F·P·A FINANCIAL
Investment Perspectives
19 January 2022

REAL ESTATE EQUITY RESEARCH

LHN Limited

SGX: 41O
Bloomberg: LHN:SP
ISIN code: SG1AH9000002

Country: Singapore
Industry: Real Estate Development & Operations

19 January 2022
RECOMMENDATION: BUY

Current price: S$0.300
Target price: S$0.480
Issued units: 408.945 million (30 Sep 21)
Market capitalisation: S$122.68 million

52-week range: S$0.177 - S$0.480

PRICE PERFORMANCE

COMPANY DESCRIPTION

LHN Limited and its subsidiaries (collectively defined herein as LHN) is a real estate management and logistics services group headquartered in Singapore with operations throughout Asia. LHN's businesses are divided into three separate and distinct business segments, namely, the space optimisation business, the facilities management business and the logistics services business. LHN is listed on the Catalist of the Singapore Exchange Securities Trading Limited (SGX-ST) and on the Main Board of The Stock Exchange of Hong Kong Limited (SEHK).

SUMMARY

For the financial year ended 30 September 2021 (FY2021), LHN recorded revenue of S$121.0 million, a decrease of 9.9% yoy from S$134.2 million over the same period a year ago. The decrease was primarily due to the decrease in revenue from the Space Optimisation Business which was partially offset by the increase in revenue from the Facilities Management Business and Logistics Services Business. At the same time, cost of sales also decreased by 22.9% yoy to S$54.4 million. Accordingly, LHN's gross profit increased by 4.6% to S$66.6 million FY2021 from S$63.6 million in FY2020. During the period, LHN reported profit attributable to equity holders of the company of S$28.1 million, representing a 16.2% yoy increase from FY2020. This translate to an earnings per share of 6.94 cents. Meanwhile, LHN has declared a final dividend of 1.00 cents to be paid on 24 February 2022 and an interim dividend of 0.75 cents was paid on 18 June 2021.

RECOMMENDATION

Based on LHN's reported NAV of S$0.36, LHN currently has a P/B multiple of 0.84x and is trading at a discount of approximately 16% to NAV. Our peer comparison results show that LHN's P/B of 0.84x is higher compared to its peer average P/B of 0.74x. Meanwhile, LHN may not be as attractive as its peers in terms of dividend yield. Our evaluation of the peer comparison analysis leads us to believe that LHN's dual listing in Singapore & Hong Kong could increase its market visibility and attract more investors, which could help justify its higher P/B valuation. At the same time, LHN's low dividend payout ratio suggests that there could be room for higher dividends or that LHN could reinvest the earnings for growth opportunities which could support further share price upside. Accordingly, we believe there could be upside potential to LHN's share price. Hence, we estimated a target price of S$0.480, which is its 52-week high. This target price is a 60.00% upside from the current share price of S$0.300. We believe this upside could be justified by the possibility of a further improvement to LHN's financial performance as supported by the positive outlook for Singapore's economy and for the industries that LHN are operating in. Further, LHN's new acquisitions and new lease agreements could also underpin revenue and profit growth. Given the above, we believe a buy recommendation is warranted on LHN.

KEY FINANCIALS Year ended Sep 30	Revenue (S$ million)	Profit [1] (S$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per unit (S$)	P/B (x)
2020 actual	134.2	24.1	6.00	5.00	1.25	4.2%	0.30	0.99
2021 actual [2]	121.0	28.1	6.94	4.32	1.75	5.8%	0.36	0.84
2022 forecast	131.2	28.2	6.97	4.30	1.76	5.9%	-	-
2023 forecast	143.0	31.5	7.80	3.84	1.97	6.6%	-	-

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S$0.300

(1) Profit attributable to owners of the company

(2) NAV as at 30 Sep 2021

Source: LHN Limited, FPA Financial

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COMPANY OVERVIEW

In this section, we will discuss LHN's corporate profile, substantial shareholders, corporate structure and its geographical revenue contribution.

(I) Corporate Profile

LHN was listed on the Catalist of the Singapore Exchange Securities Trading Limited (SGX-ST) on 13 April 2015 and on the Main Board of The Stock Exchange of Hong Kong Limited (SEHK) on 29 December 2017.

LHN is a real estate management services group, with the ability to generate value for its landlords and tenants through its expertise in space optimisation, and logistics service provider headquartered in Singapore. LHN's business group includes Space Optimisation Business Group, Facilities Management Business Group and Logistics Services Business Group, which are fully integrated and complement one another. The Space Optimisation Business Group converts and improves old, unused and under-utilized spaces to maximize the space and function of the leasable area. These properties include industrial, commercial and residential spaces. The Facilities Management Business Group provides a spectrum of facilities, carpark and security management services to manage the facilities of its commercial, industrial and residential properties. The Logistics Services Business Group provides transportation services for base oil & bitumen, and chemicals.

As at 30 September 2021, LHN had approximately total assets of S$386.8 million and equity attributable to owners of the Company of S$145.7 million.

(II) Substantial Shareholders

As at 3 December 2021, Fragrance Ltd is LHN's largest substantial shareholder with 220,982,600 shares representing 54.04% direct interest as shown in **Exhibit 1**. According to LHN's record, as at 3 December 2021, approximately 44.97% of the issued ordinary shares of the Company are held by the public.

Exhibit 1: LHN's Register of Substantial Shareholders

	Direct interest		Deemed interest	
Substantial shareholder	Number of shares	%	Number of shares	%
Kelvin Lim	-	-	224,982,600	55.02
Jess Lim	4,000,000	0.98	220,982,600	54.04
Trident Trust Company (B.V.I) Limited	-	-	220,982,600	54.04
LHN Capital Pte Ltd	-	-	220,982,600	54.04
HN Capital Ltd	-	-	220,982,600	54.04
Hean Nergn Group Pte Ltd	-	-	220,982,600	54.04
Fragrance Ltd	220,982,600	54.04	-	-

Source: LHN

Fragrance Ltd is a wholly-owned subsidiary of Hean Nerng Group Pte Ltd. Hean Nerng Group is a subsidiary of HN Capital Ltd.

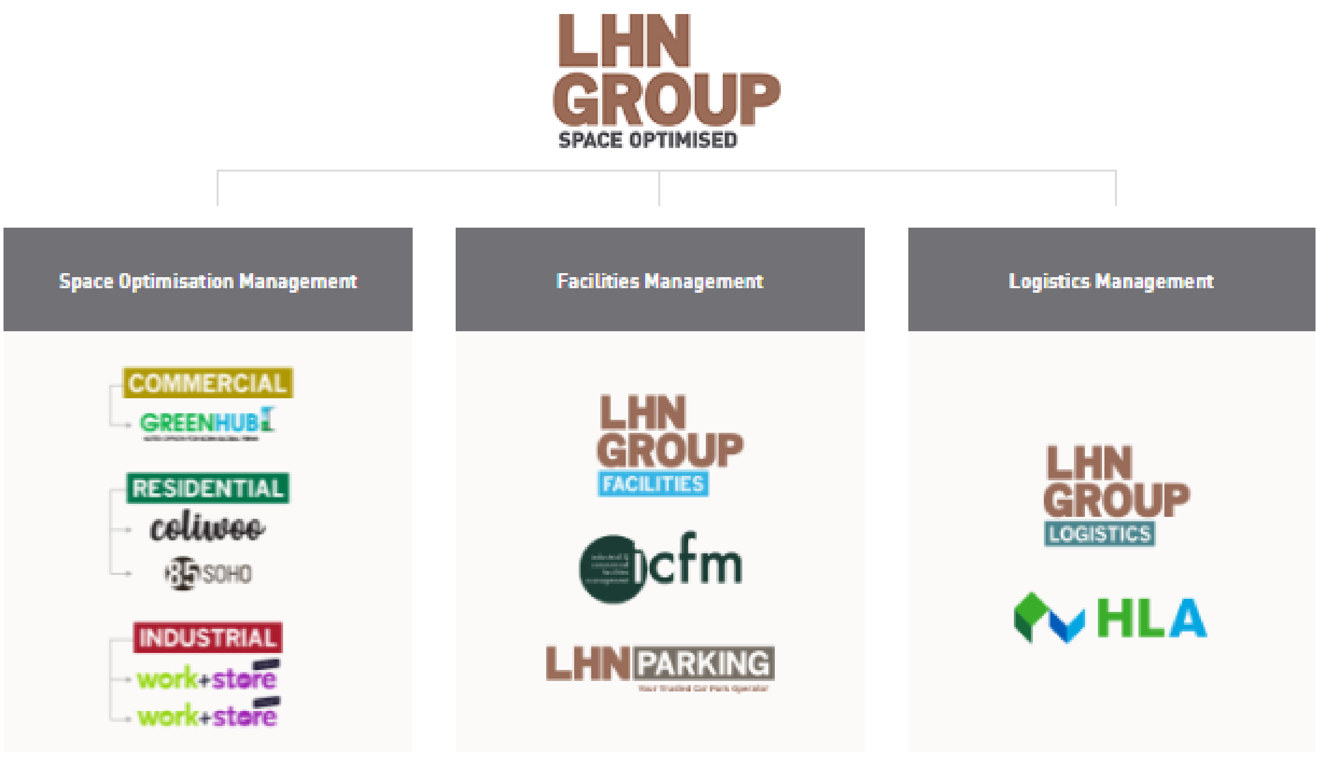
Kelvin Lim and Jess Lim are directors of HN Capital Ltd and are deemed to have an interest in the issued and paid-up share capital of LHN held by Fragrance Ltd. We also note that Kelvin Lim is the Executive Chairman, Executive Director & Group Managing Director of LHN while Jess Lim is the Executive Director & Group Deputy Managing Director of LHN.

Accordingly, Kelvin Lim is deemed to have an interest of 224,982,600 shares, representing 55.02% stake in LHN and Jess Lim has a direct interest of 4,000,000 shares and deemed to have an interest of 220,982,600 shares representing a total of 55.02% stake in LHN.

(III) Corporate Structure

LHN is a real estate management and logistics services group headquartered in Singapore with operations throughout Asia. Its three business segments include space optimisation business, facilities management business and logistics services business as shown in **Exhibit 2**.

<u>Exhibit 2: LHN's Corporate Structure</u>

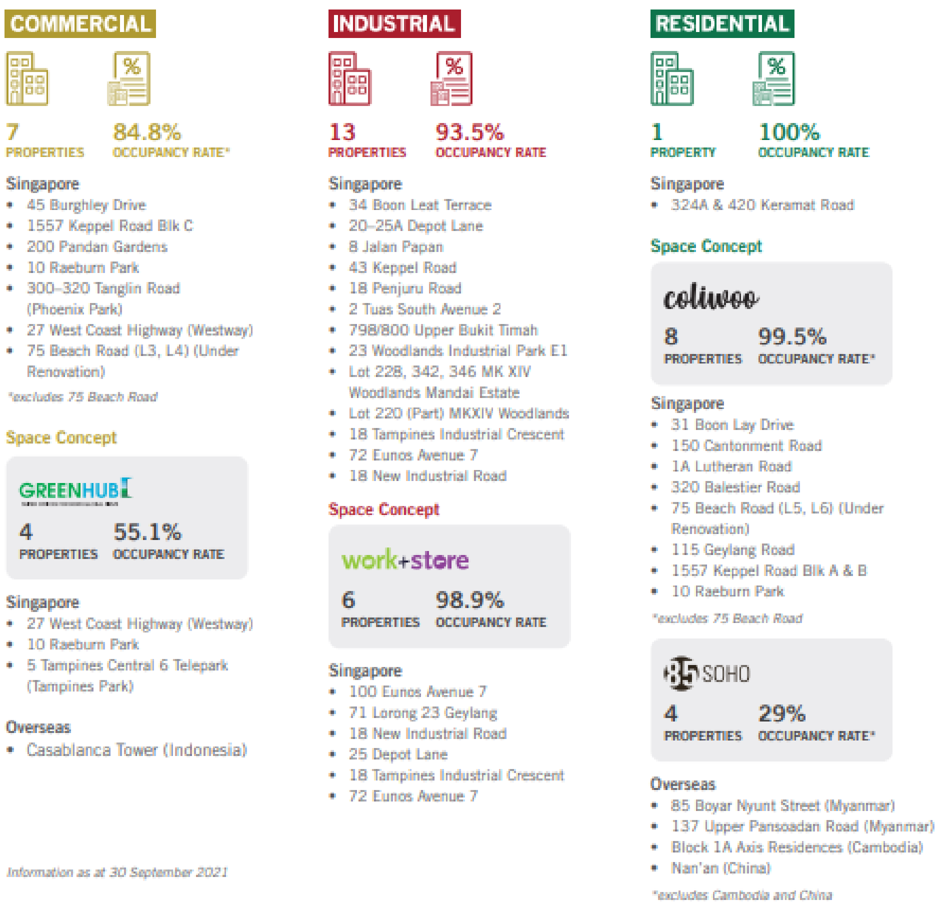


Source: LHN

Space Optimisation Management

Under its Space Optimisation Business, LHN primarily secures master leases of unused, old and under-utilised commercial, industrial and residential properties and through re-designing and planning, transforms them into more efficient usable spaces, which are then leased out by LHN to its tenants. Space optimisation generally allows LHN to enhance the value of properties by increasing its net lettable area as well as potential rental yield per square feet. As at 30 September 2021. LHN's portfolio comprises of commercial, industrial and residential properties in Singapore, Indonesia, Myanmar, Cambodia and China as shown in **Exhibit 3**.

Exhibit 3: LHN's Space Optimisation Business



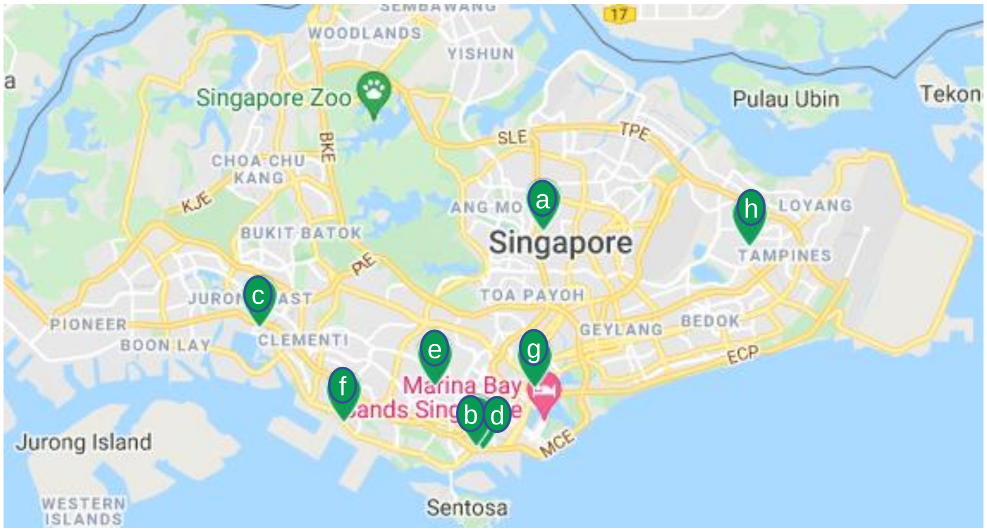
Source: LHN

We note that of LHN's portfolio, the commercial properties that are owned by LHN are 75 Beach Road (L3 and L4) and Casablanca Tower (Indonesia). The industrial properties that are owned by LHN are 23 Woodlands Industrial Park E1, 72 Eunos Avenue 7, 100 Eunos Avenue 7 & 71 Lorong 23 Geylang and the residential properties owned by LHN are 320 Balestier Road, 75 Beach Road (L5, L6) 115 Geylang Road and Block 1A Axis Residences (Cambodia). The rest of the properties are secured under master leases.

Meanwhile, we note that the GreenHub's properties have an occupancy rate of 55.1% which is relatively lower compared to LHN's other commercial properties of 84.8%. Singapore GreenHub properties' lower occupancy rate was due to lower demand while its Indonesia GreenHub property's lower occupancy rate was due to the COVID-19 situation. At the same time, the low occupancy rate of 29% for the 85 SOHO properties in Myanmar was due to Covid-19 and military coup in Myanmar. For the Cambodia property, LHN has just started renting out to tenants on a short-term basis in FY2021.

