Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Ho Bee Land Limited

Stock code: H13

Meeting details:
Date: 19 May 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 noted in the chairman's statement, the group reported a 23% increase in profit to $332.3 million, the highest level since FY2013. This was partly due to full-year contribution of rental income from Ropemaker Place, positive rental reversions and higher fair value gains from the portfolio of investment properties in Singapore and London.

In FY2019, the revenue contribution from the group's UK assets ($111.3 million) has overtaken revenue from the Singapore portfolio ($96.4 million).

The group also entered the European market in 2018 with an investment of up to EUR 40 million in an European real estate fund and committed to co-invest up to EUR 50 million in the form of notes in a commercial redevelopment project in Munich, Germany.

As disclosed on page 61, the group's risk appetite statement was revised in 2018 "to reflect the increase of the group's business concentration in the commercial segment" and the country diversification ratio was updated to "take into account the group's new investments in Europe".

(i) **Would the board, especially the audit & risk committee ("ARC"), help shareholders understand if management takes guidance from the risk appetite statement issued by the ARC or if the ARC makes ex-post adjustments to its risk appetite statement based on the company's investments?**

(ii) **For the benefit of new and long-standing shareholders, would the board clearly (re)state the group's targeted capital allocation by sector (commercial, residential, industrial) and by region (Singapore, China, UK, Europe etc).**

Q2. As noted in the Corporate governance report, Mr Nicholas Chua was appointed as the Deputy CEO in 2018 as part of the group's leadership development plan and succession planning.

Mr Nicholas Chua is the son of the chairman and CEO, Dr Chua Thian Poh.

The primary responsibility of the Deputy CEO is to assist the CEO in implementing the group's strategies and policies, and in the overall management of the group's business (page 54).

(i) **Would the board help shareholders understand how the individual performance of the Deputy CEO is assessed since his primary responsibility is to assist the CEO?**

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Q3. As disclosed on page 59, the remuneration for Dr Chua Thian Poh for FY2019 was in the range of $8.0–8.25 million, with variable/bonus as the major component at 88%.

This can be attributed to the profit-sharing incentive for Dr Chua Thian Poh that is based on a percentage of the group's audited consolidated profit before tax (excluding any surplus/loss on revaluation of the group's investment properties) for the relevant financial year, plus one-fifth of any surplus/loss on revaluation of the Group's investment properties for the relevant financial year. The balance four-fifths of the surplus/loss on revaluation of the group's investment properties, are carried forward in equal amount every year for the next four years to determine his entitlement for subsequent years (page 61).

The company added that the profit-sharing formula was last revised in FY2017 to incorporate Return on Equity and Total Shareholder Return as additional conditions. There was a decrease in the profit-sharing incentive for FY2019 compared to FY2018 as the variable component slipped from 90% (remuneration of $10-$10.25 million) to 88% (remuneration of $8.0-$8.25 million).

The remuneration trend of the executive chairman & CEO and the total fair value gain is shown in the table below.

	Remuneration band	**Percentage of variable/bonus component**	**Fair value gain on investment properties**	**Gearing ratio**
FY2015	**$9.0-9.25 million**	**88%**	**$186 million**	**0.55**
FY2016	**$9.25-9.5 million**	**89%**	**$104 million**	**0.44**
FY2017	**$10.0-10.25 million**	**90%**	**$78 million**	**0.40**
FY2018	**$10.0-10.25 million**	**90%**	**$121 million**	**0.70**
FY2019	**$8.0-8.5 million**	**88%**	**$244 million**	**0.63**

Other than the improvements in the operating numbers, the valuations of the investment properties have been boosted by the decline in the capitalisation rates from 4%-5.5% in FY2015 to 3.5%-4.25% in FY2019.

(i) **Would the remuneration committee ("RC") help shareholders understand how the profit-sharing/remuneration may be impacted if ever there was fair value losses in the investment properties?**

(ii) **Specifically, is it possible that future fair value losses might result in a negative "profit-share", and if so, is the company able to "claw-back" the profit-share paid out in earlier years?**

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The group also has two jointly-controlled entities that are involved in the development of residential projects on Sentosa. As disclosed in Note 8 (page 125 – Jointly-controlled entities), the total impairment loss of the jointly-controlled entities amounted to $124.5 million.

(iii) **Can the board confirm that the any impairment loss in the jointly-controlled entities will not affect the profit-share as fair value surplus/losses but it would affect the group's share of profits/(loss) through the consolidated P&L?**

As disclosed in the Corporate governance report, the key objectives of the RC include ensuring that the level and structure of remuneration is aligned with the long-term interest and risk policies of the company, and recommending to the board the general remuneration framework and the specific remuneration packages for the directors and key management personnel.

Specifically, it was disclosed that the company "*carries out benchmarking survey annually using internal resources to ensure that the remuneration of directors and key management personnel is in line with industry level*" (page 57).

(iv) **What was the RC's involvement in the company's internal benchmarking process?**

For reference, a snapshot of the market capitalisation, profit, total assets, ROE and chairman/CEO remuneration of comparable real estate companies are shown in the table below.

	Market capitalisation	Profit	Total assets	ROE	Chairman/CEO remuneration
Company A	$14.5 billion	$2.1 billion	$82.3 billion	10.0%	$6.5 million
Company B	$6.8 billion	$565 million	$23.2 billion	5.4%	$8.9 million
Company C	$5.7 billion	$479 million	$20.7 billion	4.87%	$2.1 million
Company D	$3.5 billion	$560 million	$37.6 billion	6.3%	$3.9 million
Company E	$2.2 billion	RMB 3.4 billion	RMB 130 billion	12.6%*	$10-$10.25 million
Company F	$1.6 billion	$256 million	$10.0 billion	5.6%*	$3.75-$4 million
Ho Bee	$1.4 billion	$332 million	$6.2 billion	9.7%	$8.0-$8.25 million

(Source: company annual reports; *SGX)

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(v) **Would the RC help shareholders understand how it evaluates the current remuneration practices in terms of the level and mix of remuneration and how it considers the current practices to be appropriate and not excessive and is in line with industry level?**

To put things in perspective, the top 4 companies have an average market capitalisation of $7.6 billion, average profit of $926 million, average total assets of $41 billion and generated an average ROE of 6.6%. The average remuneration of the chairman/CEO (as the top decision maker) was $5.4 million.

^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.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ 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)