Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Ley Choon Group Holdings Limited

Stock code: Q0X

Meeting details:
Date: 27 November 2020
Time: 10.00 a.m.

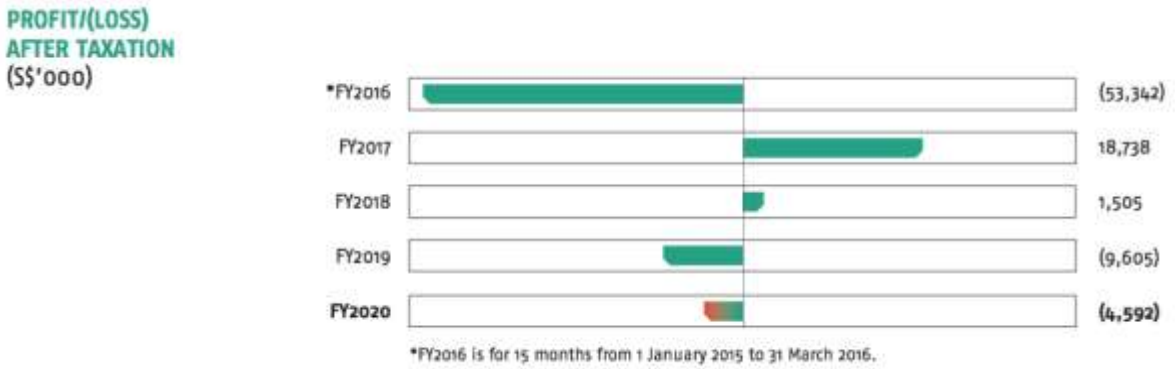
Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. On 9 November 2020, the company announced that its subsidiary had successfully secured three contracts worth approximately $33.75 million in aggregate for underground services installation and construction works.

This would further contribute to the group's unfulfilled order book based on secured contracts stood at $131.7 million as at the end of the reporting period (31 March 2020). In fact, as disclosed in Note 34 (page 155 – Events after the reporting period), subsequent to the end of the financial year, the group was awarded various contracts worth approximately $86.11 million in total, not including the latest contract win of $33.75 million.

Despite contract wins and a relatively healthy order book, the group has reported losses in the past two years, even before the onset of the COVID-19 pandemic.



(Source: company annual report)

The losses in the past two years were due to:

- Completion of high margin projects
- Cost overrun for certain projects due to increases in direct costs
- Low margin projects due to a competitive pricing environment

The group is an established one-stop underground utilities infrastructure construction and road works service provider with 30 years of track record since 1990.

(i) **Can management help shareholders understand the group's value proposition? How does it differentiate itself from its competitors?**

(ii) **How does management/board ensure that it is able to obtain a sufficient margin to ensure that the group gets a fair and sustainable return for its investments and expertise in its core business?**

(iii) **Given that there are several operational constraints imposed by the relevant authorities to stop the spread of COVID-19, what is the expected impact on the group's cost structure?**

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On page 37, the company disclosed its risk assessment and management framework, which included the group's dependency on project tender success given that all of the group's business, with the exception of asphalt premix production and construction waste recycling, are undertaken on a project basis and are non-recurring in nature.

(iv) **What guidance has the board given to management to ensure that tenders, if won, generate a return that is commensurate with the level of risks taken in its business?**

(v) As disclosed in the chairman's statement, the management team invested significant time and energy to improve digitalisation and upgrading of the project monitoring tools through available information technology resources. **Has management reviewed its workflow to further improve its efficiency?**

(vi) **Would the board be reviewing if the group has remained competitive relative to the other industry players?**

(vii) **Would the company consider incorporating a Value-Added statement in the annual report to show how the group creates and shares value with its stakeholders?**

Q2. The company entered into a debt restructuring exercise on 23 September 2016.

One of the material terms of the debt restructuring agreement (DRA) is that the group shall repay the principal and interest owing to eligible lenders according to a cash sweep mechanism. There will be a bullet repayment for all outstanding amounts due to eligible lenders on the final repayment date, being 31 March 2021.

Under the DRA, the group is required to comply with financial covenants for each six-month testing period as of 31 December 2016 to 31 December 2020. Two years after the debt restructuring exercise, the group failed to meet the financial covenants for the period ended 31 December 2018 (and thereafter) although it had obtained relevant lenders waivers of compliance with the financial covenants.

As at 31 March 2020, the group has total borrowings of $54.46 million, which include cash and bank balances and fixed deposits amounting to $3.0 million. Net debt amounted to $84.9 million while shareholders' equity stood at $18.5 million (page 152). The auditors have included a material uncertainty related to going concern in its Independent Auditor's Report.

(i) **Has the board reviewed the financial position of the group and evaluated the options available to the group?**

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(ii) **If so, what is the board's strategy to carry out a successful fund raising to strengthen the current financial position of the group without causing undue dilution to minority shareholders?**

The company has stated that it is currently in discussions with the lenders on certain amendments to the terms, including the financial covenants and extension of repayment period from 31 March 2021 to 31 March 2024.

Following the debt restructuring agreement in 2016, the group did not meet its covenants within 24 months.

(iii) **Can management disclose the amount outstanding under the 2016 debt restructuring agreement?**

(iv) **Given that the industry is expected to remain challenging as a result of COVID-19, how is management going to significantly improve its operations and achieve positive results to repay its debt?** In FY2020, the group's interest expense amounted to $3.31 million (FY2019: $2.93 million).

Q3. As noted in the corporate governance report, the remuneration for the executive director and management comprises a basic salary component and a variable component, namely, the annual bonus (page 55).

The remuneration committee (RC) has disclosed that the variable component is based on the performance of the group as a whole, giving due regard to the profitability of the group, its financial performance as well as general economic conditions under which the group operates and their individual performance.

The disclosure of remuneration of the executive directors and KMPs can be found on page 56 of the annual report.

As disclosed in the corporate governance report, the executive director and KMPs received bonuses of between 7% and 13% in FY2020 and between 5% and 12% in FY2019. However, for FY2019 and FY2020, the group recorded net losses after tax of $(9.6) million and $(4.6) million respectively. Total equity has slipped from $34.4 million at the end of FY2018 to $18.45 million as at 31 March 2020.

(i) **Can the RC elaborate further how the company's practices have met Principle 7 of the Code which requires that the level of remuneration of the board and key management personnel to be appropriate and proportionate to the sustained performance and value creation of the company?**

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(ii) **As the RC has explicitly stated that variable component is based on the performance of the group as a whole, while giving due regard to the profitability of the group, its financial performance, the general economic conditions as well as the individual performance, can the RC elaborate further on the KPIs and performance measures used to determine the variable component?**

It is observed that the executive directors and 6 KMPs, with the exception of the CFO, are all related. On page 57, pursuant to Rule 704(10) of the Catalist Rules, the company further listed another seven members of the Toh family who hold managerial positions in the group.

(iii) **Can the board, especially the independent directors, help shareholders understand its effectiveness at constructively challenging management and reviewing its performance?**

(iv) **Has the board reviewed if the group has the necessary human resources in place for the group to meet its strategic objectives and to create long-term value for all shareholders?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)