



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: LHN Limited

Security: LHN Limited

Meeting details:

Date: 30 January 2019

Time: 10.00 a.m.

Venue: 10 Raeburn Park, #02-18, Singapore 088702

Company Description

LHN Limited, an investment holding company, provides real estate management services primarily in Singapore, Indonesia, Thailand, Myanmar, and Hong Kong. It operates through three segments: Space Optimisation Business, Facilities Management Business, and Logistics Services Business. The company leases and manages industrial spaces, such as industrial buildings, factories, warehouses, and land for open storage; commercial spaces consisting of traditional offices, suited offices, recreational spaces, sports facilities, and children enhanced spaces; and residential spaces. It also offers facilities management services, which include security services; car park management services; and repair and maintenance, cleaning, landscaping, and amenities and utilities. In addition, the company operates a fleet of prime movers, trailers, oil tankers, ISO tankers, and trucks to handle the transportation of various types of oil, and oil-related and petro-chemical products, as well as containers. Further, it provides container depot management services, which include container handling and storage, container surveying, container cleaning, and container repair and maintenance services to shipping lines and container leasing companies. The company was founded in 1991 and is headquartered in Singapore. LHN Limited is a subsidiary of Hean Nerng Group Pte. Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=410)

1. Would the board/management provide shareholders with better clarity on the following operational matters? Specifically:

- (i) **Space optimisation (Master leases):** Throughout the year, the group continues to acquire and renew master leases for its space optimisation business. As noted in the Operations and financial review (page 18 of the annual report), seven master leases were renewed while a new master lease for Telepark (5 Tampines Central 6) was secured. **Can management help shareholders understand if the re-tender of master leases is carried out in a competitive manner? Are non-financial factors, such as the group's track record, taken into account by the landlord? What is the lease expiry profile of the group's master leases?**
- (ii) **Occupancy rate:** The occupancy rates for the group's industrial properties are 88.8% in FY2018, 88.4% in FY2017, 94.0% in FY2016 and 93% in FY2015. For the commercial properties, the occupancy rates are 86.2% in FY2018, 91.0% in FY2017, 94% in FY2016 and 96% in FY2015. **Can management elaborate further on the reasons for the decreasing occupancy rates? What is management's strategy to reverse the trend? Is it prudent for the group to continue growing its portfolio when the occupancy rates show a downward trend?**
- (iii) **Quanzhou:** The group's first foray in the PRC is a co-living and co-working space business in Nanan, Quanzhou. **While Quanzhou is one of the three major cities in Fujian province, can the company further elaborate on the attractiveness of Quanzhou for its co-living and co-working space business? What are the favourable macro socio-economic trends in Quanzhou to justify the group's investment? What is the group's overall strategy for the PRC market?**

2. In FY2018, the group recognised an impairment loss on trade receivables of \$(726,000) from the space optimisation business.

- (i) **Given that the group has rental deposits for its space optimisation business, how did the group get into a situation where it has to recognise an impairment loss of trade receivables of \$(726,000)?**
- (ii) **What is the profile(s) of the customer(s) who had defaulted on their payment in the space optimisation business? In addition, please disclose if the default is related to the Singapore operations or the group's overseas ventures.**
- (iii) **Can management clarify if it has adhered to its credit policies and framework, including the proper evaluation of a counterparty's credit risk and the collection of securities/deposits?**

- (iv) **What are the improvements being made to the group's systems and processes to better mitigate its credit risks?** As shown in Note 24(a) (page 127 – Trade and other receivables: Trade receivables), the amount of trade receivables past due but not impaired as increased from \$5.0 million a year ago to \$8.14 million as at 30 September 2018.

3. The group currently does not have a formal dividend policy. At the time of its initial public listing in Singapore, the group announced its intention to recommend and distribute dividends of not less than 20% of the net attributable profit for the financial years FY2015 and FY2016.

The group paid a dividend of 0.3 cents per share in FY2015, 0.65 cents per share in FY2016 and 0.2 cents per share in FY2017.

As mentioned in the annual report, The Stock Exchange of Hong Kong Limited amended its Corporate Governance Code and the related Listing Rules which came into effect on 1 January 2019. The new Code Provision (E.1.5) requires the issuer to disclose its dividend policy in the annual report.

- (i) **Would the board be disclosing the dividend policy?**

For FY2018, the directors did not recommend the payment of dividend for the year ended 30 September 2018 despite the group generating strong cash flow from its operating activities, and boosted by the net proceeds raised in the Hong Kong dual listing. Cash and cash equivalent increased from \$14.885 million to \$20.667 million as at 30 September 2018. The board has stated that the group *"intends to better use the cash for other business expansion opportunities"*.

- (ii) **Can the board elaborate further on the deliberations it had on the declaring of dividends?**

- (iii) **Has the board considered how the group can better balance the need to grow its business and the need to provide shareholders with stable returns in the form of regular dividends?**

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

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

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