SoilBuild
CONSTRUCTION GROUP LTD

(Company Registration No.: 201301440Z)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS FROM SIAS

The Board of Directors of Soilbuild Construction Group Limited (the "**Company**" or "**Soilbuild Construction**", and together with its subsidiaries, the "**Group**") refers to the questions received from the Securities Investors Association (Singapore) ("**SIAS**") ahead of the Company's Annual General Meting to be held on 24 June 2020 at 10.00 a.m. via live webcast. The Company wishes to provide its response below.

Q1. In his message, the chairman stressed that the Building and Construction Authority of Singapore ("BCA") has launched the Construction Industry Transformation Map ("ITM") in 2017 and is driving the adoption rate of Design for Manufacturing and Assembly ("DfMA") methods, which includes Prefabricated Pre-finished Volumetric Construction ("PPVC") or Advanced Precast Concrete System ("APCS").

The group developed an Integrated Construction and Precast Hub ("ICPH") and it now houses the group's prefabricated and precast division which turned operational in 2019. In addition, in 2018, the group acquired Precast Concrete Builders Pte. Ltd. (formerly known as Sembcorp EOSM Pte. Ltd.) which had manufacturing facilities for precast concrete building components in Johor, Malaysia. The group started expanding its manufacturing facilities at Pontian in Johor, Malaysia, with the completion expected in the third quarter of 2020.

(i) **What is the value proposition of the group's prefabricated and precast division when compared to other competitors?**

<u>Company's response</u>
The ICPH had been an initiative launched to improve the delivery of precast concrete components within Singapore. Since the launch of the ITM in 2017, the push towards greater adoption for DfMA methods of construction is intensifying. BCA has since awarded five ICPHs (four of which are operational to-date) with licence to manufacture precast concrete building components to support the local built environment. The key distinction between ICPHs and a traditional manufacturer in the sector is the use of automation and robotics in a built-up factory space. These machineries improve the productivity in the production of precast concrete building components including improving manufacturing efficiency, product quality, reducing manpower and intensifying space utilisation in the ICPH.

Given the current flexibility or lack of standardisation in the different types of precast concrete components needed to support DfMA projects, the Group's ICPH and Pontian plant in Johor will be complementing to provide the needed product sustainability. The ICPH is designed and built to manufacture certain standard concrete building components to optimise plant efficiency, while the Pontian plant is to manufacture volumetric and non-standard precast components such as PPVC and infrastructure products. Further, Pontian acts as a storage buffer to accommodate the usual variations to a builders project schedule.

The Group's vision is to be the preferred multi-disciplinary construction company. We believe the investments in ICPH and Pontian would strengthen the Group's position in the tendering and delivering construction projects efficiently and innovatively

(ii) **With BCA driving DfMA for the industry, are there signs of over-capacity as construction companies set up their own prefab facilities?**

Company's response
The Group does not foresee over-capacity amongst local manufacturers. On the contrary, with BCA progressively tightening buildability and productivity regulations across the industry towards DfMA and APCS, the Group is optimistic in filling its production capacities and capitalising on internal capabilities.

Other construction companies wanting to setup their own prefabrication facilities in Singapore will have to tender and be successfully awarded an ICPH. Since the Group successfully tendered for the ICPH, it commenced building up an experienced team of professionals to efficiently develop the division. While not apparent, construction skillsets and those needed for prefabrication can be quite different. We now have a good blend for that advantage. Besides, the investment in the prefab value chain is capital intensive, which could be a significant barrier to entry for certain construction companies.

(iii) **With revenue of $863,000 in FY2019, the segment loss was $(4.3) million. How much of this could be attributed to the initial operating costs incurred for the precast and prefabrication business?**

Company's response
The Company wish to clarify that the overall revenue of the Precast segment in Singapore amounted to $4,232,000 in FY2019, which comprise revenue from external customers of $863,000 and intra division revenue of $3,369,000. Intra division-segment revenue was contributed by supplies of precast concrete and prefabricated building components for the Group's construction projects.

The Group does not specifically classify the cost incurred during the initial operating period and would like to clarify that the loss of $(4.3) million reported for the Precast division in Singapore in FY2019 was mainly contributed by overall manpower cost of approximately $2.8 million, rental of production area and rental of the automated plant and machineries in ICPH charged by another construction entity within the Group of approximately $2.5 million.

(iv) **In approving the expansion of the Johor manufacturing site, what was the investment hurdle rate used by management/board?**

Company's response
We are unable to discuss the investment hurdle rate used by the Management for industry competitive reasons. Nevertheless, in evaluating the expansion plans for the Johor manufacturing site, the Management took into consideration various factors including the payback period for the upfront investment and investment return that exceeds its weighted cost of capital.

Q2. As shown in the Five-year financial highlights (page 6), the group reported losses after tax in each of the past three financial years.

