



HWA HONG CORPORATION LIMITED

68th Annual General Meeting
23 April 2021, 10am
Via Live Webcast and Audio

OUR FY2020 OPERATING PERFORMANCE

2

<i>SGDm</i>	FY2019	FY2020	Change
Revenues	14.5	10.3	(29%)
EBITDA	12.1	9.7	(20%)
Gross profit ("GP")	10.8	11.3	5%
Net profit after tax ("NPAT")	6.5	4.2	(35%)
Earnings per share (cts)	0.99	0.64	(35%)
Net assets per share	29.18	28.66	(2%)

- **FY2020 revenue was lower at S\$10.3m (FY2019: S\$14.5m)**
 - Decrease in rental revenue by \$0.6 million mainly due to rental income from 20 Midtown property
 - Decrease in investment revenue by \$3.6 million mainly due to one-off dividend income investment of S\$3.4 million received in 2019 from its investment in a Vietnamese property portfolio
- **Increase in GP (FY2020: S\$11.3m, FY2019: S\$10.8m)**
 - Net increases in fair value of investment securities for fair value through profit and loss ("FVPL") investment, partially offset by
 - Decrease in revenue
- **NPAT decreased by 35% from S\$6.5m in FY2019 to S\$4.2m in FY2020**
 - General & administrative expenses increased from S\$6.0m in FY2019 to S\$6.6m in FY2020
 - Decrease in share of results of associates and joint ventures from S\$1.3m in FY2019 to S\$0.5 million in FY2020
 - Other operating costs increased from S\$0.3m in FY2019 to S\$5.1m in FY2020, partially offset by
 - Decrease in finance costs from S\$2.3m in FY2019 to S\$1.9m FY2020
 - Increase in other income from S\$3.6m in FY2019 to S\$7.0m in FY2020



OUR FY2020 FINANCIAL HIGHLIGHTS

3

Gearing		Payout		Market valuation	
Net gearing ratio ¹	41%	Payout ratio	156.25%	P/BV (cost ²)	1.05x
Total debt	S\$77.4m	NPAT	S\$4.2m	P/BV (FMV ³)	0.67x
Net assets	S\$187.1m	Dividend	S\$6.5m	Market cap.	196m
Cash	S\$44.7m	Dividend yield	3.7%	<i>Based on share price of S\$0.3</i>	

➤ Strong balance sheet

- Fair value of commercial and residential properties recorded as S\$254m as compared to book value of S\$147m
 - S\$107m of unrealised fair value reserves not reflected in balance sheet
- Net gearing ratio of 41% declines to 26%, after adjusting for the aforesaid fair value reserves
- Cash and bank balances of S\$44.7m (FY2019: S\$39.5m)

➤ Dividend payout

- Ordinary dividend of 1 cent per share paid in Jun 2020
- Ordinary dividend of 1 cent per share proposed for approval

Notes:

1. Defined as long and short-term bank loans plus bank overdrafts divided by shareholders' equity
2. Based on cost model accounting for Investment Properties
3. Based on fair market value of c.S\$257m for Investment Properties, excluding tax effects and realignment of associates and JVs to the fair value model



