KEONG HONG HOLDINGS LIMITED
Incorporated in the Republic of Singapore
(Company Registration Number: 200807303W)

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RESPECT OF THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2022

The Board of Directors of Keong Hong Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refer to the questions raised by the Securities Investors Association (Singapore) ("**SIAS**") in respect of the Company's Annual Report for Financial Year ended 30 September 2022 ("**FY2022**") and append the requisite replies as follows:

Q1. At the beginning of the pandemic, the company's 2020 annual report was titled "*Being resilient*". Net loss after tax in FY2020 was $(18.8) million. Similarly, in FY2021, the theme for the annual report was "*Poised for recovery; Ready for opportunities*" while this year's title is "*Soaring above adversities*". However, net losses after tax were $(20.2) million in FY2021 and $(46.6) million in FY2022. Revenue in FY2022 has recovered to 91% of the pre-pandemic level (FY2019) and yet the group registered negative gross margin of (20.8)%.

In FY2020, the group's main focus was to ensure the smooth execution of the construction works, managing costs, exercising financial prudence, increasing productivity and enhancing efficiency. In the 2022 annual report, the chairman and CEO once again stressed the following: "*… we have to focus efforts on minimising costs, increasing productivity and enhancing efficiency, to ensure a turnaround in our profitability*."

(i) Can management help shareholders better understand the group's efforts at managing costs, increasing productivity and enhancing efficiency?

As part of the Group's effort at managing costs, increasing productivity and enhancing efficiency, we have embarked on using innovative construction technology such as using proprietary methodology for Prefabricated Bathroom Units ("**PBU**") for our ongoing projects. We have also utilised Design for Manufacturing and Assembly ("**DfMA**"), such as Prefabricated Mechanical Electrical & Plumbing Systems ("**MEP**") and Advanced Precast Concrete System ("**APCS**") for our ongoing projects. The adoption of DfMA and PBU has significantly reduced our reliance on labour and speed up construction.

(ii) Has the board/management quantified the achievements of the group in terms of cost savings, productivity and efficiency?

The adoption of DfMA and PBU has resulted in better construction quality and shorter construction period as most of the construction works are done off-site, reducing the construction time and the amount of manpower on-site that in turn led to cost savings, increase in productivity and efficiency. However, we are unable to quantify the achievement due to the prolonged project delay and cost increases arising from the COVID-19 situation.

As seen in the consolidated statement of profit or loss and other comprehensive income, cost of sales jumped from $69.5 million to $178.9 million in FY2022. In Note 8 (page 92 – Loss before income tax), it was shown (as a single line item) that construction costs jumped from $40.6 million to $148.1 million in FY2022, an increase of $107.5 million (or 265%). The gross profit margin for FY2022 was negative 20.8%, a drop of 30.5% from 9.7% in FY2021.

(iii) Please provide a detailed breakdown of the $148.1 million in construction costs to show the major cost components. In addition, please provide a comparison to the costs in FY2021 and help shareholders better understand the factors that led to the significant increases in costs.

Construction costs of $148.1 million (FY2021: $40.6 million) comprised of various costs including construction materials and equipment, piling, electrical, air-conditioning and mechanical ventilation system, wet works, landscaping, etc. Due to the competitive nature of the construction industry, our competitors will be able to gain an insight of our cost structure if values of the major cost components are provided. In addition, major cost components of each project are different depending on the size and nature of the project.

The COVID-19 situation and the pro-longed Russia-Ukraine war have impacted prices of raw materials, such as steel and aluminium, worsened inflationary pressure, the on-going shortage of skilled labour and supply chain disruptions have also led to the significant increases in costs.

(iv) Can management list its top 5 priorities in FY2023 to help the group to return to profitability?

The priorities in FY2023 are as follows

(a) Smooth completion of our ongoing projects;
(b) Securing high value added new projects;
(c) Close monitoring of construction costs;
(d) Conduct feasibility studies for all projects and compute construction costs to ensure profitability prior to the submission of bids; and
(e) Continued enhancement of our digitalisation and automation efforts.

