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: Hiap Hoe Limited

Stock code: 5JK

Meeting details:
Date: 25 June 2020
Time: 10.30 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. As the group increases its exposure to investment properties, the leasing performance of its assets would be critical to the group's long-term success. Based on Note 39 (page 130 of the annual report – Segment information), the group has committed over $550 million to the "Rental income" segment.

As noted in the Operations review (page 10), the occupancy at the 13-storey Hiap Hoe Building office tower dropped to 81% (from 98%) and the Orchard Towers units (comprising 21 retail spaces and 38 offices) was only 66% occupied as at 31 December 2019. Occupancy at HH@Kallang remains flat at 79%.

In addition, for its Perth property (130 Stirling Street) acquired in 2014, the occupancy slipped to 24%.

(i) **Can management help shareholders understand the group's strength and track record in asset management (leasing)? What were the reasons for the significant drop in occupancy rates across its various assets?**

(ii) **What were the marketing efforts carried out by the group prior to the lease expiries?**

(iii) **Has the board evaluated if the occupancy rates are at least in line with the general market?**

(iv) **What guidance has the board given to management to ensure that its assets are well looked after and generate a sustainable and fair return for shareholders over the long term?**

Q2. In the investments segment, the market value of the group's trading investment portfolio increased by 9.2% over the year from $280.4 million in FY2018 to $306.2 million in FY2019.

In FY2017-2018, the portfolio was scaled up from $117.7 million to $280.4 million. At the end of the FY2018, mark-to-market losses of $(23.5) million was recognised although the group reversed some of that with mark-to-market gains of $13.7 million from its investment portfolio in FY2019.

The group has also stated that it maintains a diversified investment portfolio across different asset classes and geographies, which comprises both quoted and unquoted investments. Quoted investments include listed equities whereas unquoted investments include fixed income instruments, mutual and private equity funds.

(i) **Given the significant amount of capital invested in the portfolio, can the company provide a breakdown of the portfolio by geography, by sector and by asset class? Please also disclose the target allocation and the major holdings.**

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(ii) **How is the portfolio managed? What is the investment mandate?**

(iii) **What is the level of oversight by the board/audit committee on the group's investment portfolio, especially on the performance and risks? What are the safeguards put in place to ensure that the risks are well managed?**

(iv) **Who are the members of the financial investment committee?**

(v) **Given that the group has a net debt-equity ratio of 0.96x as at 31 December 2019, would the board consider it more prudent to scale back the investment portfolio and to return any excess capital to shareholders?**

Q3. In the past three years, the net profit/(loss) attributable to the owners of the company are:

- FY2017: $80.47 million
- FY2018: $(9.93) million
- FY2019: $22.10 million

As disclosed in the Corporate governance report, the remuneration package of Mr Teo Ho Beng has been:

- FY2017: $2 million - $2.5 million; 33% bonus
- FY2018: $2 million - $2.25 million; 25% bonus
- FY2019: $2 million - $2.25 million; 25% bonus

In fact, in 2018 when the company was loss making, all the executive directors received remuneration packages with bonuses between 23%-25%. In FY2019, the bonuses accounted for 23%-25% of the annual remuneration as well.

On page 24 of the annual report, the remuneration committee (RC) has stated that the variable component of the salary for executive director is in the form of a variable bonus that is linked to the performance of the company and the individual. The award of variable bonus is aligned with the interests of shareholders and other stakeholders and promotes the long term success of the company.

(i) **Would the RC help shareholders understand how its remuneration practices reflect the policy of linking variable bonus to the performance of the company and the individual?** It would appear that the minimum bonus component is 23%-25% regardless of the performance of the group.

(ii) **What were the performance indicators used by the RC?**

(iii) **Would the RC be re-evaluating its remuneration policies and practices to ensure better alignment between the executive directors and minority shareholders so as to promote the long-term success of the group?**

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In addition, the RC has stated that the company is not disclosing the precise remuneration and in aggregate the total remuneration of the directors and top key management personnel of the group in the annual report to avoid poaching of the company's staff and in the interest of privacy and confidentiality.

Mr Teo Ho Beng is the CEO of the company. Mr Roland Teo Ho Kang, brother of Mr Teo Ho Beng, is the managing director of the company and Mr Teo Keng Joo, Marc, son of Mr Teo Ho Beng, is an executive director of the company.

In addition, four out of the five executives are part of the Teo family.

(iv) **Would the RC help shareholders understand if it is logical to say that poaching is likely?** From Note 32 (b) (page 114 – Compensation of key management personnel), it was disclosed that directors of the company received $3.2 million while other key management personnel received $833,408.

32. RELATED PARTY TRANSACTIONS (CONT'D)

(b) Compensation of key management personnel

Group	2019 $	2018 $
Short-term employee benefits	3,912,286	4,070,663
Central Provident Fund contributions	123,714	148,510
	4,036,000	4,219,173
Comprise amounts paid to:		
Directors of the Company	3,202,592	3,125,887
Other key management personnel	833,408	1,093,286
	4,036,000	4,219,173

The remuneration of certain key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

(Source: company annual report)

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)

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