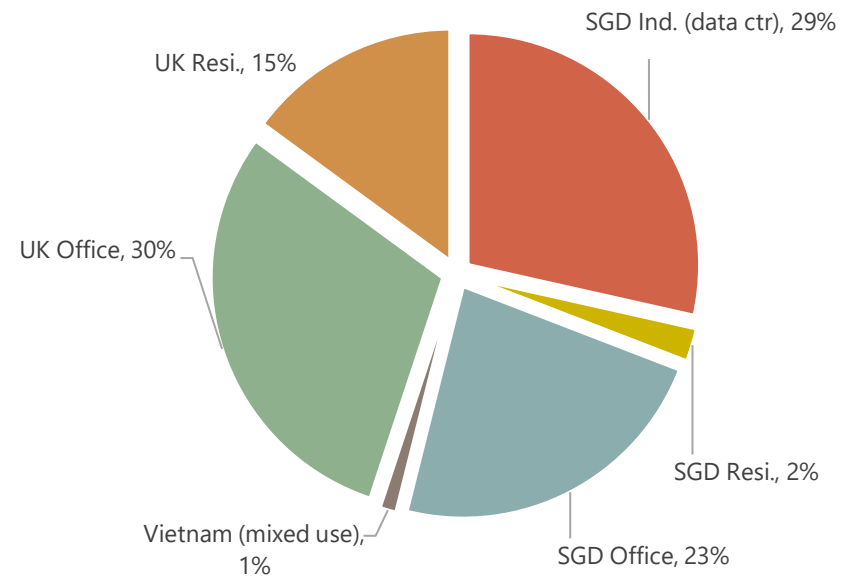
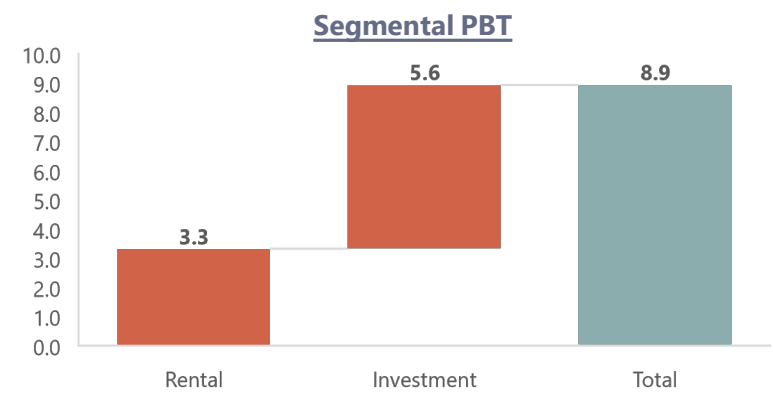
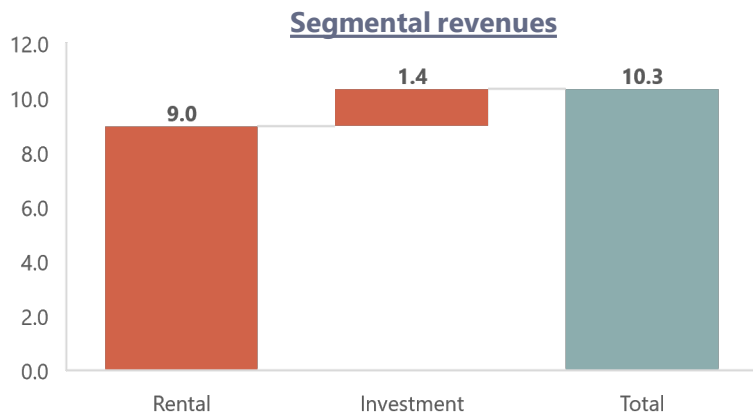
OUR BUSINESS IN FY2020

SEGMENTAL PBT AND PORTFOLIO ALLOCATION



PROFITABILITY AND ASSET ALLOCATION

- Main revenue contribution came from real estate rental
- Key contributor to PBT this year came from our investment segment as the global markets recovered strongly in 3Q and 4Q 2020
- Portfolio allocation for FY2020 remained largely in line with FY2019



Note:

1. Based on 31 Dec 2020 valuations (excl. any tax effects)
2. Orchard Medical and Orchard Towers was based on selling price of c.S\$4,000psf and c.S\$2,500, respectively (excl. any tax effects)
3. Includes our share of the net asset values of associates and JVs, based on fair market value (excluding any tax effects)



OUR BUSINESS IN 2020

OUR PORTFOLIO LIFE CYCLE

DIVESTMENT

Rivergate apartments
Hornton Street flats



NEW INVESTMENT & BUSINESS

No new asset acquisitions in FY2020

Asset light business initiative - Launch of Shorea Capital London Office Fund

ONGOING ASSET/LEASE MGMT

20 Midtown
Neo Bankside
Scotts Spazio
20 Garrett St

UNDER DEVELOPMENT

253 Jalan Besar
46 Loman St
Neo Bankside
Kilmuir House
Allen House
Hornton Street



OUR BUSINESS IN 2020

KEY DEVELOPMENTS IN 2020



Kilmuir House

- Detailed design development underway
- Vacant possession expected 4Q2021/1Q2022
- Full planning permission expected in 1H FY2022, with targeted sales campaign thereafter

