KEONG HONG HOLDINGS LIMITED
(Incorporated in the Republic of Singapore)
(UEN: 200807303W)

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE CIRCULAR TO SHAREHOLDERS DATED 3 JUNE 2025

The Board of Directors (the "**Board**") of Keong Hong Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the questions received from Securities Investors Association (Singapore) ("**SIAS**") (the "**Queries**") in relation to the Circular to Shareholders dated 3 June 2025 on the proposed disposal of 20% of the issued and paid up capital of Katong Holdings Pte Ltd for a consideration of S$34.5 million.

The Company provides its response to the questions from SIAS below:

Q1. The company is proposing to dispose of its 20% stake in Katong Holdings Pte. Ltd. ("**KHPL**") for $34.5 million. KHPL owns Hotel Indigo Singapore Katong, Holiday Inn Express Singapore Katong and Katong Square, a retail component. As at 9-month FY2024, KHPL's net asset value was $292.77 million (unaudited), implying a value of $58.55 million for the group's 20% stake.

2.1.1 Key Financial Figures of Katong Holdings

The key financial figures of Katong Holdings' for FY2022, FY2023 and the nine-month period for FY2024 are as follows:

Descriptions	FY2024 (9-month unaudited) SGD'000	FY2023 (Audited) SGD'000	FY2022 (Audited) SGD'000
Revenue	31,125	38,139	27,241
Profit/(Loss) before Income Tax	(11,497)	(5,351)	264
Net Profit/(Loss)	(11,497)	(3,039)	(194)
Net Asset Value	292,773	251,810	258,393
Working Capital	(48,421)	(50,145)	(51,671)

(Source: circular to shareholders dated 3 June 2025)

The rationale and benefits of the proposed disposal are detailed on pages 20 and 21 of the circular to shareholders.

(i) **For the benefit of shareholders, how was the $34.5 million sale price determined, given the 20% stake's implied value of $58.55 million?** This would mean that the company lost $0.3 million from its $34.8 million investment after 11 years when the net value of the underlying assets increased to $58.55 million (for its 20% share).

Response

The sale price of $34.5 million was arrived at after arm's length negotiations and on a willing-buyer willing-seller basis, reflecting a discount after taking into consideration lack of interest by other parties (other than the Purchaser).

The discount was applied to the original shareholder loans amounting to $34.6 million and the Company's share capital of $0.2 million, taking into account KHPL's financial under-performance.

Although the net value of the underlying assets increased to an implied value of $58.55 million for its 20% share, several factors influenced the final price.

These factors include the challenges in finding buyers for a minority 20% stake, KHPL's negative financial impact on the Group, and the Group's strategy to streamline and dispose of non-core, loss-making assets. Furthermore, KHPL's records were not available on a timely manner for audit purposes and the potential compliance risks associated with it, the need for the Group to inject further capital for the repayment of KHPL's bank loans, as well as contingent financial obligations of the Group arising from the corporate guarantee and indemnity proportional to the Group's shareholding also played a role.

These factors collectively contributed to the negotiated price, which differs from the implied value of $58.55 million for the 20% stake based on net asset value.

(ii) **Who led the negotiations for the company and what was the negotiation strategy?**

Response

The negotiations between the Company and the Purchaser were led by our Chairman and CEO, with the consensus of the directors of LJHB Holdings (S) Pte Ltd (the ultimate holding company through its wholly-owned subsidiaries Forevertrust International (S) Pte Ltd and LJHB Capital (S) Pte Ltd) and the Board. The strategy was to maximise the sale price and to get the best possible outcome for the sale, considering the investment's financial performance and market conditions.

(iii) **What is the current working relationship with MCSK Pte. Ltd. in recent years? Does the group have any other dealings with Master Contract Services Pte Ltd, L3 Development Pte Ltd or Mr Leow Ban Leong?**

<u>Response</u>

The Group does not have any working relationship with MCSK Pte. Ltd other than the disposal of Katong Holdings to them. The Group's prior dealings with Master Contract Services Pte Ltd, L3 Development Pte Ltd, and Mr. Leow Ban Leong can be referred to in page 13 of the Circular.

(iv) **Did the board consider alternative courses of action, including petitioning for the voluntary winding up of KHPL, exploring minority oppression remedies or arbitration, to protect the company's interests?**

<u>Response</u>

Yes, the Board had considered various alternatives to protect the Company's interests, including potential legal actions. However, after careful evaluation, the Board determined that the sale to MCSK Pte. Ltd. would be the most commercially viable option, considering factors such as financial outcomes, and potential risks associated with prolonged litigation or winding-up processes.

