



Securities Investors Association (Singapore)

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Issuer: Far East Orchard Limited

Security: Far East Orchard Limited

Meeting details:

Date: 23 April 2019

Time: 10.00 a.m.

Venue: Antica Ballroom, Level 2, Orchard Rendezvous Hotel, Singapore, 1 Tanglin Road, Singapore 247905

Company Description

Far East Orchard Limited engages in the investment and development of real estate properties in Singapore, Australia, New Zealand, the United Kingdom, and internationally. It primarily undertakes residential, commercial, and hospitality developments. The company also owns and operates hospitality assets. In addition, its portfolio includes student accommodation properties; and medical suites in Novena Medical Center and Novena Specialist Center. The company was formerly known as Orchard Parade Holdings Limited and changed its name to Far East Orchard Limited in July 2012. Far East Orchard Limited was founded in 1967 and is headquartered in Singapore. Far East Orchard Limited is a subsidiary of Far East Organisation Pte Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code= 010)

1. As noted in the chairman's statement, the group will continue its pursuit of a diversified strategy, taking steps to adjust its approach and reshape its business amid industry disruption and changing economic cycles. Would the board/management provide shareholders with better clarity on the following matters? Specifically:

- (i) Residential (Singapore):** With the completion of RiverTrees Residences in FY2017, the group has not replenished its landbank in Singapore. There was a flurry of collective sales in Singapore in 2016 and 2017, before a new round of cooling measure dampened the sentiment. The group has said that it will “continue to look out for appropriate opportunities and leverage on [its] property development expertise”. **Can the board/management help shareholders understand if it finds better (relative) value in overseas opportunities? For any Singapore project, what would be the group's preferred niche in terms of land size, location and positioning?**
- (ii) Woods Square (Singapore):** As at 31 December 2018, 53% of the total 208 units released were sold. Woods Square is an integrated office development at Woodlands Regional Centre, Singapore's Northern Gateway, is a total of 514 units. **Would management update shareholders on its plans for Woods Square? Has the sales progress been up to management's expectations given that it is slated to be completed in 2019? What is the impact of any delay in the Johor Bahru-Singapore Rapid Transit System on Woods Square?**
- (iii) Former Westminster Fire Station:** What is the sales progress of the group's first residential project in the UK? Given the market sentiment and the uncertainty surrounding Brexit, is the group still looking for more development projects in the UK?
- (iv) Purpose-built student accommodation (Newcastle and Brighton):** What is the occupancy rate of its Portland Green Student Village? Can management elaborate in greater detail the demand and supply situation in Newcastle? What levers are available to management to improve the occupancy rates of its PBSA?

2. The summary of group's 5-year financial highlights is shown on page 21 and reproduced below:

S\$'000	2018	2017 (restated)	2016	2015	2014
Hospitality	133,910	136,800	169,877	193,689	212,001
Property development	241	–	–	65,829	94,380
Property investment	16,760	14,821	15,011	11,349	9,156
Sales	150,911	151,621	184,888	270,867	315,537
Profit before income tax	35,660	25,704	77,925	33,490	48,758
Profit attributable to equity holders	32,937	21,753	65,041	29,138	35,498
Shareholders' equity	1,265,210	1,244,131	1,229,040	1,173,976	1,169,416
Total assets	2,145,357	2,087,295	2,071,629	1,926,087	1,876,837
Net assets per share (S\$)	2.89	2.93	2.91	2.86	2.92
Earnings per share (cents) ¹	7.6	5.1	15.6	7.2	9.0
Final dividend per share (cents)	6.0	6.0	6.0	6.0	6.0
Gearing ratio	0.23	0.17	0.16	0.13	0.09

(Source: Company annual report; emphasis added)

The group's net assets have stagnated at around \$2.86 to \$2.93 per share over the past 5 years.

- (i) **Has management calculated the cost of capital?**
- (ii) **Has the board evaluated if its strategies can lead to long term value-creation and if management has executed well to deliver value to shareholders?**
- (iii) **What was the level of performance achieved by the group in the past 5 years, in terms of return on equity, return on assets, return on invested capital etc? Has the board benchmarked the group's performance against other similar companies?**
- (iv) In addition, the gearing ratio has increased from 0.09x to 0.23x as at 31 December 2018. **Has the board set an internal limit to the group's gearing ratio?**

3. On 2 August 2018, the group announced that the Competition and Consumer Commission of Singapore ("CCCS") has issued a Proposed Infringement Decision ("PID") against the company's subsidiary, Far East Hospitality Management (S) Pte. Ltd., for allegedly infringing Section 34 of the Competition Act (Cap. 50B) by entering into concerted practice(s) to discuss and exchange confidential, customer-specific, commercially sensitive information in connection with the provision of hotel room accommodation in Singapore to corporate customers.

Following the PID, the group had, through its lawyers, made robust submissions in response to the PID.

However, on 30 January 2019, CCCS released its formal decision and maintained the financial penalty of \$286,610 as proposed in the PID.

The group has announced that it takes *“legal compliance very seriously and will continue to focus on growing its business in a principled and ethical manner with strict adherence to all applicable laws. It has and continues to routinely review and implement robust compliance and training programmes to ensure that its business practices are and continue to be fully compliant with all applicable laws.”*

- (i) Would the board help shareholders understand the improvements that have been made to the group’s operations, especially in the area of compliance and internal controls?**
- (ii) What was the involvement by the audit and risk committee (ARC) in the annual internal audit? Can the ARC share some of the key findings of the internal auditor?**
- (iii) In addition, in the area of IT risks, how did the ARC evaluate the robustness of the IT systems? How does management monitor the level of compliance with the group’s information security management and personal data protection policies?**