Allen House

- Assessing various exit options



DESIGN AND
PLANNING

253 Jln Besar

- Construction underway
- Target completion 4Q2021

46 Loman St

- Completion expected 2Q2021
- 70% pre-let

Neo Bankside

- Target completion 1H2021
- Pre-let to existing tenant



DEVELOPMENT &
CONSTRUCTION

20 Garrett St

- Rent review concluded

Rivergate

- Sale of 2 units (\$5.0m gain)

Hornton St

- Sale of 1 unit (£0.5m gain)



LEASE /ASSET
MANAGEMENT



OUR BUSINESS IN 2020

COVID-19 IMPACT

7

- Main impact of COVID-19 on valuations comes from 20 Midtown where tenants' lease terms were changed
- Values of other properties in SGP and UK remain stable



PROPERTY VALUATION

Impairment to value 20 Midtown due to a change in tenants' lease terms

- Leases have been restructured at 20 Midtown and it continues to be > 95% let albeit at lower rents
- Neo Bankside Retail, vacant space has been let on a short-term basis. We expect longer term leases to be put in place as footfall increases
- All other properties remain at 100% occupied



OCCUPANCY RATES / TENANT DEFAULTS

Occupancy remains high albeit at lower rents

- 253 Jalan Besar delayed due to foreign worker dormitory lockdowns, closed borders and manpower shortage
- 46 Loman St and Neo Bankside facing minimal delays



PROJECT DELAYS

All projects delayed due to pandemic



LOOKING AHEAD INTO 2021/2022

LOOKING FOR GROWTH AFTER THE COVID-19 CRISIS

8



OUR VIEW OF FY2021

- Longer term economic scarring from COVID-19 as job support and furlough schemes end
- Impact of record levels of sovereign debt following COVID-19
- Effectiveness of vaccines and vaccine roll outs
- Real estate investment markets expected to return to normalcy gradually. Key question is demand
- WFH – Will there be a significant change in structural demand for office space? If so, how significant will it be



