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Issuer: Bund Center Investment Ltd

Security: Bund Center Investment Ltd

Meeting details:

Date: 24 April 2019

Time: 9.00 a.m.

Venue: PARKROYAL on Beach Road, Grand Ballroom, Level 1, 7500 Beach Road, Singapore 199591

Company Description

Bund Center Investment Ltd, an investment holding company, owns a hotel; and owns and manages commercial and retail properties in the People's Republic of China. It operates through Hotel and Property Leasing segments. The company owns The Westin Bund Center Shanghai, a five-star hotel in Shanghai. It also owns and manages the Bund Center Office Tower in Shanghai; and the Golden Center, a six-storey retail complex in Ningbo, Zhejiang Province. In addition, the company is involved in the trading of hotel supplies and related products; property development and management activities; and provision of consultancy and management services. The company was incorporated in 2009 and is based in Singapore. Bund Center Investment Ltd is a subsidiary of Flambo Bund Centre Ltd.

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

1. As disclosed in the chairman's statement, the group's revenue slipped (3.4)% in the financial year as the business environment remained challenging. Revenue from the leasing of the commercial tower units was more resilient as it slipped (1.2)% year-on-year, compared to a (5.2)% drop in hotel revenue.

- (i) Would the company disclose the weighted average lease expiry of its office tower? Can the company also show the lease expiry profile of its office tenants?**
- (ii) Gross profit for leasing actually increased from \$33.33 million in FY2017 to \$35.65 million in FY2018. What are the factors that led to the improved profitability?**

The Golden Center is a 6-storey retail complex in Ningbo that is part of the development that includes the 32-storey Ningbo Financial Center office tower (which houses the headquarter of Ningbo People's Bank of China) and a 52-storey luxurious residential tower, "Riviere Mansion". The group only owns the 6-story retail mall.

- (iii) What is the occupancy rate and the rental yield of Golden Center? Given the emergence of new and larger mid-high end malls in the city, has the board evaluated the long term viability of the mall? What are the opportunities to reposition the mall? Given that the mall accounts for 8% of the group's investment portfolio, how strategic is the asset?**
- (iv) In addition, can the company articulate the group's growth plans? Is the group actively looking to acquire assets that can generate long-term sustainable value for shareholders? With a growing cash balance and no significant bank borrowings, how does the board ensure that the group has an optimal capital structure and achieves a reasonable return on equity (ROE)?**

2. The group's cash and cash equivalents further increased from \$93.9 million as at 31 December 2017, to \$141.7 million at the end of the reporting period.

In the group's disclosure for its foreign currency risks, the group has stated the following (page 82):

The Group did not actively engage in activities to hedge its foreign currency exposures. In addition to transactional exposure, the Group is also exposed to currency translation risk arising from its net investments in foreign operations, including the PRC and Hong Kong. The Group's net investments are not hedged as currency positions in RMB and HKD are considered to be long-term in nature.

Net cash flow generated from operating activities averaged about \$52 million for each of the last two years.

Given that the group is almost debt free, it is unable to benefit from natural hedging to insulate itself from fluctuation in foreign exchange rates.

- (i) Would the board consider it opportune to review its foreign currency risk management approach?**

In the last two financial years, the group has recognised approximately \$(19.8) million in foreign currency translation differences arising from consolidation.

- (ii) If the group's net investments are not hedged, does it mean that the board has actually taken a view of the long term strength of the RMB in particular?**

As shown in Note 11 (page 70 – Cash and cash equivalents), the group holds the bulk of its cash (\$126.0 million out of \$141.7 million) in RMB.

- (iii) Can management help shareholders understand if it has reviewed the current practice?**
- (iv) Are there any restrictions on the movement of the group's cash out of the PRC?**
- (v) What were the deliberations the board had on the group's optimal capital structure? If there are no suitable investments for the group, has the board considered declaring a special dividend/capital reduction to right-size the balance sheet so that excess capital that cannot be meaningfully and profitably deployed by the company is returned to shareholders?**

3. On 1 May 2018, the company announced the appointment of Mr Foo Meng Kee as non-executive independent director. As noted in the announcement, Mr Foo currently holds directorships in Golden Agri-Resources Ltd and was a director in Sinarmas Land Limited.

In Sinarmas Land Limited, Mr Foo served as the lead independent director, the chairman of the audit committee and nominating committee and a member of the remuneration committee. Mr Foo was appointed to the board of Sinarmas on 2 November 2001. On the date of his cessation (26 April 2017), Mr Foo served on the board of Sinarmas for more than 15 year 5 months.

In Golden Agri-Resources, Mr Foo was appointed on 25 April 2017 as non-executive independent director and a member of the board committees (on 1 May 2017).

- (i) Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in new director appointments?**
- (ii) What is the search and nomination process for directors, especially independent directors?**
- (iii) Would the nominating committee help shareholders understand if it had considered the long relationship Mr Foo, as the newly-appointed**



independent director of the company, has with the controlling shareholders? The controlling shareholders of Sinarmas Land, Golden Agri-Resources and Bund Centre are the same.

Based on the 2012 Code of Corporate Governance, under guideline 2.2, independent directors should make up at least half of the Board where the chairman is not independent.

(iv) Has the board, especially the nominating committee, deliberated on guideline 2.2? What are the near-term efforts by the company to comply with guideline 2.2 to prepare for the company's compliance with the 2018 Code of Corporate Governance that was issued by the Monetary Authority of Singapore in August 2018?

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=Bund%20Center%20Investment%20Ltd&cid=6358,4280>

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