



Securities Investors Association (Singapore)

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Issuer: Low Keng Huat (Singapore) Limited

Security: Low Keng Huat (Singapore) Limited

Meeting details:

Date: 29 May 2019

Time: 11.00 a.m.

Venue: Grand Mercure Roxy Singapore, Brooke, Meyer & Frankel Room Level 3, 50 East Coast Road, Roxy Square, Singapore 428769

Company Description

Low Keng Huat (Singapore) Limited is an investment holding company. The Company operates as a general building contractor. The Company operates in four business segments: Construction, Development, Hotels and Investments. The Construction segment includes building and engineering work. The Development segment is engaged in the development of properties. The Hotels segment is engaged in owning and operating hotels and restaurants. The Investments segment is engaged in investment in properties and shares in quoted and unquoted equities. It owns and operates deluxe hotels in Perth (Australia) and Ho Chi Minh City (Vietnam) under the in-house brand, Duxton Hotel. The Company's other hospitality related business is food and beverage business under its brand name of Carnivore in Singapore. Among its investment portfolio are investment properties in Singapore, Malaysia and China. The Company's subsidiaries include Kwan Hwee Investment Pte Ltd, Prodev Pte Ltd and Duxton Hotel (Pte.) Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=F1E)

Q1. Would the board/management provide shareholders with better clarity on the following operational matters? Specifically:

- (i) Kismis Residences:** Development revenue increased by \$102.9 million to \$135.0 million for the financial year ended 31 January 2019, mainly due to the sales of the terraces at Kismis Residences. In the past two years, the group has recognised over \$167 million in revenue and segment result of \$23.5 million. In Note 16 (page 137 – Subsidiaries), it is disclosed that the profit/(loss) allocated to the 30% non-controlling interest in Newfort Alliance (Kismis) Pte. Ltd. was \$885,000 in FY2019 and \$(771,000) in FY2018. **Would management help shareholders understand the total revenue and profit from the project? What was the developer’s margin that was achieved?**
- (ii) Villa D’Este (“Dalvey”):** With a 40% equity stake in the project company, what is the level of oversight and influence on the strategic decisions of the development project?
- (iii) Cairnhill project:** The group completed the acquisition of 67 Cairnhill Road on 30 August 2018 while the acquisition of 69 Cairnhill Road is scheduled to completed on 23 May 2019 following the receipt of the relevant government approvals including the Sale Order from High Court. The group’s revised plan is to redevelop the combined sites into “*approximately 150 residential units*” (page 5). **Was the delay in the completion of the acquisition of 69 Cairnhill Road anticipated by management? Given the current market trends (including the latest round of cooling measures), how have the group’s plans been affected? When will the project be launched and what is the group’s strategy to ensure a healthy take-up rate?**
- (iv) Developer’s margin:** In approving the projects, what is the level of developer’s margin used in the planning/evaluation process?

Q2. For the financial year ended 31 January 2019, the board has recommended a first and final dividend of 1.5 cents per share, down from 2.5 cents per share for the previous financial year. A summary of the 5-year highlight is reproduced below:

| FINANCIAL YEAR | 2014/15 | 2015/16 | 2016/17 | 2017/18 (restated) | 2018/19 |
|-------------------------------|----------------|----------------|----------------|------------------------------|----------------|
| OPERATING RESULTS | | | | | |
| Revenue (\$'000) | 1,258,928 | 86,624 | 47,044 | 72,669 | 171,396 |
| EBITDA (\$'000) | 247,277 | 84,326 | 79,597 | 35,016 | 33,976 |
| Pretax profit (\$'000) | 236,674 | 70,225 | 67,824 | 22,905 | 21,511 |
| Net Profit (\$'000) | 189,426 | 57,829 | 63,719 | 18,958 | 18,746 |
| EBITDA margin (%) | 19.6 | 97.3 | 169.2 | 48.2 | 19.8 |
| Pretax margin (%) | 18.8 | 81.1 | 144.2 | 31.5 | 12.6 |
| Net margin (%) | 15.0 | 66.8 | 135.5 | 26.1 | 10.9 |
| FINANCIAL POSITION | | | | | |
| Total assets (\$'000) | 1,275,550 | 1,150,350 | 1,151,106 | 1,156,958 | 1,213,119 |
| Total borrowings (\$'000) | 342,024 | 341,075 | 360,284 | 373,084 | 447,197 |
| Shareholders' equity (\$'000) | 619,940 | 627,558 | 666,895 | 664,082 | 655,216 |
| Net debt : equity (times) | 0.11 | 0.19 | 0.14 | 0.35 | 0.49 |
| PER SHARE DATA | | | | | |
| Earnings (cents) | 21.7 | 7.5 | 7.5 | 2.4 | 2.1 |
| Dividends (cents) | 5.0 | 4.0 | 4.0 | 2.0 | 1.5 |
| Net tangible assets (cents) | 84.0 | 85.0 | 90.0 | 90.0 | 89.0 |
| Year end share price (cents) | 74.0 | 62.5 | 58.0 | 69.5 | 57.5 |
| SHAREHOLDERS' RETURN | | | | | |
| Return on equity (%) | 30.6 | 9.2 | 9.6 | 2.9 | 2.9 |
| Return on asset (%) | 14.9 | 5.0 | 5.5 | 1.6 | 1.5 |
| Dividend yield (%) | 6.8 | 6.4 | 6.9 | 2.9 | 2.6 |
| Dividend payout ratio (%) | 23.0 | 53.3 | 53.3 | 83.3 | 71.4 |

(Source: Adapted from company annual report)

As at 31 January 2019, the group has cash and cash equivalents amounting to \$116.3 million.

The dividends have decreased from 4.0 cents per share in FY2016 and FY2017 to just 1.5 cents per share while the group's leverage has increased from 0.11x to 0.49x.

- (i) What were the deliberations by the board on the declaration of dividends?**
- (ii) Has the board reviewed the cost of capital and returns achieved from the group's development and investment projects?**
- (iii) Does the board have a targeted dividend payout ratio?**

Further, as shown in Note 3 (page 109 – Cash and cash equivalents), as at 31 January 2019, the group has over \$17.5 million in United States dollar (FY2018: \$68.0 million).

(iv) Would management help shareholders understand the reason for the group to hold on to the high level of USD?

Q3. As noted in the chairman's statement, three new independent board directors, namely Mr Chris Chia Woon Liat, Mr Cheo Chai Hong and Mr Michael Leong Choon Fai, were appointed to the board as part of succession planning and board renewal.

In addition, Mr Wey Kim Long retired in September 2018 while Mr Lee Han Yang and Mr Lucas Liew Kim Voon would be retiring upon the conclusion of the forthcoming AGM.

Mr Low Keng Boon @ Lau Boon Sen was appointed as the executive chairman on 25 March 2019.

(i) Given the changes to the board, would the board be further reviewing the group's strategic direction and making refinements to its strategies?

Two of the three independent directors appointed to the board have no prior experience as a director of a listed company. Mr Michael Leong Choon Fai was previously an executive director of a listed company prior to its delisting in 2013. The profiles of the new directors could be found on pages 19 and 20 of the annual report.

(ii) Would the company help shareholders understand the formal training provided/to be provided to the first time directors in respect of their roles and responsibilities of a director of a public listed company?

The company has stated that, where applicable, it will leverage external search consultants to source for potential candidates although recommendations from directors and management are the usual source for potential candidates (page 29).

(iii) Can the board help shareholders understand the search and nomination process for the newly appointed directors? Were external search consultants used?

(iv) Given that all the three independent directors have no prior experience as independent directors, does the board have the necessary experience and expertise to discharge their duties and responsibilities as the directors of a listed company?

A copy of the questions for the Annual Report for the financial year ended 31 January 2018 and 31 January 2017 and could be found here:

[https://sias.org.sg/qa-on-annual-reports/?company=Low%20Keng%20Huat%20\(Singapore\)%20Ltd&cid=6764,4655,4314](https://sias.org.sg/qa-on-annual-reports/?company=Low%20Keng%20Huat%20(Singapore)%20Ltd&cid=6764,4655,4314)

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