



HWA HONG CORPORATION LIMITED

66th Annual General Meeting
24 April 2019, 10am
Grand Copthorne Waterfront Singapore

OUR FY2018 OPERATING PERFORMANCE

2

SGDm	FY2017	FY2018	Change
Revenues	14.5	10.4	(28%)
EBITDA	11.5	8.2	(29%)
Gross profit	10.0	3.7	(63%)
Net profit after tax	7.4	4.3	(41%)
Earnings per share (cts)	1.13	0.67	(41%)
Book value per share	30.19	28.98	(4%)

- FY2018 revenue was lower at S\$10.4m (FY2017: S\$14.5m)
 - Lower gains from investment segment [S\$4.7m and 73.1%], offset by
 - Overall increase in rental income [S\$0.6m and 7.2%]
- FY2018 NPAT was lower at S\$4.3 m (FY2017: S\$7.4m)
 - Lower revenue
 - Lower gains on disposals of investment properties : 1 residential unit in Singapore
 - Higher general and administrative costs, driven by one-time transaction costs



OUR FY2018 FINANCIAL HIGHLIGHTS

3

Gearing		Payout		Market valuation ¹	
Gearing ratio ⁴	54%	Payout ratio	164.25%	P/BV (cost ²)	1.00
Total debt	82.3m	NPAT	4.3m	P/BV (FMV ³)	0.69
Net assets	189.1m	Dividend	7.2m	Market cap.	189m
Cash	32.3m	Dividend yield	3.79%		

- **Strong balance sheet**

- S\$85m of unrealised fair value reserves in investment properties not reflected in balance sheet
- Gearing increased to 54%⁴ (33% in FY2017)
 - Drops to 37% after taking into account fair value reserves
- Total debt to equity of 43.5% based on existing shareholders funds and 30.0% after taking into account unrealised fair value reserves in investment properties
- Cash and bank balances of S\$32.3m (FY2017: S\$50.7m)

- **Dividend payout**

- Ordinary dividend of 1 cent per share and Special dividend of 0.10 cent paid in May 2018.
- Ordinary dividend of 1 cent per share proposed for approval

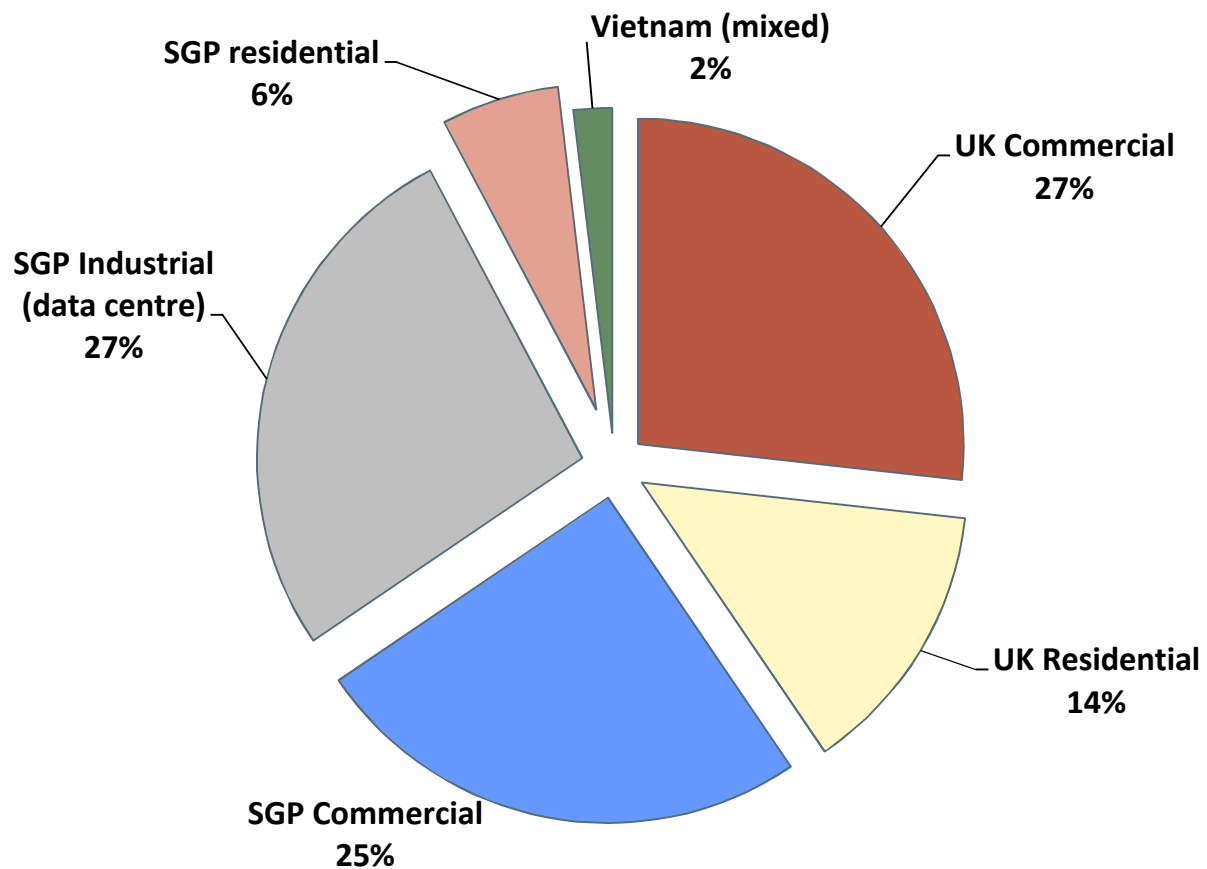
Notes:

