**LTC CORPORATION LIMITED**
(Company Registration No. 196400176K)
(Incorporated in the Republic of Singapore)

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**RESPONSES TO QUESTIONS RAISED BY SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

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The board of directors (the "**Board**") of LTC Corporation Limited (the "**Company**") wishes to announce the following in response to the questions raised by Securities Investor Association (Singapore) ("**SIAS**") in respect of the Company's Annual Report for the financial year ended 30 June 2017 (the "Annual Report"):

**SIAS' Question 1**

The group's steel business remains the largest contributor of revenue and profits. Revenue in Steel trading increased by 16% to hit $107.5 million in 2017 with the operating profit coming in $6.1m in 2017, reversing a $(2.5) million loss in 2016.

In the Chairman's Statement (page 2 of the annual report), the Chairman had cautioned that competition amongst steel suppliers will be intense, coupled with a projected decrease in demand from the private construction sector although the public sector will take the lead in construction demand by releasing more tenders for MRT and hospital projects. In the past, the group had projects for the Thomson Line and East Coast Line MRT Stations.

a) **Can management help shareholders understand the group's market share in the local steel market?**

**Company's Response:**

Based on the construction updates published by Building & Construction Authority (BCA), the average annual demand of steel rebar for the past 3 years is about 1.6m tonnes. Based on this, our average annual delivery is about 7- 8% of the annual demand.

b) **Without the direct ownership of a steel mill, how does the group compete in a crowded sector?**

**Company's Response:**

The business operations and risks and rewards of a steel mill are quite different from that of our steel business as a trader and fabricator. In fact almost all of our local competitors also do not own a steel mill and import from overseas steel mills. Without being tied to any particular steel mill, we are free to buy from the most competitive international sources that meet our specifications.

c) **What are the new projects that the group would be bidding for? How does the group differentiate itself from the competitors other than price?**

**Company's Response:**

The Group will continue to bid for projects taking into account its order book and capacity. The group will evaluate each potential project for various factors such as size, duration, value-add component, technical requirements, customer credit risk, etc. While price is still a key factor, the Group believes that customer service and reliability are also important and hence will continue to strive to excel in these areas.

The group has recognised a provision for onerous contract of $775,000 in 2017. In the past financial years, the group has had a write-back of $97,000 in 2016, and provisions of $212,000 in 2015, $44,000 in 2014 and $nil in 2013.

d) **Would the board regard the price of steel as a key risk area? If so, what are the possible risk mitigating strategies that the group can employ so as to ensure that risks are adequately managed within the Group's risk tolerance limits?**

**Company's Response:**

Price risk is largely mitigated with variable price contracts (VPCs) under which the selling price is adjusted on a monthly basis to market prices as per the BCA Monthly Material Price Indices. Currently the Group's order book for its steel business in Singapore comprises a very high percentage of VPCs as most public sector projects such as MRT, hospitals and infrastructure, etc are VPCs and the public sector construction demand has been significantly stronger in the recent years. The Group also operates in Malaysia where all steel supply contracts are fix-priced. To mitigate price risk, the Group will maximise its purchases and stock as is feasible to cover its exposure.

**SIAS' Question 2**

The Chairman also disclosed that, under the group's retail business, the Sogo store was being renovated and "re-energising of merchandise is being carried out". This ongoing transformation, together with the upgrade of the store's facade, was carried out "in anticipation of improvement in the market".

a) **Can management provide some visibility into the additional capital expenditure for the flagship store?**

**Company's Response:**

The upgrading of the flagship store is an on-going project for the next 4 to 5 years with a total budgeted capital expenditure of approximately RM40 million and the funding will be sourced from Sogo's internally generated funds.

**b) What is the basis of management's conviction of the recovery of the retail business?**

**Company's Response:**

The retail business in Malaysia has gone through some difficult times due to various factors such as the implementation of the goods and services tax, the fall in oil prices, the weakening of the Malaysian Ringgit and the reduction of subsidies on essential products that have all dampened consumer spending.

However, with stronger than expected GDP growth, the recent stability of the world oil price and consumers' gradual acceptance of the goods and services tax and reduction of subsidies, we expect consumer spending to recover likewise. The re-inventing and re-energising of the concept and products in our flagship store will place us in a better position to benefit from the upturn of the retail market.

Currently the uncertainties of the next general elections in Malaysia may have affected investments as well as consumer sentiments and contributed to the retail business sluggishness. When the overhang is removed with the expected elections in 2018 and also the expectation of a robust budget soon to be announced, it is expected that the consumer spending will recover further.