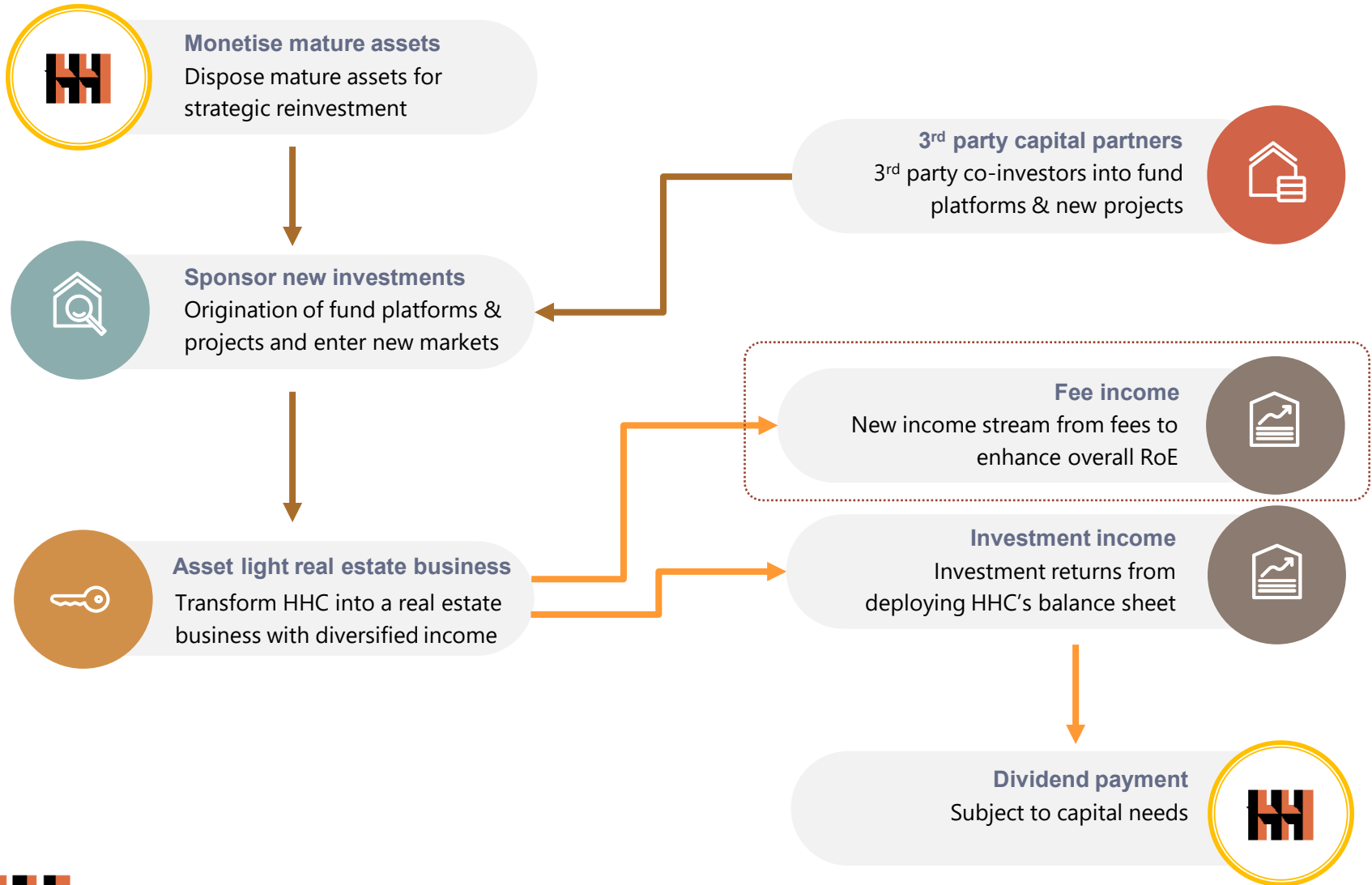
PRIORITIES FOR FY2021

- Focus on building our real estate assets under management (“AuM”)
- Increase 3rd party real estate AuM
- Increase fund management fee income as a new revenue stream (increases RoE)
- Recycle capital from mature assets
- Balance sheet efficiency and strength
- Manage property vacancy rates through pro-active tenant engagement as we emerge from the pandemic
- Execution of live projects



LOOKING BEYOND 2021

OUR ROADMAP TO IMPROVING SHAREHOLDER RETURNS



LOOKING BEYOND 2021

UPDATE ON 3RD PARTY AUM

10

➤ **Dedicated Project Advisory**

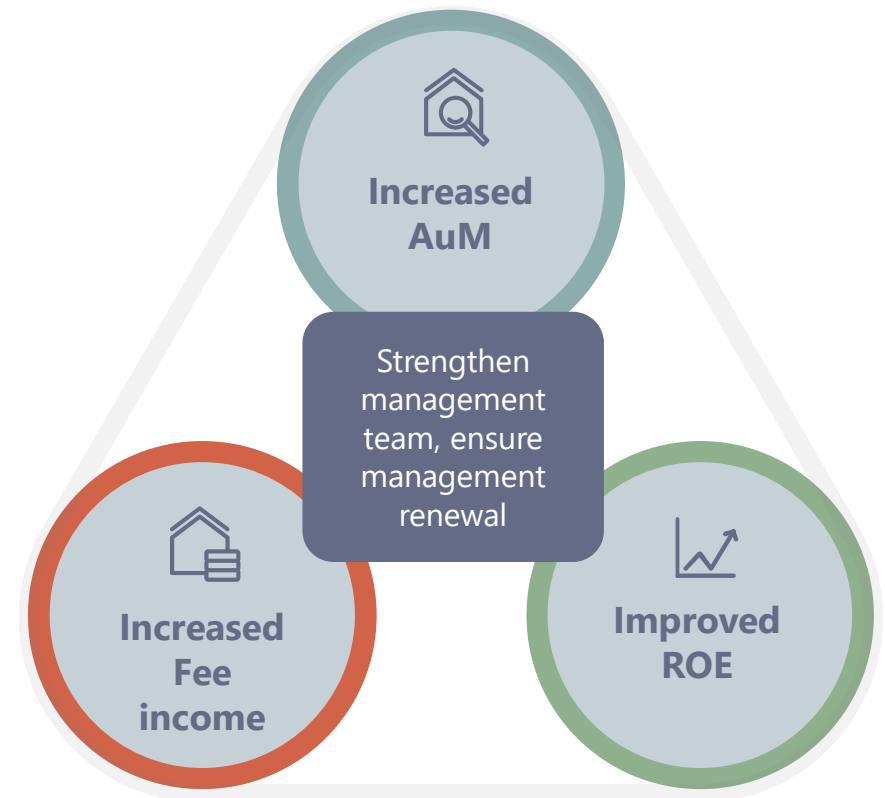
- Development of a 450-key dual brand hotel with 60,000sq ft retail podium
- Located on Bourke Street/Elisabeth Street, Melbourne
- Appointed by site owner to deliver the project

