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Issuer: Keong Hong Holdings Limited

Security: Keong Hong Holdings Limited

Meeting details:

Date: 25 January 2019

Time: 10.00 a.m.

Venue: Rose Room, Level 3, The Chevrons, 48 Boon Lay Way, Singapore 609961

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, 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; and the trade of building construction materials, 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)

1. As noted in the Chairman's statement, the group's existing joint residential development, Seaside Residences, is more than 86% sold. The 843-unit residential condominium at Siglap Road, is a joint venture project with FCL Topaz Pte. Ltd. and Sekisui House Ltd, with the group holding a 20% stake.

The group secured a new residential project in Mattar Road in a tender in May 2018. The partners in the joint venture company, FSKH Development Pte. Ltd., are Hock Lian Seng Holdings Limited (45%) and TA Corporation Ltd (20%). The 99-year leasehold residential site is next to the Mattar MRT station and has an area of 6230.2 sqm with a maximum gross floor area (GFA) of 18,691 sqm (201,188 sq ft).

The joint venture company won the highly competitive tender with a top bid of \$223 million or S\$1,109 per sq ft per plot ratio (psf ppr).

- (i) Would management help shareholders understand how it had selected and teamed up with the joint venture partners in FSKH Development Pte. Ltd. ("FSKH")? What is the track record of the consortium partners in launching and selling residential projects of this size and location/market positioning?**
- (ii) Can the company provide shareholders with better visibility on the launch plans of the 266-unit Mattar Road residential project?**
- (iii) What is the level of involvement by management in the strategic and operational matters of FSKH given that there are three partners with stakes varying from 20%-45%?**
- (iv) How have the cooling measures affected the plans for the development project?**
- (v) With a land cost of \$1,109 per sq ft per plot ratio, what are the projected developer's margin that can be achieved given the current market conditions? Can this development project be profitable?**

2. Following the acquisition of a 60% equity interest in Hansin Timber Specialist and Trading Pte. Ltd. and a 30.6% equity interest in Nuform System Asia Pte. Ltd. in 2017, the group set up a joint venture, K&H Innovative Systems Pte. Ltd., for the production of Prefabricated Bathroom Units ("PBU") and Prefabricated Prefinished Volumetric Construction ("PPVC") which are the state of art technologies for construction in May 2018.

The group has also entered into an option to purchase two properties at Chin Bee Road to provide space for the assembly and fit out of the PBU and PPVC.

While the Building Construction Authority has been pushing construction companies to leverage PPVC and Design for Manufacturing and Assembly ("DfMA"), most of the early movers have found it hard to commercialise these technologies in a profitable and sustainable manner.

- (i) What are management’s strategies to ensure that the foray into PPVU/PBU will be successful and profitable? How does the joint venture company differentiate itself from its competitors given that this is a crowded market?**
- (ii) What is the group’s level of involvement in the joint venture company?**
- (iii) What will the group and the joint venture partner, Ho Lee Construction Pte Ltd, contribute to the joint venture, in term of expertise, management, network, capital and projects etc?**
- (iv) How much capital has been earmarked to support the PBU/PPVC business?**

3. On 5 June 2018, the group announced that a wholly-owned subsidiary of the company, Keong Hong Construction Pte Ltd (“KHC”), was fined \$352,500 on 24 May 2018 for housing foreign workers in overcrowded living conditions at a Construction Temporary Quarters in March 2017.

In addition, the local media has reported the following:

- During an inspection on 8 March 2017, Ministry of Manpower officers found 207 foreign workers living at the temporary quarters at Sembawang Crescent, which had an approved occupancy of 182 foreign workers
 - Aside from its own workers, Keong Hong was also found guilty of abetting 17 other employers to house their foreign workers in the same quarters
 - The foreign workers stayed in 31 makeshift rooms which were "untidy and filthy" with poor ventilation and inadequate lighting which were exacerbated by the overcrowded conditions
 - The rooms were also constructed from zinc sheets and plywood, which did not meet fire safety regulations
- (Source: <https://www.channelnewsasia.com/news/singapore/construction-company-keong-hong-fined-foreign-workers-housing-10285764>)

KHC was further informed on 1 June 2018 by the Ministry of Manpower that it has been barred from recruiting new foreign workers from 1 June 2018 to 31 May 2020.

- (i) Would the company help shareholders understand the corrective actions it has taken to prevent recurrence of infringements relating to workers’ accommodation? In addition, what are the pro-active efforts by management to ensure that it does not compromise the safety and welfare of its foreign workers?**
- (ii) What is the board’s role in the supervision of the overall management of the business and affairs of the group?**

One of the board’s principal functions is to “[assume] responsibility for corporate governance and compliance with the Companies Act (Chapter 50) of Singapore and the rules and regulations of the relevant regulatory bodies (page 27).”

(iii) How does the board discharge its responsibility for the group's compliance with the rules and regulations of the relevant regulatory bodies?

Following an appeal, the group's debarment term to hire foreign workers was shortened to 6 months and KHC has been allowed to recruit new foreign workers since 24 November 2018.

(iv) What was the financial and operational impact on the group during the 6-month debarment period?

A copy of the questions for the Annual Report for the financial year ended 30 September 2017 and 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: -----

2017:

<https://sias.org.sg/media/qareport/KHH%20-%20Response%20to%20Questions%20from%20SIAS%202018.pdf>

2016:

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