

Issuer: Logistics Holdings Limited
Security: Logistics Holdings Limited

Meeting details:

Date: 27 Oct 2016

Time: 15:00H

Venue: 24 Kranji Road, Singapore 739465

Company Description

Logistics Holdings Limited, through its subsidiaries, provides building construction and interior decoration/fitting-out services. The company operates through General Building, Precast Manufacturing, and Properties Investment segments. The General Building segment undertakes construction and building, and maintenance works, such as excavation, piling, sub-structures, and superstructures works; architectural works; aluminum cladding and curtain walling; mechanical and engineering electrical works; supply and installation of furniture/interior fitting-out works; external works; and landscaping activities in Singapore. The Precast Manufacturing segment manufactures and trades in concrete precast products in Malaysia. The Properties Investment segment is involved in the investment in, development, and trading of residential properties in both Singapore and Malaysia. Logistics Holdings Limited was founded in 1985 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5VI)

Q1. The group's financial highlight is shown on page 10 of the annual report (extracted and reproduced below).

LOGISTICS HOLDINGS LIMITED & ITS SUBSIDIARY CORPORATIONS

SS'000	FY2012	FY2013	FY2014	FY2015	FY2016
Revenue	64,082	103,410	114,929	128,374	148,055
Gross profit	8,198	10,100	10,300	10,776	10,127
Profit before income tax	6,185	6,465	5,204	4,222	2,481
Net profit	5,137	5,238	4,900	3,737	1,963
Profit attributable to equity holders of the Company	5,117	5,238	4,953	4,239	2,096
Earnings per share (Singapore cents) ¹	3.01	3.08	2.91	2.49	1.23
Total assets	25,213	46,076	58,225	88,709	81,107
Equity attributable to equity holders of the Company	8,814	20,434	23,685	26,251	26,737
Net asset value per share (Singapore cents) ²	6.48	12.02	14.06	15.27	15.49

(Source: Logistics Holdings Limited Annual Report 2016)

Since the initial public offering on 18 January 2013, the group has grown its revenue from \$103 million to \$148 million. However, the gross profit has been flat at about \$10 million and profit attributable to equity holders of the company has decreased from \$5.2 million to \$2.1 million.

In Note 33 on Segment information (page 93), it shows that the "General building activity" segment generated \$147 million in revenue in 2016 but just gross profit of \$9.1 million, a gross profit margin of 6%. In 2014, the gross profit margin was 9%. Despite growing the top-up and achieving larger scale, the group is unable to maintain or increase the profit margin in the core business. The group even reported cost overruns in certain projects in 2016.

- (a) What are management's plans to improve profitability?** The group should get more cost-efficient as it grows its scale. **Has the group explored various productivity/automation initiatives? Can management provide more clarity on the margin from (i) construction works and (ii) building and maintenance?**
- (b) Lastly, is the management team sufficiently resourced to focus on the growing core business and to drive the new property development segment at the same time?**

Q2. As the group ventures into property development, shareholders would like to request for some visibility into the projects. It is common for many other listed property developers to give a summary that includes the name of the development, location, size of the land area, total gross floor area, tenure, number of units, estimated completion/TOP, percentage completion, effective interest, numbers sold and/or percentage sold.

- (a) Can management give shareholders an update on the sales of Place-8, the group's freehold cluster house development located at Paya Lebar Crescent? How many of the 8 cluster houses have been sold?** The development is expected to obtain the Temporary Occupation Permit by December 2016 but with sizes of 3,175 -3,207 square feet and at a price tag of at least \$3 million each, the worry is that these houses are hard to market.

- (b) Please provide the same information for Le Premier Industrial Park, the group’s industrial property development located in Senai Industrial Park, Johor.

Q3.

- (a) Can the remuneration committee explain how they assessed the performance of executive directors and key management personnel?

As disclosed in guideline 9.2 of the Corporate Governance Report (page 32), the executive directors are remunerated based on their service agreements with the company. In particular, the variable compensation of Mr Phua Lam Soon, the Chief Executive Officer cum executive director, is determined based on the audited consolidated profit before tax of the Group (after minority interests but before taking into account the profit sharing) (“PBT”). The threshold for the profit sharing is S\$5 million. As the group recorded a PBT of approximately S\$2.48 million for FY2016, the aforementioned performance conditions have not been met to trigger the payment (page32).

Directors/ Chief Executive Officer	Fees %	Salaries %	Bonus %	Other Benefits %	Total %
S\$500,001 to below S\$750,000					
Phua Lam Soon					
- 2016	-	70.95	17.34	11.71	100
- 2015	-	81.55	6.67	11.78	100
- 2014	-	79.48	8.26	12.26	100

The RC has disclosed (page 33 - Guideline 9.6(c)) that it “has reviewed and is satisfied that the performance conditions (save for the performance conditions in respect of the profit sharing element of Mr Phua Lam Soon’s remuneration which is based on the Group’s PBT in respect of each financial year, as disclosed under Principle 9.6 above) were met for FY2016”.

- (b) Can the RC help shareholders understand how the executive director has met the qualitative and quantitative performance conditions as listed on page 33? The bonus of the executive director increased in 2016 when most of the performance metrics have stagnated or dropped (as seen in the financial highlights summary above).
- (c) To better align the executive directors’ interests with shareholders, would the RC consider including performance conditions such as profit attributable to equity holders, return on equity, return on invested capital, dividends (and not sales growth)?