

Issuer: Raffles United Holdings Ltd

Security: Raffles United Holdings Ltd

Meeting details:

Date: 12 April 2018

Time: 10.00 a.m.

Venue: 5 Changi South Street 3, Singapore 486117

Company Description

Raffles United Holdings Ltd., an investment holding company, operates as a stockists, distributor, and retailer of bearings and seals for automotive part dealers, industrial suppliers, hardware dealers, ship chandlers, general trading companies, and original equipment manufacturers. The company conducts its operations through Bearings and Seals, Property, and Others segments. Its bearings and seals are used in transportation, electronics, construction, oil and gas, and other industries. The company is also involved in the property investment and development activities; and provision of logistics services. In addition, it acts as a dealer of belts; distributor, contractor, and retailer of gearbox/electrical products; and distributor and retailer of beauty products. Raffles United Holdings Ltd. offers its products and services in Singapore, other ASEAN countries, and other Asian countries; Western countries; and internationally. The company was formerly known as Kian Ho Bearings Ltd. and changed its name to Raffles United Holdings Ltd. in December 2014. The company was founded in 1956 and is headquartered in Singapore. Raffles United Holdings Ltd. is a subsidiary of Raffles United Pte Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=K22)

1. The group streamlined its operations in FY2016 with the disposal of the Taiwan subsidiary, the impairment of slow-moving inventories and the clearance of inventories at reduced price.

Going into FY2017, the group acquired 70% of the total issued and paid-up share capital of a Singapore-based company, Acee Electric Pte Ltd (“Acee”), in March 2017. Acee is engaged in the business of distributing and trading electrical products.

On 1 August 2017, the company announced that it had established a wholly-owned subsidiary company, Raffles Beaute Pte Ltd (“RB”), to venture into the beauty business. As noted on page 11 of the annual report, the company has disclosed that:

“Raffles Beaute wholly owns two subsidiaries, namely, Allure Beaute International Pte Ltd (“Allure”) and Allureate Beaute Pte Ltd. Allure has commenced its business operations in late 2017 being in the distribution and trading of OPI brand of nail products. These two new business segments were ventured into with the aim of increasing shareholder value.”

- (i) **Can the board help shareholders understand if the new beauty business is synergistic to the group’s core business of wholesale/retail of bearings and seals which serves industries such as transportation, electronics, construction and oil and gas?**
- (ii) **What kind of commercial due diligence has management carried out prior to the diversification into the beauty business?**
- (iii) **What were the deliberations by the board on the diversification into the beauty business?**
- (iv) **Would the diversification into the beauty business significantly alter the risk profile of the group?**
- (v) **Who is leading the group’s new beauty business? What is the track record and experience of management in distributing beauty products?**
- (vi) **How much capital is earmarked to support the new beauty business?**
- (vii) **What are the projected returns from the new business?**

2. Since 2014, the group has built up its investment property portfolio to *“provide better profitability prospects and ensure long-term growth”*. As at 31 December 2017, the portfolio is valued at \$56.8 million, or just over 40% of the group’s total assets of \$137.1 million (page 44 – Statement of Financial Position).

Details of the group’s investment properties can be seen in Note 14 (pages 82 to 83 – Investment Properties).

The group generated property rental income amounting to \$2,094,000 in FY2017, with direct operating expenses of \$264,000. The net rental income before tax is approximately \$1.83 million. The net rental yield before tax is about 3.2%.

- (i) **Are all the investment properties fully leased out? If not, what is the average occupancy rate of the portfolio in FY2017?**
- (ii) **How does the group manage and evaluate its investment property portfolio?**
- (iii) **Is the net rental yield before tax of 3.2% attractive enough given the cost of capital? Is the group actively reviewing its portfolio with a view to monetise some of the assets?**

3. On 28 December 2017, the company announced that it and its wholly-owned subsidiary Kian Ho Pte Ltd (“KHPL”) have on 26 December 2017 been served with a writ of summons endorsed with a statement of claim, filed by Shenzhen Zhaoheng Industrial Co., Ltd (“SZZH”) in the High Court of the Republic of Singapore (“HC/S 1210/2017”) dated 22 December 2017.

SZZH is claiming from the Company a sum of approximately S\$335,000 and from KHPL a sum of approximately S\$215,000.

It was disclosed that the Company and KHPL are disputing the claims made by SZZH and are in the process of seeking legal advice on this matter.

- (i) **Can management help shareholders understand the past dealings and transactions the group had with Shenzhen Zhaoheng Industrial Co., Ltd?**
- (ii) In Note 28 (page 90 – Contingent liability), the company has disclosed that its legal counsel advised that the Group has more than an even chance of successfully defending the claim. **Has SZZH been in discussion with the group before the writ of summons was served? Can the group provide better clarity on the dispute?**
- (iii) **What is the expected timeline with regard to the writ of summons?**