➤ **Private Real Estate Fund - Shorea Capital London Office Fund**

- Prime central London value-add office fund
- Capital raised over COVID-19 with 1st close AuM of c.S\$150m (debt & equity)
- Continue to raise capital over the next 9-12 months

➤ **The Shorea Capital Team**

- Led by Mr Eugene Teo (veteran real estate banker with 20 years of experience)
- Supported by a team of 10 investment, finance and project delivery professionals
- Combined experience of more than 100 years in the real estate and banking sectors



1. Page 7 of Annual Report: The ROE and ROA of the company is very low at only 2% to 3% pre-COVID and worsen to 1% to 2% due to COVID. In short, the ROE and ROA is perennially low. What is the management doing to improve the ROE and ROA? Are we thinking about how to become asset light & improve on efficiency ratios?

Company's reply

Please refer to our AGM slides 8 and 9 on our business initiatives which aim to improve our ROE/ROA.



2. Page 20 of Annual Report: The dividend payment is more than 100% for 4 of the last 5 years. Is this sustainable?
3. Will the Group be able to sustain its dividend payout of 1 cents given its declining profit over the last few years? If so, could you please comment how is this achievable?

Company's reply to Q2 and Q3 above:

The Group strives to reward shareholders for their continued confidence in the Group by paying dividends to the shareholders after taking into account our balance sheet, cashflow requirements and profits for the year. The Group ensures that the dividend payment will not jeopardise the cash flows and operations of the Group.

The Group will continue to assess the requirements of the capital requirements, balance sheet position, cash flows and operating results before recommending dividends to shareholders.



4. Page 20 of Annual Report: The EPS is dropping from around 1 cents to now below that. What is the company doing to reverse this negative trajectory?

Company's reply:

Please refer to our AGM slides 8 and 9 on our business initiatives which aim to improve our ROE/ROA.

5. The Board comprises of 7 members. This is not a big company - mkt cap is only around \$200 million. Companies with similar mkt cap have a board size of around 5 people. Why does the Board have so many members? Can the size of the board be reduced? The code of corporate governance states that ID should comprise a majority of the board. Can one of the non-ID directors step down?

Company's reply:

The Directors, as a group provide the appropriate balance and mix of skills, knowledge, experience, and other aspects of diversity for the Group. The Board reviews its succession plan and appropriate size for the Directors regularly, after taking into account the requirements of the Code of Corporate Governance.



6. Page 22 of Annual Report: Why is the biography of Mr Ong Mui Eng so short? Can he elaborate more about himself?

Company's reply:

Mr Ong had about 30 years of experience in the banking industry. He started work in Mercantile Bank Ltd, London HQ for about 3 years, then transferred to Singapore Mercantile Bank main office at Raffles Place. Subsequently after Mercantile Bank merged with HSBC, Mr Ong was transferred to HSBC Ocean Building Branch as a Regional Officer. From time to time, Mr Ong was sent to Hong Kong office, Malaysia office and also Australia office to attach to National Bank of Australasia for a brief period.

He was also a director of People Insurance Ltd, Hong Leong Finance Ltd, Ong Holdings Pte Ltd, Bee Tong Trading Co Private Ltd and Singapore Piling and Engineering Pte Ltd.

Currently, besides being a Director at Hwa Hong Corporation Limited and the subsidiaries, he is also a Director of OME Investment Pte Ltd and Ong Chay Tong & Sons Pte Ltd. Mr Ong has worked in Hwa Hong Corporation Limited since 1982.



7. In terms of human resource, are there any actions taken to ensure smooth succession planning of key executives?

Company's reply:

Succession planning for Directors and key management personnel is under the purview of the Nominating Committee ("NC") and NC reviews the succession planning minimally on a yearly or regular basis.



- SIAS initiative to improve the quality of annual general meetings
 - Raise relevant questions
 - To help focus discussions at shareholder meetings
 - Help companies to provide better accountability to shareholders
 - Initiative supported by SGX
- Q&A available on SGX website
- Copies sent to SIAS (www.sias.org.sg)





HWA HONG CORPORATION LIMITED

Thank you