LEY CHOON GROUP HOLDINGS LIMITED

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

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

The Board of Directors of Ley Choon Group Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the following:

(a) the Company's Annual Report for the financial year ended 31 March 2020 ("**FY2020**"); and

(b) the notice of the annual general meeting ("**AGM**") issued on 5 November 2020 informing the shareholders of the Company that the AGM will be convened and held by way of electronic means on 27 November 2020 at 10.00 a.m.

The Company has received certain questions from the Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's Annual Report for FY2020 and wishes to announce its responses to the questions from SIAS ahead of the AGM. The Appendix sets out the Company's responses to the questions received from SIAS.

BY ORDER OF THE BOARD
Toh Choo Huat
Executive Chairman and Chief Executive Officer

26 November 2020

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*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 (the "**SGX-ST**"). The Sponsor has not independently verified the contents of this announcement.*

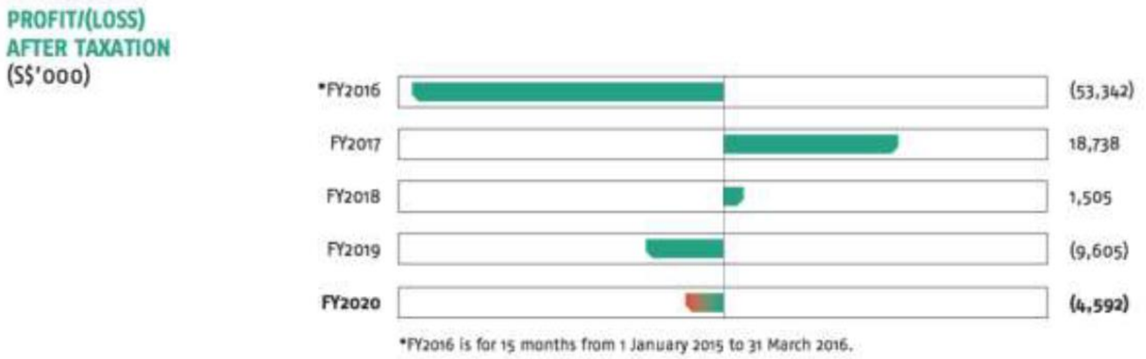
The contact person for the Sponsor is Mr Nathaniel C.V. - Registered Professional, 6 Raffles Quay, #24-02, Singapore 048580, sponsor@rhtgoc.com

APPENDIX – RESPONSES TO QUESTIONS FROM THE SIAS IN RELATION TO THE COMPANY'S ANNUAL REPORT FOR FY2020

***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.

Q1(i) Can management help shareholders understand the group's value proposition? How does it differentiate itself from its competitors?

Ley Choon Group Holdings Limited ("**Ley Choon**" or the "**Company**", and together with its subsidiaries, the "**Group**") is an established one-stop service provider for underground utilities infrastructure construction and maintenance, road and airfield pavement construction and maintenance and production & supply of construction materials. As a one-stop underground utilities infrastructure construction service provider, our core strengths reside with our technical expertise in underground utilities infrastructure and the in-house supply of construction materials such as asphalt premix and recycled aggregates. The Group's asphalt plant is one of the largest in Singapore. The built-in recycling feature and the offering of various asphalt premix formulations to meet customers' requirements provide us with a competitive advantage.

Q1(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?

Historically, the Group had consistently achieved sufficient margins for its projects and a fair and sustainable return for its investments. While the Group has bid for projects selectively with the view of achieving a reasonable profit margins, the actual profit margins often vary, depending on the nature and duration of the projects. This is especially so for underground construction works where variations in underground soil conditions and services are often encountered. The Group is mindful of such variations and has put in extra efforts in planning and site investigation works to establish the underground soil conditions and services to avoid pitfalls and unnecessary works and costly reworks during construction. Furthermore, the Group has also reduced its direct costs and overheads through cost optimisation measures and will continue to do so to further reduce such direct costs and overheads as required going forward.

Q1(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?

