

Issuer: Hong Fok Corporation Limited

Security: Hong Fok Corporation Limited

Meeting details:

Date: 30 April 2018

Time: 11.00 a.m.

Venue: Empress Ballroom 4 & 5, Level 2, Carlton Hotel Singapore, 76 Bras Basah Road, Singapore 189558

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)

1. With the new hotel YOTEL opening its doors in the fourth quarter of 2017, the group achieved a major milestone. In the Chairmen’s Statement, it was disclosed that the group expects the buoyant market to “support sales” of the group’s unsold units at the Concourse Skyline development and the strong forecast for tourist arrivals will benefit YOTEL as well.

The group is also said to be “exploring other possible investment or business opportunities in the real estate market. (page 2 of the annual report)”

- (i) Can the board and management update shareholders on how it is exploring “other possible investment or business opportunities”? Is the deal sourcing conducted formally through investment banks, brokers and/or consultants?**
- (ii) Can the board state/restate the group’s vision for the benefit of both new and old shareholders?**
- (iii) What is the capital allocation policy going forward? What are the key cities and which asset classes will the group invest in?**

2. The group continues to report overall consolidated group profit in FY2017 due to unrealised valuation gains related to YOTEL hotel.

As at 31 December 2017, and years after the TOP of the developments, the group still holds on to 1 strata unit in Jewel of Balmoral and 114 units in Concourse Skyline. One unit at Jewel of Balmoral and 4 units at the Concourse Skyline were sold in the year.

- (i) Did the board and the company strategise to see how the unsold development units could be sold and its value realised?**
- (ii) What was the audit committee (AC)’s effort in determining the valuation of the development properties?** The carrying value of the development properties of \$236.5 million was a key audit matter in the Independent Auditor’s Report (page 34).
- (iii) How much capitalised borrowing costs were added to the carrying value of the development properties?**

3. As disclosed in the Corporate Governance Statement, under remuneration matters, the disclosure of the remuneration of the executive directors for the financial year ended 31 December 2017 is shown below:

CORPORATE GOVERNANCE STATEMENT

Year Ended 31 December 2017

The level and mix of the executive Directors' remuneration in bands of \$250,000 for FY2017 and the total fees payable to the non-executive Directors are set out below:

Remuneration Band Name of Executive Director	Salary %	Fees %	Bonus %	Other Benefits ⁴ %	Total %
\$3,500,000 to \$3,749,999					
Ms Cheong Hooi Kheng ⁽¹⁾	38	–	59	3	100
\$3,750,000 to \$4,999,999					
–	–	–	–	–	–
\$5,000,000 to \$5,249,999					
Mr Cheong Sim Eng ⁽¹⁾	40	–	55	5	100
Mr Cheong Pin Chuan ⁽¹⁾	25	–	62	13	100

(Source: Company annual report 2017)

For reference, the remuneration table for the executive directors for the financial year ended 31 December 2016 is shown below:

The level and mix of the executive Directors' remuneration in bands of \$250,000 for FY2016 and the total fees payable to the non-executive Directors are set out below:

Remuneration Band Name of Executive Director	Salary %	Fees %	Bonus %	Other Benefits ⁴ %	Total %
\$2,750,000 to \$2,999,999					
Ms Cheong Hooi Kheng ⁽¹⁾	44	–	52	4	100
\$3,000,000 to \$4,249,999					
–	–	–	–	–	–
\$4,250,000 to \$4,499,999					
Mr Cheong Sim Eng ⁽¹⁾	45	–	50	5	100
Mr Cheong Pin Chuan ⁽¹⁾	27	–	59	14	100

(Source: Company annual report 2016)

More importantly, if one were to look at the financial statement carefully, the group reported profit attributable to Owners of the Company of \$178.1 million on the back of a revaluation gain of \$233.5 million. Net cash from operating activities only amounted to \$10.3 million in FY2017. In FY2017, the minimum remuneration to the three executive directors added up to \$13.5 million.

In FY2016, the profit attributable to Owners of the Company was \$73.0 million, lifted by a revaluation gain of \$97.6 million and the group received net cash inflow from operating activities of \$19.2 million. In FY2016, the minimum remuneration to the three executive directors added up to \$11.25 million.

- (i) **Can the remuneration committee (RC) help shareholders understand if it is sustainable to continue rewarding the executive directors based on unrealised revaluation gains when the core business has been loss-making?**
- (ii) **Can the RC confirm if the profit measurement used in the bonus share/calculation of bonus for the executive directors is after deducting the portion of profit due to non controlling interests?**

- (iii) Can the RC elaborate in great detail, and quantify where possible, the contributions and performance of:
- a. Mr Cheong Pin Chuan as the Joint Chairman and Joint Managing Director;
 - b. Mr Cheong Sim Eng as the Joint Chairman and Joint Managing Director; and
 - c. Ms Cheong Hooi Kheng as an Executive Director and Chief Operating Officer?

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

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

The company's response could be found here: -----