YONGNAM HOLDINGS LIMITED

(Company Registration No. 199407612N)
(Incorporated in the Republic of Singapore on 19 October 1994)

RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS SUBMITTED FOR THE ANNUAL GENERAL MEETING TO BE HELD ON 29 JUNE 2020

The Board of Directors of Yongnam Holdings Limited (the "**Board**") would like to thank Shareholders for submitting their questions in advance of the Annual General Meeting ("**AGM**") of the Company to be held on 29 June 2020 at 10 am.

The Company will provide responses to the substantial and relevant questions relating to resolutions tabled for approval at the AGM.

Please refer to the responses as set out in Appendix A.

BY ORDER OF THE BOARD

Seow Soon Yong
Managing Director and Chief Executive Officer
28 June 2020

Appendix A

Unless otherwise defined, all terms and references used herein shall bear the same meanings ascribed to them in the annual report issued to shareholders on 13 April 2020 (the "Annual Report").

Q1. What are main reasons financial numbers are bad for so many years? Is there turnaround in the sight?

<u>Company's Response</u>

The Group's financial performance in recent years was due largely to the difficult business environment which resulted in fewer projects in the market, and thin margins as competitors vied for a smaller pie. Delays and slow starts in projects that we have secured in the preceding years added to the Group's burden. The low level of business activities resulted in significant unabsorbed overheads for the Group, which impacted its gross margin negatively.

The Group's order book has since increased from S$152 million as at 31 December 2017 to S$405 million as at 31 December 2019. Given the improved order book entering into the financial year ending 31 December 2020 ("FY2020"), the Group was initially optimistic of an improvement in financial performance this year.

But with the unexpected advent of the COVID-19 pandemic and in anticipation of any unforeseen circumstances that may arise therefrom, we now expect a negative impact on our business and the Group's financial results for the current financial year ending 31 December 2020.

The escalation of COVID-19 in Singapore led to the government implementing a Circuit Breaker period from 7 April 2020 to 4 May 2020, which was extended to 1 June 2020. During this period, all our ongoing projects at the various sites in Singapore temporarily ceased construction activities in compliance with the measures.

The Building and Construction Authority has allowed for the gradual resumption of construction work since 2 June 2020 and following Phase 2 of Singapore's re-opening, construction activities are not expected to resume to normal pre COVID-19 levels quickly given the significant impact of COVID-19 on migrant workers and dormitories housing these workers.

With various conditions imposed by the authorities before these migrant workers may resume work, the Group is working closely with our main contractors and the relevant authorities for approvals to commence work for the respective projects. As of to-date, the Group has yet to resume work for all its project sites in Singapore.

Meanwhile, the Group's operations in Hong Kong continued during this period. For our Melbourne project, COVID 19 has no significant impact as it is a supply only contract and our supply of struts has been completed. Operations in India were shut down from April for about one and half months but it is now operating.

While the Singapore government has provided support to the business community through various temporary relief measures and grants including Job Support Scheme payouts and Foreign Worker levy rebates and waivers to the sector, they were not adequate to defray salaries of staff and workers and other operating overheads that are required to be incurred during this period.

The Group will strive to ensure the execution and completion of its ongoing construction projects in these challenging times.

Q2. What are the Board's plans for the business, and for safeguarding and increasing shareholder value?

The Board will focus on steering the Group towards maintaining financial prudence and operational agility during this challenging period and to prepare for the post-pandemic recovery process.

The Group's order book has improved from a low of S$152 million as at 31 December 2017 to S$366 million as at 31 December 2018 and S$405 million as at 31 December 2019.

Typically, the Group's order book is consumed over three years. Hence, the low order book as at 31 December 2017 was expected to translate to lower revenues recognised between FY2018 and FY2020, excluding contributions from contracts secured between FY2018 and FY2020.

The Group's increasing order book as at 31 December 2018 and 2019 is expected to contribute to higher revenues over the three subsequent years respectively, subject to unforeseen circumstances such as the COVID-19 pandemic for the current financial year.

Despite the challenging environment, we will continue to look to tender for projects in Singapore and internationally where we have the requisite track record, experience and capabilities to strengthen our order book further.

While the Singapore government expects major transport infrastructure projects such as Changi Airport Terminal 5 to be delayed, the Group will continue to actively explore other infrastructure projects and specialist civil engineering projects in Singapore as well as projects as a main contractor via joint ventures.