BREAKDOWN OF REVENUE	FY2015 $'000	FY2015 %	FY2016 $'000	FY2016 %	FY2017 $'000	FY2017 %	FY2018 $'000	FY2018 %	FY2019 $'000	FY2019 %
Business Space Projects	184,869	56.3	134,004	33.7	100,459	50.3	137,385	65.9	169,956	71.7
Residential Projects	142,163	43.3	260,076	65.5	90,167	45.2	62,959	30.2	62,429	26.4
Civil Engineering Projects	–	–	2,494	0.6	8,930	4.5	8,203	3.9	3,502	1.5
Prefabricated and Precast Supply	–	–	–	–	–	–	–	–	863	0.4
Project Management	1,238	0.4	613	0.2	50	–	37	–	14	0.0
Total	328,270	100.0	397,187	100.0	199,606	100.0	208,584	100.0	236,764	100.0
Related Party Projects (1)	15,484	4.7	10,356	2.6	19,634	9.8	86,003	41.2	117,655	49.7
External Projects (2)	312,786	95.3	386,831	97.4	179,972	90.2	122,581	58.8	119,109	50.3
Total	328,270	100.0	397,187	100.0	199,606	100.0	208,584	100.0	236,764	100.0

(Source: company annual report; emphasis added)

The gross profit margins from FY2017-FY2019 were 0.12%, 3.17% and 2.16% respectively. On average, the group achieved a gross profit margin of 1.8% over a three-year period. As a result, the comprehensive losses attributable to shareholders added up to $(18.6) million in FY2017-FY2019.

In the annual reports, the reasons given were:

- **FY2017: … reduction in margin recognised due to completion of projects with higher margins, which was further reduced by the increase in construction costs for certain construction projects in Singapore as a result of cost overrun and extended construction period.**
- **FY2018: … generated relatively higher project margins, as well as cost optimisation initiatives achieved for certain projects which were completed during the year… financial performance for FY2018 was adversely impacted by a grant of arbitration award by an arbitrator against a wholly-owned subsidiary of the Group, which has resulted in the Group having to recognise approximately S$5.3 million additional cost of sales in respect of a construction project**
- **FY2019: … decrease in both gross profit and gross profit margin is mainly due to higher costs incurred by prefabrication and precast division during the financial year as it is the first year of operation for the Group's precast and prefabrication business.**

(i) Would management help shareholders understand if the group has retained its competitiveness in the industry which has seen an influx of large foreign construction companies?

Company's response

In view of the dynamic competitive environment of the construction industry, the Group has put in long term measures to maintain its competitiveness and sustainability. These include:

1. Investment into the precast and prefabrication technology to improve productivity and reliance for direct labour.
2. Diversification of geographical market with expansion into Myanmar. Revenue contribution from Myanmar contributed 16.2% to the Group's revenue for FY2019.
3. Improving project planning and construction management strategies to drive construction productivity and efficiencies.

(ii) Can management elaborate in greater detail its pro-active efforts to better manage its costs and to raise the group's productivity?

Company's response

To better manage our project costs and to raise our productivity, the Company places great importance on efforts during the project planning phases, which include overall construction methodologies to be adopted in the execution of the projects, the construction programme as well as the procurement strategies for construction materials and services. We also conduct regular review of our construction progress, manpower deployment and cost monitoring in order to measure our performance and cost efficiency.

These efforts form part of the Group's long-term measures to maintain its competitiveness and sustainability as elaborated in Q2(i) above.

(iii) **How does the group balance the need to secure projects (by being competitive with its pricing) and the need to obtain a fair and sustainable return?**

Company's response

The Group evaluates its tender pricing strategies taking into consideration the following factors:

1. Counterparty risks and likelihood of recurring projects
2. Complexity and duration of the projects
3. Competitive environment and comparable pricing
4. Availability of resources

Q3. The group's total borrowings increased to $73.6 million as at 31 December 2019, from $51.6 million a year ago. In July 2019, the company raised $12.3 million in a preferential offering to end the year with a cash and cash equivalents holding of $24.5 million.

The group's gearing ratio increased from 66% to 90% as at 31 December 2019. Gearing ratio is calculated as total bank borrowings divided by tangible net worth where tangible net worth is calculated as total equity less intangible assets (tangible net worth of $81.2 million).

(i) **Has the board set a limit on the group's gearing ratio?**

Company's response

The Board does not set any limit on the Group's gearing ratio. Nevertheless, the Board and the Management reviews the Group's gearing ratio on an on-going basis, taking into consideration the working capital requirement and the capital expenditure arising from the Group's expansion plan.

(ii) **What is the impact on the group's operation as a result of the government's Circuit Breaker measures? Does the group have sufficient working capital to tide it over this challenging period?**

Company's response

At the date of this announcement, the Group has sufficient working capital to tide it over this challenging period. Please refer to the Company's announcement on 23 June 2020 on the impact of the Covid-19 pandemic on the Group's business activities.

As disclosed in Note 25 (page 108 – Borrowings), the one of the subsidiaries of the company is in breach of loan covenants in relation to borrowings from a bank. There was a breach of the maintenance of debt service ratio of the group in relation to term loan amounting to $50,000,000. Arising from the breach, a portion of the term loan amounting to $48,500,000 which is due twelve months after the balance sheet date has been reclassified from non-current to current on the balance sheet of the group as at 31 December 2018.

The current ratio as at the end of the financial years 2017, 2018 and 2019 were 0.92x, 0.58x and 0.92x respectively.

(iii) **Apart from seeking a waiver, would management be addressing the covenant breach?**

Company's response
Apart from seeking a waiver, the Group will also be seeking to revise certain terms and conditions, including relevant financial ratios. In addition, the Group will be also conducting a review of its capital structure, including the tenure of its existing borrowings.

(iv) **Has the board evaluated the financial strength of the group, considering the challenges in the market and the growth plans of the group?**

Company's response
The evaluation of the financial strength of the Group is an on-going process.

Arising from the on-going review, the Group has put in long term measures to maintain its competitiveness and sustainability as elaborated in Q2(i) above.

BY ORDER OF THE BOARD
SOILBUILD CONSTRUCTION GROUP LTD.
Lim Chap Huat
Executive Chairman
23 June 2020