1. Based on market price of S\$0.29
2. Based on cost model accounting for Investment Properties
3. Based on fair market value of c.S\$241m for Investment Properties, excluding tax effects and realignment of associates and JVs to the fair value model
4. Defined as Total Liabilities divided by Shareholders Funds



OUR BUSINESS AS AT 31 DEC 2018

ALLOCATION OF ASSETS

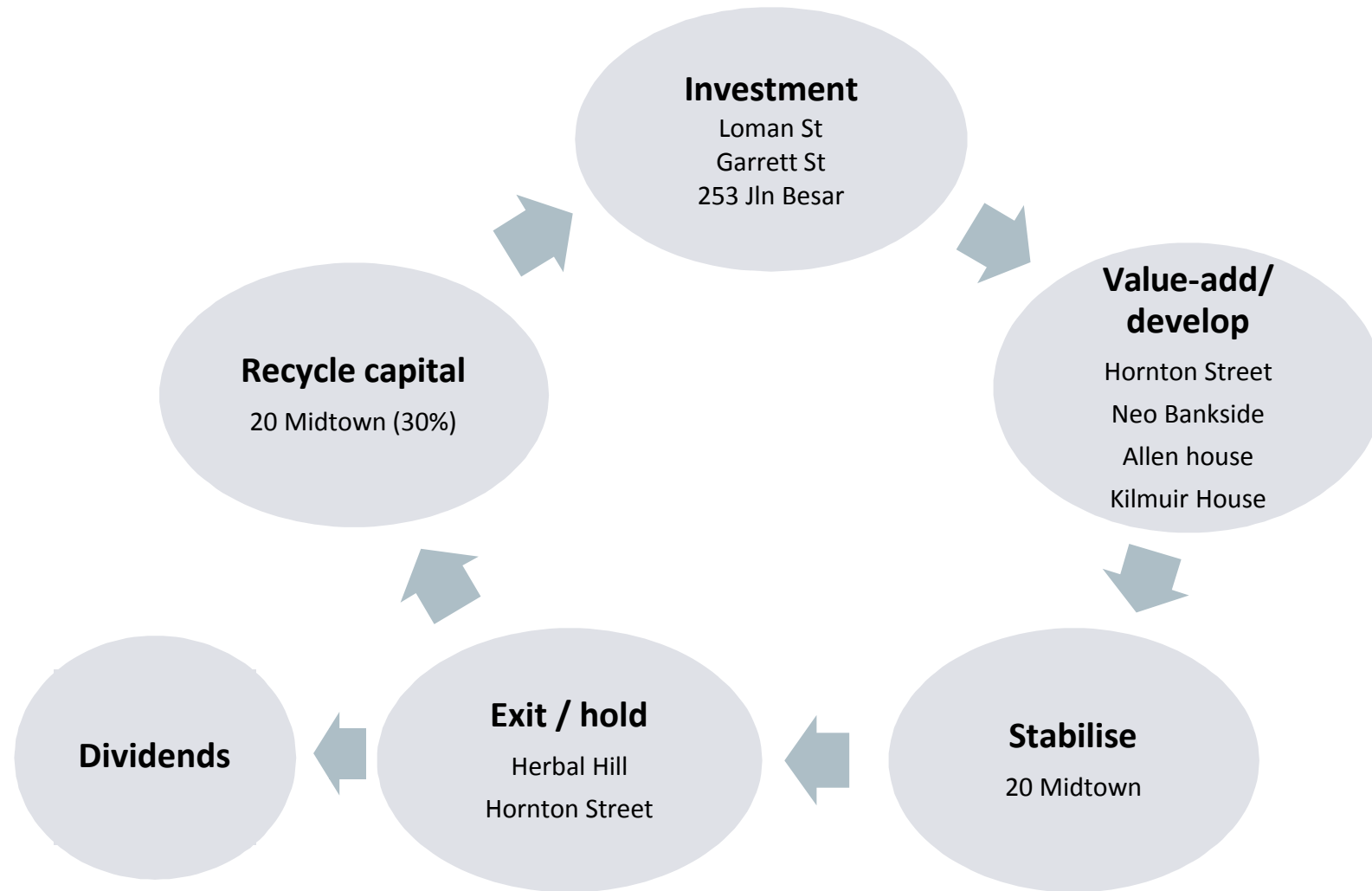


Note:

1. Based on 31 Dec 2018 valuations except for Kilmuir House which was based on investment cost (excl. any tax effects)
2. Orchard Medical and Orchard Towers was based on selling price of c.\$4,000psf and c.\$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 2018



OUR BUSINESS – 2018 ACTIVITIES

OUR REAL ESTATE STRATEGY

6

OUR STRATEGIC OBJECTIVES	ACTIONS TAKEN IN 2018
Invest where we see long term value	<ul style="list-style-type: none">• Loman Street and Garrett acquisitions• 20 Midtown ownership increased to 100%• 253 Jalan Besar
Unlock/create value from portfolio over time	<ul style="list-style-type: none">• Hornton St refurbishment• Herbal Hill exit• Kilmuir House – planning permission• Allen House - improve planning permission• Neo Bankside - asset enhancement
Optimise income from assets	<ul style="list-style-type: none">• Leasing of 20 Midtown completed



RECENT ACQUISITION (2018)

7



Property name	253 Jalan Besar
Location	Jalan Besar
Description	Development site with permission for a 6 storey commercial office building with F&B on ground floor
Lease data	N.A
Tenure	Freehold
Floor area (NIA)	Estimated GFA of 9,694sf
Rental data	N.A
Acquisition price	£13.8 million (land), c.S\$1,423psf ppr
Group's interest	100%
Remarks	Awaiting written permission to begin construction works



RECENT ACQUISITION (2018)

8



Property name	20 Garrett Street
Location	Borough of Hackney , near Old Street Roundabout, London
Description	3 storey commercial office building with a lower ground
Lease data	Fully let to single tenant until 2029
Tenure	Freehold
Floor area (NIA)	Current floor area of 17,500sf
Rental data	Leased at £35psf until 10 Sept 2019. Current market rents £57psf
Acquisition price	£18.5 million
Group's interest	71.39%
Remarks	Asset was bought off-market Value add strategy through lease management



RECENT ACQUISITION (2018)

9



Property name 46 Loman Street

Location Borough of Southwark, Southbank, London

Description 4 storey commercial office building

Lease data Undergoing asset enhancement

Tenure Freehold

Floor area (NIA) Current floor area of 19,762sf

Rental data Undergoing asset enhancement

Acquisition price £15.8 million

Group's interest 50.0%

Remarks

- Value add strategy through asset enhancement
- Addition of up to 5,351sf (27% uplift)
- Expected capital expenditure of c.£252psf



OUR BUSINESS – 2018 ACTIVITIES

10

OUR REAL ESTATE STRATEGY

OUR STRATEGIC OBJECTIVES	ACTIONS TAKEN IN 2018
Recycle capital	<ul style="list-style-type: none">• 20 Midtown acquisition and Herbal Hill divestment• Loman Street and Garrett Street acquisitions• Development of 253 Jalan Besar
Maintain strong, & efficient balance sheet	<ul style="list-style-type: none">• Although gearing has increased from 33% to 54%, it remains manageable• Gearing taking into account fair value reserves drop to 37%
Develop additional overseas markets and new businesses	<ul style="list-style-type: none">• Investment in Shorea Capital Private Limited (“SCPL”) as part of our new asset light strategy• SCPL is currently looking into a mixed use retail and hospitality opportunity in Melbourne



OUR BUSINESS – LOOKING AHEAD

OUR REAL ESTATE STRATEGY

11

OUR STRATEGIC OBJECTIVES	PRIORITIES FOR 2019	RISK FACTORS TO OUR STRATEGY
Invest where we see long term value	<ul style="list-style-type: none">• Singapore: Increase focus in the commercial segment• UK: Selectively invest by looking beyond Brexit	<ul style="list-style-type: none">• Competition• Valuations
Execute asset specific business plans	<ul style="list-style-type: none">• Kilmuir House• Allen House• Loman Street	<ul style="list-style-type: none">• Execution risks• Market risks
Develop new asset light advisory and management business	<ul style="list-style-type: none">• Shorea Capital Private Limited	<ul style="list-style-type: none">• Inability to raise sufficient AUM capital