In addition, the group has an order book of approximately $425 million. A new project, Sky Eden @ Bedok (a mixed residential-commercial development at 799 New Upper Changi Road), worth $70 million was announced in November 2022.

(v) What was the level of oversight by the board and the safeguards put in place to ensure that the new project would be profitable?

As disclosed on Page 24 of the Annual Report, the Board's principal functions include formulating and approving financial objectives of the Group and monitoring its performance as well as evaluating the performance of management. The Board receives regular update on the progress of the Sky Eden @ Bedok project including any increase in costs arising from the COVID-19 situation. The Board provides guidance to management on mitigating measures to address the risks which may impact the Group's profitability.

Q2. As shown on page 11 of the annual report (Financial highlights), the net asset value per share has steadily decreased from 94.9 cents to 47.2 cents, a decline of 50.3%. (Source: company annual report)

(i) What is the level of involvement by the board in overseeing the operational and financial performance of the group? Has the board, especially the independent directors, been effective at creating long-term value for shareholders?

The Board receives regular updates from management on operational and financial performance. In addition, the Board including the independent directors proactively provide guidance to management on issues relating to operational matters and financial performance as well as on sustainability issues.

The unprecedented COVID-19 situation has resulted in the Group incurring losses for the last three years i.e. from FY2020 to FY2022 which had thus contributed to a decline in the net asset value of the Group.

Notwithstanding the above, with the construction sector forecasted to remain strong, supported by large-scale infrastructure, public and private sector projects, the Group will focus on its competency and competitive advantage, seeking new opportunities for growth, in order to create long-term value for shareholders.

(ii) Would it be prudent for the board to carry out a strategic review to reassess the group's competitiveness in the construction segment especially after the disruptions and changes to the sector due to the pandemic?

Strategic review of the Group is carried out on an ongoing basis where the Board oversees the business affairs of the Group, approves the financial objectives and the strategies to be implemented by the management of the Company and monitors standards of performance and issues of policy.

Mr. Leo Ting Ping Ronald serves as the chairman and chief executive officer. He oversees the day-to-day operations and the group's strategic direction and corporate business expansion.

(iii) Have the independent directors, especially the nominating committee, considered the benefit of having separate persons for the roles of the chairman and CEO, as required by Provision 3.1 of the Code of corporate governance 2018?

The Nominating Committee has considered the benefit of having separate persons for the roles of the Chairman and CEO. However, based on the current state of affairs of the Company, it would not be in the Group's interests to institute a separation in the role of the Chairman from that of the CEO

Although the roles of Chairman and the CEO are not separated, there are sufficient safeguards and checks to ensure that the process of decision making by the Board is independent and based on collective decisions without any individual or group of individuals exercising any considerable concentration of power or influence and there is accountability for good corporate governance. All the Board Committees are chaired by Independent Directors.

In December 2020, Mr. Leo Ting Ping Ronald sold a 21% stake in the company to LJHB Holdings (S) Pte. Ltd, who became a controlling shareholder. In the announcement, it was stated that Mr Ronald Leo remains the single largest shareholder of Keong Hong with shareholding of 30.85% in the company. As at 14 December 2022, Mr Ronald Leo's interest has now decreased to 11.8% (page 151 of the annual report) whereas LJHB Holdings (S) Pte. Ltd. currently holds 73.59% of the company.

(iv) At the annual general meeting scheduled to be held on 30 January 2023, Mr Leo Ting Ping Ronald is seeking his re-election (resolution 3). Would the chairman help shareholders better understand his commitment to the company/group given that he has progressively and substantially sold off his stake?

The Chairman's commitment to the Company/Group has not changed despite the dilution of his shareholdings.

Q3. The disclosure on remuneration can be found on page 36 of the annual report. Despite the group reporting a loss of $(46.6) million for the year and a cumulative loss of $(85.6) million in the past 3 years, the two directors who are in charge of the construction segment received remuneration of $1-$1.5 million, including 13% as bonuses.

