

SIAS Q&A

1. **Would the board/management provide shareholders with better clarity on the group's strategies and operations? Specifically:**
 - i. **Singapore projects:** The group launched RV Altitude and Fyve Derbyshire in January 2019 and sales at these two freehold prime sites were reported to below management's expectations.

With four more projects in the pipeline totaling approximately 400 units, what adjustments has management made to the projects? What are the levers available to management to improve sales other than reducing prices?

- For our prime and freehold projects, RV Altitude and Fyve Derbyshire, our strategy is to sell the small units first as these are appealing to property investors and Singaporeans who are looking to invest in property;
- RV Altitude is purely targeted at property investors as the development project has only one type of unit, 2-BR. We are marketing this as a differentiated product in District 9 going at an attractive price range of S\$1.3 million to S\$1.8 million;
- In order to stand out and achieve a win-win outcome, we have considered adopting the following strategies:
 - o **Sensitive pricing and creative concepts:** on top of good location, we will explore sensitive pricing strategy and strong product differentiation, along with strong value propositions;

- **Curate an optimal unit mix** and unit size to match buyers' needs; For smaller to medium-sized plots, we could go to either end of the spectrum, depending on the existing stock and positioning;
- **Innovative marketing campaigns:** maximise exposure and reach potential buyers via social media and by providing immersive experiences with videos and virtual show suites;
- With clear strategies in place, we believe that our projects under development will continue to resonate well with the market as we continue to aggressively push sales of our remaining units.

Given the current climate, what is the expected/projected developer's margin?

- Each of our individual projects has a different set of projected margins which varies depending on factors such as land cost, development cost and sales value;
- Based on our current projections, we expect to maintain our margin at above 12%.

- ii. **Hotel:** As seen in Note 24 (Page 164 – Operating segments), the segment reported (losses) of \$(10.1) million in FY2017 and \$(4.6) million in FY2018. In FY2016, the loss was \$(2.7) million. This also coincided with the launch of the first self-managed hotel (Noku Kyoto).

Would management disclose the key operating metric of each asset to help shareholders understand the performance of the assets better? Are the self-managed Noku-branded hotels achieving break-even or better?

- Typically it takes about two to three years for a new hotel to achieve a stable level of operations:
 - o *Noku Kyoto* and *Noku Osaka* incurred small losses in FY2018 but is expected to breakeven in FY2019;
 - o *Noku Maldives* is expected to break even in FY2020;
- Overall, the performances of our self-managed *Noku Hotels* are within our projections.

	FY2017	FY2018
AOR - GMRH	88.9%	88.4%
ARR - GMRH	\$141	\$141
RevPar - GMRH	\$126	\$124
AOR - Noku Kyoto	62.0%	60.2%
ARR - Noku Kyoto	\$223	\$248
RevPar - Noku Kyoto	\$138	\$149
AOR - Noku Osaka	61.6%	61.3%
ARR - Noku Osaka	\$106	\$104
RevPar - Noku Osaka	\$65	\$64
AOR - Maldives Resort	11.5%	34.0%
ARR - Maldives Resort	\$488	\$302
RevPar - Maldives Resort	\$56	\$103

- iii. **Property investment:** What is the total investment amount for the new 23-storey 319-room Park Hotel Melbourne?
- The total investment amount is estimated to be around A\$135 million.

- iv. **Business model:** The theme for the 2018 annual report is “Driving GROWTH and VALUE”. **Would the board articulate its business model to identify the key growth drivers and how that drives value creation for its stakeholders?**
- We will continue to deliver quality developments and services, focusing on our three pillars of growth – Property Development, Property Investment and Hospitality;
 - **Property Development:** We look forward to the launch of 393 residential units in Singapore for sale in the next few quarters depending on the market conditions. With many of our land bank sites acquired in the early stage of the property upcycle, we are confident in our ability to offer the upcoming projects at attractive price points. As for property acquisitions, we adopted a prudent stance following the latest round of cooling measures and will remain selective in accumulating sites. In Australia, our development projects have been well-received. We have acquired a land parcel with a land area of 8,433 square metres at 36 Mavis Street, slated for a project comprising industrial and storage units for sale;
 - **Property Investment:** With a high level of occupancy, this segment continues to contribute healthy recurring income and we will continue to seek yield-accretive investment opportunities to strengthen this recurring income stream. We have successfully redeployed funds from the divestments of 59 Goulburn Street and 117 Clarence Street into other yield-accretive property investments, namely 33 Argyle Street in New South Wales, Australia, in January 2019, and 312 St Kilda in Melbourne, Australia, in January 2018, both of which will contribute positively in the year ahead. We have also made progress in Melbourne, Australia, having obtained approval to re-develop the freehold commercial and retail building, Melbourne House, into a 319-room hotel;