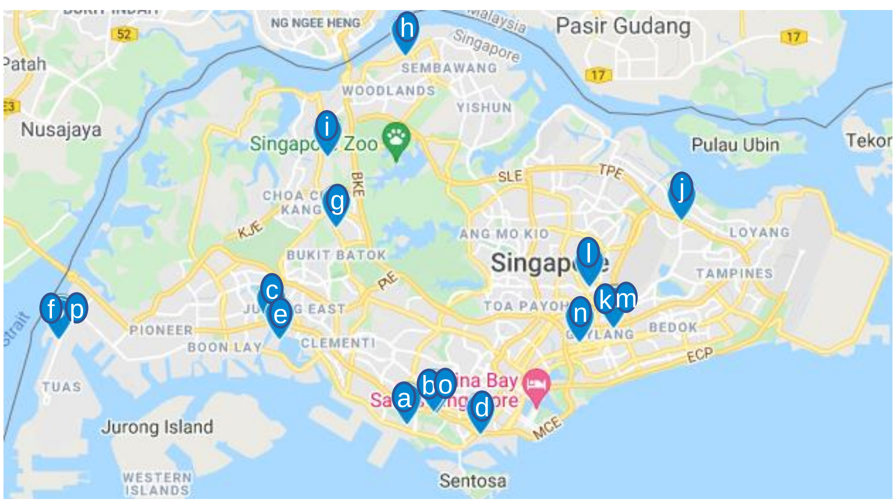
The map of LHN's commercial, industrial and residential properties in Singapore are shown in **Exhibit 4**, **Exhibit 5** and **Exhibit 6** respectively.

Exhibit 4: Map of LHN's Commercial Properties in Singapore



Source: LHN, Google Maps, FPA Financial

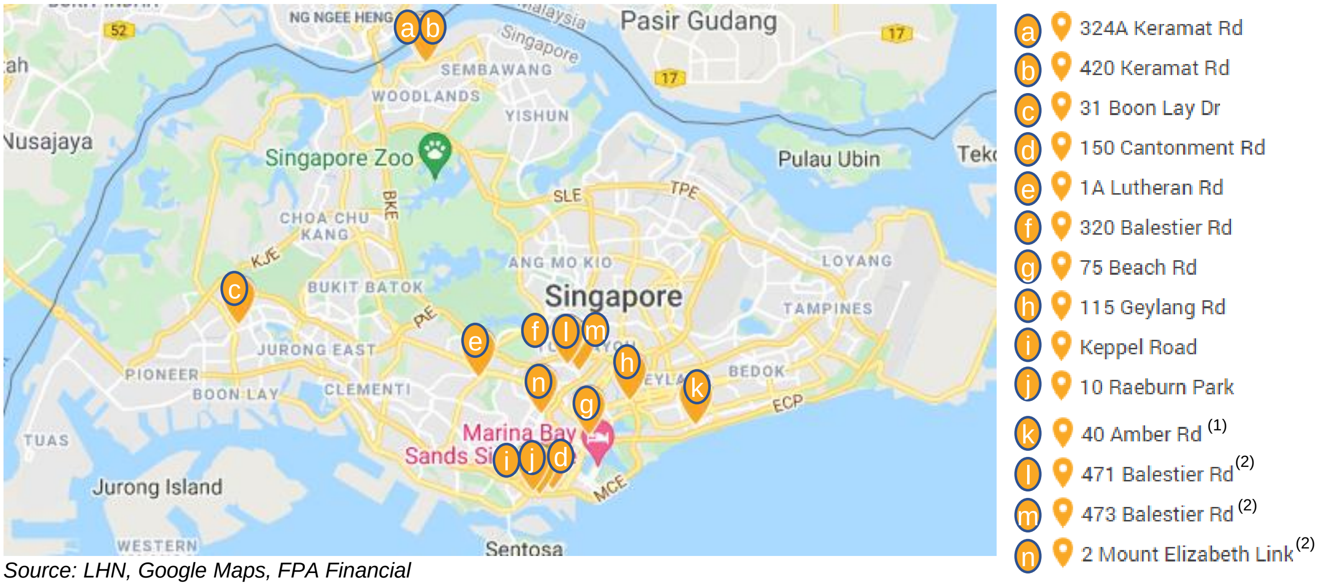
Exhibit 5: Map of LHN's Industrial Properties in Singapore



Source: LHN, Google Maps, FPA Financial

(1) *Newly acquired in October 2021*

Exhibit 6: Map of LHN's Residential Properties in Singapore



Source: LHN, Google Maps, FPA Financial

Facilities Management

LHN's Facilities Management Business offers car park management services and property maintenance services such as cleaning, landscaping, provision of amenities & utilities, and repair & general maintenance principally to the properties it leases and manages, as well as to external parties. For its car park management services, LHN manages 71 carparks in Singapore of which 21 carparks are located at properties owned or leased by LHN or its associated companies. LHN also manages 2 carparks in Hong Kong. For its cleaning and related services, LHN provides facilities management services to 52 customers of which 19 are companies within LHN. The customers include management corporations of residential estates, shopping centre, industrial building owners, schools, etc.

Logistics Management

Under its Logistics Services Business, LHN provides transportation services and container depot management services. LHN provides transportation services for base oil & bitumen, and chemical. LHN has a fleet of well-maintained prime movers, trailers, oil tankers, ISO tankers and trucks to handle the transportation of different types of oil, oil-related and petro-chemical products, as well as trucking of containers. LHN provides a wide range of container depot such as container handling & storage, container surveying, container cleaning, and container repair & maintenance services. LHN principally service major shipping lines and container leasing companies.

For its transportation services, LHN handles over 50 prime movers and 200 trailers in Singapore and handles over 10 prime movers and 70 trailers in Malaysia. Meanwhile, for its container depot services, LHN handles up to 8,200 Twenty-foot equivalent unit (TEUs) in Singapore and 19,000 TEUs in Thailand.

(1) *Newly acquired in June 2021*
(2) *Newly acquired in November 2021*

(IV) Geographical Revenue Contribution

In FY2021, Singapore remained as LHN's largest revenue contributor contributing 91.3% to its total revenue, followed by Thailand contributing 3.3%, Hong Kong contributing 1.8% and Malaysia contributing 1.7%. Meanwhile, Cambodia, Myanmar and Indonesia contributed less than 1% to the total revenue in FY2021 as shown in **Exhibit 7**.

Exhibit 7: LHN's Geographical Revenue Breakdown

S$'000	FY2019		FY2020		FY2021	
	Revenue	Contribution (%)	Revenue	Contribution (%)	Revenue	Contribution (%)
Singapore	103,221	92.9%	124,337	92.6%	110,502	91.3%
Thailand	4,039	3.6%	3,621	2.7%	3,975	3.3%
Hong Kong	1,026	0.9%	2,405	1.8%	2,133	1.8%
Malaysia	784	0.7%	1,497	1.1%	2,056	1.7%
Cambodia	-	0.0%	2	0.0%	1,137	0.9%
Myanmar	815	0.7%	1,642	1.2%	830	0.7%
Indonesia	1,209	1.1%	709	0.5%	344	0.3%
Total Revenue	**111,094**	**100.0%**	**134,213**	**100.0%**	**120,977**	**100.0%**

Source: LHN

MARKET AND INDUSTRY OUTLOOK

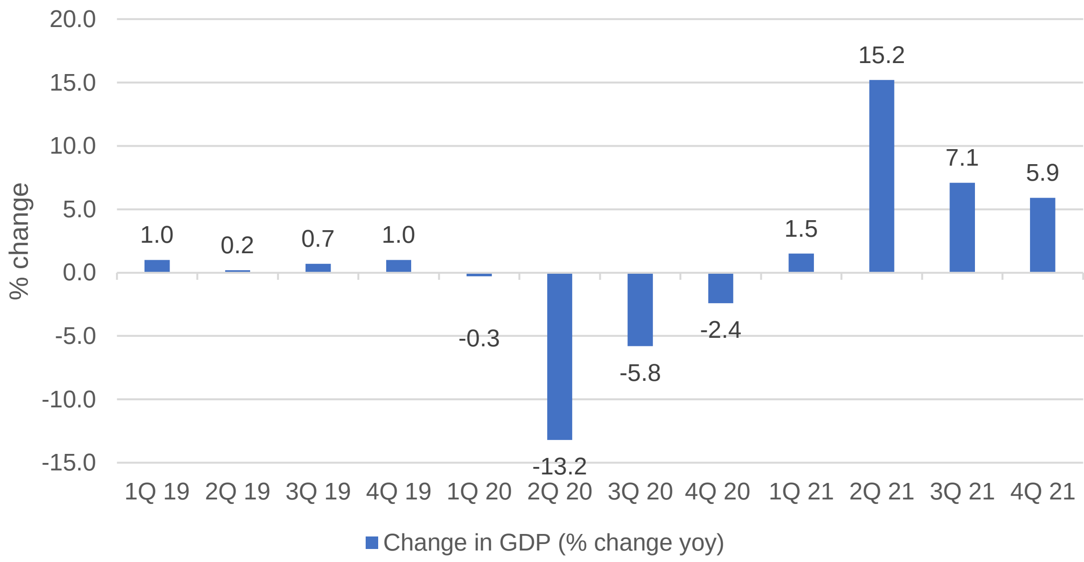
(I) Market Outlook

As shown on the previous page, between FY2019 and FY2021, Singapore had contributed more than 90% of LHN's revenue. Hence, we will focus our market review on Singapore, which has a substantial impact on LHN's revenue.

Singapore's Economy

The Ministry of Trade and Industry (MTI) reported that in the fourth quarter of 2021, Singapore's economy grew by 5.9% on a year-on-year (yoy) basis, moderating from the 7.1% expansion recorded in the previous quarter as shown in **Exhibit 8**. For the whole of 2021, the economy grew by 7.2%, rebounding from the 5.4% contraction in 2020.

Exhibit 8: Change in Singapore Quarterly GDP (%, yoy)



Source: MTI

For 2022, MTI expects GDP growth in most advanced economies to moderate as compared to 2021 but remain above pre-COVID trend rates. By contrast, key Southeast Asian economies are projected to see faster growth in 2022 as they progressively resume more economic activities. Meanwhile, supply bottlenecks and disruptions could continue to weigh on industrial production in some external economies in the near term. Domestically, Singapore's high vaccination rate and steady rollout of booster shots will continue to facilitate the progressive easing of domestic and border restrictions, which will support the recovery of consumer-facing sectors and alleviate labour shortages in sectors that are reliant on migrant workers. Air travel and visitor arrivals are also expected to improve with the loosening of travel restrictions and expansion of Vaccinated Travel Lanes. Considering the above, MTI expects Singapore to grow by 3.0% to 5.0% in 2022.

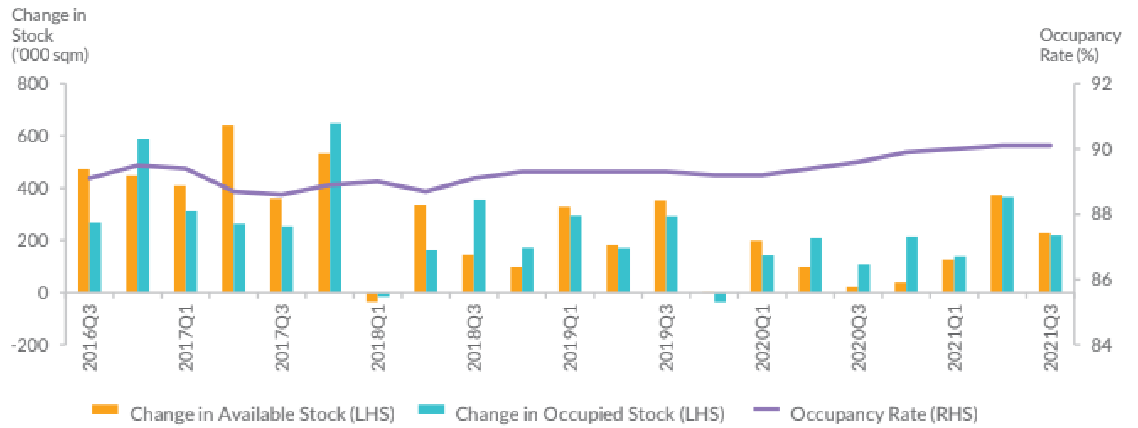
(II) Industry Outlook

(a) Space Optimisation Business

Industrial

LHN's extensive range of industrial spaces comprises of industrial buildings, factories, warehouses and land for open storage. According to JTC Market Report for Singapore's industrial property market, as at the end of 3Q 2021, there was 50.7 million sqm of industrial space. In 3Q 2021, occupancy rate for the overall industrial property market stood at 90.1%. This was unchanged compared to the previous quarter, but 0.5 percentage points higher compared to the previous year. Delays in completion continue to persist. Total available stock rose by 228,000 sqm in 3Q 2021 compared to the previous quarter, slowing down from the quarterly increase of 374,000 sqm in 2Q 2021 as shown in **Exhibit 9**.

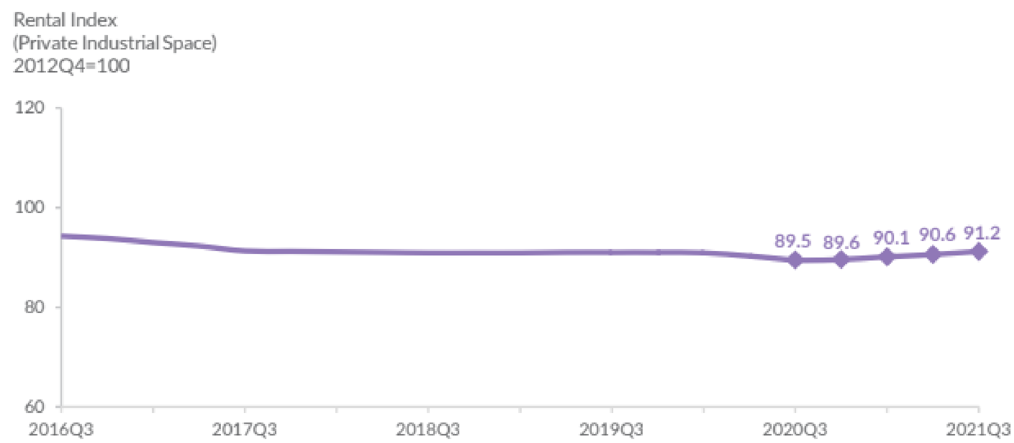
Exhibit 9: Singapore's Industrial Properties Stock and Occupancy



Source: JTC

Meanwhile, in line with the broad recovery of the economy, rentals of industrial space continued to rebound. In 3Q 2021, the rental index of all industrial space rose by 0.7% compared to the previous quarter, and 1.9% compared to the previous year as shown in **Exhibit 10**.

Exhibit 10: Rental Indices of All Industrial Space



Source: JTC

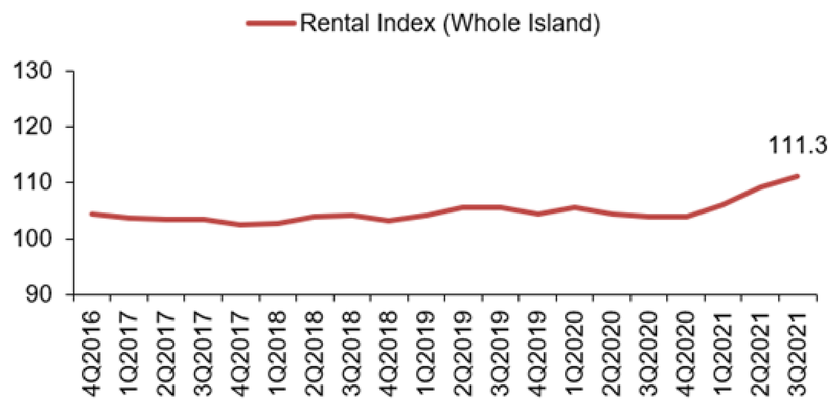
In addition, according to CBRE, leasing activity for Singapore's industrial market continued to remain stable in Q3 2021, consisting of new set-ups and expansions. Occupier activity mainly comprised third-party logistics, food storage and electronics sectors. Hence, on the back of improving occupancies and strong leasing activity, landlords' rental expectation increased. Factory rents tracked by CBRE Research registered its consecutive second quarter of increase by 0.7% qoq in Q3 2021.

Both CBRE and JTC are positive on the outlook of Singapore's industrial market. CBRE believes growth prospects for the manufacturing and wholesale trade sectors would remain strong and will bode well for the industrial market in the near to medium term. Coupled with the more subdued supply pipeline and strong occupancy for current stock, supply would remain limited and prices are expected to increase. Similarly, JTC believes that as the economy continues its recovery, the demand for industrial space is projected to increase. Any potential rise in occupancy may however be tempered by new completions, although this increase in supply will depend on the delays in expected completions. Prices and rentals of industrial spaces are likely to remain stable, with positive upsides in the near future if the economy recovers strongly.