A compilation of the remuneration in the past three years is shown below:

FY2020

Remuneration Bands and Name	Fees (%)	Salary (%)	Bonus (%)	Benefits in kind (%)	Total (%)
Directors					
S$750,000 to S$1,000,000					
Leo Ting Ping Ronald	–	83.34	6.29	10.37	100
S$250,000 to below S$500,000					
Er Ang Hooa	–	81.98	6.55	11.47	100
Tan Kah Ghee	–	79.17	6.62	14.21	100

FY2021

Remuneration Bands and Name	Fees (%)	Salary (%)	Bonus (%)	Benefits in kind (%)	Total (%)
Executive Directors					
S$750,000 to S$1,000,000					
Leo Ting Ping Ronald	–	75	20	5	100
S$250,000 to below S$500,000					
Er Ang Hooa	–	80	14	6	100
Tan Kah Ghee[1]	–	90	–	10	100

FY2022

Remuneration Bands and Name	Fees %	Salary %	Bonus %	Benefits in kind %	Total Remuneration %
Executive Directors					
$750,000 to $1,000,000					
Leo Ting Ping Ronald	–	82	13	5	100
$250,000 to below $500,000					
Er Ang Hooa	–	81	13	6	100

(Source: company annual reports; emphasis added)

(i) Would the remuneration committee (RC) help shareholders better understand the justification(s) for the bonuses paid to the two executive directors given the losses of $(85.6) million in the group for the past 3 years?

Annual wage supplement ("**AWS**") and variable bonus formed part of the remuneration package to executive directors. AWS is a contractual obligation disclosed in the annual report as bonuses.

For FY2022, Mr Leo Ting Ping Ronald, Chairman and Chief Executive Officer has voluntary reduced his contractual AWS as per his service contract with the Company, tantamount to a pay cut of 6% of his total remuneration.

(ii) Did the RC give due regard to prevailing market conditions as well as the financial and commercial health of the group?

The RC deliberated at length on the matter, after taking into consideration prevailing market conditions as well as the financial and commercial health of the Group.

(iii) What are the key performance indicators used to measure the performance of executive directors?

As the Group's core business is in building and constructions, one of the key performance indicators of the executive directors is to ensure our construction projects achieved Building Construction Authority's Construction Quality Assessment System (CONQUAS) score of 94.5.

(iv) Please elaborate further on how the current remuneration practices are aligned to shareholders' interests. Specifically, can the RC help shareholders understand if the level and structure of remuneration are appropriate and proportionate to the sustained performance and value creation (Principle 7 of the Code of Corporate Governance 2018)?

The current remuneration practices comprising a fixed component and a variable component for executive directors and key management personnel. The fixed component is in the form of a base salary that reflects current market conditions and for staff retention. The variable component is in the form of variable bonus that is linked to the performance of the Company and the individual's performance is based on key performance indicators.

Separately, it was disclosed that the group had entered into interested person transactions (IPTs) with aggregate value exceeding $100,000 with Mr. Leo Ting Ping Ronald ($266,000) and LJHB Capital (S) Pte. Ltd. ($237,000).

(v) Would the audit committee elaborate further on the nature of these IPTs?

On 5 April 2022, the Group entered into a loan agreement with its shareholders, namely LJHB Capital (S) Pte. Ltd. and Mr Leo Ting Ping Ronald to meet the Group's financing requirements. Accordingly, the interest on the shareholders' loan was reported as IPTs.

In addition, Mr Leo is the noteholder of the Company's 6.25% fixed rate Notes due 19 August 2023 pursuant to the Multicurrency Medium Term Note Programme with aggregate principal amount of S$2,000,000 as disclosed on Page 48 of the Annual Report.

BY ORDER OF THE BOARD

Heng Michelle Fiona / Lim Guek Hong
Company Secretaries

27 January 2023