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 Meeting to be held at 317 Outram Road, Holiday Inn Singapore Atrium, Singapore 169075 on 26 April 2023 at 10.00 a.m. (Singapore time). The Company wishes to provide its response below.

Question 1:

For the financial year ended 31 December 2022, the group generated a gross loss of $(21.3) million. Net loss for the group was $(31.7) million. The company has also given notification of 3 consecutive years' losses in May 2022 and again in April 2023 in which the company noted that the 6-month average daily market capitalisation was $44.1 million and $36.3 million respectively.

Would the board/management provide shareholders greater clarity on the following operational and financial matters? Specifically:

(i) **Gross profit margin: The gross loss reported for FY2022 of $21.3 million was largely attributed to an increase in manpower costs and rising material costs, as a result of the prolonged impact of the COVID-19 pandemic and geopolitical tensions causing disruptions in the supply chain. The construction segment in Singapore and the precast segments in Singapore and Malaysia reported significant losses in the year. Can management help shareholders better understand the specific factors that led to a gross loss of $21.3 million? Please provide a breakdown and/or a waterfall chart to show how the group went from $248.4 million in revenue to a gross loss of $21.3 million. Did the board benchmark the group with its competitors and assess how the group fared?**

(ii) **Accountability: Has the board ensured proper accountability within the group following 6 years of losses?**

FINANCIAL RESULTS	FY2018 $'000	FY2019 $'000	FY2020 $'000	FY2021 $'000	FY2022 $'000
Revenue	208,584	236,764	148,937	258,280	248,409
Gross profit/(loss)	6,608	5,121	(24,278)	4,854	(21,291)
Profit/(loss) before income tax	(2,411)	(8,413)	(29,513)	(3,262)	(29,991)
Profit/(loss) after income tax	(3,282)	(9,140)	(28,669)	(2,627)	(31,702)
Comprehensive income/(loss) attributable to shareholders	(3,026)	(9,152)	(28,918)	(2,530)	(32,928)
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	2,946	1,655	(17,563)	10,380	(16,638)

(Source: company annual report; including FY2017 when the loss attributable to shareholders was $(6.4) million)

(iii) **Trade and other receivables: Current trade and other receivables have increased from $63.3 million to $84.8 million as at 31 December 2022. How is management ensuring that the group collects its debts in a timely manner? Out of the $84.8 million, how much is due from related parties?**

(iv) **Manpower: How is the group strategically addressing the challenges posed by the constrained labor supply in order to maintain operational efficiency and meet its workforce requirements, while ensuring a competitive edge within the industry?**

Response to Question 1:

(i) Breakdown of Gross Loss:

Please see the breakdown of gross loss of S$21.3 million as set out below:

Description	**Gross (loss)/profit S$**
Gross losses from significant construction contracts entered prior to COVID-19	(24.4 million)
Gross losses from precast contracts	(4.9 million)
Gross profit from other projects	8.0 million
Total gross loss	**(21.3 million)**

Gross losses from significant construction contracts entered prior to COVID-19:

The Group has a number of construction projects which were priced and entered into prior to the start of the COVID-19 pandemic. Accordingly, the Group's profitability was significantly impacted due to increase in manpower costs and the rising costs of materials arising from the lingering impact of COVID-19 pandemic and the supply chain disruption due to geopolitical tensions.

Notwithstanding the rising cost environment, and subcontractors leveraging on the situation to reprice on contracts secured prior to COVID-19 (permitted by the Covid-19 Temporary Measures Act 2020), the Group continued to honour its commitment to its clients and deliver on the contracts secured prior to the COVID-19 pandemic.

The Group has substantially completed its projects secured prior to the COVID-19 pandemic, and does not expect to incur any further significant losses on the remaining pre-COVID-19 contracts.

Gross losses from precast contracts:

The Group's profitability for its precast contracts was significantly impacted due to increase in manpower costs and the rising costs of materials arising from the lingering impact of COVID-19 pandemic and the supply chain disruption due to geopolitical tensions. In addition, delay in the progress of the construction contracts of its precast customers due to COVID-19, resulted in slower deliveries. Accordingly, the revenue generated upon deliveries were unable to cover the overhead costs for the Group's precast manufacturing facilities.