Residential

According to Urban Redevelopment Authority (URA), rentals of private residential properties increased by 1.8% qoq from 109.3 points in 2Q2021 to 111.3 points in 3Q2021, compared with the 2.9% qoq increase in the previous quarter as shown in **Exhibit 11**.

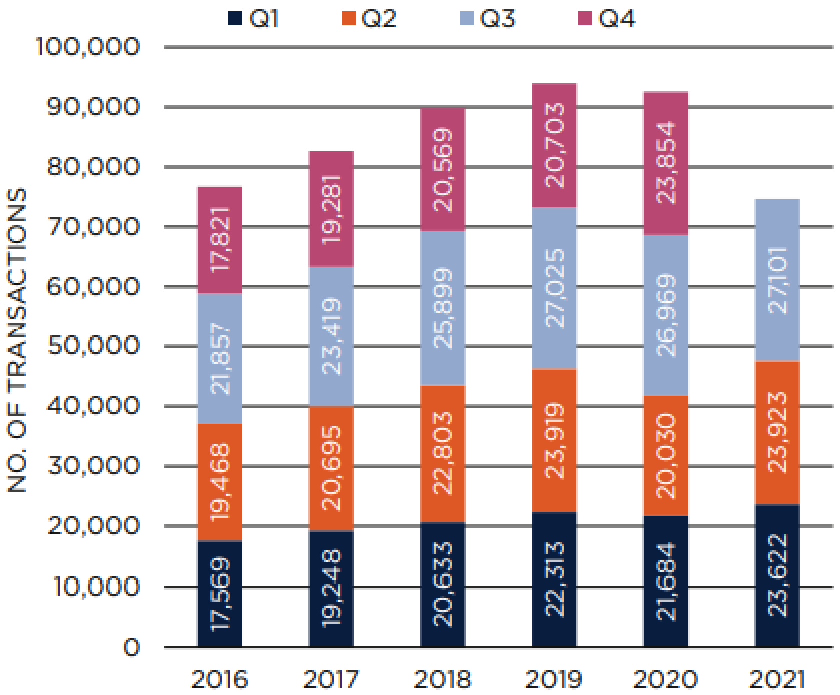
Exhibit 11: URA's Property Rent Index



Source: URA

According to Savills, for Q3/2021, the demand for the private residential leasing market continued to increase with volumes rising for a second consecutive quarter. Following a 1.3% qoq rise in Q2/2021, the leasing volume of private residential units in the quarter in review grew by a much greater 13.3% qoq to 27,101 transactions as shown in **Exhibit 12** on the next page. Compared to the same period a year ago, it was 0.5% higher.

<u>Exhibit 12: Leasing Transaction Volumes of Private Residential Units, 2016 to 3Q2021</u>



Source: Savills

We note from Savills that the increase in leasing volume can be attributed to demand from Singaporeans who returned from overseas to ride out the pandemic as well as those awaiting completion of new homes while facing construction delays. Domestic demand also came from those who choose to have their own space as working-from-home (WFH) is expected to become part of permanent hybrid working arrangements for some companies, or those who returned from overseas with the gradual easing of border measures

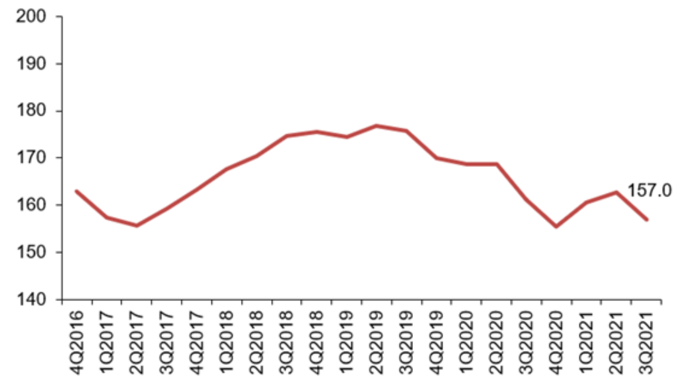
In terms of outlook, Savills believes the strong upward rental push which began in 3Q2021 may persist till travel restrictions ease further and economic activity overseas returns to a level close to before the pandemic. For 2022, Savills do not expect a quick resolution regarding delays in the construction process. This and the tidal wave of millennials moving out of their parents' premises to seek privacy as they WFH will also spur rental demand. Rents in 2022 are expected to rise in a range of 0% to 2%. For 2021, some apartments in this range had already seen rents rise between 10% to 15% yoy.

According to Business Times, co-living providers anticipate higher demand in 2022 after a sanguine 2021, with more Vaccinated Travel Lanes (VTLs) expected to open up and more expats as well as locals return to Singapore. Meanwhile, the manpower crunch in construction during the pandemic lengthened delays for build-to-order flats, private condominiums as well as renovation projects. This drove local demand in co-living, as the readily-available furniture and utilities made the spaces a convenient temporary home. Further, Cushman & Wakefield believes that there could also be stronger local demand for co-living with the rising number of singles in Singapore.

<u>Commercial</u>

According to URA, rentals of office space decreased by 3.5% qoq to 157.0 points in 3rd Quarter 2021 from 162.7 points in the 2nd Quarter 2021, compared to the 1.3% qoq increase in the previous quarter as shown in **Exhibit 13**.

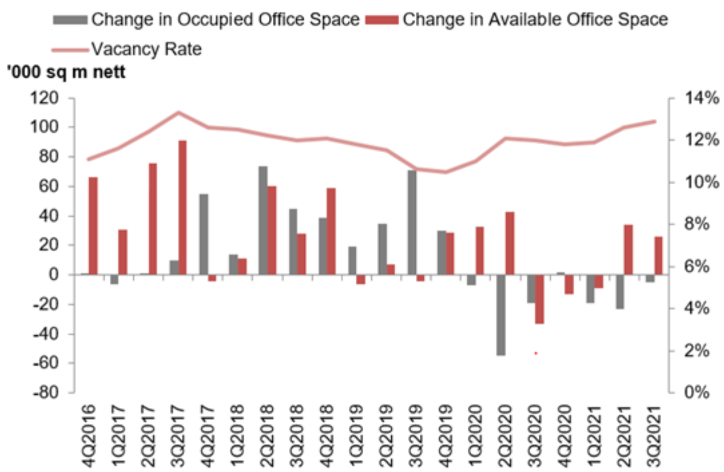
<u>Exhibit 13: Office Rental Index</u>



Source: URA

In addition, the amount of occupied office space decreased by 5,000 sq m (nett) in 3rd Quarter 2021, compared with the decrease of 23,000 sq m (nett) in the previous quarter. The stock of office space increased by 26,000 sq m (nett) in 3rd Quarter 2021, compared with the increase of 34,000 sq m (nett) in the previous quarter. As a result, the island-wide vacancy rate of office space increased to 12.9% as at the end of 3rd Quarter 2021, from 12.6% as at the end of the previous quarter as shown in **Exhibit 14**.

<u>Exhibit 14: Office Space and Vacancy Rate</u>



Market Indicators		As at 2Q/21	As at 3Q/21	Absolute Change	%-change
Completed Space					
Available	(Thousand sq m)	8,163	8,189	26	0.3%
Occupied	(Thousand sq m)	7,135	7,130	-5	-0.1%
Vacant	(Thousand sq m)	1,028	1,059	31	3.0%
Vacancy Rate	(Percent)	12.6	12.9	0.3	n.a.

Source: URA

In 3Q2021, the Delta variant outbreak prompted a re-tightening of safe management measures and led to working from home as the default working arrangement. However, according to CBRE, despite the precarious situation, some positive signs were observed in 3Q2021. Most of the leasing transaction comprised renewals and “flight to quality” moves. As the pandemic evolves into an endemic, this paved the way for firms to adopt the hybrid working model while assessing their space requirements. With the ongoing “flight to quality” moves, there has been a slow but steady increase in the commitment level of some existing and pipeline projects. As a result, the improved confidence amongst landlords led to higher rental expectations. Given the above, CBRE believes that the outlook for the Singapore office market looks positive as the sector is underpinned by tight vacancy. Coupled with the limited number of options over the next three years and the rapid expansion in demand from the technology sector, CBRE expects further rental growth in the mid term.

(b) Logistics Management

Transportation Services

According Singapore Economic Development Board (EDB), the manufacturing output of chemicals increased by 8.5% in November 2021 compared to a year ago. In particular, the petrochemicals and petroleum segments expanded 18.0% and 17.6% respectively from the low production base a year ago, due to plant maintenance shutdowns and weaker export demand amid the COVID-19 outbreak. On a year-to-date basis, the chemicals cluster grew by 10.0% compared to the same period a year ago. We note from LHN’s FY2021 Annual Report published on 29 December 2021 that LHN expects its trucking business to remain stable in FY2022, attributable to LHN’s competitive pricing, on-time delivery and good relationships with its customers.

Container Depot Management Services

According to S&P Global Platts, Singapore's container throughput rose by 3.4% in the first nine months of 2021 from a year earlier and 2.4% higher compared with the same period of 2019 to just over 28 million TEUs. Singapore's Senior Minister of State for Transport Chee Hong Tat raised the concern that there were significant time delays and rise in costs resulting in switches to air transport.

According to Maritime and Port Authority of Singapore (MPA), in November 2021, container throughput increased by 5.9% month-on-month (mom) and 0.5% yoy to 3.15 million TEUs as shown in **Exhibit 15**.

Exhibit 15: Singapore Container Throughput (monthly)

Month	Container throughput ('000 Twenty-Foot-Equivalent Units)
2020-11	3,134.65
2020-12	3,261.83
2021-01	3,156.02
2021-02	2,881.59
2021-03	3,270.57
2021-04	3,091.28
2021-05	3,216.90
2021-06	3,114.51
2021-07	3,123.56
2021-08	3,182.28
2021-09	3,117.36
2021-10	2,974.93
2021-11	3,149.98

Source: MPA

RECENT SHARE PRICE DEVELOPMENT

In 2021, LHN's share price rose by 60.62% from S$0.193 on 4 January 2021 to S$0.310 on 31 December 2021 as shown in **Exhibit 16**.

Exhibit 16: LHN's Share Price for 2021

Source: Yahoo Finance, FPA Financial

For the first half of 2021, LHN's share price traded between S$0.178 and S$0.480. On 11 May 2021, LHN's share price rose by 18.64% from S$0.295 to S$0.350. This was the day prior to LHN's release of its half-year financial statements.

On 11 June 2021, LHN announced that it would be raising a total of S$2.2 million from the placement of 6.5 million new shares, at 33.51 cents each, on the Catalist board of the Singapore Exchange Securities Trading Limited (SGX-ST) under its general mandate. The placement price of 33.51 cents represent a discount of approximately 10.0% of the weighted average price of trades done of 37.23 cents per share for the full market day on the date of the placement agreement. According to LHN, the net proceeds of S$2.1 million from the placement of shares were used for general working capital purposes. This included renovation costs of its properties as well as operating expenses. Nevertheless, LHN's share price rose by 14.86% from S$0.370 to S$0.425. This could be due to the strong positive momentum from the strong half year financial performance. However, in the following week, LHN's share price fell by 9.41% from S$0.425 to S$0.395. This could be due to investors pricing in the negative impact of the placement of share.

On 25 November 2021, LHN's share price rose by 5.63% from S$0.355 to S$0.375 amid news that LHN plans to spin off its logistics business for its separate Catalist listing, which will be structured as LHN Logistics. LHN also plans to sell at least 5% but not more than 25% of its interest in LHN Logistics. During the period, LHN also released its full-year financial statement for financial year ended 30 September 2021 and declared a final dividend of 1.00 cents to be paid on 24 February 2022.

In terms of insider trades, we note that Ms Lim Bee Choo (Jess Lim) had increased her stake in the company through the acquisition of securities via market transactions. In 2021, Ms Jess Lim acquired a total of 4,000,000 shares over 4 separate transactions on 15 March 2021. Following the acquisitions, Ms Lim currently holds direct interest of 4,000,000 shares and deemed interest of 220,982,600 shares representing a total of 55.02% stake in LHN as shown in **Exhibit 17**.

Exhibit 17: Details of Share Acquisitions By Ms Jess Lim

Date of acquisition	No of shares acquired	Total acquistion price (HK$)	Total acquistion price (S$) (1)	Total interest after acquisition		
				Direct Interest	Deemed interest	Shareholding (%) (2)
15-Mar-21	3,930,000	3,930,000	681,180	3,930,000	220,982,600	55.00%
15-Mar-21	10,000	10,000	1,733	3,940,000	220,982,600	55.00%
15-Mar-21	10,000	10,200	1,768	3,950,000	220,982,600	55.00%
15-Mar-21	50,000	51,500	8,926	4,000,000	220,982,600	55.02%

(1) Based on the exchange rate of SGDHKD 5.7694

(2) Based on the total number of issued shares of 408,945,400 as at 03.12.21

Source: LHN, FPA Financial

FINANCIAL ANALYSIS

In this section, we will provide a review of LHN's financial performance and capital management.

(I) Financial Review

Review of Full Year 2021 Results

Revenue

LHN's revenue decreased by approximately S$13.2 million or 9.9% year-on-year (yoy) from S$134.2 million in FY2020 to S$121.0 million in FY2021 as shown in **Exhibit 18**.

Exhibit 18: LHN's Revenue for FY2021 and FY2020

S$'000	FY2021	FY2020	y-o-y change
Revenue	120,977	134,213	-9.9%

Source: LHN

We conducted a further review of LHN's revenue based on its business segments. We note that the decrease in revenue for FY2021 was primarily due to the decrease in revenue from the Space Optimisation Business which was partially offset by the increase in revenue from the Facilities Management Business and Logistics Services Business as shown in **Exhibit 19**.

Exhibit 19: LHN's Revenue by Business Segments

S$'000	FY2021	FY2020	y-o-y change
Space optimisation			
Industrial	17,663	26,886	-34.3%
Commercial	7,735	15,606	-50.4%
Residential	12,998	26,985	-51.8%
Subtotal	38,396	69,477	-44.7%
Facilities management	55,419	39,551	40.1%
Logistics services	27,162	25,185	7.8%
Total revenue	**120,977**	**134,213**	**-9.9%**

Source: LHN

(a) Space Optimisation Business

Industrial Properties

Revenue derived from Industrial Properties decreased by approximately S$9.2 million or 34.3% yoy from S$26.9 million in FY2020 to S$17.7 million in FY2021 mainly due to decrease in revenue from subleases as a result of the expiry of four master leases between the second to fourth quarters of FY2020 and derecognition of revenue from subleases classified as finance lease pursuant to IFRS 16.

Commercial Properties

Revenue derived from Commercial Properties decreased by approximately S$7.9 million or 50.4% yoy from S$15.6 million in FY2020 to approximately S$7.7 million in FY2021 mainly due to decrease in revenue from subleases as a result of the expiry of three master leases during FY2021, the renewal of subleases at lower rates, the decrease in revenue from 1557 Keppel Road Singapore as the property had undergone progressive renovations from the second quarter of FY2020 to the third quarter of FY2021 and the derecognition of revenue from subleases classified as finance lease pursuant to IFRS 16.

Residential Properties

Revenue derived from Residential Properties decreased by approximately S$14.0 million or 51.8% yoy from S$27.0 million in FY2020 to S$13.0 million in FY2021 mainly due to the absence of a non-recurring revenue of approximately S$16.1 million from the setup and retrofitting of the dormitory business in the second half of FY2020. This was partially offset by an increase in revenue of approximately S$1.8 million from its Coliwoo (co-living) business in Singapore and S$0.3 million from its overseas Residential Properties.

The increase in revenue from LHN's co-living business in Singapore arose mainly from the commencement of operations of the new co-living space at 1557 Keppel Road which started generating revenue from the third quarter of FY2021 after completion of progressive renovations; and its master lease at 1A Lutheran Road which started generating revenue from the second quarter of FY2020.

For the overseas Residential Properties, the increase in revenue was mainly due to the commencement of operations of the new serviced residence in Cambodia which started generating revenue from the first quarter of FY2021 but was partially offset by the decrease in revenue from its serviced residence in Myanmar due to lower occupancy rates.

(b) Facilities Management Business

Revenue derived from the Facilities Management Business increased by approximately S$15.9 million or 40.1% yoy from S$39.6 million in FY2020 to S$55.4 million in FY2021 driven by the expansion of the carpark business arising from the joint venture acquisition of Bukit Timah Shopping Centre carpark for a consideration of S$16.2 million which was completed in December 2020, the commencement of operations of 33 new carparks in January 2021 awarded by JTC Corporation and the increase in facilities management services amid the COVID-19 pandemic.