OUR BUSINESS – LOOKING AHEAD

OUR REAL ESTATE STRATEGY

12

OUR STRATEGIC OBJECTIVES	PRIORITIES FOR 2019	RISK FACTORS TO OUR STRATEGY
Recycle capital	<ul style="list-style-type: none">• Look to exit mature assets• Redeploy capital into income generating assets	<ul style="list-style-type: none">• Valuations• Competition for assets
Maintain strong, & efficient balance sheet	<ul style="list-style-type: none">• Hedge currency and interest rate risks• Ensure sustainable LTVs and interest cover	<ul style="list-style-type: none">• Interest rate risks• Currency volatility• Decline in valuations
Continue to develop overseas markets	<ul style="list-style-type: none">• Continue to look selectively into new markets• Leverage Shorea platform for co-investment	<ul style="list-style-type: none">• Partnership risk• Country risks (emerging markets)• Capital availability



BREXIT impact so far

- UK FDI in 2017 was 12.5% higher than 2016³
- UK GDP growth was 0.6% in 4Q 2018, strongest since 4Q 2016³
- UK unemployment rate is lowest since referendum³
- UK job vacancies highest since 2001³
- 10,000 jobs to leave financial services (Reuters survey)
 - Equivalent to 0.5% of office stock¹
 - 49,000 jobs to be created in next 2 years²
 - Earlier estimates much higher (e.g. 75,000 jobs)
- As at Oct 17, 128,000 new jobs created in London³
- TMT companies are the main demand drivers for office space¹, replacing financial services
 - Increase in transactions and take-up rates (2018)
 - Rents stable and vacancy rates lower (2018)

What does the future hold?

- Hard BREXIT
 - GDP lower by 1% to 10%⁴
 - Maybe averted
 - Focus should be on trade deal negotiations
- True impact difficult to measure in isolation
 - Will depend on terms of the trade deal with the EU
 - Likely to happen over long period of time
 - Other global geopolitical and macroeconomic factors would also affect UK and London
- Political and populist nature of BREXIT
 - Would a Labour government come into power?
 - Would the Conservative party splinter?
 - More questions than answers

Notes:

1. The London Report 2018, Knight Frank
2. Experian Economics
3. Office of National Statistics, UK
4. EU withdrawal scenarios and monetary and financial stability, Nov 2018



RATIONALE FOR INVESTMENT IN LONDON

14

London as a global city

Demographics

- 8.8m population (c.9.6m in 2026)

Sizeable local economy

- GVA of £408bn (Singapore GDP of £250bn)

Global city

- Voted “2018 Most Powerful City” (Institute for Urban Strategies)
- Global Financial Centers Index No.1 spot

Connectivity

- Heathrow: 80m passengers p.a.
- Gatwick: 46m passengers p.a.

Diversity

- 25% born outside Europe
- 37% born outside UK
- 300 languages/dialects (London households)

Market transparency and depth

Transparency and rule of law

- Established legal system
- English language

Size and depth of market

- Investment volume of £15bn vs Singapore (£2bn), Melbourne (£1.1bn) and Frankfurt (£8.8bn)
- Market size (total supply 26.7m sqm) vs Singapore (8.1m sqm) and Melbourne (4.6m sqm)

Long lease structures

- 5 to 20 year leases with rental uplifts pegged to inflation



- **SPH**
 - Mayflower portfolio (£180m)
 - Portfolio of 3 dormitories (£134m)
- **CDL**
 - Old Broad Street (£385m)
 - Aldgate House (£183m)
- **Wing Tai (HK) JV**
 - 30 Gresham Street (£425m)
- **Cheung Kong Group**
 - UBS HQ (£1bn)
- **Ho Bee Land**
 - 67 Lombard Street (£129m)
 - Ropemaker Place (£650)
- **Kwok Family/Sun Hung Kai**
 - Isle of Dogs site (£1.0bn)
- **Kingboard Group**
 - KPMG HQ (£400m)
- **Frasers**
 - Business park portfolio (£743m)
- **Private HK buyer**
 - Monument Place (£90m)
- **Lee Kum Kee**
 - Walkie Talkie (£1.3bn)
 - Eastcheap Estate (£46m)



OUR TRACK RECORD IN LONDON

16

Property	Purchase cost (£m)	Market/exit value (£m)	Capital gain ¹ (£m)	Remarks
The Bridge, Clerkenwell	7.1	11.0	3.9 (55%)	2005 to 2014 (GFC)
18 & 20 Vestry & East Road	6.3	12.6	6.3 (200%)	2005 to 2014 (GFC)
20 Midtown	29.6	33.4	3.8 (13%)	2014 to 2018
Neo Bankside	5.7	7.3	1.6 (28%)	2013 to 2018
Neo Bankside Pavillion E	10.7	14.4	3.7 (35%)	2014 to 2018
Herbal Hill	26.5	28.9	2.4 (9%)	2016 to 2018
Allen House	6.7	4.2	-2.5 (-37%)	2013 to 2018
Kilmuir House	57.2	71.7	14.5 (25%)	2016 to 2018

Notes:

1. Capital gains include costs associated with purchase and capitalised improvements but excludes rental income received



Private and Confidential

- 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