

Issuer: GKE Corporation Limited

Security: GKE Corporation Limited

Meeting details:

Date: 28 Sep 2016

Time: 10:00AM

Venue: 30 Pioneer Road, Singapore 628502

Company Description

GKE Corporation Limited, an investment holding company, provides logistic services in Singapore, the United States, Indonesia, and China. The company's Third Party Logistics segment offers various logistics services, including non-ferrous metal storage, general warehousing, containers trucking, conventional transportation, projects logistics, and international multimodal sea and air freight forwarding services. Its Shipping Logistics segment is involved in building and chartering of vessels. The company's Infrastructural Logistics segment produces and sells environmental friendly lightweight bricks, building materials, and cement products. It also provides crane services for loading and unloading of cargo. The company was formerly known as Van der Horst Energy Limited and changed its name to GKE Corporation Limited in April 2012. GKE Corporation Limited was founded in 1995 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?&code=595)

1. The group was boosted by one-off gains arising from the gain on disposal of the Pioneer Road property (S\$13.7 million) and gain on disposal of Everflourish and its associate, Maoming (S\$1.2 million). The company reported net profit attributable to shareholders of S\$5.7 million. Without the disposal gains, the group would probably have reported losses for the year. The core business of third party warehousing and logistics appears to be facing headwinds. The segment information (page 127 of the annual report) shows that the segment profit from “Third party logistics” is \$14.3 million but this includes the disposal gains of \$13.8 million. Without that, the core business will just be marginally profitable. And FY2016 would be the first time the core business is profitable since FY2013. **What financial and operational targets have the board set for management? What are management’s plans to improve the performance of the core business?** Marquis Services Pte Ltd and the proposed acquisitions of TNS Ocean Lines (S) Pte. Ltd appear to be synergistic to the core business and it is imperative that management focus on integration of the newly/to-be acquired subsidiaries to deliver value to shareholders. **Can management provide an update on the performance of Marquis? Also, please provide more details on operational performance of GKE Metal Logistics and the plans for this 49% associate.**

2. The Group has made strategic investments over the years into a liquefied gas (“LPG”) carrier and into the infrastructural materials and services business (specifically manufacturing and supplying of ready-mix concrete (“RMC”) products in Wuzhou City, Guangxi Zhuang Autonomous Region, PRC). **Can the board explain the capital allocation strategy of the group and share with shareholders how these two investments fit into the group’s strategy? Has the risk profile of the group changed substantially?** It would appear that these investments are not synergistic to the group’s core business - the group does not have deep expertise nor the network in LPG and in RMC. For example, the Wuzhou Xing Jian Readymix Co., Ltd appears to be a greenfield project started from scratch in Wuzhou which is already being served by established RMC manufacturers. Also, these new investments are outside of the group’s usual geographical domain (the core logistics business is based out of Singapore). **What is the minimum return on investment (“ROI”) required? Going forward, what other businesses would the group consider investing in as part of its strategic investment?** Shareholders would like the board/management to consider focusing more in areas or businesses that are synergistic to the group’s expertise to minimise the investment risks.

3. The “Salaries, fees and benefits-in-kind” for directors of the company increased 54% from \$1.4 million in 2015 to \$2.2 million in 2016 (page 130). On page 31 – Disclosure of Remuneration in the Report of Corporate Governance, two executive directors are in the remuneration band of \$750,000 to \$1,000,000 in 2016 because of bonuses of between 63% to 68%. In 2015, these two directors were in the band of \$250,000 to \$500,000. Given that the core business is just profitable, **can the Remuneration committee/board explain the significant increases in bonus handed out to executive directors and key management personnel?** The disposal of the property at 30 Pioneer Road resulted in an one-off gain that comes with a trade-off as the company will have to pay the new owner rental of \$4.36 million in the first year (with escalation in the third and fifth year to come).

- In addition, the three independent directors received bonuses of 16% -17%. **Can the Remuneration committee explain the rationale of paying the independent directors a bonus?**
- It was also mentioned that the sponsor carried out a “rigorous assessment and review of a director who has served the Board beyond 9 years” (page 40). **Can the Nominating committee clarify if this review will be carried out yearly and also explain the choice of the sponsor to carry out this review? Is the sponsor the best option given that sponsor’s role is to advise the company on corporate governance matters?**