

Issuer: Keong Hong Holdings Limited

Security: Keong Hong Holdings Limited

Meeting details:

Date: 26 January 2018

Time: 9.30 a.m.

Venue: Meeting Room 327, Suntec Singapore Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593

Company Description

Keong Hong Holdings Limited, an investment holding company, engages in the building construction, and property and hotel investment and development activities in Singapore, Vietnam, Japan, and the Maldives. It operates through three segments: Construction, Property Development, and Investment Property. The company offers a range of building construction services, including excavation, piling, substructures and superstructures works, architectural works, aluminium cladding and curtain walling, mechanical and electrical works, interior fitting-out works, external works, and landscaping under conventional, and design and build contracts. It undertakes residential, commercial, institutional, industrial, and infrastructural projects for both private and public sectors. The company's construction projects cover new construction, additions and alteration works of existing buildings, and refurbishment and upgrading of existing buildings. It is also involved in real estate development activities; the trade of building construction materials; and the development and investment of hotel and properties, as well as hotel building contractors activities. In addition, the company owns and leases office and retail shops in commercial buildings in Osaka, Japan. Keong Hong Holdings Limited was founded in 1983 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5TT)

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?**
- 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?**

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?**
- b) **Does the group have any preference for a controlling stake or a non-controlling stake?**
- c) **Since the acquisition of Hansin Timber Specialist and Trading Pte. Ltd. in August 2017, has HTST been fully integrated with the group?**
- d) **What is the group's level of oversight and influence in Nuform Systems?**

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?**

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?**

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?**

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)?**

A copy of the questions for the Annual Report for the financial year ended 30 September 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Keong%20Hong%20Holdings%20Ltd>

The company's response could be found here:

https://sias.org.sg/media/qareport/company_response/1507688676_KHH---Response-to-SIAS-Final.pdf