RESPONSES TO QUESTIONS FROM SIAS IN RELATION TO THE ANNUAL GENERAL MEETING TO BE HELD ON 27 APRIL 2023

Choo Chiang Holdings Ltd. (the "**Company**" and together with its subsidiaries, the "**Group**") has received questions from the Securities Investors Association (Singapore) ("**SIAS**"), to which it provides its responses below.

Q1. In FY2022, revenue generated from the distribution business segment increased by 10.4% to $8.19 million to reach $87.1 million. The main drivers behind this growth were strong demand by customers, and the upward adjustment of selling prices for certain electrical products and accessories during the fiscal year.

The gross profit margin of the distribution business segment decreased marginally from approximately 29.8% in FY2021 to 29.0% in FY2022.

(i) **Can management elaborate further on the cost pressure stemming from the supply chain? Has such cost pressure moderated since China eased its COVID restrictions?**

(ii) **How much pricing power does the group have? Has the price adjustment been completed?**

(iii) **What is the process for introducing new products under the CCM and CRM brands? How long does it take from design to manufacturing? Does the group take on more or less risk when it expands the range of products sold under its own in-house brands?**

Company's response

(i) The Company has built up a strong network of reliable, quality and cost-effective suppliers from various countries, such as China, Malaysia, India, Germany, and more, over the years. In FY2022, we worked closely with our suppliers to minimise supply chain disruptions arising from Covid-19 and were able to maintain purchases at a reasonable level. Timeliness of delivery, product quality and cost-effectiveness are essential criteria in our supplier selection process. This enables us to continue providing our products and services to our customers and minimise the cost pressure stemming from supply chain.

(ii) The pricing of products is dependent on various factors, *inter alia*, market conditions, market demand, copper prices, principal price guidance, the geopolitical tension arising from the Russia-Ukraine war, and business environments. Price adjustments are an ongoing process, and the Company continuously monitors them to ensure that prices remain competitive in the market while maintaining profitability.

(iii) First, the Company conducts market research to identify potential market for specific products. The Company then works with its suppliers to procure and manufacture the new products. Quality control measures are put in place throughout the production process to ensure products meet industry standards. Finally, the new products are introduced to the market through various channels, such as the Company's retail branches or our business development team. The entire process can take several months to a year or more, depending on the complexity of the product and other factors.

Expanding the range of products sold under own in-house brands may involve taking on more risk as compared to selling products sourced from third-party suppliers. This is because the Company is responsible for the development, products quality and marketing, which can involve significant investments of time and resources. New product launches also face the risk of not being receptive by the market, which could lead to losses if they do not sell well. In mitigating such risks, the Company put in effort in market research and quality control.

Q2. The "valuation for inventories" is a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, the group's inventories were $21.59 million (2021: $18.91 million), representing a significant balance on the statement of financial position of the group.

In fact, in the past 5 years, the inventory levels were:

	FY2022	FY2021	FY2020[1]	FY2019	FY2018
Inventory (S$'000)	21,591	18,911	17,068	14,367	14,655

The increase in inventory has outpaced the growth in revenue. In addition, the number of retail branches have remained at 10 across Singapore.

(i) **Can management help shareholders better understand if it actively tracks and manages inventory turnover?**

(ii) **How does management identify slow-moving and obsolete inventories, and what actions does it take to address them?**

(iii) **What guidance has the board given to management with regard to optimising inventory and working capital?**

(iv) **Can management also elaborate further on its inventory management system, including the extent of its digitalisation?**

<u>Company's response</u>

(i) The Company manages inventory turnover with the help of an experienced procurement team and an integrated Enterprise Resource Planning ("**ERP**") system. The team closely monitors inventory levels using metrics such as inventory outstanding and unfulfilled orders from customers to ensure efficient utilisation of inventory. Additionally, the Company has implemented various initiatives and strategies to optimise inventory turnover and reduce inventory carrying costs by forecasting demand accurately and working with suppliers to reduce lead times.

(ii) The Management assesses slow-moving and obsolete inventories on a quarterly basis by reviewing sales and inventory aging reports. In addressing slow-moving and obsolete inventories, the Company takes actions such as inventory write-offs, promotions, or selling to developing countries to move inventory, so as to optimise inventory turnover and reduce carrying costs.