- **Hospitality:** While our flagship Grand Mercure Singapore Roxy hotel continues to be affected by the ongoing construction of the Thomson-East Coast MRT line in the area, in the longer term, the hotel is expected to benefit from increased connectivity in the area when the station opens in 2023. Our self-managed hotel brand, *Noku hotels*, continues to deliver encouraging results, having been extended to Maldives and soon, Phuket, following the success of *Noku Kyoto* and *Noku Osaka*. In August 2018, *Noku Maldives* has commenced full operations and we look forward to the launch of our second resort asset in Phuket, Thailand, in 2020;
- We will also explore new geographical markets which are expected to experience favourable market cycles and returns to diversify our risks and enhance shareholder value;
- In short, while we have adopted a prudent stance for our property development segment, we continue to build a strong level of recurring income through our property investment and hospitality segments. By creating a larger base of recurring income, we are able to reduce our reliance on property development, which is more sensitive to market conditions. As such, we have one hospitality segment that delivers recurring income, a property investment segment that also delivers recurring income while providing the opportunity for one-off gains through divestments, and a property development segment that gives us the final boost.

- v. **Sustainability:** The Company has also included its second Sustainability Report on pages 24 to 50 of the annual report. **Can the board help shareholders understand how it links and integrates sustainability with the group's strategy?**
- As an established property and hospitality group we recognise the environmental and social impacts of our activities; (AR Pg 25)
 - Based on the materiality assessment we conducted in 2017, we identified three areas where the business has the most impact – Environment, Social and Governance; (AR Pg 28)
 - As the hospitality industry in general uses a substantial amount of energy, we are focused on reducing our overall energy consumption and have met our targets set in 2017; (AR Pg 30)
 - We are proud to disclose that we have acquired two properties in New Zealand, both of which have sustainable and energy smart external and internal infrastructure; (AR Pg 25)
 - In terms of social responsibility, our focus remains with children's welfare and elderly care within our immediate community; (AR Pg 44)
 - In FY2018, we collected our highest donation in recent years, amounting to S\$137,169 during our annual charity car wash event. It is a testament of our presence and reliability when it comes to charitable work that we were able to secure generous support from our business associates; (AR Pg 25)
 - The Group maintains a high standard of governance, with strong policies in place, and there were no incidents of corruption or non-compliance with laws and regulations for FY2018. (AR Pg 42 & 43)

- 2. As seen in Note 34 (page 187 – Capital management), the group has total borrowings of \$1.04 billion and net borrowings of \$751 million. With an adjusted net assets value of \$981.5 million, the net debt to adjusted net assets value was 0.77x as at 31 December 2018.**

Based on the 10-year history (page 1 – Financial highlights), this is the highest gearing that the group has employed in the past 10 years.

i. Has the board set an internal limit to the gearing?

- We remain prudent in this area and our current and ideal gearing ratio is low at less than 1;
- We will regularly review our debt and equity levels to maintain a level that will support the Group's stability and growth.

- ii. Can the board help shareholders understand the interest rate risks faced by the group? How much of its borrowings are on floating rates?

Debt Profile	31 Dec 2018	31 Dec 2017 (Restated) ⁽¹⁾
Total borrowings (S\$m)	S\$1,042.9	S\$871.8
Net borrowings (S\$m)	S\$751.3	S\$549.3
Fixed rate loans (S\$m)	S\$226.0	S\$271.6
Fixed rate loans as % of total loans	22%	31%
Weighted average term for fixed rate loans	20 months	29 months
Weighted average interest rate (fixed rate loans)	3.1%	3.3%
Weighted average interest rate (floating rate loans)	2.9%	2.6%
Interest coverage ratio (times) ⁽²⁾	2.6	3.7
Cash coverage ratio (times) ⁽³⁾	13.6	13.1

- As at 31 December 2018, 22% or S\$226.0 million of our borrowings are on fixed rate loans and 78% or S\$816.9 million of our borrowings are on floating rate loans;
- We would like to highlight that we are confident in our ability to meet our debt obligations;
- As at 31 December 2018, our interest coverage ratio is 2.6 times and cash coverage ratio is at 13.6 times.

- iii. Has the company evaluated how it could reduce its financing costs and also explore new sources of funding?

