

Issuer: Fragrance Group Limited
Security: Fragrance Group Limited

Meeting details:

Date: 26 April 2018

Time: 9.00 p.m.

Venue: 456 Alexandra Road #02-03 Fragrance Empire Building Singapore 119962

Company Description

Fragrance Group Limited, an investment holding company, operates as a property developer in Singapore and Australia. The company operates through Property Development and Property Investment segments. It develops, deals, and trades in properties. The company's development projects include residential, commercial, hotel, and industrial properties. It also engages in hotel operations, as well as in the rental of various properties. The company was incorporated in 2000 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=F31)

Q1. As disclosed in the Letter to Shareholders, for the Singapore business, the group has recently acquired two freehold properties, Eunos Mansions and 31 Jervois Road, for \$220.0 million and \$46.30 million respectively for redevelopment.

- a) **What is management's view of the health of the Singapore property market?**
- b) **With already two acquisitions in the bag, what is management's strategy for the Singapore market in the next 2-3 years?**
- c) **What guidance has the board given to management regarding the need to strike a balance between being prudent and seizing the right opportunities to create long term value?**

Q2. The group has investment properties valued at \$1.29 billion as at 31 December 2017. Included in the carrying value are the fair value adjustment of \$29.7 million in FY2017 and an addition of \$90.8 million to investment properties made in the year.

As the group has 56% of its total assets in investment properties, the performance of the segment will be a large determinant of the group's overall performance. Furthermore, as these are recurring in nature, the segment provides some stability to the group's earnings over the years.

- a) **Can the board consider disclosing more details about the performance of its substantial investment property portfolio? What are the occupancy rates of the assets in the portfolio?**
- b) **Would the board consider providing more measures/indicators of the performance of the investment property portfolio such as the weighted average lease expiry, rental reversion, retention rate, where relevant?**

Rental income from the group's investment properties which are leased out under operating lease amounted to \$236,498,000 (2016: \$18,835,000). Direct operating expenses (including repairs and maintenance) relating to these properties amounted to \$6,592,000 (2016: \$6,269,000).

(Source: Company annual report)

The company has stated that rental income from the group's investment properties amounted to \$236,498,000 (page 83, as shown above).

In the Financial and operations review (page 11), it was disclosed that the group posted a turnover of \$198.0 million, of which property development segment contributed \$159.2 million, commercial investment segment contributed \$22.2 million and hospitality investment contributed \$1.3 million. The balance of \$15.4 million was the contribution from the group's hotel operations.

- c) **Would the board help shareholders reconcile the different levels of rental income disclosed in the annual report? How did the group generate \$236,498,000 in rental income?**

Q3. With an equity base of \$1.11 billion and total borrowings amounting to \$1.12 billion, the group's debt-to-total equity stood at 100.4% as at 31 December 2017, up from 81.1% a year ago (as shown below).

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (CONT'D)

(c) Capital management policies and objectives (cont'd)

Management monitors the following financial data relating to the group:

	Group	
	2017 \$'000	2016 \$'000
Total assets	2,289,120	1,960,308
Total debts	1,115,783	854,474
Total equity	1,111,833	1,053,287
Debt-to-total assets	48.7%	43.6%
Debt-to-total equity	100.4%	81.1%

(Source: Company annual report)

- a) **Has the board set a limit to the group's maximum gearing?**
- b) **In terms of the risk profile of the group, did the board provide any guidance to the management on the sub-segment limit of property development and property investment?**
- c) **Can the board also help shareholders understand what deliberations it went through before it decided not to propose any dividends for the year?**
- d) **How can the board strike a better balance between rewarding shareholders and conserving cash for future growth?**

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=Fragrance%20Group%20Ltd>

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