Lum Chang Holdings Limited
(Incorporated in the Republic of Singapore)
Company Registration No. 198203949N

ANNUAL GENERAL MEETING (AGM) TO BE HELD ON 28 OCTOBER 2022 – RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS FROM SHAREHOLDERS

The Board of Directors (the "**Board**") of Lum Chang Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the Company's announcement on 6 October 2022 on the Notice of AGM, and in particular, to the invitation for shareholders to submit questions in advance of the AGM. The Company would like to thank shareholders for the questions submitted and wishes to provide its responses to the substantial and relevant questions received from the shareholders, as set out below:

BUSINESS OPERATIONS

Question 1

I note that the company sold off its UK assets last year and now has no UK exposure. This is good, especially with the Great Britain Pound depreciating so severely this year. The company currently has exposure only to the Singapore and Malaysian market.

1a) How does it manage its forex risks and exposure for Malaysia?

1b) Also, are there plans to expand overseas in the near future to capitalize on our strong currency and weak overseas currencies such as GBP, EURO, JPY, AUD, MYR etc.?

Company's response

1a) The Group has been developing and investing in properties in Malaysia for over 20 years. The equity for new developments and investments are usually funded by recycling the Group's Malaysian Ringgit surplus from previous developments. The Group also mitigates its Ringgit exposure by adopting natural hedging by borrowing in Ringgit for its developments.

1b) Currently the Group only operates in Singapore and Malaysia with some investments in China and Bintan, Indonesia. The Group will continue to look for opportunities to invest in Malaysia using existing Ringgit funds and borrowing locally.

Although the GBP has depreciated substantially this year, the Group will monitor closely the British economy and interest rate situation before investing in properties there again.

Question 2

I note that the gearing level for the group has reduced over the past year. This is a good move in view of the rising interest rate environment.

2a) But I would like to ask if the management thinks that the rise in interest rates would be good or bad for the company?

2b) Would it decrease home sales and in turn construction activity?

2c) What is the company's strategy to cope with the rising interest rate environment?

Company's response

2a & b) Historically, rising interest rates usually result in less development activity. Real estate developers and home builders tend to be prudent in their land acquisition due to the expected economic slowdown that typically accompanies higher interest rates.

Although high interest rate would typically reduce home sales, this has not been the case in Singapore as residential property sales still remain robust. However, the Group has always been selective in its tender for residential construction projects due to the strong competition in this sector.

2c) The Group has a mixture of fixed rate and variable rate loans, with the former comprising about 34% of the total group borrowings. The Group monitors interest rates closely and would consider hedging by fixing the interest rates for its borrowings during volatile periods such as these. Currently the Group has hedged the interest rate for half of its borrowings for a joint venture property in Singapore. The Group is closely monitoring its cashflow requirements and will look to reduce further its borrowings to minimise the Group's finance costs, when appropriate.

Question 3

I note that the prices of many raw materials have experienced much volatility over the past few years. Although, in recent times, the prices of many raw materials have moderated and are now back to pre-pandemic levels.

3a) How does the company manage volatility in the cost of raw materials, such as the cost of steel, lumber, oil, tin etc.?

3b) How does the company ensure that it does not buy its raw materials at or near the peak of cycle (in 2021) and end up with lots of (expensive) raw materials inventory that it has to write down eventually?

3c) Using the example of Steel (see below chart), how does the company ensure that it does not buy lots of Steel at or near the peak of cycle (in 2021) and end up with lots of expensive Steel inventory that it has to write down eventually?



Company's response

3a & b) For public projects which follows the Public Sector Standard Conditions of Contract (PSSCOC), there are fluctuation clauses which safeguards the company from price fluctuations from main construction material such as steel and concrete. Hence, the exposure to price fluctuations have been somewhat negated.

For private projects, we have negotiated and locked in unit rates throughout the contract duration which are close to tender prices. Hence, our price fluctuation risks are hedged.

In view of the huge quantum for procurement in large private projects, some of the suppliers and subcontractors are not agreeable to lock in prices due to capacity and supply chain disruption issues and also price volatility. Hence, we had to purchase in several tranches on a need-to-basis in accordance with the activities at the point of time in the construction programme. Purchase decisions are also decided upon market sensing of the price directions. This is to keep a close ear to the ground and avoid buying at peaks.

We exercise a multi-pronged purchasing strategy as explained above. We do not hold large inventory of raw material to avoid inventory risk.

3c) The actual prices which we got from the market have not receded to pre-pandemic levels. Although the chart above has shown a regression towards pre-pandemic levels, the actual prices which we got from the Group's local subcontractors and suppliers are still trailing behind the global raw material prices.

This is due to several factors:

i) Supply chain inefficiencies are still largely prevalent within the industry.
ii) The pandemic and China's COVID-Zero policy has caused a bullwhip effect on the global supply and demand as well as prices across our industry.
iii) Mid-tier suppliers and subcontractors establishing higher buffers to counter the wild price fluctuations.
iv) Increase in wages and general inflation in production cost.

BY ORDER OF THE BOARD
Tony Fong
Company Secretary
21 October 2022