Q2. The board, with the concurrence of the audit committee, has opined in the annual report that the group's internal controls (including financial, operational, compliance and information technology controls) and risk management systems were adequate and effective.

(i) **Could the board clarify the contractual rights, veto powers, information access clauses, and dispute resolution mechanisms included in the shareholders' agreement for KHPL? Given the operational and disclosure challenges, how does the board assess the effectiveness of these provisions in protecting the group's investment?**

<u>Response</u>

Under the joint venture agreement for KHPL, several key provisions were included to protect the Group's interests. These provisions include veto powers over significant financial and operational decisions, such as pricing, borrowing, and budget approvals.

The agreement includes information access clauses, which require full and proper accounting records relating to KHPL's business to be made available for inspection by any Director. Furthermore, the agreement outlines dispute resolution mechanisms aimed at efficiently addressing potential conflicts.

However, despite these contractual safeguards, the Group encountered practical challenges in exercising effective oversight. The board composition, with only one director representing the Group out of three seats on KHPL's board, significantly limited our ability to influence key decisions. Moreover, limitations in information sharing further undermined the effectiveness of these provisions. Although the contractual rights and mechanisms were theoretically robust, their actual effectiveness in protecting the Group's investment was compromised due to these structural and operational constraints.

(ii) **Going forward, what concrete enhancements have been made to the group's investment policies, governance standards, risk oversight, and internal controls for minority stakes?**

Response

At this point of time, the Group has not made any specific enhancements to the Group's investment policies, governance standards, risk oversight, and internal controls for minority stakes. The Group's primary focus remains on monitoring its operating costs and managing cash flows effectively. The Group is also open to strategic partnerships and collaborations with partners who can bring competitive advantages, capital and synergies to drive growth for our businesses and any potential enhancements in the future would be considered in the context of the Group's overall strategic objectives and priorities.

Q3. The company has also highlighted that the sale will "improve cash liquidity and maintain financial stability" given that there is the absence of new order book inflows.

(c) To Improve Cash Liquidity and Maintain Financial Stability

Given the absence of new order book inflows, by divesting this investment which has not generated returns, the Group can recover capital funds to cash reserves, ensuring sufficient liquidity to meet its operational needs, financial commitments and thereby maintaining financial stability and flexibility.

(Source: circular to shareholders dated 3 June 2025)

(i) **Can management elaborate on the group's optimal capital structure and clarify whether growth has been constrained by insufficient capital?**

Response

The Group's optimal capital structure is determined on a project-by-project basis, taking into account factors such as project duration, debt repayment terms, prevailing market conditions, and interest rates. This approach allows for a tailored financing strategy that aligns with each project's specific needs and characteristics, ultimately optimising the Company's capital structure and minimising costs.

The Group's growth has been hampered by losses suffered since the pandemic, and raising capital to sustain growth is an ongoing challenge.

(ii) **Can management provide greater clarity on the uses of the net proceeds including any planned repayment of high-cost debt or funding of pipeline projects?**

Response

The net proceeds are necessary to sustain the Group going forward and can be used to support the Group's tendering efforts for new projects, providing necessary funding to pursue opportunities that are aligned with its strategic objectives and growth plans.

(iii) **For a better understanding by shareholders, why did the company agree to a staggered payment schedule when the sale price appears to reflect a fire sale? How does deferring nearly $20 million in proceeds at completion strengthen the group's financial position?**

Response

The sale price was negotiated and agreed on the basis of payments over 2 years. The Company agreed to a staggered payment schedule in order to allow the buyer to manage its cash flows effectively. This in turn will ensure the buyer's ability to fulfil its obligations. This arrangement also benefits the Group, as it receives regular half-yearly instalment payments, providing a steady stream of cashflow to meet its own financial commitments. Additionally, the personal guarantee provided by Mr Leow Ban Leong provides further security for the Group, mitigating potential risks associated with the Purchaser's obligations. Furthermore, the corporate guarantee and indemnity for an amount of S$72.0 million that was provided by the Group in favour of Overseas-Chinese Banking Corporation in proportion to its shareholdings in KHPL to secure KHPL's credit facilities will be fully discharged as a condition precedent to completion of the Proposed Disposal.

By Order of the Board

Leo Ting Ping Ronald
Chairman and Chief Executive Officer

17 June 2025