(c) Logistics Services Business

Revenue derived from the Logistics Services Business increased by approximately S$2.0 million or 7.8% yoy from S$25.2 million in FY2020 to S$27.2 million in FY2021 mainly due to increase in transportation services provided from the trucking business.

Cost of Sales

Cost of sales decreased by approximately S$16.1 million or 22.9% yoy from S$70.6 million in FY2020 to S$54.4 million in FY2021 as shown in **Exhibit 20**.

Exhibit 20: LHN's Cost of Sales for FY2021 and FY2020

S$'000	FY2021	FY2020	y-o-y change
Cost of sales	(54,426)	(70,570)	-22.9%

Source: LHN

The decrease was mainly due to a drop in (i) depreciation of right-of-use assets and property, plant and equipment; (ii) set up and retrofit costs which corresponded to the absence of a non-recurring revenue from the setup and retrofitting of the dormitory business in the second half of FY2020; and (iii) rental costs arising from (a) the expiry of four master leases between the second to fourth quarters of FY2020 and two master leases in FY2021; and (b) renewal of leases previously classified as short-term leases in FY2020 which have been capitalised as lease liabilities in FY2021, with partial derecognition of rental costs to other income (gains from subleases) as a result of subleases classified as finance leases pursuant to IFRS 16.

The decrease was partially offset by the increase in (i) staff costs due to increase in number of staff and upkeep & maintenance costs mainly from the Facilities Management Business that is in line with the increase in revenue; (ii) container depot management charges; and (iii) other expenses.

Gross Profit

Accordingly, despite reporting a 9.9% yoy decreased in revenue for FY2021, gross profit increased by approximately S$2.9 million from S$63.6 million in FY2020 to S$66.6 million in FY2021. This is mainly due to the lower cost of sales recorded in FY2021 as shown in **Exhibit 21**.

Exhibit 21: LHN's Gross Profit for FY2021 and FY2020

S$'000	FY2021	FY2020	y-o-y change
Revenue	120,977	134,213	-9.9%
Cost of sales	(54,426)	(70,570)	-22.9%
Gross profit	**66,551**	**63,643**	**4.6%**

Source: LHN

Other Income

Other income decreased by approximately S$1.5 million or 9.1% yoy from S$17.1 million in FY2020 to S$15.6 million in FY2021. The decrease in Other income was mainly due to (i) decrease in gains from subleases of approximately S$2.3 million which were derived based on differences between the right-of-use asset derecognised and the net investment in sublease, pursuant to IFRS 16; and (ii) decrease in forfeiture of tenants' deposit of approximately S$0.9 million. This was partially offset by higher net rental rebates received from Governments and landlords of approximately S$1.5 million recorded under the Space Optimisation Business as shown in **Exhibit 22** on the next page

Exhibit 22: LHN's Other Income for FY2021 and FY2020

S$'000	FY2021	FY2020	y-o-y change
Handling charges	325	320	1.6%
Gain on disposal of property, plant and equipment	242	-	NM
Interest income	1,350	1,594	-15.3%
Gain from net investment in subleases	4,598	6,884	-33.2%
Gain from termination of lease	2	2	0.0%
Lease modification gains	20	-	NM
Vehicle related income	113	325	-65.2%
Government grants	246	121	103.3%
Wage credit scheme and special employment credit	211	211	0.0%
Job support scheme	1,882	1,811	3.9%
Forfeiture of tenant deposit	242	1,188	-79.6%
Services charges	207	191	8.4%
Miscellaneous charge to tenant	161	194	-17.0%
Rental rebates	4,534	2,945	54.0%
Other income	1,412	1,317	7.2%
Total other income	**15,545**	**17,103**	**-9.1%**

Source: LHN

Other Operating Expenses

Other operating expenses decreased by approximately S$2.4 million or 76.2% yoy from S$3.2 million in FY2020 to S$0.8 million in FY2021 mainly due to (i) decrease in impairment losses on receivables of approximately S$2.1 million under the Space Optimisation Business; and (ii) decrease in foreign exchange losses of approximately S$0.5 million. This was partially offset by the loss on lease modification of approximately S$0.4 million due to a change in the carrying amount of lease receivables as shown in **Exhibit 23**.

Exhibit 23: LHN's Other Operating Expenses for FY2021 and FY2020

S$'000	FY2021	FY2020	y-o-y change
Other operating expenses			
Impairment loss on trade, other and lease receivables	(232)	(2,353)	-90.1%
Others	(527)	(830)	-36.5%
Total	**(759)**	**(3,183)**	**-76.2%**

Source: LHN

Selling and Distribution Expenses

Selling and distribution expenses increased slightly by S$0.2 million or 15.1% yoy from S$1.4 million in FY2020 to S$1.6 million in FY2021 due to increase in marketing expenses for the Space Optimisation Business as shown in **Exhibit 24**.

Exhibit 24: LHN's Selling and Distribution Expenses for FY2021 and FY2020

S$'000	FY2021	FY2020	y-o-y change
Selling and distribution expenses	(1,649)	(1,433)	15.1%

Source: LHN

Administrative Expenses

Administrative expenses increased by approximately S$2.2 million or 7.2% yoy from S$30.4 million in FY2020 to S$32.6 million in FY2021 as shown in **Exhibit 25**. The increase was mainly due to the increase in (i) staff costs of S$1.5 million in line with the increase in revenue from Facilities Management Business; and (ii) other expenses of S$1.2 million such as IT maintenance expenses, insurance fees, consultancy fees, audit fees and site related expenses with the increase in companies under our portfolio. These were partially offset by the decrease in depreciation of property, plant and equipment of S$0.5 million mainly due to depreciation of renovation being fully depreciated during FY2021 at certain sites under the Space Optimisation Business.

Exhibit 25: LHN's Administrative Expenses for FY2021 and FY2020

S$'000	FY2021	FY2020	y-o-y change
Administrative expenses	(32,635)	(30,429)	7.2%

Source: LHN

Finance Cost

Finance cost decreased slightly by approximately S$0.2 million or 5.1% yoy from S$5.1 million in FY2020 to S$4.9 million in FY2021 as shown in **Exhibit 26**. This was due to decrease in interest expenses on lease liabilities of approximately S$0.6 million. This was partially offset by increase in interest expenses of approximately S$0.3 million due to the increase in bank borrowings.

Exhibit 26: LHN's Finance Cost for FY2021 and FY2020

S$'000	FY2021	FY2020	y-o-y change
Finance cost	(4,863)	(5,127)	-5.1%

Source: LHN

Share of Results of Associates and Joint Ventures

Share of results of associates and joint ventures increased by approximately S$3.1 million from S$0.6 million in FY2020 to S$3.7 million in FY2021 mainly due to a net fair value loss on investment properties of approximately S$1.3 million in FY2020 as compared to a net fair value gain on investment properties of approximately S$1.8 million in FY2021 as shown in **Exhibit 27**.

Exhibit 27: LHN's Share of Results of Associates and Joint Ventures

S$'000	FY2021	FY2020	y-o-y change
Share of results of associates and joint ventures, net of tax	3,666	555	560.5%

Source: LHN

Fair Value Loss on Investment Properties

Fair value loss on investment properties decreased by approximately S$0.2 million or 1.8% yoy from S$11.8 million in FY2020 to S$11.6 million in FY2021 mainly due to lower fair value loss on investment properties as shown in **Exhibit 28**.

Exhibit 28: LHN's Fair Value Loss on Investment Properties

S$'000	FY2021	FY2020	y-o-y change
Fair value loss on investment properties	(11,598)	(11,809)	-1.8%

Source: LHN

Profit Before Income Tax

Consequently, LHN's profit before income tax increased by approximately S$4.9 million or 16.8% yoy from S$29.3 million in FY2020 to S$34.3 million in FY2021 as shown in **Exhibit 29**.

Exhibit 29: LHN's Profit Before Income Tax for FY2021 and FY2020

S$'000	FY2021	FY2020	y-o-y change
Revenue	120,977	134,213	-9.9%
Cost of sales	(54,426)	(70,570)	-22.9%
Gross profit	**66,551**	**63,643**	**4.6%**
Other income	15,545	17,103	-9.1%
Other operating expenses			
Impairment loss on trade, other and lease receivables	(232)	(2,353)	-90.1%
Others	(527)	(830)	-36.5%
Selling and distribution expenses	(1,649)	(1,433)	15.1%
Administrative expenses	(32,635)	(30,429)	7.2%
Finance cost	(4,863)	(5,127)	-5.1%
Share of results of associates and joint ventures, net of tax	3,666	555	560.5%
Fair value loss on investment properties	(11,598)	(11,809)	-1.8%
Profit before income tax	**34,258**	**29,320**	**16.8%**

Source: LHN

Income Tax Expense

Income tax expenses increased by approximately S$0.8 million or 16.6% yoy from approximately S$4.6 million in FY2020 to approximately S$5.4 million in FY2021 mainly due to higher taxable profit as shown in **Exhibit 30**.

Exhibit 30: Income Tax Expense for FY2021 and FY2020

S$'000	FY2021	FY2020	y-o-y change
Income tax expense	(5,400)	(4,633)	16.6%

Source: LHN

Profit for The Year

As a result, LHN's net profit increased by approximately S$4.2 million or 16.9% yoy from S$24.7 million in FY2020 to S$28.9 million in FY2021. This comprised a S$28.1 million profit attributable to equity holders of the Company and a S$0.8 million profit attributable to non-controlling interests as shown in **Exhibit 31**.

Exhibit 31: LHN's Profit After Tax for FY2021 and FY2020

S$'000	FY2021	FY2020	y-o-y change
Revenue	120,977	134,213	-9.9%
Cost of sales	(54,426)	(70,570)	-22.9%
Gross profit	**66,551**	**63,643**	**4.6%**
Other income	15,545	17,103	-9.1%
Other operating expenses			
Impairment loss on trade, other and lease receivables	(232)	(2,353)	-90.1%
Others	(527)	(830)	-36.5%
Selling and distribution expenses	(1,649)	(1,433)	15.1%
Administrative expenses	(32,635)	(30,429)	7.2%
Finance cost	(4,863)	(5,127)	-5.1%
Share of results of associates and joint ventures, net of tax	3,666	555	560.5%
Fair value loss on investment properties	(11,598)	(11,809)	-1.8%
Profit before income tax	**34,258**	**29,320**	**16.8%**
Income tax expense	(5,400)	(4,633)	16.6%
Profit for the year	**28,858**	**24,687**	**16.9%**
Profit attributable to:			
Equity holders of the Company	28,063	24,144	16.2%
Non-controlling interests	795	543	46.4%

Source: LHN

Earnings Per Share

Earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares deemed to be in issue during each of the years ended 30 September 2021 and 2020. Accordingly, earnings per share increased by 15.7% yoy from 6.00 cents in FY2020 to 6.94 cents in FY2021 as shown in **Exhibit 32**.

Exhibit 32: LHN's Earnings Per Share for FY2021 and FY2020

S$'000	FY2021	FY2020	y-o-y change
Profit attributable to equity holders of the Company	28,063	24,144	16.2%
Weighted average number of ordinary shares ('000)	404,208	402,445	0.4%
Earnings per share (cents)	**6.94**	**6.00**	**15.7%**

Source: LHN

Review of Historical Financials

We also reviewed LHN's historical financial results to evaluate how it has performed prior to the Covid-19 pandemic. We note that from FY2017 to FY2020, LHN's revenue has been increasing yoy from S$106.3 million in FY2017 to S$134.2 million in FY2020. The relatively sharper increase in revenue in FY2020 was mainly due to the increase in nonrecurring revenue from the new dormitory business for services provided in the second half of FY2020 and the increase in facilities management services provided for the new dormitory business which started to generate revenue from the third quarter of FY2020.

Between FY2017 and FY2019, LHN's cost of sales was between S$80.4 million and S$83.7 million and its gross profit margins was between 24.2% and 26.4%. Both cost of sales and gross profit margin remained relatively stable between FY2017 and FY2019. However, we note that in FY2020, LHN's cost of sales decreased even though its revenue increased. As a result, LHN's gross profit margin increased from 24.7% in FY2019 to 47.4% in FY2020. The decrease in cost of sales was mainly due to decrease in rental costs owing to the adoption of IFRS 16 which resulted in the (i) recognition of depreciation of right-of-use assets which will remain in cost of sales; (ii) recognition of fair value loss on investment properties (right-of-use); and (iii) one-off derecognition of rental cost to retained earnings as a result of subleases classified as finance lease and fair value loss to retained earnings upon adoption of IFRS 16 on 1 October 2019. The increase in revenue from its facilities management segment which has higher profit margins also contributed to the improvement in gross profit margins in FY2020.

Accordingly, as a result of higher revenue and higher gross profit margin, LHN's profit for each year showed an upward trend and increased from S$2.8 million in FY2017 to S$28.9 million in FY2021. As a result, earnings per share, as measured by profit attributable to equity holders of the Company over weighted average number of ordinary shares in issue also increased yoy from 0.64 cents in FY2017 to 6.94 cents in FY2021.

We also note that LHN's net asset value (NAV) per share has been increasing over the past years from 19.59 cents in FY2017 to 35.63 cents in FY2021. In FY2020, the adoption of IFRS 16 resulted in the increase investment properties, rights of use assets, lease receivables and lease liabilities. This resulted in the increase of NAV per share of 23.69 cents in FY2019 to 30.23 cents in FY2020.

We have summarized LHN's historical financial figures in **Exhibit 33**.

Exhibit 33: LHN's Historical Financials

	For year ended 30 September				
S$'000	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**
Revenue	106,253	109,285	111,094	134,213	120,977
Cost of sales	(80,502)	(80,395)	(83,680)	(70,570)	(54,426)
Gross profit	**25,751**	**28,890**	**27,414**	**63,643**	**66,551**
Gross profit margin	24.2%	26.4%	24.7%	47.4%	55.0%
Profit before income tax	3,144	6,206	8,926	29,320	34,258
Profit for the year	**2,767**	**5,770**	**8,723**	**24,687**	**28,858**
Earnings per share (cents)	0.64	1.38	2.03	6.00	6.94
Net asset value per share (cents)	19.59	21.75	23.69	30.23	35.63

Source: LHN

(II) Capital Management

Review of Balance Sheet

Net Asset Value

LHN reported total assets of S$386.8 million as at 30 September 2021 compared to S$343.7 million a year ago. The increase in total assets was largely due to the increase in property, plant and equipment to S$54.2 million from S$40.4 million and the increase in investment properties to S$166.6 million from S$115.6 million, which offset decreases in items such as right-of-use assets and cash and bank balances. At the same time, total liabilities increased by S$18.4 million from S$220.2 million as at 30 September 2020 to S$238.5 million as at 30 September 2021. This was mainly due to the increase in bank borrowings from S$56.0 million to S$89.8 million, which offset the decreases in trade and other payables and non-current lease liabilities.

Consequently, LHN recorded total equity or net assets of S$148.3 million as at 30 September 2021 compared to S$123.6 million a year ago. Excluding non-controlling interest of S$2.6 million, equity attributable to equity holders of the Company amounted to S$145.7 million as at 30 September 2021. Accordingly, LHN's net asset value (NAV) per share stood at 35.63 cents based on 408.9 million issued shares as at 30 September 2021.

A summary of LHN's balance sheet as at 30 September 2021 and 30 September 2020 is shown in **Exhibit 34**.

Exhibit 34: Summary of LHN's balance sheet as at 30 Sep 2021 and 30 Sep 2020

[S$'000]	30-Sep-21	30-Sep-20
Total assets	386,808	343,748
Total liabilities	238,525	220,168
Total equity / net assets	148,283	123,580
Equity attributable to owners of the company	145,726	121,641
Equity attributable to non-controlling interests	2,557	1,939
No. of issued shares	408,945,000	402,445,000
NAV per share (cents)	35.63	30.23

Source: LHN

Bank Borrowings

During FY2021, LHN financed its operations primarily through a combination of cash flow generated from its operations, bank borrowings, finance leases and placement proceeds from the issuance of the Company's shares on 24 June 2021.

LHN primarily obtained bank borrowings to finance its acquisition of properties and logistics equipment. LHN also had revolving loans for its short-term finance needs. LHN's borrowings as at 30 September 2021 were denominated in Singapore dollars, United States dollars and Renminbi with interest charged on these borrowings ranging from 1.40% to 6.00% per annum. We note that the 6.00% pa loan relates to a working capital loan of LHN's non-wholly owned subsidiary. The outstanding loan amount as at 30 September 2020 of S$18,000 has been fully repaid in November 2020.

