



KEONG HONG HOLDINGS LIMITED

Incorporated in the Republic of Singapore
(Company Registration Number: 200807303W)

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2017

The Board of Directors (the “**Board**”) of Keong Hong Holdings Limited (“**Keong Hong**” or the “**Company**”) and together with its subsidiaries (the “**Group**”) refer to the questions raised by the Securities Investors Association (Singapore) in relation to the Company’s Annual Report for the Financial Year ended 30 September 2017 and append the requisite replies as follows:

Q1. In the Chairman’s Message (pages 4 to 9 of the annual report), it was noted that the “early signs that the property market may finally be on the road to recovery ... property market appears to be finally trending up” and that there is “a better outlook for the property sector”.

The group’s last successful bid for a development project was made in January 2016 for a site in Siglap which the group and its partners then launched as Seaside Residences in April 2017.

a) What is the group’s strategy to ride on the more positive outlook for the local property sector?

Answer:

The Group is always on the look-out for building construction projects and joint venture opportunities in residential property development. A more positive outlook means there are more opportunities for the Group. Going forward, the Group will continue to participate in government tenders for medical and industrial projects as well as private sector construction projects.

b) How much more growth/projects in construction, property development and property investment can the current management team and the group’s balance sheet support?

Answer:

Ahead of the property market recovery, the Group has issued \$85.0 million 5.75 per cent Series 2 Notes last September and we intend to use the proceeds for building construction projects as well as property development and investment.

The Group continues to exercise prudence when taking on new property development projects as they usually require a huge capital commitment. The number of construction projects and property development projects that the Group can take on depends on factors such as the availability of human resources, investment size, financing capabilities and level of equity participation in each development.

Q2. On page 3 of the annual report, in the section titled “First stop – Investing in complementary businesses”, the group has said that it will be further diversifying its portfolio with “accretive and synergistic investments” to support the group’s next level of growth.

The group acquired 30.6% of the enlarged issued and paid-up share capital in Nuform Systems Asia Pte. Ltd. in March 2017 and 60.0% of the entire issued and paid-up share capital of Hansin Timber Specialist and Trading Pte. Ltd. in August 2017.

a) Can management help shareholders understand the key investment criteria in a potential investee company for the group to make an investment?

Answer:

Depending on nature of investment, the key investment criteria usually include return on investment, pay-back period, internal rate of return etc. We also take into consideration factors such as the business strategy and market positioning of the investee, and whether it can add strategic value to our Group.

In the case of Nuform and Hansin, they are both Keong Hong’s suppliers before the acquisitions. We have worked together on many projects and we see potential in them to become the industry leader in their respective sectors. Our strategic investments have also helped them to expand overseas.

b) Does the group have any preference for a controlling stake or a non-controlling stake?

Answer:

We would prefer to have a controlling interest in acquisitions and we would prefer to have the founder and key personnel of the investee company to stay on board for a period post acquisition.

c) Since the acquisition of Hansin Timber Specialist and Trading Pte. Ltd. in August 2017, has HTST been fully integrated with the group?

Answer:

The integration process is still ongoing and progressing well.

d) What is the group’s level of oversight and influence in Nuform Systems?

Answer:

The Group has board representation in Nuform and consent has to be obtained from the shareholders for certain key decisions.

The group’s overseas property portfolio was expanded with a second acquisition in Japan in September 2017. What is the group’s long-term targeted capital allocation limit for its investment portfolio? What other countries/cities are being considered apart from Osaka?

Answer:

Over time, the Group hopes to grow our property and hospitality assets to form a more substantial portion of our earnings. Besides Japan, we are also looking at investment opportunities in Australia, Vietnam and Indonesia.

Q3. The remuneration committee (RC), comprising Wong Meng Yeng, Lim Jun Xiong Steven and Chong Weng Hoe, administers the Keong Hong Employee Share Option Scheme. In the past two years, the group has made two grants of totaling 4.875 million share options on 8 January 2016 (“2016 Options”) and 3 April 2017 (“2017 Options”). The discount to the market price was between 19.13% to 20%. As the options were granted at a discount, they may only be exercised after the second anniversary from the date of grant of the options.

a) Can the RC help shareholders understand if it had evaluated the effectiveness of its Share option scheme (including issuing the options at a discount of close to 20%) in achieving its objective of rewarding and retaining eligible participants whose services are vital to the success of the group?

Answer:

At the end of financial year 2017, the RC evaluated the effectiveness of the Group’s Share Option scheme and deemed it has achieved its objective of rewarding and retaining those eligible participants whose services are crucial to the Group.

In Note 20 (pages 112 to 115 – Share Option Reserve), the company has disclosed the significant inputs used in the calculation of the fair values of the options under the Binomial Valuation Model.

b) The average expected life of the option for the 2017 Options is 10 years although it has been 6 years for the options granted in earlier years. Can the RC help shareholders understand the rationale for using 6 years as the input in earlier grants and the change to 10 years for the 2017 options?

Answer:

The 2017 Options expire in 10 years from the date of grant. The total expiry period of 10 years has been adopted in the model calculation, while the expected average life of the options remains the same as 6 years.

During 2016 valuation, the company’s option exercise record was very limited. In order to model early exercise behaviour of grantees, an expected life is assumed based on the vesting and expiry dates. In 2017 valuation, as more option exercise record became available, we adopted the exercise multiple parameter explicitly in the valuation model to account for early exercise behaviour. Contractual life is used instead of expected life as early exercise factor has been reflected by another parameter separately in the model.

Specifically, on page 113, the company has showed the following table:

Equity-settled share option scheme (Continued)

Movements in the number of unissued ordinary shares under option and their exercise prices are as follows:

Date of grant	Balance at beginning of financial year	Granted during the financial year	Exercised during the financial year	Forfeited during the financial year	Balance at end of financial year	Exercise price \$	Exercisable period
1/10/2013	1,230,000	–	(50,000)	–	1,180,000	0.31	1.10.2015 to 30.9.2023
20/6/2014	800,000	–	(150,000)	–	650,000	0.31	1.10.2015 to 30.9.2023
1/12/2014	825,000	–	(450,000)	(175,000)	200,000	0.32	1.12.2016 to 30.11.2024
8/1/2016	4,175,000	–	–	(550,000)	3,625,000	0.40	8.1.2018 to 7.1.2026
3/4/2017	–	700,000	–	(100,000)	600,000	0.36	3.4.2019 to 2.4.2027
Total	7,030,000	700,000	(650,000)	(825,000)	6,255,000		

During the financial year, 650,000 options (2016: 3,220,000) were exercised for the equity-settled share option scheme and 825,000 options (2016: Nil) were forfeited due to resignation of certain employees. The Options outstanding at end of the reporting period have remaining contractual life of 6 to 10.5 years (2016: 7 to 9.5 years).

(Source: Company annual report)

c) The company has stated that the options outstanding at the end of the reporting period have a remaining contractual life of 6 to 10.5 years. Can the RC reconcile the maximum remaining contractual life of 10.5 years to the exercisable period (as shown in the table above)?

Answer:

There is a typo error in the disclosure note after the table. The options outstanding at the end of the reporting period have a remaining contractual life of 6 to 9.5 years instead of 6 to 10.5 years stated. Please note that this error in the disclosure note would not affect the fair value of the share options as inputs used in the valuation model were correct.

By Order of the Board

Lo Swee Oi
Company Secretary

29 January 2018