
**ANNUAL GENERAL MEETING (AGM) TO BE HELD ON 27 OCTOBER 2023 –
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 5 October 2023 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:

Question 1

- (i) ***The Company reported yet another year of losses. The financial performance of the company is the worst in five years. When will the Company finally be profitable? What is the management and the Company doing to bring the Company to profitability?***
- (ii) ***Is the construction segment a viable business? When was the construction segment last profitable? If the construction industry is non-viable, should the company just cut its loss and exit from the construction business entirely?***
- (iii) ***What is the company doing to turn-around and make the construction segment profitable?***

Company’s response

The on-going geopolitical tensions and worsened inflationary pressures continued to impact raw material costs, such as steel and aluminium. These together with supply chain issues and shortage of labour have led to increased cost and work execution challenges for the Group’s construction projects. These industry wide challenges, coupled with the Group having a few construction projects which were priced prior to the Covid-19 pandemic, have led to the Group suffering another year of losses.

The main priorities of the Group are to ensure smooth and quick completion of its on-going projects, close monitoring of construction costs, and continued enhancement of our digitalisation capabilities and automation initiatives to reduce reliance on labour. The construction segment, which is the Group’s main business, had been profitable for many years before the Covid-19 pandemic. The Management believes that the segment’s solid track record and robust capabilities built up over the years, positions us well to navigate this challenging time faced by the industry.

Notwithstanding the challenges above, with the construction sector demand forecasted to remain strong, supported by large-scale civil works, public and private sector works, the Group is cautiously optimistic and will focus on its competency and capabilities to secure new contracts to improve financial performance. To date, the Group had secured new contracts worth a total of about S\$256.0 million at post pandemic prices and the outstanding order book as at 30 June 2023 was S\$1.3 billion. The Group will continue to be adaptive in its strategy when it comes to new project bidding processes.

Question 2

I note that the gearing level for the company has worsened over the past year. This is unhealthy as interest rates have risen (and are still rising). The excess of current assets over current liabilities has dropped to only 20 million. Will the company be able to remain solvent? Will it be able to pay its bills when they come due?

Company's response

Despite the Group's gross gearing ratio going up from 44% in FY2022 to 51% in FY2023, the Group's net gearing ratio had improved over the year from a net debt gearing ratio of 6% in FY2022 to net cash ratio of 3% in FY2023. Please refer to Note 34(d) of the Annual Report. We find that the gross gearing ratio of 51% to be manageable for the size of our Group. In July this year, the Group had lowered its borrowings by S\$40.0 million to reduce its interest costs and exposure.

The net current assets for the Group as at 30 June 2023 was S\$19.9 million compared to S\$61.5 million at 30 June 2022. The decrease was due to the reclassification of a S\$20 million term loan from non-current in FY2022 to current liabilities in FY2023; and additional provision for foreseeable losses for the Construction Division amounting to S\$31.7 million. Please refer to Note 25(b) to the financial statements.

The Group cash balance as at 30 June 2023 was S\$91.0 million and this amount would be adequate to meet any short term demands as and when they are due for payment.

The Group's net assets attributable to shareholders as at 30 June 2023 was S\$166.8 million and S\$107.5 million for the Company. The Group and Company were solvent at that time and barring any unforeseen circumstances are expected to remain so going forward.

Question 3

Why does the company have "club membership" in its balance sheet? How many club membership(s) does the company hold? Can you please detail what is the name of the club? The address? The length of membership of the club? How many years? And what is the purpose of having this club membership?

Company's response

The carrying amount in the Group balance sheet for club membership was S\$267,000 as at 30 June 2023. Club memberships have been in Group balance sheet for over 20 years and are used primarily for staff welfare as well as other business purposes.

Question 4

I note that the company balance sheet saw a jump in "tax recoverable" from 195k to 1.593million. Can the company explain the reason for this jump in "tax recoverable" How did this "tax recoverable" come about? How certain is the company that this amount parked under "tax recoverable" will indeed be recovered? Is it a form of tax credit? When does these "tax recoverable" expire?

Company's response

The tax recoverable of S\$1.593 million mainly relates to the election of a group relief to utilize a tax loss from one subsidiary to another subsidiary with taxable income for the same year of assessment. The election had been submitted and now the Group is waiting for approval from Inland Revenue Authority of Singapore.

Question 5

I read in the news that there is a shortage of dormitory housing for foreign workers, with dormitory accommodation costs skyrocketing and that there is intense profiteering by dormitory operators. Is the company facing accommodation shortage for its foreign workers? How does the company manage the lack thereof housing accommodation for its foreign workers? What is the average cost of accommodation for the company's foreign workers? How does it compare with previous year(s)? And how does the company manage the rising costs for housing foreign workers?

Company's response

The Group has our own worker accommodations to sufficiently accommodate our own foreign workers. Since we own and operate these dormitories, we are not subject to market forces governing the limited supply of these worker dormitories.

Question 6

Under segmental information, the loss from the construction segment widens from 12.769 million to 21.575 million. Worryingly, the liabilities at 178.8million is more than the assets 176.1million for the construction segment. This means that the construction segment is in a negative equity position. If a company sues Lum Chang construction over unpaid bills, does Lum Chang holdings need to backstop Lum Chang construction? Or are liabilities for the Lum Chang construction ringfenced and does not affect Lum Chang holdings?

Company's response

The Construction segment assets of S\$176.6 million presented in the Group financial statements did not include intercompany receivables from other segments of S\$94.2 million as at 30 June 2023 as these balances were eliminated in the Group financial statements. As the segment assets and liabilities presented in the Group financial statements are after elimination of intercompany balances, these are not representative of the standalone assets and liabilities positions of the construction subsidiaries. All the construction subsidiaries are in net positive equity position at 30 June 2023. In addition, the liabilities for the Construction segment includes S\$48.0 million of provisions for defects and foreseeable losses, which have not been incurred yet. Please refer to Note 25(b) to the financial statements.

BY ORDER OF THE BOARD

Tony Fong
Company Secretary
20 October 2023