Gross profit from other projects

The Group's other projects generated a gross profit of approximately S$8.0 million in aggregate during the financial year ended 31 December 2022.

Benchmark with competitors:

The Board reviews the Group's performance in light of the macro industry environment and other industry players, on a regular basis.

The Board is of the view that it is not appropriate to benchmark performance directly with other industry players for the financial year ended 31 December 2022 as there are many factors affecting their respective profitability or loss which include:

- Timing in which the construction contracts were entered into (i.e. whether the construction contracts were entered into before or after the COVID-19 pandemic), which will affect their pricing;
- Timespan and nature of the construction contracts entered into, which will affect the impact of COVID-19 on the costs and ability to secure manpower and other resources required to fulfil the obligations of the construction contracts; and
- Different business segments included in the competitors' financials which may not be directly comparable to the Group's operations.

(ii) The operating and financial review of the Group has been articulated in the annual report for the respective financial years. In particular for FY2022, the Group has explained that the gross loss reported was mainly due to increase in manpower and materials costs arising from the lingering impact of the COVID-19 pandemic and the supply chain disruption due to geopolitical tensions.

Since the financial year ended 31 December 2017, the Executive Directors have been renouncing their annual performance incentives due to the unfavourable financial performance of the Group as a result of challenging market conditions in the Singapore construction industry. In addition, the Executive Chairman, Mr Lim Chap Huat, has also voluntarily relinquished the majority of his annual basic salary since the financial year ended 31 December 2019.

Looking ahead, the Group is actively adapting its strategy to reflect changing market conditions, adjusting its project costing and estimation, and bidding processes to secure new projects. The Group is committed to continually improve the way it plans and execute projects, evaluate and strengthen its procurement processes, more tightly manage projects as well as more effectively improve communication across project stakeholders.

(iii) The Group follows up closely on the collection for its trade and other receivables which are due on a monthly basis. The ageing of the Group's current trade and other receivables as at 31 December 2022 is as follows:

		←	Past due		→	
Group	**Not past due** $'000	**Within 30 days** $'000	**30 to 60 days** $'000	**60 to 90 days** $'000	**More than 90 days** $'000	**Total** $'000
As at 31 December 2022						
Trade receivables	11,047	2,208	89	128	3,400	16,872
Contract assets	49,139	-	-	-	-	49,139
Retentions	19,725	-	-	-	-	19,725
Other receivables	940	-	-	-	-	940
Loss allowance	(1,624)	-	-	-	(260)	(1,884)
Total	**79,227**	**2,208**	**89**	**128**	**3,140**	**84,792**

The Group has approximately 93.4% of its current trade and other receivable which are not past due as at 31 December 2022. In addition, the Group has approximately 3.7% of its current trade and other receivables which are past due more than 90 days, which mainly relate to a customer which has agreed to repay the Group on an instalment basis.

Out of the current trade and other receivables amounting to approximately $84.8 million as at 31 December 2022, approximately $43.9 million are due to related parties.

(iv) The Group has been proactively addressing the challenges posed by the constrained labour supply. Since September 2021, the Group was one of the service providers appointed by the Building & Construction Authority ("BCA") to spearhead the industry-led end-to-end process to bring in non-traditional source workers to support the industry.

In addition, in line with the Built Environment Industry Transformation Map set out by BCA, the Group continues to develop our capabilities in digitalisation and technology to reduce the reliance on labour supply and to stay ahead of the competition.

Question 2:

On 17 February 2023, the company announced that Soil-Build (Pte) Ltd ("SBPL"), a wholly-owned subsidiary, had on 2 February 2023, received a notice of intention to commence adjudication from one of SBPL's subcontractors.

SBPL was informed by Singapore Mediation Centre (SMC) the following day that the subcontractor had lodged an Adjudication Application in respect of a claim for approximately $1.28 million.

An update by the company on 3 March disclosed that two subcontractors had lodged adjudication applications for claims of $0.9 million on 28 February 2023.

On 13 March 2023, the SMC informed the company of the Adjudication Determination of approximately $0.96 million ("Adjudicated Amount") and the costs of the adjudication totalling approximately $0.02 million. The company was informed that payment of the Adjudicated Amount into court as security should be made within 7 days of receiving the Adjudication Determination.

