

**Issuer:** Hong Fok Corporation Limited

**Security:** Hong Fok Corporation Limited

**Meeting details:**

Date: 28 April 2017

Time: 14:30H

Venue: Room 300-301 Level 3, Suntec Singapore Convention & Exhibition Centre, 1 Raffles Boulevard Suntec City, Singapore 039593

**Company Description**

Hong Fok Corporation Limited, an investment holding company, primarily engages in the investment, construction, development, and management of properties in Singapore and Hong Kong. The company develops retail and residential units; constructs hotels; and provides property maintenance services. It also provides investment trading, investment management, and horticultural services. The company was incorporated in 1967 and is based in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=H30](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=H30))

**Q1.** The group's new 610-keys hotel at the junction of Orchard Road and Claymore Hill, YOTEL, is expected to open in the second half of 2017.

- a) Can management let shareholders know what is the group's total investment in the hotel, including total construction costs, fitting-out costs, capitalised interests?
- b) Has the construction been on schedule and within management's projection?
- c) Given the general softness in the hotel sector in Singapore, how will that impact YOTEL?
- d) The hotel has been classified as an investment property. Under the current arrangement of having a third-party manager, how much of the revenue/profit risks reside with the group?

**Q2.** The group has developed Concourse Skyline and Jewel of Balmoral which obtained their temporary occupation permit in March 2014 and 2000 respectively (page 7 – Development properties). Of the 119 strata units left in the Concourse Skyline, the group sold 1 unit in 2016. The 2 units out of the 16-units at Jewel of Balmoral have been left unsold for nearly two decades.

- a) Can shareholders understand if the group is still actively marketing the units at the Concourse Skyline?
- b) What are management's plans for the 118 units?
- c) Were all the units put on the leasing market? If so, what is the occupancy rate for the 118 units at the Concourse Skyline in 2016? What is the yield achieved?
- d) Can management tell shareholders what are the plans for the 2 units at Jewel of Balmoral? The two units are recognised as development properties and not investment properties.

**Q3.** In Note 33 (pages 75 to 78 – Segment Reporting), the reportable segment profit/(loss) before tax is disclosed.

**Information about Reportable Segments**  
*Business Segments*

Group	Property Investment \$'000	Property Development and Construction \$'000	Property Management \$'000	Other Operations \$'000	Total \$'000
<b>2016</b>					
External revenue	47,564	9,348	1,522	2	58,436
Inter-segment revenue	213	58,209	398	1,829	60,649
Finance income	128	164	–	470	762
Finance expense	(21,353)	(1,310)	–	(4,272)	(26,935)
Reportable segment profit/(loss) before tax	93,820	1,277	(478)	(11,339)	83,280

(Source: Hong Fok Corporation Limited Annual Report 2016)

The main driver of profit is the property investment segment which reported a segment profit of \$93.8 million. Included in that figure is a non-cash sum on the gain on revaluation of investment properties of \$97.6 million, most of which was derived from the revaluation gains of the Hotel development and from The Concourse. In the year, the net cash from operating activities was just \$19.2 million (compared the profit of \$82 million).

One executive director received remuneration in the band of \$2,750,000 to \$2,999,999, and two others were in the bands of \$4,250,000 to \$4,499,999. Each of them received bonuses that made up 50-52% of the remuneration package.

The remuneration committee had disclosed the following in the Corporate Governance Statement:

*The Company adopts a remuneration policy for executive Directors and key management personnel comprising a fixed component and a variable component. The fixed component is in the form of a base salary. The variable component is in the form of a variable bonus that is linked to the performance of the Group and each individual's performance which is assessed based on the respective key performance indicators allocated to him. Staff appraisals are conducted once a year. The executive Directors do not receive Directors' fees. The corporate and individual performance-related elements of remuneration are designed to align the interests of executive Directors with those of shareholders in order to promote the long term success of the Company. The executive Directors and key management personnel had met their respective key performance indicators in respect of FY2016. No Director or member of the Remuneration Committee is involved in deciding his or her own remuneration.*

The property management segment was loss making. The property development and construction reported segment profit of \$1.3 million and the property investment segment reported profit of \$93.8 million (driven by \$97.6 million in revaluation gains).

- a) **Can the remuneration committee confirm if non-cash revaluation gains on investment properties would form a component of executive remuneration?**
- b) **Can the remuneration committee elaborate further on the corporate-level performance-related elements in the remuneration policy for executive directors?**
- c) **Can the remuneration committee elaborate further on the individual-level performance-related elements in the remuneration policy for executive directors?**
- d) **Can the remuneration committee help shareholders understand how the executive directors have demonstrated meeting the key performance indicators in 2016?**