KSH Holdings Limited
(Company Registration Number: 200603337G)
(Incorporated in the Republic of Singapore on 9 March 2006)

RESPONSES TO SIAS' QUESTIONS ON KSH HOLDINGS LIMITED'S ANNUAL REPORT FY 2017

1. **The group's vision is "To be a leader in building construction services in Singapore and a sizeable investor in property development in the region" (page 1 of the annual report). The group has a well-established construction business and acts as the main contractor for both the Public and Private Construction Sectors in Singapore, and the Private Sector in Malaysia.**

	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000
Construction Revenue (External sales)	145,361	206,279	285,677	239,911	239,182	193,596
Segment Profit/(loss) before taxation	18,425	20,828	20,102	17,475	26,623	34,284

(Source: Company annual reports)

The revenue from the construction segment dipped slightly in 2017 but over the past 6 years, the growth and sustainability of the construction revenue and segment profit have been impressive given the competition in Singapore.

a) Can management provide better visibility to shareholders into the longer-term sustainability and profitability of the construction segment?

<u>Response:</u>

- *We have built a strong brand and solid fundamentals centered around our* ***solid construction track record*** *in both the public and private sectors,* ***BCA A1 Grade*** *that allows us to tender for projects of any size, and the quality of our projects speaks volumes by itself, endorsed by virtue of* ***repeat customers*** *awarding new projects to us;*
- *This is also supported by our* ***strong balance sheet*** *that lends us credibility while tendering for large-scale projects, and allowing us the flexibility for* ***prudent project selection*** *that will enable us to maintain our strong construction margins;*
- *Our healthy margin is also a function of our* ***productivity and efficiency****, that is boosted by investments made into new equipment and machinery; training for our workers; and* ***embracing technology and innovation****;*
- *We also place great emphasis on* ***workplace safety****, exemplified by our healthy safety track record, having won several BCA Construction Excellence Awards;*
- *Our* ***order book remains healthy*** *at S$340 million as at March 31, 2017, as we continue to leverage on our strengths to prudently tender for new public and private projects to replenish our order book.*

The order books as at the end of the last 3 financial years are $420 million (2015), $223 million (2016) and $340 million (2017).

b) Is the drop in construction revenue in 2017 a temporary blip (perhaps due to the timing of projects)?

Response:

- *The dip in construction revenue is due to lower revenue recognised in accordance with the percentage-of-completion of projects. Revenue from construction business can increase when 1) order book increases 2) progress of construction becomes faster.*

c) How does the group maintain its competitiveness and profitability in face of intense competition, especially from the foreign construction companies?

Response:

- *The strength of our brand and track record are built over the past four decades. As elaborated in Q1(a), we place great emphasis on enhancing productivity and efficiency through the adoption of new technology and innovation that allows us to stay competitive; prudent project selection to maintain profitability; and commitment to workplace safety for long-term sustainability and social responsibility;*
- *Furthermore, as a homegrown company, we've long established close relationships and deep networks in Singapore, as well as deep familiarity of the Singapore market and its cycles. We believe this early-mover and "home ground" advantage, coupled with our solid fundamentals, position us well ahead of foreign construction companies.*

d) **The group has plans to invest $5-$8 million for a fabrication plant. How advanced is the group in using Prefabricated Bathroom Unit and/or Prefabricated Prefinished Volumetric Construction methods which are being promoted by the Building and Construction Authority?**

Response:

- *This is in line with the market trend and direction of the Singapore government.*

2. **As highlighted in the "Message from Executive Chairman and Managing Director" (page 7), the group's "22.5%-owned Gaobeidian township project has received considerable interest recently arising from an announcement in April 2017 by the PRC Government on the establishment of the Xiongan New Special Economic Zone … The consortium is pending relevant approvals for the launch of 3,008 residential units for sale in the second half of 2017, as part of the 5,540 residential units and 27,500 square metres of commercial space approved for Phase 1."**

   a) **Can the company let shareholders know how the group's 22.5% stake in the Gaobeidian township project is accounted for in the balance sheet?**

   Response:

