LINCOTRADE & ASSOCIATES HOLDINGS LIMITED
(Company Registration No.: 200413128G)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS")

Lincotrade & Associates Holdings Limited (the "**Company**" or "**Lincotrade**") and its subsidiaries (the "**Group**") refer to the questions raised from SIAS in relation to the Company's Annual Report for the financial year ended 30 June 2024 ("**FY2024**").

The Company's responses are as follows:

Q1. **As noted in the letter to shareholders, the group achieved revenue of $67.9 million and gross profit of $7.9 million for the financial year ended 30 June 2024. Gross profit margin improved to 11.6%, largely due to a higher proportion of revenue generated from the commercial segment. Profit for the year was $2.26 million.**

(i) **For the benefit of shareholders, could management elaborate on the group's core value proposition? How does the group differentiate itself from competitors in the commercial segment, and what key competitive advantages support its ability to maintain or grow market share?**

Lincotrade has over 30 years of experience in the interior fitting-out industry and have established a proven business track record since its inception in 1991. Led by the Group's senior management team, each with over 20 years of individual experience in our industry, many of the projects are secured by invitations from past customers to submit a tender or a quotation due to their satisfaction of the services provided by us in previous projects. Hence, we believe that it is a testament to our capabilities in project management and execution that is on a timely basis and within the contracted budget.

Since 2006, Lincotrade has had its own in-house processing facility to process, assemble and manufacture carpentry products to support and complement its interior fitting-out services, providing more quality control in our delivery of interior fitting-out solutions to our customers.

In addition, one of the Group's key strengths is overseas procurement as we have accumulated many years of established relationship and experience working with overseas suppliers and factories.

The Group's business model is categorised under three different segments, commercial, residential and showflats that are synergistic in nature, where we are able to target both short-term projects (showflats) and long-term projects (residential and commercial projects). In comparison, our peers' business models are generally focused in one or two of these segments.

Part of the Group's strategy is to focus on tendering for larger commercial contracts in recent years and we have also secured such contracts as announced. With our listing status on SGX, we believe that it provides greater confidence to our targeted customers and working partners.

While there are promising opportunities in Singapore which we continue to proactively seek to increase our order book, we also recognise the current challenges facing the industry. Hence, we are diversifying our business presence overseas to harness new business opportunities. In FY2024, the Group has set up new subsidiaries in Malaysia and the People's Republic of China ("**PRC**") to support our growth plans and business activities.

(ii) **As sustainability becomes a more significant factor in business decisions globally, how is the group positioning itself to capitalise on green projects or other sustainability-driven opportunities? Are there plans to increase investments in sustainable solutions to differentiate in the commercial sector?**

Sustainability will remain a core element of Lincotrade's overall business agenda, and we are dedicated to growing our business responsibly, with careful consideration of our economic, social, and environmental footprint.

As part of our sustainability strategy, we will also continue to train and upskill our workforce to enhance productivity, embrace digital advancements, and adopt techniques that has proven effective in reducing material waste and minimising environmental impact.

In addition, the Group has been using environmentally friendly materials, such as laminate and veneer made from reconstructed or recycled material, in its projects to reduce lumbering of forests.

The Group also have plans to install a solar photovoltaic system that can generate renewable energy for our operations at our new premise at 5 Tuas Avenue 12 ("**Tuas Factory**").

Together with our core competences, we will continue to keep abreast of the new sustainability trends in our industry and work more collaboratively with our customers to develop more sustainable solutions moving ahead.

The Company will publish its FY2024 Sustainability Report on SGXNet by 30 October 2024.

As at 30 June 2024, the order book stood at approximately $39.5 million. In FY2024, the three biggest customers accounted for $25.93 million (38.2%), $10.21 million (15.0%) and $10.16 million (15.0%).

(iii) How much visibility does management have in terms of future projects and revenue pipelines given that the order book is less than half of the FY2024 revenue?

From time to time, the Group's order book may increase or decrease as new contracts are being secured and our projects being progressively completed (and recognised as revenue).

Our business model is categorised under three different segments, commercial, residential and showflats that are synergistic in nature, hence we are able to target both short-term projects (showflats) and long-term projects (residential and commercial projects).

It is also part of our strategy to target for larger commercial contracts as it provides more revenue visibility and in addition to our efforts to strengthen our order book in Singapore, the Group has also recently, in September 2024, secured our maiden commercial project in Malaysia.

(iv) Are most projects awarded primarily on a price-competitive basis? How does the group ensure it remains cost-effective while maintaining high standards of quality and execution?

Price is a key consideration for project tenders.

At Lincotrade, we place strong emphasis on the quality control aspect of our work and the on-time and to specification delivery of our projects to our customers. To this end, our quality management system is certified to ISO 9001 since 2008 and we have implemented quality assurance procedures in accordance with ISO 9001 which sets out specific requirements for performing different types of works on-site, management processes for each part and stage of the work, responsibilities of personnel of different levels, project planning, project management and supervision, quality inspection and standards, subcontracting requirements, accident reporting and handling of complaints. Our workers and our subcontractors are required strictly to follow all procedures that apply to them.

Through our in-depth knowledge and experience in executing and managing interior fitting-out works, we are also focused in enhancing our business efficiencies, reducing waste and minimizing delays. By combining these strategies, the Group aims to successfully balance cost-effectiveness with high-quality execution in our projects.

(v) Has the group been successful in hiring and retaining the skilled and experienced manpower required to support its growth trajectory? What specific initiatives have been implemented to attract and retain talent in a tight labour market?

As a SME, there are inherent challenges in talent acquisition, particularly when competing against larger companies with more resources, within a tight labour market.

At Lincotrade, we believe that a conducive and supportive work environment will improve our team's efficiency and will attract and retain talent in the Company.

