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Issuer: Lum Chang Holdings Limited

Security: Lum Chang Holdings Limited

Meeting details:

Date: 26 October 2018

Time: 10.30 a.m.

Venue: Orchard Parade Hotel, Antica I & II, Level 2, 1 Tanglin Road, Singapore 247905

Company Description

Lum Chang Holdings Limited, an investment holding company, engages in the construction, project management, and property development and investment activities in Singapore, Malaysia, and the United Kingdom. It operates through three segments: Construction, Property Development and Investment, and Investment Holding and Other. The company's construction projects comprise civil and infrastructure, commercial, hospital, hotels and leisure, industrial, institutional, mixed development, and residential properties. Its services include infrastructure development, design and build, build only, construction management, upgrading, and restoration of properties for conversation. In addition, the company is involved in the development of apartments, condominiums, terrace houses, semi-detached houses, and bungalows, as well as shop houses. Further, it offers property management and technical consultancy services. Lum Chang Holdings Limited was incorporated in 1982 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=L19)

1. As noted in the Corporate Profile (page 4 of the annual report), the group has its twin pillars in construction and property.

For the Construction segment, the industry was reported to have shrunk by 8.4% in 2017 due to weakness in both the private and public sector. As seen in Note 4 (page 106 – Revenue), external revenue from construction contract dropped by a third from \$349 million in 2017 to \$236 million in 2018.

The group’s performance in the segment is shown in the table below:

Construction	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000
Revenue	266,314*	447,978*	237,566*	257,733	352,681	350,112	249,635*
Segment results	24,758	25,798	12,128	11,123	17,896	26,278	29,288
Segment margins	9.3%	5.8%	5.1%	4.3%	5.1%	7.5%	11.7%

* includes inter-segment revenue as reported in the segment information

(Source: Company annual reports)

As at 30 June 2018, the group has outstanding order book of \$648.3 million, with contract wins for the construction of PSA’s Singapore corporate headquarters and a JTC industrial development.

- (i) **Construction: With the continued manpower shortages and cost pressures, how does the group ensure that the construction segments remains profitable? How does the group maintain and improve its level of competitiveness? What is the value proposition of the group’s construction segment that allows it to stand out in the crowded market place?**
- (ii) **Sustainability: Has the board evaluated the long term future of the group’s construction segment? How sustainable is the segment as one of the group’s twin pillars given that the profit margin appears to be under pressure but has recovered in the past two years?**
- (iii) **Lum Chang Interior (LCI): Would management help shareholders understand the key drivers of LCI and how does LCI intend to scale up its business? How synergistic is it to the group’s existing construction business? What is the market entry strategy given that there are many interior retrofitting/design companies?**
- (iv) **Sustainability Framework: As part of the company’s sustainability efforts, the group engaged its stakeholder groups to collect their feedback. This helped the group to further fine-tune the material issues and to identify the group’s focus areas. On page 30, the company summarised the issues of concern raised by its six stakeholder groups. Could the company explain how the feedback received from the stakeholder groups is linked to the company’s strategy?**

2. The board comprises nine members, of whom three are executive directors, one non-executive non-independent directors and five independent directors.

Specifically, Mr Raymond Lum Kwan Sung serves as the executive chairman, Mr David Lum Kok Seng as managing director and Mr Tony Fong as executive director. The executive chairman and the managing director are siblings.

In the Corporate Governance report, under Principle 3 (Chairman and CEO/managing director), the company has stated that the executive roles of the executive chairman and managing director “*are not clearly separated as both are closely involved in the day-to-day management and operations of the group*” (page 49).

- (i) Would the nominating committee (NC) provide shareholders with better clarity on the division of responsibilities between the executive chairman and managing director? Would the overlapping of executive duties skew the balance of power in the board and impair the board’s capacity for independent decision-making?**
- (ii) What is the division of responsibilities between the executive chairman/managing director and the third executive director, Mr Tony Fong?**

The board has not raised any objections to the overlap in the executive roles of the chairman and the managing director. It is of the opinion that “*the company’s best interests are served by taking advantage of the sibling dynamic cultivated over a lifetime of mutual support in the consolidation and expansion of the group from its modest beginnings in the construction industry*”.

- (iii) The NC has the responsibility to review the board succession plans for directors. Would the NC elaborate in greater detail the succession plans for the board, especially the executive chairman and the managing director?**

The remuneration committee (RC) is responsible for reviewing and approving the remuneration packages of the executive directors and key management personnel. The RC has stated the following:

The remuneration of the executive directors and key senior management consists of a basic component, a variable component and other appropriate benefits in kind. The remuneration of the executive directors and key senior management are arrived at having regard to the following:

- Alignment with the interests of shareholders with a view to promoting the long-term success of the Group; and
- Appropriate and meaningful measures for the purpose of assessing the performance of the executive directors and key senior management.

(Source: Company annual report)

- (iv) As there is significant overlap of responsibilities of the executive chairman and managing director, how did the RC assess the performance of the executive directors?**
- (v) What “appropriate and meaningful measures” were used in the assessment of the performance of the executive chairman and the managing director?**

3. As noted in the company’s Corporate Governance report, two of the independent directors, namely Mr Peter Sim Swee Yam and Dr Willie Lee Leng Ghee, have served on the board for more than nine years. Mr Sim and Dr Lee were first appointed to the board on 30 November 2001 and 28 February 2006 respectively. Accordingly, Mr Sim and Dr Lee would have served on the board for more than 16 years 10 months and 12 years 7 months respectively.

At the company’s 36th Annual General Meeting (AGM) to be held on 26 October 2018, Mr Sim who is retiring by rotation under Article 107(2) of the company’s constitution will be seeking his re-election. If Mr Sim were to be re-elected and complete a three year cycle, he would have served on the board for nearly 20 years in 2021.

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (“2018 Code”). As a consequence of the revised 2018 Code, the Singapore Exchange will be making amendments to its Listing Rules. The Listing Rule changes will come into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

- (i) Has the board evaluated the impact of the 2018 Code and the amendments to the Listing Rules on the board?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 and 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Lum%20Chang%20Holdings%20Ltd>

The company’s response could be found here: -----