On 20 March 2023, the company announced that it will pay the unpaid Adjudicated Amount into court as security and pursue further legal proceedings against the subcontractor.

(i) Can the management clarify the number of subcontractors who have commenced adjudication against SBPL?

(ii) In addition, why was there a delay in announcing the adjudication by the company in February 2023 after SMC informed about the lodgment of the adjudication application?

(iii) For the benefit of shareholders, would the company provide a clear overview of the situation and help shareholders better understand if this was an isolated case? The company should provide a clear overview of the circumstances that led to the subcontractors lodging adjudication applications.

On 12 April 2023, the company announced another notice of adjudication, this time involving its wholly-owned subsidiary, Precast Concrete (Pontian) Sdn Bhd ("PCPSB"), for RM 7.0 million ($2.1 million).

(iv) Will the independent directors conduct a strategic review to audit the group's operations and ensure that the systems and processes are robust, and the group is complying with its standard operating procedures (SOP)?

Response to Question 2:

(i) There are a total of three subcontractors who have commenced adjudication against SBPL. The claims all relate to the same construction project which is our Housing Development Board Yishun N4C18 project.

(ii) The Company was in the process of considering its commercial and legal position, and was consulting with its legal advisors on the basis of the first adjudication application submitted in February 2023, prior to making the announcement.

(iii) The Board believes that the adjudication applications against SBPL are isolated due to the following reasons:

- The adjudication applications relate to the same construction project which is a significant public sector housing project in which the Group was committed to complete.
- One of the key subcontractors (the "**Key Subcontractor**") of the project failed to deliver on substantially all of its obligations in relation to the said construction project.
- The three subcontractors that have submitted the adjudication applications (the "**Sub-Subcontractors**") were appointed by the Key Subcontractor to perform the obligations and the Group had to proactively take over from the Key Subcontractor and deal

directly with the Sub-Subcontractors when the Key Subcontractor could not deliver on its obligations.

- The Group has not had previous dealings with the Sub-Subcontractors prior to this project.
- The Group disagrees with the claims from the Sub-Subcontractors and is working with its legal advisers, Allen & Gledhill LLP, to initiate the appropriate legal recourse against the Sub-Subcontractors.

(iv) Yes, the independent directors form the Audit Committee ("AC"), which is led by the Lead Independent Director, conducts a strategic review of the Group's operations each year and is advised by its internal auditors. The independent internal audit function reports directly to the AC and assists the AC in ensuring that the Company maintains a sound system of internal controls through regular monitoring of key controls and procedures and ensuring their effectiveness, undertaking investigations as directed by the AC, and conducting regular audits of high-risk areas.

The AC has reviewed and approved the internal auditor's plan during the AC meeting of each financial year to ensure that the scope of the internal auditor's plan is adequate and covers the reviewing of the significant internal controls of the Group, including financial, operational, compliance, sustainability and information technology controls. Audits were carried out on all significant business functions of the Group and all internal audit findings and reports were submitted to the AC for deliberation. The internal auditor's summary of findings and recommendations are discussed at the AC meetings.