[1] *Due to the impact of the Coronavirus ("**COVID-19**") on the construction sector and the implementation of the Circuit Breaker measures by the Singapore Government, most of the construction works were suspended for more than 2 months. As a result, it has impacted the customer demand and the increase in inventory turnover days.*

(iii) The Board has provided guidance to management to set specific targets for inventory turnover and/or obsolete stock. In addition, the Board has instructed the management team to closely monitor inventory turnover and report to the Board immediately if there are any unusual stock movements. Furthermore, the Board has emphasised the importance of ensuring continuous goods supply to meet customer demands while minimising inventory holding costs. These guidelines and directions from the Board are regularly reviewed to ensure that they remain relevant and effective in optimising inventory and working capital management.

(iv) The Company has deployed an ERP system (Microsoft Dynamic NAV) which include inventories management capabilities since 2017. The system provides the Company with the visibility of its inventory process from start to finish, along with management tools to aid the Company in maintaining an optimal stock levels year-round.

Q3. As disclosed in the corporate governance report, the internal audit function of the group is outsourced to Crowe Horwath First Trust Risk Advisory Pte Ltd.

(i) What criteria does the audit committee (AC) use to determine and approve the scope of the annual internal audit plan?

(ii) What were the scope, key findings and recommendations by the internal auditor for FY2022?

(iii) What is the level of oversight by the AC on the actions taken by management to follow up on the recommendations?

(iv) Can the AC confirm that it met the internal auditors without the presence of management?

Company's response

(i) The AC uses various criteria to determine and approve the scope of the annual internal audit plan, which include risks identified in the risk management process, areas of concern highlighted by management, regulatory requirements, and changes in the business environment.

(ii) The areas reviewed by the internal audit for FY2022 was based on the agreed upon audit cycle that comprised of (i) sales and accounts receivables; (ii) bank and cash management; (iii) the review of sustainability data collection processes; and (iv) review of general control environment. We are pleased to inform that there are no high-risk matters raised by the internal auditors and the recommendations suggested have been duly implemented by the management.

(iii) The AC maintains a high level of oversight on the actions taken by the management to follow up on the recommendations proposed by internal auditor. The management has implemented various recommendations to address the identified issues and reported the progress of implementation to the AC. As all findings were addressed by management and the recommendations were fully implemented in the first quarter of 2023, the AC is satisfied with the actions taken by the management. The AC will continue to work closely with management and internal auditor to ensure that all necessary actions are taken to mitigate any risks to the business.

(iv) The AC have met the internal auditors without the presence of management on a yearly basis to ensure the independence and objectivity of the internal audit function.

BY ORDER OF THE BOARD

Lim Teck Chuan
Executive Chairman and Chief Executive Officer

21 April 2023

This announcement has been reviewed by the Company's sponsor, SAC Capital Private Limited ("**Sponsor**"). This announcement has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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RESPONSES TO QUESTIONS FROM SHAREHOLDERS IN RELATION TO THE ANNUAL GENERAL MEETING TO BE HELD ON 27 APRIL 2023

Choo Chiang Holdings Ltd. (the "**Company**" and together with its subsidiaries, the "**Group**") has received questions from shareholders, to which it provides its responses below.

Q1 (i) How much cash does the Company require for its daily operational needs.

(ii) How much excess cash does the Company currently have that is over its operational needs.

(iii) What is the current allocation of its current cash holdings with regards to expansion plans vs prudent cash holdings etc.

Company's response

The Company's operating cash flows are healthy, as evidenced by the Company's cash flow statement for financial year ended 31 December 2022 ("**FY2022**"), that shows positive cash flows generated from operating activities were S$8,664,000 (2021: S$9,732,000).

The Company has adopted a dividend policy for the FY2022 and financial year ending 31 December 2023 ("**FY2023**"). Under this policy, the Company intends to recommend an annual dividend of at least 50% of the Company's net profit attributable to shareholders for each financial year, subject to the financial performance of the Group. The dividend policy has taken into account various factors, *inter alia*, the objective of maximising shareholder value, the availability of cash, financial performance, projected capital expenditure, and growth opportunities.

