AA GROUP HOLDINGS LTD.
(Company Registration No. 200412064D)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON FY2017 ANNUAL REPORT

The Board of Directors (the "**Board**") of AA Group Holdings Ltd. (the "**Company**") wishes to respond to the questions raised from the Securities Investors Association (Singapore) (the "**SIAS**") in relation to the Annual Report issued by the Company in respect of the financial year ended 31 December 2017 (the "**Annual Report**").

SIAS's Question 1:

As noted in the Chairman's Message, the group went through a major transformation in FY2017 as the former core business of manufacturing and supply of high precision cold forged loudspeaker parts was divested and three new subsidiaries were acquired. Following the diversification, the group's current core businesses are (a) Leasing and service income; (b) Manufacturing of articles of concrete, cement and plaster; and (c) Supply and manufacturing of ready-mix concrete products.

In addition, the company is seeking shareholders' approval to further diversify its core businesses to include Waste Management and Recycling Business.

(i) Would the board and/or management help shareholders understand the group's strategy in the diversification efforts? Are there synergies between the different core businesses? How did the group decide to diversify into Waste Management and Recycling Business after it has just gone into the businesses of leasing, ready-mix concrete and precast concrete products?

Board response:

The Board and management appreciate the fact that the former core business has been matured and stagnant over the years and does not provide the Group with much room for growth. Therefore, the Group has been focusing on actively branching out into new business opportunities. The Group is pursuing a conglomerate type of diversification strategy whereby the businesses that the Group enters into may or may not be related to its existing core businesses. The key criteria that the Group looks at are diversified revenue streams that are not correlated to the current core businesses, businesses that are already profitable or has the potential to become profitable in a short period of time, attractive valuation, and effective management team in place.

Synergies may result through the application of management expertise or financial resources, but, as the businesses entered into may or may not be related to each other, there may not be marketing or operational synergies between the different core businesses.

Given the increasing importance on environmental sustainability, the Board reckons that waste management and recycling industry has significant growth potential. Thus, the Board believes that the proposed diversification into Waste Management and Recycling Business (the "Proposed Diversification") would potentially create new business opportunities in a growing niche market, new revenue streams and improve the Group's prospects, while the Group remains focused on enhancing operational efficiency to improve the profitability of the existing core business.

(ii) Who is leading the deal sourcing and deal structuring for any further diversification efforts?

Board response:

The Board led by the Executive Directors, collectively is leading the deal sourcing and deal structuring together with its professional consultants and brokers.

(iii) What are the experience and the track record of the team carrying out the deal sourcing and deal structuring?

Board response:

The members of the Board came from various backgrounds with experience in diverse industries and have developed a wide network of contacts. (A description of their experience and a table of their past and present directorships can be found on pages 8, 9 and 26 of the Annual Report, respectively).

The professional consultants and brokers came from business, legal and financial backgrounds with many years of experience and also wide networks in deal sourcing and deal structuring.

(iv) What guidance has the board given to the company in terms of its due diligence and valuation framework so as to avoid being overly aggressive in the group's acquisitions?

Board response:

The Board ensures that legal and financial due diligence are carried out for all the Group's acquisitions, so as to pick out any irregularities or negatives prior to finalising the deal.

Independent valuations are conducted in accordance to SGX requirements and also as and when the Board deems necessary. In addition, the Board also evaluates the target's management expertise and track record as well as the inherent industry prospects to ascertain the value of an acquisition.

SIAS's Question 2:

As disclosed in Note 36 (page 124 – Significant subsequent events: Worksite accident and MOM Charge), the company announced that its wholly owned subsidiary, Engineering Manufacturing Services (S) Pte Ltd ("EMS"), has been charged with an offence by the Ministry of Manpower (MOM) under section 20 of the Workplace Safety and Health Act (Cap. 345A) read with section 14(1)(c) of the Act (the "MOM Charge"), for failure to take sufficient preventive measures as were necessary to ensure the safety of the workers of the contractor in carrying out painting works at a factory located in EMS' leasehold property premises at 60 Benoi Road, Singapore 629906.

(i) How are the board and the senior management addressing the issue of workplace safety so that shareholders and other stakeholders know that the group is committed to achieving the highest safety standards?