As at 30 September 2021, LHN had outstanding bank borrowings of S$101.4 million. These borrowings were secured by (i) legal mortgage of properties at 72 Eunos Avenue 7, 100 Eunos Avenue 7, 71 Lorong 23 Geylang, 7 Gul Avenue, 75 Beach Road, 320 Balestier Road, 115 Geylang Road in Singapore and Axis Residences in Cambodia; (ii) corporate guarantees provided by LHN; (iii) assignment of rental proceeds of the mortgaged properties; and (iv) personal guarantees provided by the directors and shareholders of certain non-wholly owned subsidiaries of the Company, who are not controlling shareholders of the Company, where applicable.

As at 30 September 2021, of LHN's total bank borrowings of S$101.4 million, S$89.8 million are non-current, secured borrowings while S$11.6 million are current, secured borrowings as shown in **Exhibit 35**.

Exhibit 35: Breakdown of LHN's Bank Borrowings

[S$'000]	30-Sep-21	30-Sep-20
Non-current, secured		
Bank borrowings repayable later than 1 year and no later than 2 years	9,919	9,304
Bank borrowings repayable later than 2 years and no later than 5 years	23,742	20,486
Bank borrowings repayable later than 5 years	56,161	26,207
Total non-current bank borrowings	**89,822**	**55,997**
Current, secured		
Bank borrowings repayable no later than 1 year	11,556	10,725
Total bank borrowings	**101,378**	**66,722**

Source: LHN

Gearing Ratio

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as the sum of bank borrowings, trade & other payables and lease liabilities less cash and cash equivalents. Total capital is calculated as equity plus net debt. Hence, LHN's gearing ratio as at 30 September 2021 stood at approximately 56.3% versus 57.8% a year ago, as shown in **Exhibit 36**.

Exhibit 36: LHN's Gearing Ratio as at 30 September 2021 and 30 September 2020

[S$'000]	30-Sep-21	30-Sep-20
Bank borrowings	101,378	66,722
Lease liabilities	92,336	99,375
Trade and other payables	35,414	43,722
Less: cash and bank balances	(36,786)	(38,446)
Less: fixed deposit	(1,384)	(2,046)
Net debt	**190,958**	**169,327**
Total equity	148,283	123,580
Total capital	339,241	292,907
Gearing ratio	**56.3%**	**57.8%**

Source: LHN

POTENTIAL CATALYSTS

(I) Acquisitions and New Lease Agreements

In October 2021, LHN announced that it has entered into a joint venture with Way Assets and Mr. Lim Hock San (Mr. Lim), both independent third parties, as joint venture partners for the acquisition of Tuas South Property for a consideration of S$21.0 million. The shareholding interest of the joint venture for LHN, Way Assets and Mr. Lim are 60%, 20% and 20% respectively. LHN believes that the Tuas South Property would broaden its property portfolio for the expansion of the space optimisation business, provide capital appreciation potential, and provide additional opportunities to generate revenue. LHN intends to operate the Tuas South Property under the industrial segment of its space optimisation business to provide business spaces under the Business 2 zone for industrial developments as well as a range of value-added logistics support services to its tenants.

In November 2021, LHN entered into a joint venture agreement with Coliwoo Holdings, an indirect wholly-owned subsidiary of LHN and Four Star, a joint venture of LHN to acquire 471 & 473 Balestier Road at the purchase price of S$15.0 million (excluding GST). Subsequent to establishing the joint venture with Four Star, the effective control of LHN in the JV Company will be 70%, of which, 40% is held through Coliwoo Holdings and 30% through Four Star. The remaining 30% is held by W&S Star Pte. Ltd, which is an independent third party. LHN will also have control over the JV Board. The properties acquired will undergo renovations and are expected to commence operations in FY2022. LHN expects to have around 1,500 rooms operational by the end of 2022, up from 800 rooms currently. Further, LHN also plans to grow its Coliwoo space concept by evaluating and acquiring new residential properties with the target to add another 1,000 rooms over the next three years.

In addition, LHN also entered into a lease agreement for a tenancy at 2 Mount Elizabeth Link in November 2021. The Mount Elizabeth Property is a residential property with a gross floor area (GFA) of approximately 104,375 sq.ft, and comprising a 22-storey building with currently 72 residential units, basement car park lots, swimming pool, wading pool, spa pool, children play area, barbecue area, sauna, gymnasium and landscaped garden. LHN intends to renovate the Mount Elizabeth Property and operate it as a serviced apartment which is planned to create dual and triple room units, or as a co-living residential space, both under its Coliwoo brand. By entering into the lease agreement, LHN can further expand its Coliwoo brand residential properties portfolio under its space optimisation business as part of its ordinary course of business.

(II) Proposed Spin-Off and Separate Listing of LHN Logistics

As mentioned on page 15, on 24 November 2021, LHN announced that it was exploring the possibility to spin-off its Logistics Services Business via a proposed listing on Catalist of Singapore Exchange Securities Trading Limited (SGX-ST) and submissions to SGX-ST and The Stock Exchange of Hong Kong Limited (SEHK) have been made. As announced on 15 December 2021, the SGX-ST had on 14 December 2021 advised that it has no objection to the proposed spin-off subject to certain conditions while the SEHK is still considering the Company's application pursuant to Practice Note 15 of the Listing Rules of the SEHK. LHN expects the spin-off to enhance the visibility of its logistics business and improve access to capital, allowing the business to tap on new opportunities in line with its expansion plans.

(III) EV Charging Stations and Solar Panels

Recently, there has been increasing focus on sustainability and reducing carbon emission. The Singapore government has released the Green Plan 2030, outlining the country's green target for the next ten years. In line with the government objective, LHN is committed to its sustainability endeavours through the adoption of green energy and implementation of sustainable technologies in its operation.

LHN is investing approximately S$1 million to install 200 electric vehicle (EV) charging stations across its car parks, industrial and commercial properties in the next few years. LHN's plan is to install at least five EV charging stations in each of the car park facilities that it manages, in keeping with the government's push to encourage greater EV adoption. In FY2021, LHN installed solar panels at 202 Kallang Bahru, which brings the total number of its properties with solar panels to four. Also, LHN aims to install solar panels on the rooftop of most of its properties, with five more locations in its pipeline for next year

LHN is also committed to incorporate more sustainable technologies and features across its properties. LHN plans to install smart energy management systems across its Coliwoo properties to automate and optimise energy usage through the Internet of Things (IoT) technology.

FINANCIAL PROJECTION

In this section, we will be providing our projections for LHN's revenue, earnings and dividend distribution in FY2022 and FY2023

(I) Revenue Projection

Space Optimisation

(a) FY2022

Industrial

As mentioned on page 17, revenue derived from Industrial Properties decreased by 34.3% yoy in FY2021 due to the expiry of four master leases and the derecognition of revenue from subleases classified as finance lease pursuant to IFRS 16. As noted on page 11, both CBRE and JTC are positive on the outlook of Singapore's industrial market and believes that there would be positive upsides for the rentals of industrial spaces in the near future. Further, we also expect a full year of revenue contribution from the acquisition of Tuas South Property, as noted on page 27.

Given the positive outlook in the industrial market, we expect LHN's revenue from its existing industrial properties to increase. Hence, we would assume an increase in revenue from existing industrial properties of 5.0% yoy in FY2022. Accordingly, the projected revenue for existing industrial properties for FY2022 would be as follows:

- Projected revenue from existing industrial properties for FY2022 = 105.0% x S$17.7 million (FY2021 actual) = S$18.5 million

Further, as noted on page 27, in October 2021, LHN entered into a joint venture with Way Assets and Mr. Lim Hock San for the acquisition of Tuas South Property for the shareholding interest of 60%, 20%, and 20% respectively. Further, we note from CBRE that the rent per square foot (psf) per month for industrial properties in 4Q2021 was S$1.47. We also note that the Tuas South Property has a gross floor area (GFA) of 129,138 sq.ft. In addition, as noted on page 5, LHN's industrial properties have an occupancy rate of 93.5% for FY2021. However, as this is a new acquisition, we would consider factors like additional time spend to secure new tenants and additional outstanding maintenance works to be completed. Thus, we would assume a 70.0% occupancy rate for the Tuas South Property.

Considering the above, the projected revenue contribution from the Tuas South Property would be as follows:

- Projected Revenue from Tuas South Property (full year contribution) = [S$1.47 (rent psf per month) x 129,138 sq.ft (GFA of Tuas South Property) x 12 months x 60% (LHN's shareholding interest) x 70.0% (occupancy rate) = S$1.0 million

Accordingly, the projected revenue for industrial property for FY2022 would be S$19.5 million =[S$18.5 million (projected revenue from existing properties for FY2022) + S$1.0 million (projected revenue from Tuas South Property)]

Commercial

As mentioned on page 18, revenue from commercial properties decreased by 50.4% yoy in FY2021. However, as noted on page 14, CBRE believes that the outlook for the Singapore office market is positive as the sector is underpinned by tight vacancy. Coupled with the limited supply over the next three years and the raid expansion in demand from the technology sector, CBRE expects further rental growth in the mid term.

Further, working from home had been the default in Singapore since September. However, according to the Ministry of Health (MOH), from 1 Jan 2022, 50% of employees who can work from home will be allowed to return to the office. The loosening of its workforce vaccination measures are expected to support office demand in 2022. Given the above, we would assume a modest increase of 5.0% yoy in FY2022. Accordingly, the projected revenue for commercial properties for FY2022 would be as follows:

- Projected revenue from commercial properties for FY2022 = 105.0% x S$7.7 million (FY2021 actual) = S$8.1million

Residential

As mentioned on page 18, revenue derived from residential properties decreased by 51.8% yoy due to the absence of a non-recurring revenue from the set up and retrofitting of the dormitory business. However, recent data from Urban Redevelopment Authority (URA) show that the rentals of private residential properties increased by 2.9% qoq in 3Q2021. Further, according to Savills, leasing transaction volume of private residential units increased by 13.3% qoq in 3Q2021 and rents in 2022 is expected to rise in a range of 0% to 2%, as noted on page 11.

LHN also plans to fully operationalise the 4 co-living properties acquired in FY2021 namely at 320 Balestier Road, 40 & 42 Amber Road (joint venture property), 75 Beach Road and 115 Geylang Road. Further, as noted on page 27, LHN also acquired 471 & 473 Balestier Road and secured the lease agreement for 2 Mount Elizabeth Link in the first quarter of FY2022. We believe this would help to underpin growth in revenue for the residential properties for LHN. According to LHN, these properties will be operated as co-living spaces between the second and third quarters of FY2022.

Considering the positive data from URA and the projected 0% to 2% rent increase in FY2022 from Savills, we would assume LHN's revenue from existing residential properties to increase by 5.0% in FY2022. Accordingly, the projected revenue for existing residential properties for FY2022 would be as follows:

- Projected revenue from existing residential properties for FY2022 = 105.0% x S$13.0 million (FY2021 actual) = S$13.6 million

We would also be projecting the revenue contribution from the 4 properties acquired in FY2021,1 property acquired and 1 lease agreement secured in the 1Q2022. According to LHN's FY2021 annual report published in December, LHN included the occupancy data for 320 Balestier Road and 115 Geylang Road. For these two properties, we would be conservative in our projections and assume that it is fully operational in 2Q2022. We would assume 40&42 Amber Road, 75 Beach Road, 471 & 473 Balestier and 2 Mount Elizabeth Link to be fully operational in 3Q2022.

As noted on page 5, LHN's co-living properties have an occupancy of 99.5%. However, as these properties are in its first year of operation, we would assume a 70.0% occupancy rate, which is similar to the Tuas South Property. We also estimated the rent (psf per month) based on data from URA on rental contracts of private residences properties in December 2021. Given the above, and taking into consideration LHN's effective interest and the gross floor area of each properties, the projected total revenue contribution from the 6 properties would be S$3.3 million as shown in **Exhibit 37** on the next page.

Taking 320 Balestier Road as an example, the revenue contribution in FY2022 would be as follows:

- Revenue contribution from 320 Balestier Road for FY2022= [100% (effective interest) x 13,133 (GFA) x S$3.37 (rent psf per month) x 9 months (operational in 2Q2022) x 70.0% (occupancy rate)] = S$0.3 million.

.

Exhibit 37: Projected Revenue Contribution From New Acquisitions and Lease Agreement for FY2022

Property	Effective interest (%)	GFA (square feet)	Rent (psf per month) (S$) [5]	Operational	Occupancy Rate (%)	Revenue contribution (S$'000)
320 Balestier Road [1]	100%	13,133	3.37	2Q2022	70.00%	278.66
40 and 42 Amber Road [2]	50%	36,402	3.86	3Q2022	70.00%	295.02
75 Beach Road [3]	100%	22,875	4.19	3Q2022	70.00%	402.61
115 Geylang Road [4]	100%	9,869	3.87	2Q2022	70.00%	240.40
471 & 473 Balestier	70%	10,000	3.37	3Q2022	70.00%	99.02
2 Mount Elizabeth Link	100%	104,375	4.60	3Q2022	70.00%	2,015.31
Total						**3,331.00**

(1) GFA estimated from the plot ratio of 3.0 from URA data

(2) GFA estimated from the plot ratio of 2.0 from Business Times

(3) GFA estimated from the plot ratio of 4.2 disclosed by LHN

(4) GFA estimated from the plot ratio of 3.0 from URA data

(5) Estimated based on URA data

Source: LHN, URA, Business Times, FPA Financial

Accordingly, the projected revenue for residential properties for FY2022 would be as follows:

- Projected revenue for residential properties for FY2022 = S$13.6 million (projected revenue from existing properties for FY2022) + S$3.3 million (projected revenue from new acquisition and lease agreement) = S$17.0 million.

Total Revenue for Space Optimisation segment (FY2022)

Consequently. our projected revenue for Space Optimisation segment in FY2022 would amount to S$44.6 million as shown in **Exhibit 38**.

Exhibit 38: Projected Revenue for Space Optimisation Segment in FY2022

	Actual		Forecast
S$'000	**FY2020**	**FY2021**	**FY2022**
Space optimisation			
Industrial	26,886	17,663	19,503
Commercial	15,606	7,735	8,122
Residential	26,985	12,998	16,979
Total	**69,477**	**38,396**	**44,604**

Source: LHN, FPA Financial

(b) FY2023

For FY2023, we would be conservative in our projections and will not be projecting any new acquisitions, lease agreements or any asset enhancement initiatives in FY2023. However, in anticipation of a higher vaccination rate globally, the possible global Covid-19 situation stabilization and a stronger economic recovery in Singapore, we would expect LHN's revenue in FY2023 to improve and assume the revenue from the Space Optimisation segment to increase by 5.0% yoy in FY2023. In addition, after being operational in FY2022, with LHN's operating experience, coupled with the positive outlook in the economy, we would expect the occupancy rate of the new acquired properties from the industrial and residential segment to improve and recover to the 93.5% and 99.5% respectively, which were the occupancy rates respectively recorded for FY2021.

<u>Industrial</u>

Considering the 5.0% increase in revenue for FY2023, the projected revenue from existing industrial properties would be as follows:

- Projected revenue from existing industrial properties for FY2023 = 105.0% x S$18.5 million (projected FY2022 from existing properties) = S$19.5 million

Meanwhile, with the improvement of occupancy rate from 70.0% to 93.5%, the projected revenue contribution from the Tuas South Property for FY2023 would be as follows:

- Projected revenue from Tuas South Property for FY2023 = [S$1.47 (rent psf per month) x 129,138 sq.ft (GFA of Tuas South Property) x 12 months x 60% (LHN's shareholding interest) x 93.5% (occupancy rate) = S$1.3 million

Accordingly, the projected industrial revenue for FY2023 would amount to S$20.8 million = [S$19.5 million (projected revenue from existing industrial properties for FY2023) + S$1.3 million (projected revenue from Tuas South Property for FY2023)]

<u>Commercial</u>

As there were no new acquisition or lease agreement secured in FY2022 and assuming that LHN would not be acquiring new properties in FY2023, taking into consideration the 5.0% yoy increase in revenue for the commercial segment, the projected revenue from commercial properties would be as follows:

- Projected commercial revenue for FY2023 = 105.0% x S$8.1 million (projected FY2022) = SS$8.5 million

Residential

Given the positive outlook on Singapore's economy as discussed on the previous page and assuming a 5.0% yoy increase in revenue for FY2023, the projected revenue from existing residential properties would be as follows:

- Projected revenue from existing residential properties for FY2023 = 105.0% x S$13.6 million (projected FY2022 for existing residential properties) = S$14.3 million

For our FY2023 projections for the 6 new residential properties, we would assume the occupancy rate to return to the occupancy rate recorded in FY2021 of 99.5%. Accordingly, the full year contribution from the 6 properties would be S$9.0 million.