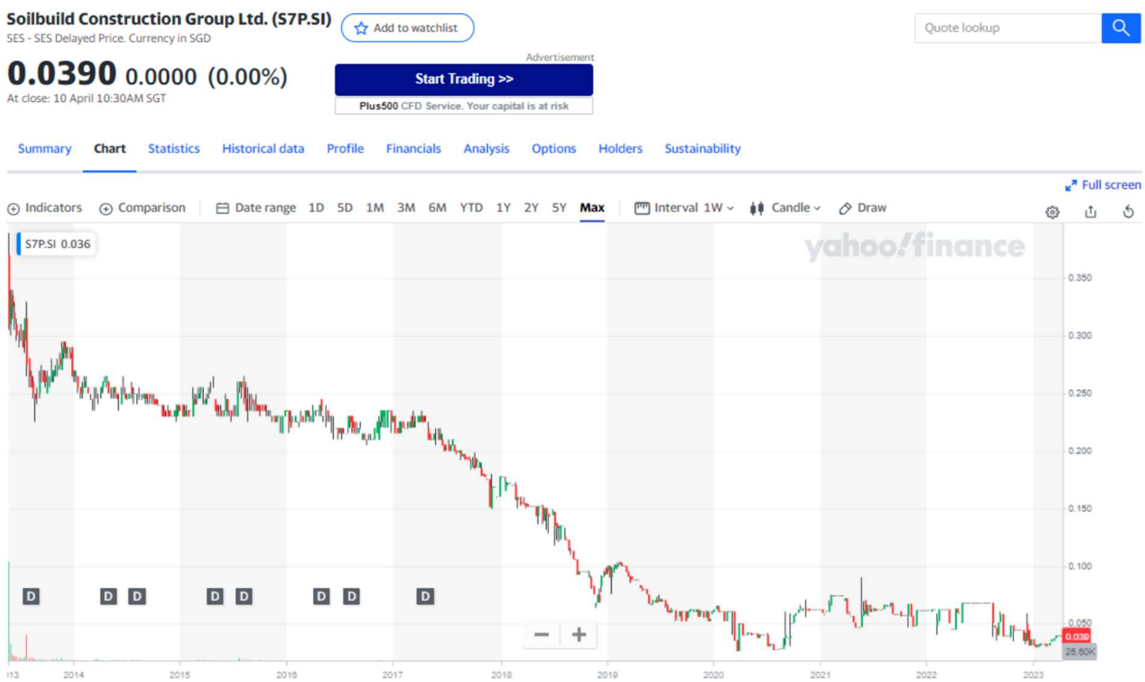
During the financial year ended 31 December 2022, the AC has reviewed the adequacy and effectiveness of the Group's risk management procedures and internal controls established by the Management and the regular audits, monitoring and reviews performed by the internal and external auditors. Based on the above, the AC, is satisfied that the Group's risk management system and internal controls, including financial, operational, compliance, sustainability and information technology controls, are effective and are adequate to meet the needs of the Group in its current business environment.

In addition, as explained in point 2(iii) above, the Board are of the view that the adjudication applications against SBPL are isolated cases and were not due to lapses in systems and processes or standard operating procedures.

Question 3:

The group's accumulated losses have increased to $(51.6) million as at 31 December 2022. Net asset value per share has decreased from 14.44 cents in 2016 to 2.06 cents in 2022, a decline of 86%. The company last paid a dividend in 2017.

The long-term stock chart is as follows:



(Source: https://sg.finance.yahoo.com/quote/S7P.SI/chart?p=S7P.SI)

(i) Has the board carried out a strategic review of the group's competitive advantage? What are the group's weaknesses, and what guidance has the board given to management to address them?

(ii) Given the poor track record of the management team in recent years, would the board agree that the team needs to be replaced, or at least refreshed?

(iii) If not, then perhaps in the interests of minority shareholders, would the board consider alternatives such as bringing in a strategic investor or perhaps even a voluntary winding up to preserve the group's assets?

Response to Question 3:

The Board conducts a review of the Group's strategies and operations on a regular basis. The Group's financial performance in the past few financial years has been significantly impacted by

COVID-19 as the Group has a number of construction projects which were priced and entered into prior to the start of the COVID-19 pandemic.

As part of the strategic review, the Board has provided the following guidance to the management to:

a) Enhance the digitalisation capabilities to improve tendering processes and construction delivery processes via Building Information Modelling etc;
b) Improve the planning and execution of projects via increased supervision and monitoring of projects, and recruitment of experienced and competent project management personnel with technical capabilities;
c) Improve in tender process via strengthening of tender team and more stringent selection of jobs with comfortable margins; and
d) Increase stringency in selection of subcontractors and strategic partnership with consultants.

The Board has also separately overseen the renewal of leadership team with the promotion of Mr Lim Han Ren as Executive Director and Mr Ong Eng Hwa as CEO, Construction Business.

The Group grew its order book by 59% during 2HFY2022, securing 5 new construction contracts, valued at S$199.2 million, and 7 new precast supply and delivery contracts, valued at S$74.2 million during the period. This brought its order book to S$461.5 million as at 31 December 2022. Building on its momentum, the Group is also actively tendering for more high value, high tech facility projects for clients in the semiconductor, precision engineering, food tech and logistics industries to secure new contract wins in 2023.

BY ORDER OF THE BOARD
SOILBUILD CONSTRUCTION GROUP LTD.

Lim Han Ren
Executive Director

25 April 2023
Singapore