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Issuer: Hiap Hoe Limited

Stock code: 5JK

Meeting details:

Date: 28 April 2023

Time: 10.30 a.m.

Venue: Ramada Singapore At Zhongshan Park, 16 Ah Hood Road, Zhongshan Room Level 2, Singapore 329982

Q1. The collective sale of Orchard Towers failed as the required threshold to proceed with the sale was not reached. The group owns 59 strata lots at Orchard Towers, comprising 21 shops and 38 offices. Management believes that the imminent cessation of the Public Entertainment license will have a positive impact on the property, as the removal of nightlife activities is expected to boost demand for its shop and office spaces.

- (i) What was the final level of consent from unit owners of Orchard Towers? In management's view, how feasible is it to bridge the gap to attempt a collective sale again?**
- (ii) To the best of management's knowledge, what were the main reasons cited by unit owners who did not support the collective sale of Orchard Towers? Were there any common concerns or objections that were raised?**
- (iii) What role did the group play in the collective sale (prior to its termination)?**
- (iv) The occupancy rate at the group's Orchard Towers units has dropped to 44%. Can management clarify if that is based on floor area? What is the current monthly rental?**
- (v) When the board approved the purchase of the Orchard Towers strata lots, did they consider the possibility that an attempt at collective sale would fail and that a collective sale may or may not materialise? What is the board's strategy to maximise the group's returns?**
- (vi) To what extent is management confident that Orchard Towers will be effectively repositioned after the cessation of public entertainment activities? What specific initiatives is management undertaking to support the repositioning process?**
- (vii) Separately, In relation to the planned rebranding exercise to Aloft Singapore Novena, will the group's hotels be temporarily closed during the process? If so, what is the expected impact on the group's operations and revenue? What were the key factors that motivated the decision to switch the hotel management from Wyndham Hotel Group to Marriott, and what potential benefits does management anticipate as a result? Lastly, can management provide any estimates or guidance on the level of anticipated capital expenditures required to rebrand the hotels to the Aloft brand?**

Q2. On page 9 of the annual report, management shared its risk management framework and set out the key risks as:

- interest rate exposure
- foreign exchange risk
- liquidity risk
- market price risk
- business continuity risk

Despite recognising the risks, management did not appear to have been effective at hedging the group's risks, as shown in the carrying value of the derivatives (net carrying value of \$133,355).

In FY2022, the group recognised foreign exchange loss of \$(3.2) million, fair value loss in financial instruments \$(29.2) million, and foreign currency translation loss of \$(8.5) million.

22. DERIVATIVES

	Group			
	2022		2021	
	Assets	Liabilities	Assets	Liabilities
	\$	\$	\$	\$
Currency swaps	199,079	–	61,135	–
Options	600	(66,324)	–	(288,892)
	199,679	(66,324)	61,135	(288,892)
Add: Other investments (Note 20)	297,167,938	–	315,564,404	–
Total financial assets/(liabilities) at fair value through profit or loss	297,367,617	(66,324)	315,625,539	(288,892)

During the financial year, the Group recognised fair value gain of \$286,407 (2021: \$17,400) on derivative instruments (Note 8).

Currency swaps

Currency swaps are used to hedge foreign currency risk arising from the Group's trading investments denominated in foreign currencies.

Options

Options derivatives contracts are entered which gives the Group's the right to buy or sell an underlying trading investment at a specified strike price on a specified date.

(Source: company annual report)

- (i) **Interest rate risk:** The effective rates increased from 1.47%-1.61% in 2021 to 4.58%-4.98% in 2022 for total borrowings of over \$710-720 million. The group did not appear to have hedged its interest rate risk and the sensitivity analysis showed that an increase in 100 basis points in the interest rate would lead to a higher loss of \$5.9 million. In 2022, finance cost increased from \$10.9 million to \$19.9 million. **Can the audit committee (AC) provide shareholders with insights into the guidance it provided to management on effectively managing the company's interest rate risks? Has management been actively engaged in managing these risks, and if not, what are the reasons behind this decision?**
- (ii) **Foreign exchange risk:** The sensitivity analysis of the group's foreign currency risk can be found on page 116. **What is the degree of natural hedging in place for the company's main foreign currency exposures, and how effective is it in mitigating currency risks? What are the notional amounts of its forward currency contracts/swaps, if any?**
- (iii) **Market price risk:** What was the underlying investment thesis for Credit Suisse's Additional Tier 1 Capital, and how did the board evaluate and approve this investment? Did the group invest in other Tier 1 Capital bonds?
- (iv) **A2I Holdings S.A.R.L ("A2I"):** The group currently holds a 20.71% interest in A2I, which represents an investment in AccorInvest Group. Management has classified this investment as passive, and it is measured at fair value through profit or loss, falling under level 3 of the fair value hierarchy. **Can the AC provide insights into the rationale behind using a price-to-book multiple of 1.29 times as the unobservable input for the valuation technique?** It may be noted that the company itself trades at a price-to-book multiple of 0.5 times.

Q3. On 11 January 2023, Singapore Exchange Regulation (SGX RegCo) announced that it will limit the tenure of independent directors (IDs) serving on the boards of listed issuers to nine years¹. This stemmed from recommendations by the Corporate Governance Advisory Committee (CGAC). There was broad market support for this change during the public consultation carried out by SGX RegCo.

Mr Tan Boon Gin, CEO of SGX RegCo, also noted that the limit on tenure of IDs provides an opportunity for companies to inject new skills, experience and knowledge into their boards, all of which will be invaluable in guiding the business for the long term.

- (i) **Has the nominating committee (NC) reviewed the current competency matrix of the board and identified any gaps in skills or competencies that need to be addressed in future director appointments?**

The two independent directors, Mr Ronald Lim Cheng Aun and Mr Koh Kok Heng Leslie, were appointed on 28 April 2015, and would have each completed 8 years of service as director by 28 April 2023.

- (ii) **What is the progress made in identifying and appointing new directors?**
- (iii) **Can the NC elaborate further on the search and nomination process for directors, especially independent directors? Will the NC engage a third-party search firm or a professional body to broaden the pool of potential candidates?**
- (iv) **Separately, what are the key findings from the most recent formal assessment of the effectiveness of the board and the board committees?**

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

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¹ <https://www.sgxgroup.com/media-centre/20230111-sgx-regco-caps-independent-directors-tenure-enhances-remuneration>