The operational constraints imposed by the authorities since the start of circuit breaker have already affected the cost structure and the financial performance of the Group for the first half of the current financial year ending 31 March 2021. The slow reopening of the economy and the slow pick up in construction works will continue to impact the Group's financial performance for the current financial year ending 31 March 2021. In respect of the Group's management of the pandemic situation, the Group is pleased to note that Ministers, Members of Parliament and senior officials of Government Agencies have visited its facilities and dormitory during the initial and the current periods of the pandemic and expressed utmost satisfaction and appreciation for the efforts the Group has taken in terms of safety, well-being of the workers and the overall management of the pandemic situation.

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.

Q1(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?

The Board holds regular meetings with the Management to review the financial performance of the Group, especially the revenue generated from project works (expected vs. actual) and the cost needed for project completion (planned vs. actual) with special emphasis on cost management and proper project planning, with management monitoring improvements to productivity and resource utilisation.

Q1(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?**

The Management periodically reviews its workflow to further improve its operational efficiency and productivity.

Q1(vi) Would the board be reviewing if the group has remained competitive relative to the other industry players?

It is one of the primary agenda of the Board to discuss the business, potential contract wins/tenders, industry, competitiveness, etc. during periodical meetings.

Q1(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?

The Board will consider incorporating a Value-Added statement in future annual reports.

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.

Q2(i) Has the board reviewed the financial position of the group and evaluated the options available to the group?

After its review and evaluation, the Group has sought the lenders' agreement to proposed amendments to the Debt Restructuring Agreement ("**DRA**") which include an extension of the DRA and a proposal for paying down the outstanding debt.

Q2(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?

Subsequent to the debt restructuring exercise in 2016, the Group had raised funds in the financial year ended 31 March 2018. With the ongoing exercise to seek the lenders' agreement to amend the DRA, the Group has no plans to raise any additional funds at the moment. The Group will make any necessary announcements to the shareholders if there are any plans for fund raising in the future.

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.

Q2(iii) Can management disclose the amount outstanding under the 2016 debt restructuring agreement?

The amount outstanding under the DRA as at 30 September 2020 was S$54.4 million, down from the initial amount of $105.3 million.

Q2(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).*

As stated in our financial results announcement dated 12 November 2020 for the second quarter ended 30 September 2020, our order book stood at approximately S$185.8 million. Compared to the previous years, we have secured more contracts during the current financial year and these contracts are expected to be progressively completed over the next two years. With proper project planning and management to improve productivity and resource utilisation, the Management is confident that these projects will bring in reasonable returns for the Group and thus improve the financial performance and the cashflow of the Group.

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.

Q3(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?

Some of the bonuses paid are contractual and some are based on productivity and performance. None of the variable component bonuses paid are based solely on the financial performance of the Company, though due regard is given to the profitability of the Group, its financial performance as well as general economic conditions under which the Group operates and their individual performance.

Q3(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?

Whilst a summary of the remuneration policy has been set out in the corporate governance report, the Board is of the view that it is not in the interest of the Company to disclose the Company's remuneration policy in detail (including, but not limited to, KPIs and performance measures used to determine the variable component), mainly due to confidentiality reasons. Such disclosure, if made public, may put the Company at a disadvantage and may also affect the cohesiveness of the team.

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.

Q3(iii) Can the board, especially the independent directors, help shareholders understand its effectiveness at constructively challenging management and reviewing its performance?

The Board, especially the Independent Directors, consistently and constructively challenge and provide feedback in the development of proposals on strategy, reviewing the performance of the Management in meeting agreed goals and objectives, and monitoring the reporting of performance. The Management takes the Board's feedback into account and incorporates such feedback where possible.

For the avoidance of doubt, only the sole executive director and 5 KMPs, with the exception of the CFO and Mr Toh Kok Hean, Brayden, are related. Mr Toh Kok Hean, Brayden is not related to Mr Toh Choo Huat, the Executive Chairman and Chief Executive Officer of the Company.

Q3(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?

The Board, with the assistance from Management, constantly reviews and ensures that the Group has the human resources with necessary expertise in their respective fields to meet the Group's strategic objectives and to create long-term value for the shareholders.