Taking 320 Balestier Road as an example, the full year revenue contribution for FY2023 would be as follows:

- Revenue contribution from 320 Balestier Road for FY2023 = [100% (effective interest) x 13,133 (GFA) x S$3.37 (rent psf per month) x 12 months (full year contribution) x 99.5% (occupancy rate)] = S$0.5 million.

The summary of the projected revenue contribution from the 6 properties for FY2022 is shown in **Exhibit 39**.

Exhibit 39: Projected Revenue Contribution From New Acquisitions and Lease Agreement for FY2023

Property	Effective interest (%)	GFA (square feet)	Rent (psf per month) (S$) (5)	Occupancy Rate (%)	Revenue contribution (S$'000)
320 Balestier Road (1)	100%	13,133	3.37	99.50%	528.13
40 and 42 Amber Road (2)	50%	36,402	3.86	99.50%	838.69
75 Beach Road (3)	100%	22,875	4.19	99.50%	1,144.55
115 Geylang Road (4)	100%	9,869	3.87	99.50%	455.61
471 & 473 Balestier	70%	10,000	3.37	99.50%	281.49
2 Mount Elizabeth Link	100%	104,375	4.60	99.50%	5,729.23
Total					**8,977.70**

(1) GFA estimated from the plot ratio of 3.0 from URA data

(2) GFA estimated from the plot ratio of 2.0 from Business Times

(3) GFA estimated from the plot ratio of 4.2 disclosed by LHN

(4) GFA estimated from the plot ratio of 3.0 from URA data

(5) Estimated based on URA data

Source: LHN, URA, Business Times, FPA Financial

Accordingly, the projected residential revenue for FY2023 would amount to S$23.3 million = [S$14.3 million (projected revenue from existing residential properties for FY2023) + S$9.0 million (full year contribution from the 6 properties for FY2023)]

Consequently, the projected revenue for LHN's Space Optimisation segment for FY2022 and FY2023 would be S$44.6 million and S$52.6 million respectively, as shown in **Exhibit 40**.

Exhibit 40: Projected Revenue for LHN's Space Optimisation Segment for FY2022 and FY2023

	Actual		Forecast	
S$'000	**FY2020**	**FY2021**	**FY2022**	**FY2023**
Space optimisation				
Industrial	26,886	17,663	19,503	20,751
Commercial	15,606	7,735	8,122	8,528
Residential	26,985	12,998	16,979	23,308
Total	**69,477**	**38,396**	**44,604**	**52,587**

Source: LHN, FPA Financial

Facilities management

With reference to **Exhibit 41**, we note that LHN's revenue from facilities management has been increasing over the past 5 years from S$17.3 million in FY2017 to S$55.4 million in FY2021. However, as noted on page 18 the increase in revenue from facilities management of S$15.9 million from S$39.6 million in FY2020 to S$55.4 million in FY2021 was attributable to new acquisitions and the commencement of operations of 33 new carparks in January 2021 awarded by JTC Corporation. Further, as mentioned on page 24, the increase of S$19.2 million from S$20.4 million in FY2019 to S$39.6 million in FY2020 was attributable to facilities management services provided for the new dormitory business which started to generate revenue from the third quarter of FY2020.

Meanwhile, the increase in revenue from FY2017 to FY2019 was mainly due to the increase in revenue from car parking services with improved returns of LHN's existing car parks and increase car park rates, increase of revenue from the increase in car parks managed by LHN and the increase in revenue from new security contracts secured from an increase in demand of security services.

Exhibit 41: LHN's Revenue from Facilities management (FY2017 to FY2021)

S$'000	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**
Facilities management	17,299	19,480	20,367	39,551	55,419

Source: LHN

For FY2022's and FY2023's revenue projections for the facilities management segment, we would assume that LHN would not secure big contracts as seen in FY2020 and FY2021. We also note that between FY2017 and FY2019, LHN's revenue from facilities management increased at a compound annual growth rate (CAGR) of 5.59% = [((S$20.4 million (FY2019) / S$17.3 million (FY2017))^(1/3)) -1]. CAGR is the measure of the annual growth rate over time while taking into account the effect of compounding. Using the CAGR of 5.59% as a proxy, we would assume the revenue growth for the facilities management segment to grow by 5.59% for FY2022 and FY2023 to S$58.5 million and S$61.8 million respectively, as shown in **Exhibit 42**.

Exhibit 42: Projected Revenue for Facilities Management Segment in FY2022 and FY2023

	Actual		Forecast	
S$'000	**FY2020**	**FY2021**	**FY2022**	**FY2023**
Facilities management	39,551	55,419	58,517	61,788

Source: LHN, FPA Financial

Logistics Services

With reference to **Exhibit 43**, we note that LHN's revenue from logistics services had been increasing over the past 5 years from S$21.2 million in FY2017 to S$27.2 million in FY2021. We also note that over the past 5 years, the revenue from logistics services increased at a CAGR of 5.11% = [((S$27.2 million (FY2021) / S$21.2 million (FY2017))^(1/5)) -1].

Exhibit 43: LHN's Revenue from Logistics Services (FY2017 to FY2021)

S$'000	FY2017	FY2018	FY2019	FY2020	FY2021
Logistics services	21,167	22,204	24,937	25,185	27,162
CAGR					5.11%

Source: LHN, FPA Financial

Given the above, we would assume LHN's revenue from logistics services to increase at its CAGR of 5.11% yoy for FY2022 and FY2023. Accordingly, the projected revenue from logistics services for FY2022 and FY2023 would be S$28.6 million and S$30.0 million respectively, as shown in **Exhibit 44**.

Exhibit 44: Projected Revenue for Logistics Services Segment in FY2022 and FY2023

	Actual		Forecast	
S$'000	FY2020	FY2021	FY2022	FY2023
Logistics services	25,185	27,162	28,550	30,009

Source: LHN, FPA Financial

Consequently, LHN's total projected revenue for FY2022 and FY2023 would amount to S$131.7 million and S$144.4 million respectively, as shown in **Exhibit 45**.

Exhibit 45: Projected Total Revenue for FY2022 and FY2023

	Actual		Forecast	
S$'000	FY2020	FY2021	FY2022	FY2023
Space optimisation				
Industrial	26,886	17,663	19,503	20,751
Commercial	15,606	7,735	8,122	8,528
Residential	26,985	12,998	16,979	23,308
Total space optimisation	69,477	38,396	44,604	52,587
Facilities management	39,551	55,419	58,517	61,788
Logistics services	25,185	27,162	28,550	30,009
Total revenue	**134,213**	**120,977**	**131,670**	**144,384**

Source: LHN, FPA Financial

(II) Earnings Projection

Given our projected revenue figures for FY2022 and FY2023, we will now estimate LHN's earnings for these periods.

Gross Profit

For our gross profit projections, we will consider LHN's historical gross profit margins. LHN adopted IFRS 16 from 1 October 2019 and the financial year ended 30 September 2020 (FY2020) was the first annual reporting period which begins on or after the IFRS 16 effective date of 1 January 2019. Owing to the accounting standards of IFRS 16, we would consider the gross profit margins starting from FY2020. We note that LHN's gross profit margin improved from 47.4% in FY2020 to 55.0% in FY2021. For FY2022 and FY2023, we would assume the same gross profit margin of 55.0% as in FY2021. Accordingly, the projected gross profit for FY2022 and FY2023 would be S$72.4 million and S$79.4 million respectively, as shown in **Exhibit 46**.

Exhibit 46: Projected Gross Profit for FY2022 and FY2023

	Actual		Forecast	
S$'000	**FY2020**	**FY2021**	**FY2022**	**FY2023**
Total revenue	134,213	120,977	131,670	144,384
Cost of sales	(70,570)	(54,426)	(59,237)	(64,957)
Gross profit	**63,643**	**66,551**	**72,434**	**79,428**
Gross profit margin	47.4%	55.0%	55.0%	55.0%

Source: LHN, FPA Financial

Other Income

As mentioned on page 19, other income decreased by 9.1% yoy in FY2021 due to the decrease in gains from subleases and the decrease in forfeiture of tenants deposits. However, comparing LHN's other income from before the Covid-19 pandemic, other income was relatively lower. Hence, as we are expecting an improvement in the Covid-19 situation, in our projections for FY2022, we would assume the other income of S$5.0 million as recorded in FY2019. We would assume the same other income in FY2023 as shown in **Exhibit 47**.

Exhibit 47: Projected Other Income for FY2022 and FY2023

	Actual				Forecast	
S$'000	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**
Other income	3,658	5,012	17,103	15,545	5,012	5,012

Source: LHN, FPA Financial

Other Operating Expenses

As noted on page 20, the decrease in other operating expense was largely due to the decrease in impairment loss on trade, other and lease receivables. For both FY2022 and FY2023, we would assume the impairment loss on trade, other & lease receivables to be zero and for the others segment under other operating expense to remain unchanged from FY2021 as shown in **Exhibit 48**.

Exhibit 48: Projected Other Operating Expenses for FY2022 and FY2023

	Actual		Forecast	
S$'000	FY2020	FY2021	FY2022	FY2023
Other operating expenses				
Impairment loss on trade, other and lease receivables	(2,353)	(232)	-	-
Others	(830)	(527)	(527)	(527)

Source: LHN. FPA Financial

Selling & Distribution and Administrative Expenses

As noted on page 20, the increase in selling & distribution expense and administrative expenses were mainly due to the increase in revenue. Hence, as we are expecting an increase in revenue for FY2022 and FY2023, we would assume a 3% and 5% growth respectively for both selling & distribution expense and administrative expenses. Accordingly, selling and distribution expenses would amount to S$1.7 million and S$1.8 million for FY2022 and FY2023 respectively and administrative expenses would amount to S$33.6 million and S$35.3 million respectively, as shown in **Exhibit 49**.

Exhibit 49: Projected Selling & Distribution and Administrative Expenses for FY2022 and FY2023

	Actual		Forecast	
S$'000	FY2020	FY2021	FY2022	FY2023
Selling and distribution expenses	(1,433)	(1,649)	(1,698)	(1,783)
Administrative expenses	(30,429)	(32,635)	(33,614)	(35,295)

Source: LHN. FPA Financial

Finance Cost

LHN primarily obtained bank borrowings to finance its acquisition of properties. As at 30 September 2021, LHN's total bank borrowings were S$101.4 million and the interest expense paid on borrowings was S$2.0 million. Hence, the estimated effective interest rate on LHN's borrowings was 1.97% = [(S$2.0 million (interest expense on borrowings in FY2021) / S$101.4 million (total borrowings in FY2021)].

As noted on page 27, there were two new acquisitions namely the Tuas South Property and 471 & 473 Balestier Road for a consideration of S$21.0 million and S$15.0 million respectively. LHN has an effective interest of 60% and 70% for the Tuas South Property acquisition and the acquisition of 471 & 473 Balestier Road respectively. Assuming that LHN's contribution of the two acquisitions would fully be funded though bank borrowings, it would increase LHN's bank borrowings by S$23.1 million as shown in **Exhibit 50** on the next page.

Exhibit 50: LHN's Contribution for acquisition of Tuas South Property and 471 & 473 Balestier Road

Property	Consideration (S$ million)	Effective interest (%)	LHN's contribution (S$ million)
Tuas South Property	21.0	60%	12.6
471 & 473 Balestier Road	15.0	70%	10.5
Total			23.1

Source: LHN, FPA Financial

For the remainder of FY2022, we would assume for LHN's bank borrowing to increase by another S$23.1 million. Hence, the increase in borrowings in FY2022 would be S$46.2 million and total bank borrowings for FY2022 would be S$147.6 million. For FY2023, as noted on page 32, as we are not projecting any new acquisitions, we would assume no debt repayment or additional borrowings. As a result, total borrowings in FY2023 would remain at S$147.6 million as shown in **Exhibit 51**.

Exhibit 51: Projected Bank Borrowings for FY2022 and FY2023

[S$'000]	FY2020	FY2021	FY2022	FY2023
Total bank borrowings	66,722	101,378	147,578	147,578
Increase in bank borrowings		34,656	46,200	-

Source: LHN, FPA Financial

Over the past few months, interest rates have risen due to remarks by the Federal Reserve (Fed) Chairman Jerome Powell suggesting that the Fed would consider speeding up the wind-down of its easy-money policies in an effort to curtail inflation. Hence, there is a possibility that we could expect an upward pressure on interest rates in FY2022.

According to Monetary Authority of Singapore (MAS), the average Singapore's SGS 10-year bond yield for FY2021 was 1.30% while including the 10-year bond yield as at 12 January 2022, the average 10-year bond yield was 1.76% for the first four months of FY2022. On average, Singapore's SGS 10-year bond yield increased by 0.46% from FY2021 to first four months of FY2022 as shown in **Exhibit 52**.

Exhibit 52: Singapore SGS 10-Year Bond Yield

FY2021	10-year bond yield (%)	FY2022	10-year bond yield (%)
Oct-20	0.81	Oct-21	1.84
Nov-20	0.88	Nov-21	1.70
Dec-20	0.84	Dec-21	1.67
Jan-21	1.00	Jan-22 (1)	1.81
Feb-21	1.33		
Mar-21	1.74		
Apr-21	1.59		
May-21	1.48		
Jun-21	1.58		
Jul-21	1.30		
Aug-21	1.41		
Sep-21	1.59		
Average	**1.30**	**Average**	**1.76**

(1) As at 12.01.22

Source: MAS, FPA Financial

Considering that the SGS 10-year bond yield increased by 0.46% in the first four months of FY2022 from FY2021, we would assume the increase in 10-year bond yield as a proxy for the increase in effective interest rate in FY2022. Accordingly, the effective interest rate for FY2022 would be 2.43% = [1.97% (FY2021) + 0.46%]. For FY2023 we would assume the effective interest rate to increase by another 0.46% as in FY2022. Accordingly, the effective interest rate for FY2023 would be 2.89% = [2.43% (projected FY2022) + 0.46%].

Given the above, the interest expense on borrowings in FY2022 and FY2023 would be as follows:

- Interest expense on borrowings in FY2022 = 2.43% (projected effective interest rate in FY2022) x S$147.6 million (projected total bank borrowings in FY2022) = S$3.6 million

- Interest expense on borrowings in FY2023 = 2.89% (projected effective interest rate in FY2023) x S$147.6 million (projected total bank borrowings in FY2023) = S$4.3 million

Meanwhile, we would assume the interest expense on lease liabilities from hire purchase agreement and lease agreement to be the same as FY2021. Consequently, the total finance cost for FY2022 and FY2023 would be S$6.4 million and S$7.1 million as shown in **Exhibit 53**.

Exhibit 53: Projected Finance Cost for FY2022 and FY2023

	Actual		Forecast	
S$'000	**FY2020**	**FY2021**	**FY2022**	**FY2023**
Interest expense on borrowings	1,889	2,035	3,586	4,265
Interest expense on lease liabilities from hire purchase agreement	186	165	165	165
Interest expense on lease liabilities from lease agreement	3,230	2,663	2,663	2,663
Less: amount capitalised	(178)	-	-	-
Total finance cost	**5,127**	**4,863**	**6,414**	**7,093**

Source: LHN, FPA Financial

Share of Results of Associates and Joint Ventures

As noted on page 21, the increase in share of results of associates and joint ventures was mainly due to the net fair value gain on investment properties in FY2021. For FY2022 and FY2023, we would assume share of results of associates and joint ventures to be zero.

Fair Value Loss on Investment Properties

As noted on page 21, the decrease in fair value loss on investment properties of 1.8% yoy to S$11.6 million in FY2021 was mainly due to lower fair value loss on investment properties. For FY2022 and FY2023, we would assume fair value loss on investment properties to be zero.

Profit before Income Tax

Given the above projections, we would estimate a profit before tax of S$35.2 million in FY2022 and S$39.7 million in FY2023 as shown in **Exhibit 54**.

