

Issuer: Hwa Hong Corporation Limited

Security: Hwa Hong Corporation Limited

Meeting details:

Date: 27 April 2017

Time: 10:00H

Venue: M Hotel Singapore, Anson III, Level 2, 81 Anson Road, Singapore 079908

Company Description

Hwa Hong Corporation Limited, an investment holding company, engages in the investment, development, and rental of properties in Singapore and the United Kingdom. The company is involved in the rental of residential and commercial properties; and ownership of warehouse for rental and storage. It also provides business management and consultancy services; and trades in consumer products. The company was formerly known as Hwa Hong Manufacturing Company Limited and changed its name to Hwa Hong Corporation Limited in January 1985. Hwa Hong Corporation Limited was incorporated in 1952 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=H19)

Q1. The group has multiple projects being redeveloped in the United Kingdom, to complement the stable portfolio in Singapore. Shareholders would like to better understand the group’s operations related to:

- a) **Singapore:** In the Joint Letter to Shareholders (pages 4 to 7 of the annual report), the group acknowledged that it has been “*highly cautious in investing in all segments of the Singapore property market for a number of years*” but it added that the group is “*actively seeking investment opportunities which we could entertain when the market has stabilised*”. **What are the indicators that the group uses to assess if the market has stabilised? Which sector (residential/commercial etc) would the group be most keen to explore?**
- b) **Sheffield:** **Should the development of the student accommodation facility get the go-ahead, what would be the expected development costs?**
- c) **Quoted equity investments:** **Can shareholders get an update on the performance of the group’s quoted equity investments? Is the portfolio internally managed?** The group received no dividend income in 2016 and took an impairment loss of \$1.9 million on quoted equity investments (current). The total value as at 31 December 2016 of the quote equity investments portfolio was \$28.9 million.

Q2. Shareholders would also like to gain more clarity into the group’s financial risk management approach. Specifically:

- a) **Gearing:** The group’s gearing ratio, as defined by total liabilities divided by total equity, has increased gradually from 11% in 2010 to 41% in 2016, as seen in the table below. Finance cost has also increased by 67.4% to S\$1.4 million mainly due to higher average bank borrowings in FY2016. **What is the optimal capital structure for the group, and what are the plans to achieve it? Are there any constraints on borrowings set by the current lenders?**

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Gearing	11%	14%	16%	22%	21%	24%	41%

(Source: Hwa Hong Corporation Limited Annual Report)

- b) **Currency risks:** In the Joint Letter to Shareholders (page 5), it was disclosed that the group has “*worked to limit our GBP/SGD foreign exchange risk, especially for our new investments in 2016*”. Page 128 shows the significant impact of a 10% move in the Sterling/Singapore dollar FX rate. **How much natural hedging is there for the group’s investments in the United Kingdom? Other than that, what are the other instruments that the group has used to manage its foreign currency risks?**

Q3. In Note 17 (page 97 – Investment in associates), the group recognised a further charge of \$0.345 million in allowance and wrote off \$4.184 million in its investment in associates, as shown below.

Movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
Balance at 1 January	(4,486,768)	(4,372,685)	–	–
Currency realignment	651,291	(114,083)	–	–
Charge for the year	(349,343)	–	–	–
Written off	4,184,820	–	–	–
Balance at 31 December	–	(4,486,768)	–	–

(Source: Hwa Hong Corporation Limited Annual Report 2016)

- a) **Can shareholders get more visibility into the \$4.184 million write-off of the group's investments in associates? What were the write-offs related too? What were the developments or events that led the group to fully utilise the allowance in 2016? What is the current carrying value of those associates which allowance was made?**