into project timelines, cost controls, and operational risks. Continuous education and training programs keep them abreast of the latest developments in financial reporting, industry trends, and regulatory changes. Finally, our Internal Audit team conducts thorough reviews of our internal control systems and provides recommendations to the AC to enhance business processes.

**SIAS's question:**

**Q3. With the completion of the debt restructuring, the company declared a dividend of 0.27 cents per share, subject to shareholders' approval at the annual general meeting on 30 July 2024. This dividend is the first in a decade. The group no longer has any bank borrowings and held cash and bank balances amounting to $9.37 million as at 31 March 2024.**

**(i) Having successfully exited the debt restructuring, can the board elaborate on the group's optimal capital structure to support its growth going forward?**

**Company's response:**

Given the existing order book and the promising opportunities available, our current capital structure is well-positioned to support anticipated moderate growth in the near term. This strategic alignment ensures we have the necessary resources and financial stability to capitalise on upcoming projects and maintain our trajectory without requiring immediate additional capital.

**(ii) Has the board considered establishing a formal dividend policy to provide clarity and consistency to shareholders regarding future dividend distributions?**

**Company's response:**

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.

(iii) **What are the key strategic investments and major capital expenditures planned in the near term that are critical to sustaining and enhancing the group's growth trajectory?**

**Company's response:**

Currently there are no planned key strategic investments and major capital expenditures in the near term which are critical to sustaining and enhancing the Group's growth trajectory. However, the Board always periodically reviews the Company's strategic plans and sets the directions accordingly.

**BY ORDER OF THE BOARD**

Toh Choo Huat
Executive Chairman and Chief Executive Officer

24 July 2024

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