Board response:

The Board and senior management has been actively identifying and addressing known issues of workplace safety as a matter of priority after the incidents. Since then, the Group has worked closely with the Ministry of Manpower ("MOM") and implemented risk mitigation measures and enhancing the safe work procedures to prevent the occurrence of similar incidents in the future.

(ii) Can management update shareholders on how the group's safety awareness and training has been improved since the worksite accident?

Board response:

Since the worksite accident, management ensured that workers are briefed on the risk involved and the safe work procedures to be followed. Risk assessments are conducted before any works are carried out. In addition, the management has also sent its staffs for safety courses.

SIAS's Question 3:

The "Bargain purchase from acquisition of Engineering Manufacturing Services (S) Pte Ltd ("EMS") Group" is a key audit matter (KAM) highlighted by the Independent Auditors in their Report on the Audit of the Financial Statements (page 57). Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

As mentioned in the KAM, the Group completed the acquisition of 100% equity interest in EMS Group for a total consideration of S$25,000,000 as disclosed in Note 17 to the financial statements.

The most significant assets of EMS Group acquired were leasehold properties and the identifiable intangible assets for customer contracts. As a result of the acquisition accounting, the Group recognised a bargain purchase from acquisition of S$35,505,457 under "other income" line item in the Group's consolidated statement of comprehensive income.

In particular, the goodwill allocated to the two subsidiaries amounting to $2.2 million is based on the following value-in-use calculations (page 96):

	Group	
	2017 S$	2016 S$
Construction activities		
- Toko Construction Pte Ltd	–	685,258
Manufacturing of articles of concrete, cement and plaster segment		
- W&P Precast Pte Ltd ("WPP")	1,108,095	–
Supply and manufacturing of ready-mix concrete products segment		
- W&P Corporation Pte Ltd ("WPC")	1,124,530	–
	2,232,625	685,258

The recoverable amounts of the CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections, budgeted gross margins, forecasted growth rates and the perpetual growth rates used to extrapolate cash flow projections beyond the five-year period are as follows:

	WPP		WPC	
	2017 %	2016 %	2017 %	2016 %
Gross margin	26.0 - 28.2	–	20.0	–
Growth rate:				
Year 1	25.0	–	25.0	–
Year 2 - 5	3.0	–	3.0	–
Perpetual growth rate	0.0	–	0.0	–
Discount rate	15.88	–	15.88	–

(Source: Company annual report)

(i) Would the audit committee help shareholders understand why the growth rate for the first year was assumed to be 25% while the growth rates for years 2-5 are only 3%?

Board response:

The growth rates used are based on the average historical growth rate and past experiences of WPP and WPC and with reference to the long-term average growth rate of the construction industry in Singapore. Prior to acquisition by the Group in FY2017, WPP and WPC are operating in an industry that was at the trough of the market cycle in recent financial periods. Barring unforeseen circumstances, WPP and WPC, based on external industrial outlook, are seeking a 25% growth in revenue as the industry positions itself for a pick-up in FY2018. In subsequent financial periods, the forecast of revenue growth rate is 3% based on a combined assessment of industrial outlooks and historical trends of WPP and WPC.

In addition, the carrying amount of the leasehold properties increased by $63.0 million as shown in Note 12 (page 92 – Property, plant and equipment). This should be the attributed to the newly acquired property at 60 Benoi Road.

(ii) Has the company carried out an independent valuation of the abovementioned property? If so, can the company share the key assumptions and/or the independent valuation report?

Board response:

The Company has carried out an independent valuation of the abovementioned property. The valuation methodology is based on Direct Comparison Method and Income Capitalisation Method and each method is used as a check against the other.

Under Direct Comparison Method, a comparison is made with recent sales of comparable properties in the subject or comparable vicinities and adjustments are made for differences in location, size, tenure, age/condition, date of sale, etc. before arriving at the value of the subject property.

Under Income Capitalisation Method, the estimated annual net rental income of the property after deducting all necessary outgoings and expenses is capitalized at an appropriate rate of return to arrive at the market value. The adopted yield reflects the nature of the property, location, tenure, financial performance of the property, risk/quality of investment together with the prevailing property market condition.

By Order of the Board

Lai Choong Hon
Executive Director
30 May 2018

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