Pre-Sale Revenue to be recognised by projects (S\$'m)

Project name	Type of development	Group stake %	Total units in project Unit	Unit sold %	Attributable total sale value ^{(i) (ii)} \$'m	Attributable revenue recognised up to 31 December 2018 \$'m	Balance attributable progress billings to be recognised from 1Q2019 \$'m
Singapore							
1 The Navian	Residential	100%	48	92%	\$ 53.1	\$ 19.2	\$ 33.9
2 Harbour View Gardens	Residential	100%	57	98%	\$ 72.2	\$ 1.3	\$ 70.9
3 120 Grange	Residential	90%	56	80%	\$ 74.9	-	\$ 74.9
4 Bukit 828	Residential	80%	34	21%	\$ 5.9	-	\$ 5.9
5 Arena Residences ⁽ⁱⁱⁱ⁾	Residential	50%	98	42%	\$ 25.9	-	\$ 25.9
6 RV Altitude ^(iv)	Residential	100%	140	15%	\$ 32.9	-	\$ 32.9
7 Fyve Derbyshire ^(iv)	Residential	100%	71	14%	\$ 18.5	-	\$ 18.5
Malaysia							
5 Wisma Infinitem - The Colony	Residential	47%	423	72%	\$ 52.9	\$ 17.9	\$ 35.0
Wisma Infinitem - The Luxe	Residential	47%	300 ^(v)	42%	\$ 26.5	\$ 8.7	\$ 17.8
Australia							
Sydney							
6 The Hensley, Potts Point	Residential	100%	44	98%	\$ 64.1	-	\$ 64.1
	Shop	100%	1	100%	\$ 1.0	-	\$ 1.0
7 Octavia Killara	Residential	100%	43	98%	\$ 41.8	-	\$ 41.8
8 West End Residences, Tower 1 (Foundry)	Residential	100%	140	89%	\$ 126.8	-	\$ 126.8
West End Residences, Tower 2 (Art House)	Residential	100%	91 ^(iv)	86%	\$ 81.5	-	\$ 81.5
Total			1,546		\$ 678.0	\$ 47.1	\$ 630.9

(i) For Singapore projects, sale value is based on Option to Purchase granted up to 12 February 2019

(ii) For overseas projects, sale value is based on contract signed up to 12 February 2019

(iii) Launched on 2 November 2018

(iv) Launched on 14 January 2019

(v) Represents Block B - The Luxe by Infinitem. An additional 31 commercial units are pending launch

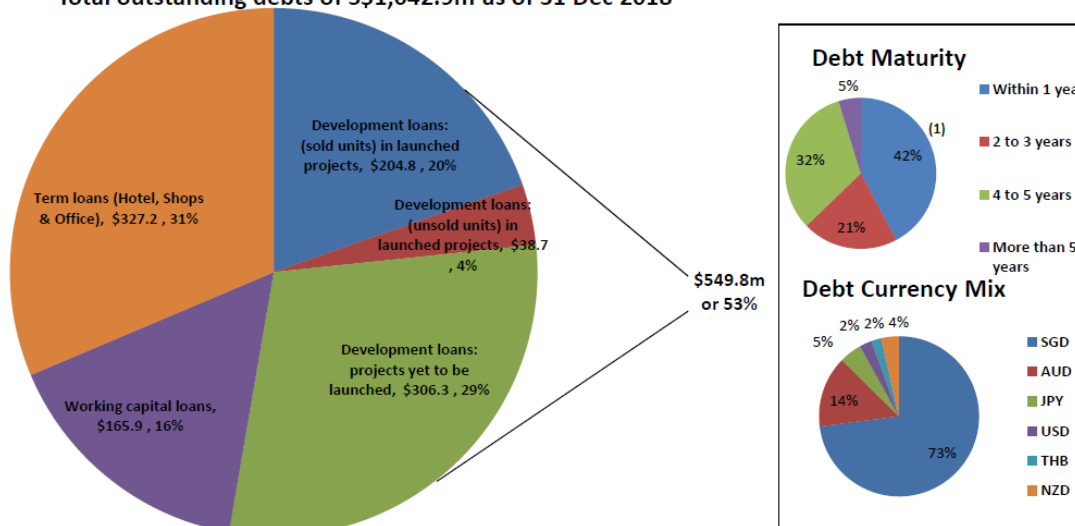
Note: Pre-sale revenue is recognised based on Percentage of Completion except for Australia projects which is recognised based on completed contract method.

- The best way to reduce financing costs is to repay our borrowings or to obtain a cheaper source of funding;
- As at 31 December 2018, we have fully redeemed the S\$60 million that was issued earlier under the S\$500 million Multicurrency Medium Term Note Programme;
- Going forward, we are expecting inflow from our Australian projects, which have a total balance attributable billings to be recognised from 1Q2019 amounting to S\$315.2 million (inclusive of revenue recognised from The Hensley project of S\$55.2 million in 1Q2019);
- Part of these attributable billings will go towards the repayment of borrowings, which will go towards reducing our financing costs;
- With good headroom, we have no immediate fundraising plans. Nevertheless, we will continue to review the need for any equity or debt issue depending on the Group's investment plan.

- iv. With approximately 41% of the group's debt maturing within 12 months, has management started looking at how it could refinance the maturing loans, perhaps with better terms?

