Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Fragrance Group Limited

Security: Fragrance Group Limited

Meeting details:
Date: 29 April 2019
Time: 9.00 a.m.
Venue: 456 Alexandra Road #02-03 Fragrance Empire Building Singapore 119962

Company Description

Fragrance Group Limited (FGL) is an investment holding company. The Company is a property developer with presence in Asia, Australia and Europe. It segments include Property development, which is involved in the development and sale of residential and commercial properties, and Property investment, which is involved in investing in properties for rental yield and capital appreciation. FGL's development projects comprise residential, commercial, hotel and industrial properties, with over 80 projects. Its overseas development properties include its maiden project, Premier Tower, a skyscraper mixed-use development located in Melbourne, Australia, and NV Apartments, freehold apartments located in the Central Business District of Perth, Western Australia. FGL's property investment portfolio includes prime commercial properties situated in and near Singapore's Central Business District (CBD) and a seafront food and beverage outlets and an industrial building.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=F31)

Q1. As noted in the Letter to shareholders, save for fair value gains, the group's core earnings for the year was $20.0 million. The group monetised its investment in Melbourne (555 Collins), and commenced on the redevelopment of 205 Jalan Eunos and 31 Jervois Road. On the hospitality front, 15 Hoe Chiang received its provisional permission for a change in use (to full hotel usage) and the group also successfully tendered for a property located at Waterloo Street to be redeveloped into a hotel.

(i) **Singapore property development:** After the acquisitions of 205 Jalan Eunos and 31 Jervois, the government, on 5 July 2018, announced new cooling measures that raised the Additional Buyer's Stamp Duty (ABSD) rates and tightened loan-to-value (LTV) limits on residential property purchases. Since then, the market sentiments have weakened significantly. **How has the group adjusted the redevelopment plans? In the current climate, what is management's expected/projected developer's margin?**

(ii) **Leverage:** The group's total equity of $1.32 billion is boosted by the fair value gain of $215 million due to the change in use of 15 Hoe Chiang. With total debt of $1.39 billion, the debt-to-total equity is at 105.1%. Without the fair value gain, the adjusted debt-to-total equity is approximately 125%. The chairman has described the debt-to-total assets ratio of 49.2% as "healthy". **Would the board help shareholders understand if it is set an internal limit to the gearing?**

(iii) **Currency risks:** The foreign currency translation reserve has increased from $(26.25) million as at 1 January 2017 to $(68.668) million as at 31 December 2018. **Has the board evaluated the currency risks of its net investments in overseas assets?** In addition to the currency translation reserve, the group has recognised loss on forward foreign exchange contracts amounting to $(17.82) million and loss on foreign exchange difference of $(3.09) million in FY2018. **What caused these losses? Would management help shareholders understand how the group's currency risks are managed?**

Q2. The "Valuation of investment properties" is a key audit matter (KAM) highlighted by the Independent Auditor's in their Report on the Audit of the Financial Statements (page 38). Key audit matters are those matters that, in the professional judgement of the Independent Auditor's, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM:

> *Investment properties account for $1,578,208,000 (2017: $1,290,235,000) or 55.9% (2017: 56.4%) of total assets. These investment properties are stated at their fair values based on valuations of independent professional valuers…. In October 2018, the group made a planning submission to Urban Redevelopment Authority ("URA") for a change in use in respect of the property at 15 Hoe Chiang Road to full hotel usage. The*

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proposed amendment to the change in use was processed and updated in the masterplan by URA prior to December 31, 2018. Subsequent to year end, the group received the grant of provisional permission from URA. Management has recorded a fair value gain of $215,000,000 on this property as at December 31, 2018 based on full hotel usage.

The fair value gain of $215 million boosted the net profit attributable to shareholders to $266.0 million.

The asset at 15 Hoe Chiang Road was bought for $360 million in May 2012 and the property was put up for sale at the end of 2015.

(i) **Would management help shareholders understand the changes in the market conditions and its decision to retain the asset and to develop it into a full hotel?**

(ii) **Can the audit committee/management disclose the valuer, the methodology and the assumptions used for the basis of projecting income?**

(iii) **What was the capitalisation rate for the new hotel?**

(iv) **When will the rezoning by Urban Redevelopment Authority (URA) be finalised? Are there any other conditions to be fulfilled by the group before the rezoning is approved by the URA?**

Q3. In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code") and under the revised Listing Rules, the requirement for independent directors to comprise one-third of the board come into effect on 1 January 2022. In addition, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

Two of the company's independent directors, namely Mr Teo Cheng Kuang and Mr Watt Kum Kuan, were first appointed to the board on 20 December 2004 and 23 January 2006 respectively.

Accordingly, Mr Teo and Mr Watt have served on the board for more than 14 years and for more than 13 years respectively.

(i) **Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**

(ii) The nominating committee (NC) has stated that it may obtain recommendations from board members on potential candidates and has access to external search

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consultants and resources. **Would the NC consider carrying out its search through a professional search firm as it might increase the diversity and possibly the quality of its candidate pool?**

(iii) **Has the NC reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed by new director appointments?**

(iv) **What are the company's other near term plans to refresh the membership of the board to comply with the new 2018 Code in good time?** Doing so would avoid undue disruption and maintain institutional knowledge and continuity in the board.

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 and 31 December 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Fragrance%20Group%20Ltd&cid=6381,4601,4260

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