In addition, we also prioritise skills-development opportunities for our employees as it will provide them with learning and development resources that can enable them to stay committed and engaged as well as build more goodwill for longer-term retention.

The Group will continue to evaluate new HR initiatives that can effectively meet the objectives of attracting, motivating and retaining employees.

Q2. The group has recently expanded to Malaysia (interior fitting-out works) and China (furniture manufacturing) by incorporating new subsidiaries. This move is aimed at diversifying the business portfolio to mitigate risk and capitalise on new business opportunities.

(i) Could management elaborate on the group's go-to-market strategy for Malaysia and China? Does the group have the necessary local management teams, networks, and expertise in areas such as supply chain management, local business regulations, building codes, and tax rules? How does the group ensure it mitigates risks associated with unfamiliar regulatory environments in these markets?

The Group believes that partnerships and joint ventures are a good strategy to mitigate the risks of operating in a foreign market. As such, we have established our subsidiaries via partnerships with local shareholders who have the relevant experience and technical knowledge in the interior fit-out industry and/or the business of manufacturing of wooden products, for our business objectives in the targeted markets.

Notably, the local shareholders form the core management team in the respective countries and there are regular communications with our management team at Lincotrade on business updates, financials, operating environment, among others.

To further mitigate the risks in overseas markets, the Group's overseas subsidiaries have engaged local professional firms and advisors to advise the respective companies on material matters, including but not limited to, accounting, tax and legal matters.

(ii) With regard to the other shareholders in Lincotrade & Associates (Malaysia) Sdn. Bhd. and Lincotrade (Dongguan) Furniture Manufacturing Co., Ltd, how were these partners identified? What specific contributions, whether in terms of capital, local knowledge, or operational expertise, are they expected to bring to the subsidiaries?

Our management team at Lincotrade has previously collaborated with these local shareholders in various projects, and these experiences have been highly positive. Combined with their local track records, the management believes that the local shareholders will be able to contribute and value-add meaningfully in the joint pursuit of our business ambitions in the respective overseas markets.

(iii) What governance structures are in place to ensure accountability and protect shareholder interests in these partnerships?

The Group has Standard Operating Procedures in place for our subsidiaries and all payments must be approved by key officers in Singapore.

(iv) What is the projected level of investment required for the expansions into Malaysia and China? During the due diligence and board approval process, what were the key risks identified for each market? How does the group intend to mitigate these risks, and what was the hurdle rate used in evaluating these investments?

We had invested a total of RM450,000 (approximately S$132,000) and RMB 1.8 million (approximately S$253,000) in our Malaysia and China subsidiaries respectively. The board of directors ("**Board**") and management had discussed and deliberated the risks factors for each market.

Please also see responses for 2(i), 2(ii), 2(iii) to mitigate such risks by the Group.

(v) Specifically for the group's maiden commercial project in Malaysia where the group will supply, deliver and install fire-rated drywall system and gypsum board wall clad for an infrastructure development in Johor, why is the initial contract value just RM2.3 million, with an option to increase it to RM12 million? What are the specific milestones or conditions required to unlock the higher contract value?

This contract is spilt into different project phases and due to the confidentiality of the contract and the commercially sensitive nature of the information, we are unable to furnish more details.

Q3. The group acquired a new property at 5 Tuas Avenue 12 to support its growth ambitions. The 20-year leasehold property has land area of approximately 6,500 square metres with a gross floor area of 5,490 square metres.

(i) Could management elaborate on the additional investments required to fully operationalise the new factory at 5 Tuas Avenue 12? Specifically, what is the estimated capital needed for alterations, installations, and equipment?

As disclosed under page 30, Note 6 of our FY2024 results announcement on 28 August 2024, the estimated costs for A&A works for the Tuas Factory is approximately S$1.8 million. We have also disclosed the estimated costs as capital commitment (Note 28) on page 100 of our Annual Report 2024.

(ii) What are the group's future plans for the Sungei Kadut Loop premises following the acquisition of the new facility?

The JTC lease at 39 Sungei Kadut Loop will expire on 28 February 2025 and we have submitted our application to JTC Corporation ("**JTC**") for the extension of lease and it is currently under review by JTC. We will work closely with JTC and update shareholders in a timely manner if there are any material developments.

The group's net debt increased significantly to $5.9 million, with its net-debt-to-equity ratio rising from 8% to 57%.

(iii) Has the board determined the optimal capital structure to support the group's growth and has it set a limit to the gearing ratio?

The Group's net debt has increased mainly due to the bank borrowings for our Tuas Factory with a bid price of approximately S$9.6 million from JTC.

Adopting a prudent financial approach since the Group's founding, the Board and management team will continue to monitor and review the Group's financial structure and gearing as we expand our growth ahead.

(iv) As the group pursues its growth strategy with increased leverage, what measures are in place to mitigate risks associated with higher debt?

With the experience and knowledge of our Board and management team, the Group is mindful of the use of leverage in our growth strategy.

Our audit committee also meet up periodically with our auditors (internal and external) and finance team to review financial reports, assess internal controls, and ensure compliance with regulatory standards. These meetings also provide a platform to discuss potential risks, evaluate the effectiveness of risk management strategies, and address key concerns related to financial integrity, among others.

In addition, our finance team is tasked with closely monitoring key financial and debt metrics, including cash flow, liquidity ratios, and debt servicing capacity, among others, of the Group and to report any anomalies.

By Order of the Board

Tan Jit Meng
Managing Director
22 October 2024

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*This announcement has been reviewed by the Company's sponsor, RHB Bank Berhad (the "**Sponsor**") in accordance with Rule 226(2)(b) of the Catalist Rules. It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**Exchange**") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.*

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