

Issuer: First Sponsor Group Limited

Security: First Sponsor Group Limited

Meeting details:

Date: 24 April 2018

Time: 3.00 p.m.

Venue: Grand Copthorne Waterfront Hotel Singapore, Riverfront Ballroom, Level 3, 392 Havelock Road, Singapore 169663

Company Description

First Sponsor Group Limited, an investment holding company, invests in, develops, and sells residential and commercial properties in the People's Republic of China and the Netherlands. It operates through Property Development, Property Investment, Property Financing, and Hotel Operations segments. It also provides entrusted loans through entrustment banks and vendor financing arrangements in the Netherlands, the People's Republic of China, and Germany. In addition, the company offers real estate management, consultancy, and management services, as well as owns and operates hotels. First Sponsor Group Limited was incorporated in 2007 and is based in Singapore.

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

1. Would the board/management help shareholders understand the following operational and financial matters of the group? Specifically:

- (i) **Chengdu Millennium Waterfront project (Plots E & F): Are the hospital, commercial facilities and the elderly care living quarters going to be marketed to buyers and sold or held for recurring income?**
- (ii) **Chengdu Millennium Waterfront project: Would the entire Chengdu Millennium Waterfront project be completed after the development of plots E & F?**
- (iii) **Other investments: Why did the group “invest” \$38.7 million in principal-guaranteed structured deposits placed with financial institutions in the PRC? What is the group’s cost of capital? Given the group’s cost of capital, does it make sense to “invest” in the structured deposits that yield 4.1%? Has the board evaluated the risks associated with the structured products?**
- (iv) **Germany: The acquisition of Le Méridien Frankfurt Hotel in Germany in December 2017 was the group’s first investment in Europe outside of the Netherlands. Can management tell shareholders if it has established any targets in terms of geographical diversification and/or allocation by asset classes?**

2. In the Corporate Governance Report, the company has stated that it does not have a fixed dividend policy and that the form, frequency and amount of dividends will depend on the Company’s earnings, financial position, results of operations, capital needs, plans for expansion and other factors which our directors may deem appropriate.

In addition, the company has stated the following:

The Board will work towards a stable payout with a steady growth when appropriate, subject to the successful implementation of the Group’s business strategy and prevailing market conditions. For FY2017, the Board has recommended a final tax-exempt (one-tier) dividend of 1.20 Singapore cents per ordinary share for approval of shareholders at the forthcoming AGM.

While shareholders are happy to receive higher dividends, especially if it is sustainable, the company announced an equity fund raising exercise by way of a renounceable 1-for-4 rights issue of 3.98% perpetual convertible capital securities at the same time as the declaration of the final dividend.

The rights issue of the perpetual convertible capital securities was said to “further strengthen its balance sheet so that the Group can capitalise on any available acquisition opportunities” (page 7).

- (i) **Can the board help shareholders explain why it had declared a higher dividend and, at the same time, carried out an equity fund raising exercise?**
- (ii) **Prior to the completion of the equity fund raising as mentioned above, and as at 31 December 2017, the group had a net gearing ratio of 0.26x (page 3 – Financial highlights) and held cash and cash equivalents of \$319 million, the highest level since its listing. How much headroom does the group have to make acquisitions without the funds from the equity fund raising?**
- (iii) **In addition, as the perpetual convertible capital securities have a coupon payment of 3.98%, does management expect to maintain its dividends (of 2.2 cents) to equity holders in FY2018 and beyond?**
- (iv) **What is the board’s view of the optimal capital structure to support the group’s growth?**

3. In Principle 10 (Accountability) of the 2012 Code of Corporate Governance (Code), the board has said the following:

The Board is mindful of its obligation to provide timely and fair disclosure of material information. The Board is accountable to the shareholders... In addition to quarterly results announcements and annual financial statements, the Company also keeps its shareholders and analysts informed of the performance and changes in the Group or its business which would be likely to materially affect the price or value of the Company's securities on a timely and consistent basis, so as to assist shareholders and investors in their investment decisions. The Company complies with its disclosure obligations under the SGX-ST Listing Manual.

And in section C (Shareholder rights and responsibilities), the company stated that:

It is the Company's policy to be transparent and open with its shareholders and this is achieved through timely announcements and meaningful disclosures, which are made on a non-selective basis.

The acquisition of Dongguan East Sun Limited was embedded in the 1Q17 quarterly results. It was disclosed that the acquisition was completed on 7 April 2017 with the property portfolio owned by East Sun being valued at RMB260 million. The company did not appear to have made an announcement of the acquisition on SGXNet.

- (i) **Can the board confirm that acquisitions are always announced to the market via SGX announcements?**
- (ii) **Specifically on the acquisition of Dongguan East Sun Limited, why did the company not make a standalone announcement?**
- (iii) **Would the board assure shareholders that the company is committed to be transparent and open with its shareholders and would make timely announcements of material changes to shareholders?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

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

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