Debt Profile as at 31 Dec 2018 (S\$m)

Total outstanding debts of S\$1,042.9m as of 31 Dec 2018



(1) S\$144.4 m relates to loans for sold units which is expected to be repaid upon obtaining TOP and collections from buyers of the properties. S\$101.2 m relates to revolving loans for shop units and Grand Mercure Roxy Hotel, Singapore and S\$64.7 m loans is secured by fixed deposits

- To be exact the percentage is 42%;
- Of our total outstanding debts, S\$144 million relates to loans for sold units which are expected to be repaid upon obtaining TOP and collections from the buyers;
- S\$176.2 million relates to loans for shop units and Grand Mercure Roxy Hotel, Singapore;
- Another S\$64.7 million of loans are secured by fixed deposits;
- As at 31 December 2018, we had a healthy net gearing of 0.77 time;
- Gearing to come down in FY2019 with the collection from our Australia projects, in particular, Glebe and Killara, which are expected to obtained TOP in FY2019;
- We are in a healthy position in terms of the repayment of borrowings.

3. In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (“2018 CG Code”). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

- As at the date of the annual report, the board of directors comprises six members; of whom three are independent, namely Mr Tay Kah Poh, Mr Tong Din Eu and Mr Winston Tan Tien Hin;
- Mr Tay Kah Poh and Mr Winston Tan Tien Hin were first appointed on 17 December 2007 and 14 December 2006, respectively. Accordingly, Mr Tay and Mr Tan have each served on the board for more than 11 years and more than 12 years respectively. Mr Tay Kah Poh was appointed as the lead independent director on 1 June 2018;
- Mr Tay is retiring under Article 103 of the constitution of the company and is seeking his re-election at the company’s annual general meeting.

i. Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed with any future director appointments?

- The composition of the Board is reviewed on an annual basis by the nominating committee to ensure that the Board has the appropriate mix of expertise and experience, and collectively possess the necessary core competencies for effective functioning and informed decision-making;
- Taking into account the scope and nature of the operations of the Group, it is the nominating committee's considered opinion that the current Board composition and size are appropriate and as a group, the directors provide relevant competencies to facilitate effective decision making for the existing needs and demands of the Group's businesses;
- The Board's decision-making process is not dominated by any individual or small group of individuals. However, the Board notes the requirements of the new Code of Corporate Governance 2018 (which will take effect for the next reporting period commencing 1 January 2019) for majority of the Board to be non-executive directors. The Board is reviewing its composition to comply with the new Code.

(AR Pg 60 & 61)

ii. With two long tenured independent directors on the board, has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?

- The Board is of the view that Mr Tan and Mr Tay have demonstrated strong independent character and judgment over the years in discharging their duties and responsibilities as Independent Directors of the Company with the utmost commitment in upholding the interest of the non-controlling shareholders;
- They have expressed individual viewpoints, debated issues and objectively scrutinised and challenged management;
- They have sought clarification and amplification as they deemed necessary, including through direct access to the Management. They have also sought external professional advice, where necessary, such as in the review of Executive Directors' remuneration;
- Each of the Independent Directors is subject to a rigorous review which requires him to complete a Directors' Declaration Checklist to confirm his independence under stricter criteria over and above the guidelines set out in the Code. Under such rigorous review, each Independent Director has confirmed that he and any of his immediate family, relatives and associates does not have any relationship or business dealings with a controlling shareholder or a controlling shareholder's connected persons that would give rise to a conflict of interest or impairment of the Independent Director's independence;
- Emphasis is placed on whether they have continued to demonstrate integrity, professionalism and independent judgement and/or decisions on matters with the interests of the Company at heart without undue reliance on and influence by others;

- Having subject their independence to rigorous review, the Board has resolved that Mr Tan and Mr Tay are independent notwithstanding their length of appointment.

(AR Pg 60 & 61)

iii. Following the appointment of Mr. Tong Din Eu in October 2017, what are the company's other near term plans to refresh the membership of the board to comply with the new 2018 Code in good time?

- Since 2017, the Company has begun a transition to include new independent directors to further strengthen the independence element of the Board. Mr Tong Din Eu was appointed as independent director on 2 October 2017, following which Mr Hew Koon Chan had retired as Independent Director by rotation under the Constitution at the last annual general meeting on 6 April 2018;
- To ensure a smooth transition, Mr Tay, who will retire by rotation in the forthcoming AGM in accordance with the Constitution has acceded to the Board's request to submit himself for re-election and complete his final term of service as independent director ending in 2020 so that the Board can source for a replacement candidate till then;
- Mr Winston would be due for retirement by rotation in 2021 which coincides with his final term of service as an independent director.

(AR Pg 60 & 61)

24 April 2019