   - *Please refer to page 90 of the annual report – Gaobeidian is accounted for under our 45% interest in associate, Beijing Jin Hua Tong Da Real Estate Development Co., Ltd., which in turn holds a 50% interest in the Gaobeidian project, giving us an effective equity interest of 22.5%;*

   b) **Given that the company has a 22.5% stake, how much oversight, influence and control does the company have in driving the development of the township?**

   Response:

   - *The partners involved in the Gaobeidian project are long-time partners whom we are very familiar with, having worked together on several other projects over the years;*
   - *Due to our familiarity with the PRC market, having operated in the market for close to two decades, and close ties with our local partner who is also involved in the Gaobeidian project, we are leading this project with the support of our other project partners;*

c) **For such a big and high-profile project, the execution risks are high. What experience does the group have in managing projects this size? What is the group's strategy to manage and reduce the execution risk?**

Response:

- *As mentioned in Q2(b), we recognise that this is a large project and hence we are working with partners whom we know and trust to diversify the risks and resources required for the project;*
- *We also have a local partner with deep local knowledge and network, who was also the same partner behind the success of our Sequoia Mansions project that had contributed positively to our financial performance in FY2016.*

d) **The details of Phase 1 of Gaobeidian were included in the 2017 annual report for the first time. Can management provide a holistic overview of the development plans of the township? Based on the land size of 8,000 mu (approximately 5.3 million sqm), has management (together with its consortium partners) mapped out the development plan for the entire township?**

Response:

- *We have been allocated 8,000 mu by the authorities, which is split into two stages, with the first being the Mountain Climbing Training Centre & Outdoor Sports Centre Township; and the second being the Green Health Food Safety Testing Centre;*
- *We have obtained approval for the development area size of 2,956 mu (1.96 million sqm) that could consist 18,000 households of about 1.6 million sqm in construction area;*
- *We have currently planned for:*
  - *5,540 high-end and mass-market residential units with sellable area of 615,527 sqm (of which we hope to launch 3,008 residential units for sale once the necessary approvals are obtained);*
  - *Commercial development of approximately 27,500 sqm in saleable area;*
- *We will keep shareholders updated as and when there are material developments through SGX announcements.*

3. As disclosed in Note 6 (page 88 – Interests in Associates), the group has made good investments through its associates over the years. The current carrying amount of the group's associates exceeds $156 million.

Some of the group's investments (through its associates) are shown in the table below. These are small stakes into diverse associates with different assets spread across different regions.

Associate/Project	Stake	Region/Details
Glenthorne (LUMA Concept Hotel)	10%	London, UK
Mixed-use development	10%	Sapporo, Japan
Fairmont (192-room hotel)	15%	Leeds, UK
LGB-NB	15%	Vietnam Project

(Source: Company annual report)

The company has disclosed in the "Financial and Operations Review" (page 14) that:

"During the year, the Group has further expanded its footprint overseas alongside its strategic partners who possess rich network and experience in the respective markets. Working with these reputable and experienced partners allows the Group to take on varied projects to maximise returns on its financial resources. In line with the Group's strategy to strengthen its recurring income streams, these assets overseas are either primed for high yields upon development, or are operating assets that are immediately revenue-accretive to strengthen the Group's recurring income streams".

a) **Given that there are many investments of about 10-15%, how much oversight and influence does the group get?**
b) **How does the group ensure that the projects are properly managed? This is especially important if the partners are all new to a particular city/market/asset class.**

Response to Q3(a) and Q3(b):

- *As mentioned in Q2(b), we work closely with partners whom we are familiar with and each partner takes charge of specific markets that they are most familiar with, for instance, we tend to lead projects in the PRC as we have the requisite knowledge and network.*

c) **With a 10-15% stake, if and when the group decides to exit any particular investment, are there provisions in the shareholder/partnership agreement to facilitate that?**

Response:

- *During the due diligence process, we also examine the balance sheet of the JV partners in order to have the comfort level that all partners have the resources and capabilities to take on additional interest should a partner decide to exit an investment;*
- *This is also provided for in the partnership agreement.*

August 1, 2017