

Response to Questions from Securities Investors Association (Singapore) (“SIAS”) on Annual Report 2016

With regard to SIAS’s questions in relation to the Company’s Annual Report 2016, the Company would like to respond as follows:

SIAS question 1

The Singapore operation accounts for 52% of the group’s external sales and about 57% of the group’s segment profits (page 76 – Segment information). As shown in the Company Profile (page 5), the group is the largest stockbroker in Singapore, with 791 retail and institutional sales personnel.

Over the past year, the headcount in sales in Singapore has been cut from 837 to 791 and the headcount in research was reduced from 15 to 13 (page 4).

- a) For Singapore, the revenue from external sales in 2016 dropped by 12%, from \$135 million in 2015 to \$118 million in 2016. **Can management elaborate further on the group’s strategies to overcome the challenges in a maturing market?**

Company’s reply

As observed from press reports and in our Chairman’s statement and commentary in the preceding quarterly announcements, 2016 was an extremely challenging year for the industry due to geo political concerns and slowing global economic activity and therefore growth. Our company was not spared from these external factors.

The decline in our sales personnel numbers is largely due to natural attrition and older Trading Representatives retiring from the industry at a time when business volumes were low.

Our research output is not measured so much by head count but by research output and we believe that there is no reduction in the research output or its quality.

We see more retail equity trading to be conducted online and we have been making continuing efforts to enhance our UTRADE internet platform.

From a quick check into our UTRADE internet platform, our clients will see that we have developed many useful tools such as ChartGenie, ShareXplorer, TechAnalyzer, Stockscreener as well as Yieldmax Calculator.

These tools together with our rich research content and proactive investor seminar series reflects our attempts to ensure that our clients continue to be engaged in the market from our value added services.

Since our merger in 2001 our group has been proactive in growing our regional operations to diversify our business base. In 2001 Singapore accounted for just under 90% of our group external revenue and all our profits. For FY 2016, it is noted that the comparable figures are 52% and 57% respectively, suggesting the success of our diversification initiatives.

- b) **How can the group position itself to take advantage of better trading conditions should market sentiments improve?**

Company’s reply

We believe that well positioned by our strong capital base, sales staff and operational readiness to handle any uptick in market activities, not just in Singapore but regionally.

- c) For Singapore, the revenue from external sales in 2016 dropped by 12%, from \$135 million in 2015 to \$118 million in 2016. Can management elaborate further on the group's strategies to overcome the challenges in a key market that has seen its trading volume decline? How can the group maintain its level of profit from Singapore?**

Company's reply

We are actively broadening our product offerings beyond Singapore equities, to include global equities, LFX, CFDs and other wealth management products.

SIAS question 2

In 2011, the group generated \$75 million in interest income from clients and \$275 million in commission income. In 2016, the interest income was \$101 million and commission income was \$200 million (page 72). In the 5 years, the ratio of interest income to commission income has increased from 27% to 51%.

- a) Is the group becoming more focused on the financing business than a transaction-based business?**

Company's reply

Lending business has always been part and parcel of our business and we have been active in both brokerage as well as lending businesses. The income mix is a function of the market conditions and our client demand.

- b) Is this a deliberate and measured move to mitigate falling commission income?**

Company's reply

Not necessarily, please refer response above.

In Note 4(c) (page 53 – Financial risk management policies and objectives), it was disclosed that: *The Group's activities undertaken by its subsidiaries in each country of operations expose it to a range of financial risks. These include market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Financial risk management of the Group is carried out by the Credit Committee and finance department of the Company and its respective subsidiaries.*

- c) How much oversight does the audit committee have on the credit committee and on the group's risk management policies?**

Company's reply

The Group has a robust credit approval structure where our Regional Credit team will undertake detailed credit analysis on potential borrowers. Credit recommendations are then submitted to the Credit Committee for consideration and approval. Our Credit Committee comprise highly experienced Executive Directors who would consider our Credit Committee analysis and recommendations carefully before approving or rejecting the loan applications.

To date the credit experience on our borrowers has been good as seen from our reported bad and doubtful debt experience.

The Audit Committee with the assistance of our auditors has oversight of our loan activities during Audit Committee meetings to discuss our quarterly financial reporting.

SIAS question 3

The group's operations in Thailand grew via an acquisition of the retail business from Country Group Securities Public Company (CGS) by UOB Kay Hian Securities (Thailand) PCL ("UOB KH Thailand") in August 2016. The group has also been increasing its stake in UOB KH Thailand over the year.

- a) With the acquisition, what is UOB KH Thailand's market share in the domestic market? Does it have the necessary scale to operate and compete efficiently?**

Company's reply

The total consideration of THB 405 million (approximately \$15.9 million) for the acquisition of CGS included the amount of \$12.7 million that is recognised as provisional goodwill (page 65 – Goodwill). The acquisition of a new business and the impairment of goodwill are key audit matters highlighted in the Independent Auditors' Report as well (page 31).

Our Thailand operation is the third largest contributor to our Group profits and is strategic to our Group operations. Post acquisition, our Thai office accounted for an estimated 2.8% of the market share of the Thai market turnover. We hence believe that we have the scale to compete in Thailand.

- b) Can management help shareholders understand the strategic value of CGS?**

Company's reply

The acquisition of CGS will boost our Thailand sales force and deepen our linkages with the very large and active Thai retail market.

- c) With regard to UOB KH Thailand, what are the benefits of keeping UOB KH Thailand listed?**

Company's reply

Having our Thai subsidiary listed is part of our staff and client retention strategy which is reviewed from time to time.

Separately, can shareholders understand how the group is growing the Hong Kong business?

Company's reply

It is currently the second largest contributor of revenue and profit behind Singapore.

Hong Kong is a strategic business unit of the Group. Our global institutional and retail sales persons are actively marketing our prolific Hong Kong research ideas. We have also been active in Hong Kong Equity Capital Market and equity loan transactions and marketing alternative and wealth management products in Hong Kong.

By Order of the Board

Esmond Choo Liong Gee
Senior Executive Director

28 April 2017