In addition, the group has disclosed that "the retail team has signed up 6 new locations to operate new stores in the next 5 years wherein the 2nd Sogo store in Malaysia is expected to open in early 2019 in Shah Alam".

**c) How much capital has the group earmarked to support the retail/Sogo business? What is the expected return on investment (ROI)?**

**Company's Response:**

The retail division has sufficient financial capability to run its current business and to facilitate the expansion plans. It is not expected to require any funding from the group.

The Group's investment in Sogo was a long term investment as approved by the Board and shareholders of LTC back in 2015. The expected IRR over the next 5-7 years will be between 15-18%.

**d) Can management share their plans to rejuvenate and refresh the retail experience and explain how they can overcome the massive challenge face by brick-and-mortar retailers from online shopping/e-commerce giants who are not constrained by geography?**

**Company's Response:**

At Sogo Malaysia, we believe in pursuing a flagship store strategy which is about offering the best retail experience for our shoppers. We have incorporated more than 15 restaurants to our current store, currently have more than 20 food kiosks within our premises, with another 15-20 other kiosks which include convenience stores (eg. Mynews.com), service centres (eg. Maxis telecommunications) and food offerings (eg. Starbucks) along with a fitness centre (Peak Fitness) and a non invasive beauty treatment centre (Glo, the first in a department store in Malaysia).

All these provide a platform for social interaction and community to our customers and give us an edge over our competitors who do not offer this shopping experience.

**<u>SIAS' Question 3</u>**

The valuation of investment properties and the net realisable value of completed property held for sale – Hypermarket are two of the key audit matters highlighted in the Independent Auditor's Report. 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 disclosed in Note 41 (page 103 – Level 3 fair value measurements), the group's industrial buildings at Arumugam Road were valued at $118 million in 2017 and in 2016 (shown below).

**41. Financial instruments (cont'd)**

**D. Level 3 fair value measurements**

The following table presents the information about fair value measurements using significant unobservable inputs:

| Description | Fair value as at 30 June $ | Valuation technique(s) | Key unobservable inputs | Range |
|---|---|---|---|---|
| **2017** | | | | |
| Investment properties – Industrial buildings | 118,000,000 | Comparable sales method | Transacted price of comparable properties (psm). | $8,298- $8,928 |
| **2016** | | | | |
| Investment properties – Industrial buildings | 118,000,000 | Investment method | Capitalisation rate | 5.0% |

The valuations of the investment properties are generally sensitive to changes in yield and rental rates. A significant increase/(decrease) in yield and rental adjustments would result in a significantly higher/(lower) fair value measurement.

*(Source: Company annual report)*

**a) Can shareholders understand why the valuation technique was changed from "Investment method" (using a capitalisation rate of 5%) to "Comparable sales method" (using transacted price of comparable properties)?**

**Company's Response:**

The Group appointed the valuer with the brief that the valuation is for financial reporting purpose and that the valuation report should comply with FRS113 requirement on highest and best use. Using the comparable sales method gave rise to the highest and best use value in compliance with FRS113.

Also, the net realisable value of completed property held for sale – Hypermarket is $12.5 million (equivalent to RM38.9 million). While the group has sold 47 of the 48 shop houses at the same development, the hypermarket of 20,241 sq.m. remains unsold. The hypermarket has been recognised as a completed property held for sale from as far back as FY2012.

**b) Can management let shareholders know if the hypermarket is tenanted out?**

**Company's Response:**

The hypermarket is not tenanted and has been vacant since January 2016.

**c)** Management has stated its intention to dispose of the properties and hence have retained the hypermarket as completed properties held for sale on the reporting date. **Can management let shareholders know what are the marketing efforts to sell the hypermarket?**

**Company's Response:**

Real estate agents have been appointed for the sale or lease of the hypermart. Signages have also been put up on site to this effect.

**d) What are the assumptions used in estimating the net realisable value (NRV) of the hypermarket?**

**Company's Response:**

Management used a recent transaction for a hypermart for comparison. The adjustment factor for location was derived by comparing prices of shoplots. The assumption is that the adjustment factor so derived is applicable to the hypermart.

In addition the Group had also obtained an independent valuation on the hypermart at the end of the previous financial year that was about 19% above its carrying value. Management believes that property prices in that location generally have not changed significantly during the current financial year and as such its NRV should still be above its carrying value.

**BY ORDER OF THE BOARD**

Silvester Bernard Grant
Company Secretary
27 October 2017