The Group's foothold in Hong Kong, Australia and India will provide suitable platforms for the Group to leverage on potential opportunities as these markets look to invest in infrastructure development and upgrading.

Q3. I refer to the disclosure of remuneration (Page 23 of the Annual Report 2019). The proportion of fixed salary components for Mr Seow Soon Yong, Chia Sin Cheng, Siau Sun King, and Seow Soon Hee are 92%, 96%, 80% and 87% respectively. There are no performance related income components as part of their gross income structure.

a) As Executive Directors, why are their proportions of fixed salaries so high?

<u>Company's Response</u>

The Group has Performance Related Income tied to its overall financial performance to incentivise the Executive Directors.

As the Group reported losses in recent years, the Performance Related Income was zero-rated and therefore the Executive Directors did not receive Performance Related Income as part of their remuneration package.

The Executive Directors had no salary increments for FY2017 and FY2018. Starting from July 2019, the Executive Directors had a 15% salary reduction. In light of the challenging operating environment arising from the COVID-19 pandemic, the Executive Directors took a further 30% pay cut starting June 2020

b) How can shareholders be assured that the Executive Directors and senior management's remuneration are strongly co-related to the group and their individual performances if there are no variable components?

<u>Company's Response</u>

The explanation relating to Executive Directors' remuneration has been addressed in Q3(a).

There was no salary increments for all the Group's employees in FY2017 and FY2018. The Group has a variable bonus scheme for senior management tied to the Group's performance. As a result of the Group's losses, variable bonuses for senior management were reduced accordingly.

Starting July 2019, the Group implemented pay cuts for all management personnel from assistant managers upwards, ranging from 5% to 10% depending on their job grades.

In light of the challenging operating environment arising from the COVID-19 pandemic, all employees except migrant workers took a pay cut of 10% or 20% depending on their job grades.

c) Would the Remuneration Committee ("RC") help shareholders understand how it evaluates the current remuneration practices in terms of the level and mix of remuneration, and how it considers these current practices to be appropriate, not excessive, and in line with industry benchmarks?

Company's Response

The RC is responsible for ensuring a formal and transparent procedure is in place for fixing the remuneration packages of individual Directors and key management personnel. All aspects of remuneration frameworks, including but not limited to Directors' fees, salaries, allowances, bonuses and other benefits-in-kind are reviewed by the RC.

The recommendations of the RC are submitted for endorsement by the Board. Such frameworks are reviewed periodically to ensure that the Directors and key management personnel are adequately but not excessively remunerated as compared to industry benchmarks and other comparable companies.

d) Would the RC be engaging external consultants to conduct benchmarking exercises to ensure remuneration is reasonable and takes reference to industry best practices?

Company's Response

The RC will not be engaging external consultants. The RC has ongoing reviews of the remuneration of Directors and key management personnel to ensure that they are adequately but not excessively remunerated as compared to industry benchmarks and other comparable companies.

e) How can shareholders be assured that the Board's interests are strongly aligned with shareholders' interests?

Company's Response

The Board is fully committed to safeguarding the interests of the shareholders. Managing Director and Chief Executive Officer Mr Seow Soon Yong has been with the Company for more than 40 years. As the Group's largest shareholder, he holds a deemed 17.26% stake in the Group. Together with other Executive Directors and senior management staff, their equity shares totalled 20.13% of the Group's issued share capital.

The Executive Directors have been with the Group for many years and are dedicated and committed to the Group's business development and growth.

Q4. How many years has the existing auditor been appointed? What is the company's policy with regard to how often appointed auditors (the company, not the partner) should change, and why?

Company's Response

Ernst & Young LLP has been the Company's external auditor since 2003. There is no statutory requirement to change the audit company but the audit partner (individual) is required to be changed every five years, which the Company has adhered to.

The Company's Audit Committee reviewed the performance of Ernst & Young LLP on an annual basis over the years and is satisfied with the independence and objectivity of its services. The Audit Committee, with regards to the adequacy of resources and experience of EY and the assigned audit engagement partner's other audit engagements, size and complexity of Yongnam Group, confirmed that EY was suitable to meet the Group's audit obligations, thereby complying with Rule 712 of the Listing Manual.