Securities Investors Association (Singapore)
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Email: admin@sias.org.sg   www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: GL Limited

Security: GL Limited

Meeting details:
Date: 25 October 2018
Time: 11.30 a.m.
Venue: Sofitel Singapore City Centre, Wallich II, Level 5, 9 Wallich Street, Singapore 078885

Company Description

GL Limited (formerly known at various times as GuocoLeisure Limited, BIL International Limited and Brierley Investments Limited) was established in New Zealand in 1961. Today, GL Limited is an investment holding company with principal investments in hotel management & operations, gaming, oil & gas, property development and other areas in the leisure industry.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=B16)

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1. In the Chairman's statement (pages 4 and 5 of the annual report), shareholders were updated on the closure of the group's casino, the intention to sell the assets on Molokai island in Hawaii and the stable performance of the group's royalty fees in relation to the from all hydrocarbons revenue in designated areas in the Bass Strait, Australia.

As for the group's core hospitality business, it was disclosed that Thistle Euston Hotel was compulsory acquired from the group to make way for the high speed railway project and that the group had pursued an "*occupancy-led strategy which resulted in a higher combined hotel RevPAR on a like-for-like basis compared to the previous financial year*".

(i) Would management disclose the occupancy rate achieved in FY2018?

(ii) Would it be more meaningful for management to disclose the individual hotels' RevPAR as the four owned brands occupy different market positions and have their own branding?

Given that that gaming business has been discontinued and the property development is put up for sale, the group's reliance on the core hospitality business will increase. However, shareholders do not have good visibility of the assets and the performance of the hospitality segment.

(iii) Would the board consider how it could provide shareholders with better visibility on the group's hospitality assets in the annual report? For instance, the company had not provided the details of the owned hotels in the annual report and there is no mention of the number of rooms and key performance metrics, such as occupancy rates, RevPAR.

(iv) Can management also provide shareholders with a detailed overview and an update of its "transformational hotel strategy"?

(v) How is the board/management going to mitigate the risks associated with UK's exit from the Eurozone? Has management developed a contingency plan should the impact of "Brexit" on the UK economy be more severe than expected? Would it be prudent to explore a geographical diversification of the group's hospitality assets and operations?

2. During FY2018, the group recognised a gain on disposal of assets held for sale amounting to US$28.1 million. This relates to the compulsory purchase of the Thistle Euston Hotel by the Department for Transport. While the UK Secretary of State for Transport (SST) has valued the asset at GBP27.5 million, the group has disclosed that it had submitted a valuation in its preliminary claim that is substantially higher and will challenge SST's valuation.

(i) What is the group's valuation of Thistle Euston Hotel?

(ii) What is the expected timeline for the final settlement of Thistle Euston Hotel with SST, given that the group will be challenging SST's valuation?

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In fact, the "Valuation of hotel properties" is a key audit matter (KAM) highlighted by the Independent Auditors in their Report of the Auditors (page 27). Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

As mentioned in the KAM, as at 30 June 2018, the group has 15 hotel properties that are located in the United Kingdom and have an aggregate carrying amount of US$1.01 billion. These hotel properties represent 69.3% of the group's total assets and are measured at cost less accumulated depreciation and impairment losses.

As disclosed in Note 9 (pages 78 and 79 – Hotels, property and equipment), the recoverable amount of hotels, property and equipment is based on the greater of (a) the fair value less costs to sell and (b) value in use derived from discounted cash flow projections of hotel properties. The "fair value less costs to sell" approach uses a direct comparison method.

(iii) Can the board disclose the net realisable value of the hotel portfolio if it had used a "fair value less costs to sell" approach?

In addition, the "valuation of asset held for sale - casino licence" is another KAM highlighted by the independent auditors in their Report of the Auditors. The independent appraiser had estimated the fair value of the casino licence to be higher than US$31.7 million, using key assumptions such as perpetual growth rates of up to 2% and a post-tax discount rate of 7%. **Would the audit committee help shareholders understand if it is prudent to carry the licence at US$31.7 million when the gaming operation has been loss-making since 2012? What progress has the group made in trying to find a buyer for its casino licence?**

3. The company has an Executives' Share Option Scheme 2008 ("ESOS 2008") that was established as a long-term incentive scheme to promote the company's long-term success. The company's remuneration committee ("RC"), comprising directors of the company who are not participants of ESOS 2008, administers the scheme.

During the financial year, the company granted 32,250,000 share options on 3 April 2018. The exercise price is equal to the 5-day weighted average market price of the shares immediately prior to the date of grant for which there was trading in the shares, discounted by 5.7%. The exercise price is $0.74 and the expected option life is 2.2-4.2 years.

As disclosed, the options granted on 3 April 2018 are valid from 3 April 2018 and will vest upon the board's decision (page 95).

(i) Can the RC help shareholders understand why it is the administering body for the scheme but not the deciding-making body on the vesting of the options?

(ii) Can the RC elaborate further on its decision to grant the options at a discount?

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(iii) **What are the factors to be considered by the board for its decision on the vesting of the options?**

(iv) In the estimation of the fair value of the options which is based on a Black-Scholes model, the expected life has been adjusted to 2.2-4.2 years (versus 1.3-6.3 years in the 2015 grant and 3.6-8.6 years in the 2013 grant). **Can the RC help shareholders understand the basis for this adjustment?**

(v) **Can the RC also confirm that the options may be exercisable only after 2 years from the date of grant?**

(vi) As the ESOS 2008 will expire on 20 November 2018, the company is proposing a new scheme, GL Limited Executives' Share Scheme 2018, at the company's 57th Annual General Meeting scheduled to be held on 25 October 2018. **Has the RC evaluated the ESOS 2008 to assess its effectiveness in attracting, retaining and motivating high calibre executives and in motivating employees towards achieving the group's strategic business objectives?**

[The following question was posted to the company following the review of the annual report for the financial year ended 30 June 2017. As the company has not provided better visibility on the matter, the question has been updated and reposted.]

4. In relation to the Molokai asset, which is currently recorded on the balance sheet at US$184.4 million, reference is made to the company's SGX announcement (dated 13 October 2017) in which management had stated that "…no letter of intent, letter of offer, memorandum of understanding or agreement has been entered into for the proposed sale of the Molokai Assets, and there is no certainty or assurance that a sale will take place."

More than one year has lapsed since the above announcement. In the annual report, it was stated that the group has offered Molokai Properties Limited (the subsidiary holding the assets) to qualified buyers and that the process is ongoing.

(i) **What is the progress made in the sale of the development assets? How many qualified buyers are still in negotiation with the group? Could the company provide an update to shareholders on the milestones (if any) achieved so far in the sale process?**

The valuation of the Molokai assets is a key audit matter (KAM) highlighted by the independent auditors in their Report on the audit of the financial statements. In the KAM, it was noted that the group has held the assets since 1987 and operated a ranch business on the island until its shutdown in March 2008. The determination of the net realisable value of the development properties is dependent on renewal of the group's redevelopment plans and expectations of future selling prices in Hawaii. The carrying value of US$184.4 million is based on an independent valuation as at 30 June 2018.

(ii) **Can management help shareholders understand the local socio-economic climate and the dynamics with other stakeholders on the island?**

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(iii) What are the development and shift in sentiments, if any, that would facilitate the sale or monetisation of the assets held by the group on the island?

(iv) With no certainty in the sale, nor the value that can be realised if such a sale does materialise, and no cash flow generated from the assets since 2008, can the board, in particular the audit committee, justify why it is prudent to carry the development assets at a value of US$184.4 million on the balance sheet?

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 and 30 June 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=GL%20Ltd

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