Exhibit 54: Projected Profit Before Income Tax for FY2022 and FY2023

	Actual	Forecast	
S$'000	**FY2021**	**FY2022**	**FY2023**
Space optimisation			
Industrial	17,663	19,503	20,751
Commercial	7,735	8,122	8,528
Residential	12,998	16,979	23,308
Total space optimisation	38,396	44,604	52,587
Facilities management	55,419	58,517	61,788
Logistics services	27,162	28,550	30,009
Total revenue	**120,977**	**131,670**	**144,384**
Cost of sales	(54,426)	(59,237)	(64,957)
Gross profit	**66,551**	**72,434**	**79,428**
Other income	15,545	5,012	5,012
Other operating expenses			
Impairment loss on trade, other and lease receivables	(232)	-	-
Others	(527)	(527)	(527)
Selling and distribution expenses	(1,649)	(1,698)	(1,783)
Administrative expenses	(32,635)	(33,614)	(35,295)
Finance cost	(4,863)	(6,414)	(7,093)
Share of results of associates andjoint ventures, net of tax	3,666	-	-
Fair value loss on investment properties	(11,598)	-	-
Profit before income tax	**34,258**	**35,192**	**39,741**

Source: LHN, FPA Financial

Income Tax Expense

In our projections, we would assume a 17% Singapore income tax rate on total return for the year before tax to derive projected tax expense. Accordingly, the projected tax expense for FY2022 and FY2023 would be S$6.0 million and S$6.8 million respectively, as follows:

- Projected tax expense for FY2022 = [17% x S$35.2 million] = S$6.0 million
- Projected tax expense for FY2023 = [17% x S$39.7 million] = S$6.8 million

Profit for the Year

Adjusting for income tax expense, the projected profit for the year for FY2022 and FY2023 would be S$29.2 million and S$33.0 million respectively. We note that the profit attributable to non-controlling interests for FY2021 was S$0.8 million. We would assume the same profit attributable to non-controlling interests of S$0.8 million for both FY2022 and FY2023. Accordingly, profit attributable to equity holders of the company for FY2022 and FY2023 would be S$28.4 million and S$32.2 million respectively, as shown in **Exhibit 55**.

Exhibit 55: Projected Profit for the Year for FY2022 and FY2023

	Actual	Forecast	
S$'000	FY2021	FY2022	FY2023
Space optimisation			
Industrial	17,663	19,503	20,751
Commercial	7,735	8,122	8,528
Residential	12,998	16,979	23,308
Total space optimisation	38,396	44,604	52,587
Facilities management	55,419	58,517	61,788
Logistics services	27,162	28,550	30,009
Total revenue	**120,977**	**131,670**	**144,384**
Cost of sales	(54,426)	(59,237)	(64,957)
Gross profit	**66,551**	**72,434**	**79,428**
Other income	15,545	5,012	5,012
Other operating expenses			
Impairment loss on trade, other and lease receivables	(232)	-	-
Others	(527)	(527)	(527)
Selling and distribution expenses	(1,649)	(1,698)	(1,783)
Administrative expenses	(32,635)	(33,614)	(35,295)
Finance cost	(4,863)	(6,414)	(7,093)
Share of results of associates andjoint ventures, net of tax	3,666	-	-
Fair value loss on investment properties	(11,598)	-	-
Profit before income tax	**34,258**	**35,192**	**39,741**
Income tax expense	(5,400)	(5,983)	(6,756)
Profit for the year	**28,858**	**29,209**	**32,985**
Profit attributable to:			
Equity holders of the Company	28,063	28,414	32,190
Non-controlling interests	795	795	795

Source: LHN, FPA Financial

Earnings per Share

Assuming the latest available weighted average number of ordinary shares in issue as at 30 September 2021, for our FY2022 and FY2023 projections, taking into consideration the profit attributable to equity holders of the company, we projected an earnings per share of 7.03 cents for FY2022 and 7.96 cents in FY2023 as shown in **Exhibit 56**.

Exhibit 56: Projected Earnings Per Share for FY2022 and FY2023

	Actual	Forecast	
S$'000	**FY2021**	**FY2022**	**FY2023**
Profit attributable to equity holders of the Company	28,063	28,414	32,190
Weighted average number of ordinary shares ('000)	404,208	404,208	404,208
Earnings per share (cents)	**6.94**	**7.03**	**7.96**

Source: LHN, FPA Financial

(III) Dividend Distribution Projection

With our projected profit for the year, we would now estimate LHN's dividend payment to equity holders of the Company. According to LHN's FY2021 annual report, LHN does not adopt any formal dividend policy. However, we note that LHN's dividend payout ratio in FY2020 and FY2021 was 21% and 25% respectively. For our dividend distribution projections, we would assume a payout ratio of 25% for FY2022 and FY2023. Accordingly, the projected dividend distribution would amount to 1.77 cents and 2.01 cents respectively as shown in **Exhibit 57**.

Exhibit 57: Projected Dividend Distribution for FY2022 and FY2023

	Actual		Forecast	
S$'000	**FY2020**	**FY2021**	**FY2022**	**FY2023**
Profit attributable to equity holders of the Company	24,144	28,063	28,414	32,190
Earnings per share	6.00	6.94	7.03	7.96
Dividend (cents)	1.25	1.75	1.77	2.01
Dividend payout ratio	21%	25%	25%	25%

Source: LHN, FPA Financial

VALUATION ANALYSIS

(I) Peer Comparison Analysis

We performed a peer comparison analysis to review how LHN is faring against industry peers in terms of valuation metrics. As noted on page 4, LHN is a real estate management company which provides space optimisation, facilities management and logistics management services. We believe that LHN does not have any direct peer company given its diversified business segments. Considering the above, we selected First REIT and EC World REIT which are listed on the Singapore stock exchange. Both First REIT and EC World REIT are similar to LHN in terms of business model, which involves a master lease structure. Considering that LHN is also listed on the Hong Kong stock exchange, we included Wharf REIC in our peer comparison analysis as Wharf REIC is a real estate company listed on the Hong Kong stock exchange and has exposure to the Singapore market. We have included the summary of the peer companies' corporate profile as follows:

(a) First REIT

First Real Estate Investment Trust (First REIT) is a Singapore-based healthcare real estate investment trust. First REIT is focused on investing in healthcare and healthcare-related real-estate assets throughout Asia. First REIT operates in Indonesia, Singapore and South Korea. Its portfolio consists of 20 properties.

(b) EC World REIT

EC World Real Estate Investment Trust (EC World REIT) is a Singapore-based real estate investment trust. EC World REIT mainly invests in industrial properties which are used primarily for e-commerce, supply-chain management, and logistics purposes, as well as real estate-related assets, with a geographical focus on the People's Republic of China (PRC).

(c) Wharf REIC

Wharf Real Estate Investment Company Limited (Wharf REIC) is a company principally engaged in the investment and operation of properties. Wharf REIC is one of the largest real estate companies in Hong Kong with a proven track record in operating and investing in landmark properties. Wharf REIC's portfolio includes retail, office, serviced apartments and hotels.

The results of our peer comparison analysis are summarized in **Exhibit 58** on the next page.

Exhibit 58: Peer Comparison

Company	Stock code	Price (Local $) as at 19 Jan 2022	Market cap (Local $ million)	EPS [1] (Local cents)	P/E (x)	DPU [2] (Local cents)	Dividend yield (%)	NAV per share [3] (Local $)	P/B (x)
LHN Limited [3] [5]	41O	0.300	122.68	6.94	4.32	1.75	5.83	0.36	0.84
Peer companies:									
First REIT [3] [6]	AW9U	0.305	489.92	(44.27)	NM	3.15	10.33	0.35	0.87
EC World REIT [3] [5]	BWCU	0.735	594.29	4.52	16.26	6.01	8.18	0.95	0.77
Wharf REIC [4] [6]	1997	39.250	119,173.89	(14.00)	NM	136.00	3.46	68.25	0.58
Peer average	-	-	**-**	-	**16.26**	-	**7.32**	-	**0.74**

Figures have been rounded.

(1) Trailing 12-month EPS

(2) Trailing 12-month data

(3) Currency in S$

(4) Currency in HK$

(5) NAV as at 30 Sep 21

(6) NAV as at 30 Jun 21

Source: Respective company data, FPA Financial

We have analyzed the three valuation factors namely P/E multiple, dividend yield and P/B multiple as follows:

(a) P/E Multiple

Based on the above results in **Exhibit 58**, we note that LHN's P/E multiple of 4.32x is lower than the peer average P/E multiple of 16.26x. However, we note that LHN's peers had been negatively impacted by the net fair value losses on investment. As a result, First REIT's and Wharf REIC's trailing 12-month losses per share was 44.27 Singapore cents and 14.00 Hong Kong cents respectively. Meanwhile, EC World REIT's trailing 12-month earnings per share was 4.52 Singapore cents. Taking into consideration EC World REIT's share price of S$0.735, it resulted in a P/E multiple of 16.26x.

(b) Dividend Yield

Based on the above results in **Exhibit 58,** we note that LHN has a dividend yield of 5.83% which is lower compared to the peer average yield of 7.32%. However, we note that the three peer companies are REITs and they typically offer high dividend yield. First REIT and EC World REIT distributed 100% and 95% of its distributable income respectively, while Wharf REIC distributed 54% of its underlying net profit [(1)] in the last 12 months. Meanwhile, as noted on page 42, LHN's dividend payout ratio for FY2021 was 25%

(c) P/B Multiple

Based on the above results in **Exhibit 58,** we note that LHN is currently trading at a P/B multiple of 0.84x which is higher compared to the peer average P/B multiple of 0.74x. However, we also note that First REIT's P/B multiple of 0.87x is slightly higher than LHN's P/B multiple of 0.84x while EC World REIT and Wharf REIC has a P/B multiple of 0.77x and 0.58x respectively, which is lower than LHN's P/B multiple of 0.84x.

[(1)] Underlying net profit primarily excludes investment property revaluation (deficit)/surplus, impairment provision on hotel properties and mark-to-market and exchange gain/loss on certain financial instruments.

(II) Valuation Summary

As noted on the previous page, LHN’s P/E multiple of 4.32x is lower than the peer average P/E multiple of 16.26x. However, the earnings of real estate companies are impacted by the fair value gain/loss on their investment properties, which could inflate or deflate their earnings per share. Hence, we would focus our peer comparison valuation analysis on dividend yield and P/B multiple.

As noted on the previous page, LHN’s dividend payout ratio of 25% in FY2021 is much lower than the dividend payout ratio of its peers. Having said that, as noted on page 24, over the past 5 years, LHN has been reporting positive profit growth, even amidst the uncertain business environment caused by Covid-19 for FY2020 and FY2021. This may suggest that there is a possibility that there is room for LHN to pay higher dividend if the strong financial performance continues. Meanwhile, by retaining approximately 75% of its earnings, LHN could also utilize the earnings to reinvest in growth opportunities or repay their debt which could support further share price upside.

At the same time, we note that the tightening of restrictions in the China Property sector in the recent months may have negatively affected investors’ sentiment and impacted EC World REIT and Wharf REIC, which have exposure to China and Hong Kong respectively. This may have resulted in lower P/B multiple of 0.77x and 0.58x for EC World REIT and Wharf REIC respectively. Further, as noted on page 3, LHN is listed on both Singapore and Hong Kong stock exchanges. Having a dual listing is beneficial to LHN as it provides LHN with ready access to the two equity markets. It could also increase LHN’s market visibility and attract investors with different profiles. Thus, this could potentially widen the investor base of LHN and allow LHN to benefit from exposure to a wider range of private and institutional investors, which could help to justify LHN’s higher P/B valuation.

Considering LHN’s dual listing in Singapore & Hong Kong, its strong financial performance and that its relatively lower dividend payout ratio may allow the company to reinvest in growth opportunities, coupled with the positive outlook for Singapore’s economy and the industries that LHN are operating in, we believe that there could be upside potential and it is possible that LHN will trade at its 52-week high of S$0.480. Accordingly, our target price of S$0.480 implies an upside potential of 60.00% from the current price of S$0.300.

SWOT AND COMPETITIVE ANALYSIS

In this section, we undertake a SWOT analysis in **Exhibit 59** to evaluate the various components of the analysis thus far.

Exhibit 59: SWOT analysis

SWOT analysis	
Strengths • Diversified business operations • Strong financial track record	Weaknesses • Limited geographical diversification
Opportunities • Strong pipeline for growth • Growth opportunities in the overseas markets	Threats • Covid-19 pandemic

(I) Strengths

As mentioned on page 4, LHN's businesses are divided into three separate and distinct business segments, namely, the space optimisation business, the facilities management business and the logistics services business. In addition, as noted on page 17, even though revenue from its space optimisation business decreased by 44.7% yoy, the increased in revenue from its facilities management business of 40.1% yoy and logistics services business of 7.8% yoy helped LHN diversify the risk of over relying on a particular business segment.

Further, as highlighted in our review of LHN's historical financial performance on page 24, LHN's profitability has broadly strengthened over the last few years. Even amidst the uncertain business environment caused by the Covid-19 pandemic, LHN managed to deliver stable financial performance in FY2020 and FY2021. The good track record is a testament to LHN's well managed operations and the capabilities of its management.

(II) Weaknesses

As noted on page 8, despite having presence in 7 countries, its revenue contributions are concentrated in Singapore. This makes LHN vulnerable to any potential risks related to economic and social condition arising in Singapore. The lack of diversification could limit LHN's growth prospect, lower its competitiveness and negatively impact its financial performance.

(III) Opportunities

We noted earlier on page 27 that LHN made new acquisitions and entered into new lease agreements in FY2022. By expanding its portfolio, LHN could provide potential for capital appreciation and additional opportunities to organically generate revenue. LHN also has plans to acquire new residential properties with the target to add another 1,000 rooms over the next three years. This could further allow LHN to expand their portfolio and improve their financial performance.

Meanwhile, LHN's 85SOHO service residences overseas have been facing headwinds due to the COVID-19 travel restrictions implemented in the regions where it operates. However, the renovation of 85SOHO in Quanzhou, China is ongoing and LHN expects to commence operation in the second quarter of FY2022. As the global travel market continues to pick up in 2022, LHN anticipates demand for service residences in Asia to grow and 85SOHO will be in a good position to meet the rising demand.

Further, as noted on page 8, LHN's overseas segment contributed approximately 8.7% of its revenue in FY2021. We believe that with the gradual improvement in the global economy, there is a possibility that LHN may acquire new properties or secure new master leases to expand their overseas portfolio. In addition, LHN recently announced that they intend to source for opportunities to grow its transportation fleet, container depot network and expand its logistics customer base in Singapore, Malaysia and in the ASEAN region for its logistics services business. We believe these growth opportunities in the overseas markets could improve LHN's financial performance in the future.

(IV) Threats

With the emergence of the Omicron variant, we believe there is a possibility that the virus would continue to mutate and new variants may be expected in the future. This could potentially cause Singapore's government to slow the reopening of borders. LHN's residential division (co-living) of its space optimisation business is reliance on the inflow of expatriates. Hence, the tightening of borders could negatively impact LHN's profitability. Further, if the Covid-19 pandemic situation were to persist or worsen, it could also lower LHN's profitability as employees would continue to work from home and the demand for LHN's commercial properties would fall.

INVESTMENT RECOMMENDATION

Based on LHN's reported book value of S$0.36 as at 30 September 2021, it currently has a P/B multiple of 0.84x and is trading at a discount of approximately 16% to NAV. Our peer comparison analysis results show that LHN's P/B of 0.84x is higher than the peer average P/B of 0.74x.

Our peer comparison analysis results show that LHN's dividend yield of 5.83% may not be as attractive as its peers, given the peer average dividend yield of 7.32%. However, as noted on page 44, LHN's dividend payout ratio is only at 25%, which is much lower compared to its peers.

Meanwhile, our evaluation of the peer comparison analysis leads us to believe that LHN's dual listing in Singapore & Hong Kong could increase its market visibility and attract more investors, which could help justify its slightly higher P/B valuation. At the same time, LHN's low dividend payout ratio suggests that there could be room for higher dividends or that LHN could retain and reinvest the earnings for growth opportunities which could support further share price upside.

With the positive outlook for Singapore's economy and for the industries LHN are operating in, we expect LHN's financial performance to continue to improve in FY2022 and FY2023. Further, there are also potential catalyst for LHN such as new acquisitions, new lease agreements and its asset enhancement initiative, which will underpin revenue and profit growth. Should the proposal to spin-off its logistic business be approved, it could provide further upside to LHN's share price.

Accordingly, we believe there could be upside potential to LHN's share price. Hence, we estimated a target price of S$0.480, which is its 52-week high. Given the above, we believe a buy recommendation is warranted on LHN. Our target price of S$0.480 implies an upside potential of 60.00% from the current share price of S$0.300. However, there are still risks to our target price which we will highlight in the next section.

