

Issuer: LHN Limited

Security: LHN Limited

Meeting details:

Date: 19 March 2018

Time: 10:00 a.m.

Venue: 10 Raeburn Park, #02-18, Singapore 088702

Company Description

LHN Limited, an investment holding company, provides real estate management services in Singapore, Indonesia, Thailand, Myanmar, and Hong Kong. It operates through three segments: Space Optimisation Business, Facilities Management Business, and Logistics Management Business. The company leases and manages industrial spaces, such as industrial buildings, factories, warehouses, and land for open storage; commercial spaces consisting of traditional offices, serviced offices, recreational spaces, sports facilities, children enhanced spaces, retail spaces, and food and beverage establishments; and residential spaces, including apartments. It also offers suited offices, flexi desks, and virtual offices; and facilities management services, including facilities, carpark, and security management services to commercial, industrial, and residential properties. In addition, the company provides transportation and container depot services through a fleet of prime movers, trailers, oil tankers, ISO tankers, and trucks that handle various container trucking, oil and oil-related, and petro-chemical products. Further, it is involved in the production and sale of furniture and furnishing; and the provision of public relations consultancy and Web portal services, as well as renovation, and general contracting and cleaning services. The company was founded in 1991 and is headquartered in Singapore. LHN Limited operates as a subsidiary of Hean Nerng Group Pte. Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=410)

1. The company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 29 December 2017. As noted in the Chairman’s Message (page 7 of the annual report), the listing was intended to “serve as a springboard for us [the group] to expand our business in Hong Kong and China”. Shareholders would like to ask the following questions related to the group’s growth strategies and operations:

- (i) **Given the group’s regional ambitions to expand and to scale up in Hong Kong, PRC, Cambodia, Vietnam, Indonesia, Thailand and Myanmar, what guidance has the board given to management to ensure that the geographical risks are well analysed and managed and that the group does not spread itself out too thinly?**
- (ii) **As at 30 September 2017, the group has a total of 403 employees. Can the company help shareholders understand the group’s management depth, capacity and its track record to support the regional expansion?**
- (iii) **Can management also elaborate further on how the group sources for new projects, especially in cities where the group is trying to establish its foothold?**
- (iv) **There has been some tentative progress made in Xiamen and in Yangon for the group’s Space Optimisation business and the group has also secured management contracts for two car parks in Hong Kong under the Facilities Management business. Would the company provide shareholders with a holistic overview of its (3-5 year) growth plans and targets for the key new markets, especially the PRC, Hong Kong and Myanmar?**
- (v) **As Singapore still currently contributes more than 96% of the group’s revenue, how does the board ensure that sufficient time and energy are devoted by management to maintain and grow the Singapore’s business while the group is also pursuing its regional expansion?**

2. The group reported an increase in revenue of 1.5% to hit \$106.3 million in FY2017. In Note 21 (page 123 – Trade and other receivables), the group’s trade receivables that are past due but not impaired have increased from \$2.0 million as at 30 September 2016 to \$2.9 million as at 30 September 2017. The aging analysis is reproduced below, for reference:

21 TRADE AND OTHER RECEIVABLES (CONT'D)

(a) Trade receivables (Cont'd)

Aging analysis of trade receivables that are past due but not impaired, based on due date, is as follows:

	As at 30 September	
	2017	2016
	S\$'000	S\$'000
31 to 60 days	719	552
61 to 90 days	343	159
91 to 180 days	916	810
181 to 365 days	522	221
Over 365 days	385	276
	2,885	2,018

Based on historical default rates, the Group believes that no impairment is necessary in respect of trade receivables that are past due but not impaired. These receivables are mainly arising from a number of independent customers that have a good credit record with the Group.

(Source: Company annual report)

- (i) While revenue increased marginally by 1.5%, trade receivables that are past due but not impaired have increased by 43%. **Can management confirm that it has adhered to the same standards of credit approvals, credit limits and monitoring procedures?**
- (ii) **Can management elaborate further on the across-the-board increases in trade receivables that are past due but not impaired (as shown in the breakdown above)?**
- (iii) In particular, trade receivables past due for over 365 days but not impaired have increased from \$276,000 to \$385,000 as at 31 September 2017. **Can management provide the upper bound of the long-outstanding debts? How is management working with the customers to collect these long-outstanding debts?**
- (iv) **As the group scales up its regional presence, what guidance has the board given to management to manage and to avoid excessive credit risks, especially for new customers in foreign jurisdictions?**

3. The group currently has a gearing of 0.31 as at 31 September 2017 (page 96 – Note 3: Financial Risk Management), an increase from a gearing of 0.26 a year ago. In addition, the group has also provided corporate guarantees for the bank loan facilities of certain subsidiaries and joint ventures of up to \$48.1 million.

The planned capital expenditures for the financial years ending 30 September 2018 and 2019 are \$52.6 million and \$2.9 million respectively. The breakdown, as shown on page 21, is reproduced below:

	For the financial year ending	
	2018	2019
	S\$'000	S\$'000
Space optimisation business		
– Acquisition of an industrial or commercial property in Singapore	23,685	–
– Expansion of current properties portfolio through four master leases in Singapore, Indonesia, Myanmar and the PRC, respectively	2,379	2,918
Facilities management business		
– Expansion of car park management business in Hong Kong and Singapore	106	–
– Setting up an office in Hong Kong	121	–
Logistics services business		
– Setting up an ISO tank depot and self-use logistics vehicle parking yard in Singapore	25,185	–
– Setting up an additional container depot in Thailand	1,167	–
	<u>52,643</u>	<u>2,918</u>

(Source: Company annual report)

Cash and cash equivalent, as at 31 September 2017, stood at \$14.9 million.

- (i) **How is the group going to fund its planned capital expenditures?**
- (ii) **Has the board deliberated on the optimal capital structure? Would the board consider the need to impose a maximum gearing for the group?**

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

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

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