The Company had, on 26 August 2022, paid an interim dividend of 1.00 Singapore cents. Together with the proposed final cash dividend of 1.2 Singapore cents (FY2021: 1.3 cents), the total dividends declared for FY2022 would amount to approximately $4.569 million (FY2021: $4.157 million), representing approximately 50.7% (FY2021: 48.5%) of the Group's consolidated net profits attributable to shareholders. Based on our FY2022 cash flows generated from operating activities, 55% (2021: 30%) of the cash flows was allocated towards dividend payments. Barring any unforeseen circumstances, the remaining cash flows and cash flows to be generated will be sufficient for the Company's operating expenses.

While the Company's financial position is healthy, we are cognisant of being prudent in our cash management to address any unexpected macro or industrial challenges. Accordingly, both the Board of Directors (the "**Board**") and management is mindful of the need to maintain the Group's healthy cash reserves and remain versatile in an ever-changing environment. While balancing the need of working capital sufficiency, the Company's cash reserve is healthy and it allows the Company to act on growth opportunities and potential acquisitions. Other potential utilisation of the cash reserve would include implementation of operating systems and technological investment for business efficiency in order to respond to challenges that may arise from time to time.

Q2 Given the current interest rate environment and the need to balance the interests of minority shareholders while maximising value from investing in and supporting the company over time, is the management contemplating distributing surplus cash to shareholders in the form of special dividends?

Company's response

As per the Company's dividend policy for FY2022 and FY2023, the Company intends to recommend an annual dividend of at least 50% of the Company's net profit attributable to shareholders for each financial year, subject to the financial performance of the Group.

While the Company is committed to maximising value for its shareholders, it also recognises the need to maintain a healthy cash reserve to respond to unforeseeable circumstances and invest in future growth opportunities. The Company's Board of Directors will continue to review the dividend policy and evaluate the appropriate balance between returning value to its shareholders and investment for sustaining growth and driving our strategic transformation, while aiming for an efficient capital structure. The Company is of the view that the current dividend policy is sufficient to provide consistent and sustainable ordinary dividend payments to our shareholders. Hence, at this point, there are no plans to distribute surplus cash in the form of special dividends.

Q3 What have the Company looked at or considered in regards to the liquidity of the company shares?

Company's response

The Company has been focused on improving on our overall performance and financial position. By improving on these fundamentals, we believe that this would create value for our shareholders attract investors of similar mindsets and improved liquidity. We would like to add that liquidity of the Company's shares is market-driven and largely dependent on a willing-buyer, willing-seller basis and a variety of factors, including market conditions, global economic and industry trends, and etc.

Q4 As share buybacks are a tool of unlocking shareholder's value, signalling to the market that the company is undervalued etc, it is noticeable that the Company does its share buybacks not on a daily basis but on a random basis. In addition, with no basic floor price but rather random prices with random volume with "buy up" in the market on 27th May 2022 with 46,000 shares purchased. However, recently with market prices lower than 37 cents, the management did not conduct any share buybacks.

(i) Can the management share further on its share buyback policy?

(ii) Does the company cancel or keep the shares as treasury shares and why?

Company's response

(i) Under the Company's Proposed Renewal of the Share Buy-back Mandate it has been indicated that Share Buy-backs will be made only when the Board considers it to be in the best interests of the Company and the Shareholders and in circumstances which will not result in any material adverse effect on the financial position of the Company or the Group, or result in the Company being delisted from the SGX-ST. In addition, the Board and management will take into account both financial and non-financial factors (for example, stock market conditions and the performance of the Shares) in assessing the relative impact of a share buy-back before execution. Such executions are subject to the 10% of total issued shares limit, average closing price over the preceding 5 market days limit and cannot be undertaken at any time after any matter or development of a price-sensitive or trade-sensitive nature or one (1) month immediately preceding the announcement of the Company's half-year or full-year results, in accordance with the Catalist Rules. For more details, please refer to Company's Proposed Renewal of the Share

Buy-back Mandate that is appended as an Appendix with the Company's annual report for FY2022.

(ii) As highlighted in paragraph 2.2 of the Appendix in relation to the Proposed Renewal of the Share Buy-back Mandate, while a share buyback is undertaken to (i) mitigate short-term price volatility; (ii) return cash surplus to its Shareholders taking into account its growth and cash reserves of the Group; or (iii) enhance the return on equity of the Group, the Company intends to keep the shares as treasury shares which may be transferred for the purposes of or pursuant to employees' share schemes.

BY ORDER OF THE BOARD

Lim Teck Chuan
Executive Chairman and Chief Executive Officer

21 April 2023

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