RISKS TO THE TARGET PRICE

In this section, we highlight below risk factors that may limit the potential upside to LHN's target price.

(I) Weak Economic Recovery in Singapore

High vaccination rates, the loosening of safe management measures (SMM) and the gradual reopening of international borders have largely contributed to a gradual recovery in Singapore's economy. However, the rapid spread of Delta variant and the threat of a new Omicron variant have increased the uncertainty about how quickly the pandemic can be overcome. According to the Ministry of Health (MOH), the weekly growth rate of Covid-19 infections in Singapore went above 1.0 on 4 January 2022 for the first time since 12 November 2021 as shown in **Exhibit 60**. A number above 1 indicates that the number of new weekly COVID-19 cases is rising

Exhibit 60: Singapore's COVID-19 Weekly Infection Growth Rate

Source: Data.gov.sg

In addition, at a recent Covid-19 multi-ministry task force news conference, Health Minister Ong Ye Kung said that Singapore must brace for a "much bigger" COVID-19 infection wave from Omicron compared to that from the Delta variant. The Co-chair of the task force, Minister Lawrence Wong also mentioned that "Singapore may have no choice but to tighten measures if COVID-19 transmission is amplified by "unnecessary" risks and the healthcare system is overwhelmed". If the Singapore government were to tighten its SMM and restrict international travel to cope with the spread of the Covid-19. This could derail Singapore's economic recovery and negatively impact LHN's financial performance.

(II) Higher Operating Cost Due To Prolonged Covid-19 Pandemic

The Covid-19 pandemic have disrupted and caused a shortages in the global supply chain. This has impacted the real estate industry in terms of higher construction cost and construction delays. If the Covid-19 situation were to persist, there is a possibility that construction cost would continue to rise and would put pressure on LHN to manage its profit margins. At the same time, with longer delays to its construction works, LHN would be unable to lease out its properties. This would negatively impact LHN's financial performance.

(III) Currency Risk

We note that LHN is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Singapore dollars, LHN mainly operates in Singapore, Indonesia, Thailand, Myanmar, Malaysia, Hong Kong and Cambodia during FY2021. Currency exposure arises within entities of LHN when transactions are mainly denominated in foreign currencies such as United States dollars (USD), Indonesian Rupiah (IDR), Hong Kong Dollar (HKD), Thai Bhat (THB) and Malaysian Ringgit (MYR).

With all other variables being held constant, a 5% strengthening/weakening of the MYR, HKD, RMB, THB, IDR and USD against Singapore Dollar at the reporting date would have either increased or decreased LHN's net profit after tax by the amounts (nearest thousand) shown in **Exhibit 61**.

Exhibit 61: Sensitivity Analysis of Currency Risk on LHN's (Loss)/ Profit after Taxation In FY2021

S$'000		(Loss)/Profit after Taxation (FY2021)
MYR against SGD	Strengthened 5%	(19)
	Weakened 5%	19
HKD against SGD	Strengthened 5%	93
	Weakened 5%	(93)
RMB against SGD	Strengthened 5%	(138)
	Weakened 5%	138
THD against SGD	Strengthened 5%	(39)
	Weakened 5%	39
IDR against SGD	Strengthened 5%	13
	Weakened 5%	(13)
USD against SGD	Strengthened 5%	(168)
	Weakened 5%	168

Source: LHN

In addition, LHN is exposed to currency translation risk upon translation of the net assets in foreign operations into LHN's reporting currency in SGD. During FY2021, LHN recorded an exchange loss of S$72,000. LHN has not carried out any hedging activities against foreign exchange fluctuations.

CORPORATE GOVERNANCE

(I) Remuneration

Remuneration Policy

The Remuneration Committee (RC) recommends to the Board the quantum of directors' fees and the Board in turn endorses the recommendation for Shareholders' approval at each AGM. The remuneration packages of the Independent Non-Executive Directors (INEDs) take into consideration the performance of LHN and individual assessment of each INED, the level of contribution to the Company and Board, taking into account various factors including but not limited to efforts and time spent, responsibilities and duties of the Non-Executive Directors.

For the Executive Directors and key management personnel, each of their service agreements and/or compensation packages is reviewed by the RC. These service agreements cover the terms of employment and specifically, the salaries and bonuses of the Executive Directors and key management personnel. LHN may terminate a service agreement if, inter alia, the relevant Executive Director or key management personnel is guilty of dishonesty or serious or persistent misconduct, become bankrupt or otherwise act to LHN's prejudice. Executive Directors of the Company are not entitled to any Directors' fees.

LHN has entered into separate service agreements (the "Service Agreements") with the Executive Directors, namely, Kelvin Lim and Jess Lim, that state their terms of employment, which may be terminated by not less than six months' notice in writing served by either party on the other. Under the Service Agreements, the Executive Directors are entitled to an incentive bonus based on LHN's consolidated profit before tax subject to a minimum fixed annual bonus of four months. The Service Agreements are valid for a period of three years from 16 March 2015 ("Initial Term"). After the Initial Term, the agreement shall be automatically renewed until terminated by either party on the other.

Disclosure of Remuneration

LHN links its remuneration policy to the achievement of key performance indicators. Key performance indicators of LHN are aimed towards retention of customers and financial performance; these could include project management capabilities and profitability of various business units across LHN's business segments. The remuneration of Executive Directors is also in accordance with the Service Agreements and a portion of their remunerations (in dollar terms) is in the form of variable or performance related bonuses calculated based on LHN's profitability. For the key management personnel and other senior executives, their variable or performance related bonuses, beside individual performance, are also based on LHN's profitability.

The breakdown (in percentage terms) of the remuneration of the Directors of LHN for FY2020 and FY2021 are shown in **Exhibit 62** and **Exhibit 63** on the next page.

Exhibit 62: Disclosure of Remuneration of Directors (FY2020)

Directors	Salary and/or allowance [1], [2] (%)	Variable Bonus [2] (%)	Director's Fees (%)	Total (%)	Total [3] (S$'000)
Kelvin Lim	39	61	–	100	2,554
Jess Lim	43	57	–	100	957
Ch'ng Li-Ling	3	–	97	100	66
Eddie Yong	3	–	97	100	62
Chan Ka Leung Gary	3	–	97	100	70

Notes:

(1) Include fixed bonus.

(2) The amounts for salary, allowance and variable bonus shown are inclusive of Singapore's Central Provident Funds.

(3) Rounded to the nearest one thousand Singapore dollars.

Source: LHN

Exhibit 63: Disclosure of Remuneration of Directors (FY2021)

Directors	Salary and/or allowance[1], [2] (%)	Variable Bonus[2] (%)	Director's Fees (%)	Total (%)	Total[3] (S$'000)
Kelvin Lim	32	68	–	100	2,966
Jess Lim	35	65	–	100	1,119
Ch'ng Li-Ling	6	–	94	100	68
Eddie Yong	6	–	94	100	64
Chan Ka Leung Gary	6	–	94	100	72

Notes:

(1) Includes fixed bonus.

(2) The amounts for salary, allowance and variable bonus shown are inclusive of Singapore's Central Provident Funds.

(3) Rounded to the nearest one thousand Singapore dollars.

Source: LHN

Given the above, we note that the remuneration of Directors have increased from S$3,709,000 in FY2020 to S$4,289,000 in FY2021. In particular, Mr Kelvin Lim's variable bonus have increased from S$1.6 million in FY2020 to S$2.0 million in FY2021. This is inline with its remuneration policy that the remuneration would be reviewed along with LHN's performance as its profit attributable to owners of the company increased from S$24.7 million to S$28.9 million, as mentioned on page 23.

Meanwhile, the breakdown (in percentage terms) of the remuneration of two top key management personnel of LHN for FY2020 and FY2021 are shown in **Exhibit 64** and **Exhibit 65**.

Exhibit 64: Disclosure of Remuneration of Key Management Personnel (FY2020)

Remuneration Band and Name of Key Management Personnel	Designation	Salary and/or allowance[1, 2] (%)	Variable Bonus[2] (%)	Total (100%)
From $500,001 to $750,000				
Yeo Swee Cheng	Chief Financial Officer	58	42	100
From $250,001 to $500,000				
Wong Sze Peng, Danny	General Manager	94	6	100

Notes:

(1) Include fixed bonus.

(2) The amounts for salary, allowance and variable bonus shown are inclusive of Singapore's Central Provident Funds.

Source: LHN

Exhibit 65: Disclosure of Remuneration of Key Management Personnel (FY2021)

Remuneration Band and Name of Key Management Personnel	Designation	Salary and/or allowance[1, 2] (%)	Variable Bonus[2] (%)	Director's Fees (%)	Total[3] (100%)
From S$500,001 to S$750,000					
Yeo Swee Cheng	Chief Financial Officer	56	44	–	100
From S$250,001 to S$500,000					
Wong Sze Peng, Danny	Chief Executive Officer of Work+Store	67	33	–	100

Notes:

(1) Includes fixed bonus.

(2) The amounts for salary, allowance and variable bonus shown are inclusive of Singapore's Central Provident Funds.

(3) Rounded to the nearest one thousand Singapore dollars.

Source: LHN

We note that in aggregate, the total remuneration paid to the two top key management personnel increased from S$854,347 in FY2020 to S$964,916 in FY2021. This is also inline with the increase in profit attributable to owners of the company over the two years.

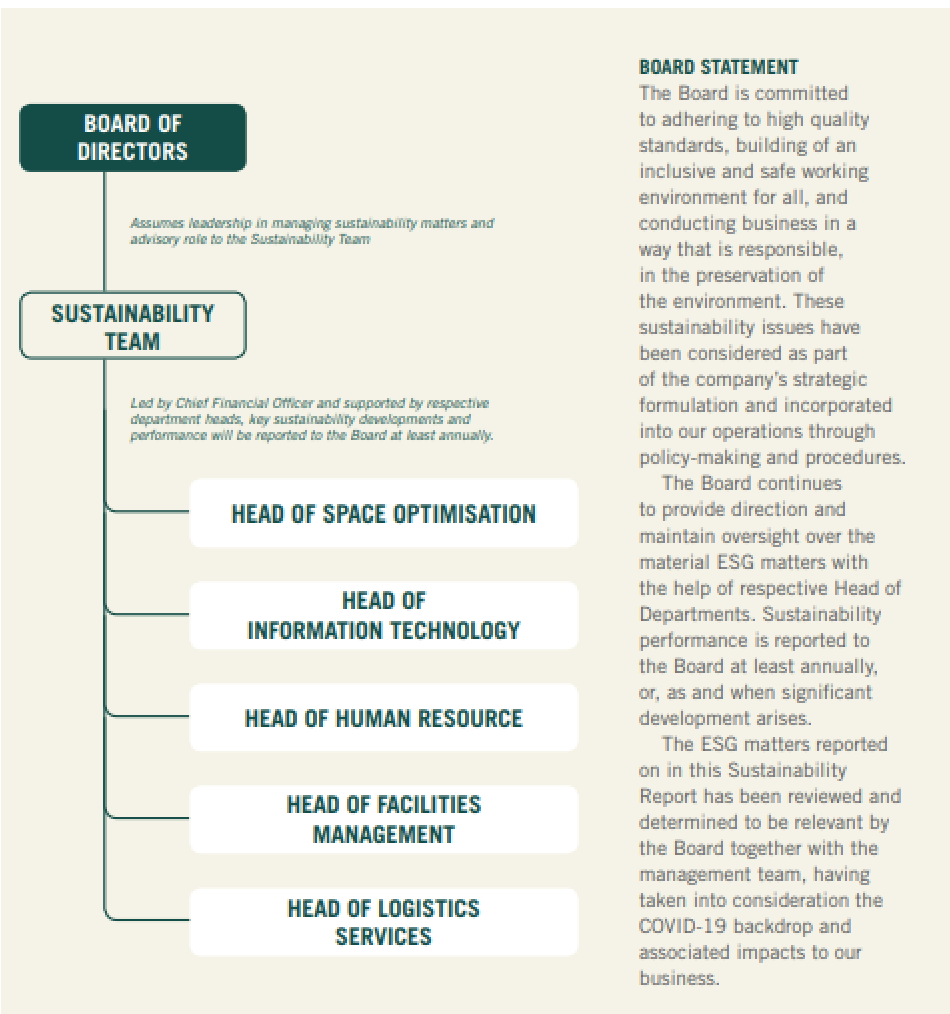
SUSTAINABILITY INFORMATION

LHN is committed to the long-term sustainability development of the business, with focus placed on four main pillars; namely, Protecting its Environment, Safeguard Health and Safety, Create A Fair Workplace and Cultivate Strong Business Values. LHN seeks to embed sustainability practices in its everyday operation and align sustainability goals with the overall strategic direction which is to create productive and innovative spaces, as well as, sustainable value for its stakeholders. A monitoring system is in place to ensure its business is on track to achieve these goals and to continuously improve its performance in key material ESG matters.

Sustainability Governance

LHN's sustainability team is instrumental in building a culture of sustainability within LHN and overseeing the implementation of various sustainability initiatives throughout LHN's operation. They also track and report the performance at least annually to the board of directors of the Company (the "Board") as shown in **Exhibit 66**.

Exhibit 66: LHN's Sustainability Governance



Source: LHN

Stakeholder Engagement

LHN strives to address ESG matters which are material to its business and stakeholders, taking into account any key developments within the industry. Through various channels, key stakeholders' concerns are identified and responded to appropriately as shown in **Exhibit 67**.

Exhibit 67: LHN's Stakeholder Engagement

STAKEHOLDERS	MAIN INTERESTS/CONCERNS	ENGAGEMENT METHODS[1] AND FREQUENCY	OUR RESPONSE
OUR EMPLOYEES	• Occupational health and safety • Fair employment practices • Career development • Job security • Reskilling opportunities	• Online feedback channel system accessible throughout the year • Annual performance appraisal conducted • Employee handbook accessible throughout the year	• LHN established a robust health and safety management system to ensure a safe working environment and various policies, as well as, practices to promote a fair workplace respectively for our employees. • Please refer to page 10 and page 19 for more information on our policies and initiatives on the topic. • LHN has put in place a robust COVID-19 safety measures for our employees both at the workplace and working from home, as disclosed in the respective material matters in this report. • LHN has offered online trainings covering a myriad of topics including, courses to build digital skillsets. • LHN has replaced physical programmes with online fitness and well-being programmes to reduce in-person contact whilst ensuring the wellbeing of our employees during the pandemic.
GOVERNMENT AND REGULATORY BODIES	• Compliance with regulatory requirements, including those relating to COVID-19	• Business model awareness sessions when required • Calls and meetings when required	• Non-compliance negatively impacts our business, both reputationally and financially. We are committed to adhere to all regulatory requirements, including COVID-19 related laws and regulation. • Where necessary, LHN will seek feedback or clarifications from regulatory bodies in guiding the business forward.
INVESTORS	• Timely updates on financial performance and business strategies and opportunities • Board oversight on COVID-19 impacts and response to them	• Annual and interim financial and sustainability reports • Networking sessions with shareholders when required • Annual General Meeting ("**AGM**")	• We aim to provide timely updates on key developments and action plans via our various engagement methods. For FY2020, due to COVID-19, the Group has addressed the relevant questions posed by shareholders prior to AGM, which was also held via webcast online, and uploaded our responses accordingly on the Group's website, HKEX and SGXNet. • Discussions on COVID-19 impacts and corresponding measures taken are disclosed in both our Annual Report and Sustainability Report.

STAKEHOLDERS	MAIN INTERESTS/CONCERNS	ENGAGEMENT METHODS[1] AND FREQUENCY	OUR RESPONSE
SUPPLIERS	• Fair and transparent business conduct • Continued engagement • Disruption of supply chain due to COVID-19 and lockdowns imposed by the Government	• Annual supplier performance review • Day-to-day communications	• At LHN, we work with reliable and credible suppliers and aim to form a long-standing and trusting relationship with such suppliers. • In cases of disruption caused due to COVID-19, alternative actions will be taken upon further discussions within each business segment team.
CUSTOMERS	• Quality of products and services • Innovative products and services • Health and safety given the COVID-19 backdrop	• Social media platform updated when required • Networking sessions • Company announcements accessible throughout the year • Feedback channel accessible throughout the year	• Safety, cleaning and disinfection measures are implemented at LHN to protect our tenants and customers' health. • Advanced technologies have been applied to enhance protection over our customers' health. • Please refer to page 24 for our customer satisfaction survey results and page 27 for other COVID-19 related initiatives.

Source: LHN

DISCLOSURES/DISCLAIMERS

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