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: LHN Limited

Stock code: 41O

Meeting details:
Date: 29 January 2021
Time: 10.00 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. Would the board/management provide shareholders with greater clarity on the following operational matters? Specifically:

(i) **Dormitory management contracts:** In the second half of the financial year ended 30 September 2020, the group leveraged its expertise in space optimisation to secure contracts to convert and manage workers' dormitories. This was expected to be short-term (6-12 months) and non-recurring. Revenue from this new business amounted to $16.1 million. **Has management further evaluated opportunities in the dormitory segment and considered if the group could leverage its expertise and proven track record to create a new business segment of dormitory management?**

(ii) **Commercial properties:** The average occupancy rates for FY2020 was 78.6%. As at 30 September 2020, it stood at 62.9%. Management has stated that this was partly due to the renewal of the Phoenix Park property in August 2020 and the challenging situation in Jakarta. **Given the challenges caused by the COVID-19 pandemic, how will the group be finetuning its long term growth plans in the commercial segment?**

(iii) **Trucking services:** For FY2020, revenue from trucking services increased marginally to $11.4 million. The group has acquired 7 Gul Avenue to serve as its logistics facility. In the financial year, the group also commenced cross border trucking services for customers. **Can management elaborate further on the competitive advantage of the group in the trucking business, especially in cross border trucking? Who are the major customers?**

(iv) **Residential:** The pandemic led to strong demand for the group's residential services as Malaysians who used to commute daily remained in Singapore after the borders were closed. In addition, the group also benefitted from higher demand for living spaces that offers more privacy and ensuite bathroom facilities due to hygiene concerns. The occupancy rate at its largest co-living residence was as high as 95.6% as at 30 September 2020. **Does management expect the occupancy rate to maintain at such high levels once the borders are open? If not, what is management's strategy to maintain/improve the performance of the residential segment in the long run?**

Q2. The group's gearing ratio, measured by net debt to total capital, was 0.58x as at 30 September 2020 following the adoption of IFRS 16 in which lease liabilities amounting to $99.4 million were included. On 1 October 2019, the net debt to total capital ratio of the group was 0.63x.

As seen in Note 37 (page 175 – Bank borrowings), the group's borrowings have increased from $48.1 million to $66.7 million. Net debt (which includes lease liabilities) amounted to $169.3 million while total equity was $123.6 million (page 128).

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As at 30 September 2020, the group has owned investment properties valued at $82 million and right-of-use investment properties valued at $34 million. The group also has exposure to industrial real estate via its joint ventures, such as 5 Toa Payoh and 202 Kallang Bahru.

(i) **Has the board deliberated on a maximum leverage for the group?**

(ii) **With the group shifting away from an asset-light model to acquiring (and owning) properties, what guidance has the board given to management to ensure that the group does not over-leverage itself? Does the shift in the business model away from an asset-light business model affect the group's profitability (such as ROI/ROE)?**

(iii) **Has the board/management evaluated and determined an optimal balance for the group's leased and owned properties in its portfolio?**

(iv) The group has also acquired properties in developing countries such as a residential apartment in Cambodia and office space in Indonesia. **Can management elaborate further on the strategic considerations when the group acquires assets in developing countries? Is the group looking to build up its overseas asset portfolio?**

Q3. As seen in Note 21 (page 160 and 163 – Investments in joint ventures), the group has 5 joint ventures which are material to the group and are carried at $17.2 million.

As noted in Q2, the group's joint venture acquired 202 Kallang Bahru in February 2020. Renovations are being carried out to convert it into a Work Plus Store self-storage facility. 5 Toa Payoh that was acquired in June 2020 and will be used for storage of cars, spare parts, vehicle inspection (without servicing and repair activities).

The group has also announced plans to acquire a carpark at Bukit Timah Shopping Centre and 40 and 42 Amber Road via joint ventures.

(i) **How does management determine which projects are to be carried out with partners via joint ventures and which projects are to be carried out by the group?**

(ii) **In addition, how does the group source for such opportunities and its joint venture partners?**

(iii) **What is the level of oversight, control and influence over the joint ventures?**

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As the number of joint venture increases, the group's exposure to different sectors increases as well. The group has material joint ventures in carpark operations, storage, mattresses and automotive.

(iv) **What is the level of due diligence by the board and by management prior to investing into new business areas? How does management ensure that there is a good culture fit between the group and the joint venture partners?**

(v) **Can management confirm that the joint ventures are accounted for using the equity method of accounting? If so, can the audit committee also confirm that the borrowings taken by the joint ventures are not consolidated in the group's financial statements?**

^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)