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

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**RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2017**

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The Board of Directors (the "**Board**") of Keong Hong Holdings Limited (the "**Company**") refers to the Results Announcement released on 28 November 2017. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 13 December 2017 (each, a "**SGX Query**") as follows:

**SGX Query 1**

It was disclosed in page 17 that other income increased from S$1.3 million in 4Q2016 to S$53.2 million in 4Q2017 due mainly to exceptional gain of S$49.8 million on re-measurement of investment to fair value upon ceasing equity accounting in joint ventures. The increase was partially offset by absence of unrealized exchange gain of S$0.6 million recorded in 4Q2016. Please elaborate on the following:

i. Why is Company ceasing equity accounts in the joint ventures;
ii. What are the events that led to the cessation;
iii. Further details on the joint ventures; and
iv. How the gains are derived and why is the amount so significant.

**Company's Response**

***i. Why is Company ceasing equity accounts in the joint ventures***
***ii. What are the events that led to the cessation***

**Response**:

The exceptional gain of S$49.8 million was related to the following two joint ventures,

(a) Katong Holdings Pte Ltd ("KHPL")

KHPL is an entity jointly setup by Master Contract Services Pte Ltd and a wholly owned subsidiary of the Company, Keong Hong Construction Pte Ltd ("KHC"). KHC owns 20% equity interest in KHPL. KHPL owns two hotels which have a gross floor area of 25,000 square metres and comprise a 131-room Hotel Indigo Singapore Katong, a 451-room Holiday Inn Express Singapore Katong, a multi-story carpark, food and beverage outlets, and retail shops. Both hotels are managed by the InterContinental Hotel Group ("IHG").

Construction and development of the properties were completed in first half of 2016 and the hotels commenced operation in the second half of 2016.

(b) MKH (Punggol) Pte Ltd (“MKHP”)

MKHP is an entity jointly setup by the Company’s wholly owned subsidiary, KHC, together with Master Contract Services Pte Ltd and JBE Holdings Pte Ltd. MKHP is the developer of an Executive Condominium, The Amore, in the Punggol precinct. The development has obtained its temporary occupational permit in November 2016.

The shareholdings of the three shareholders are:

| | | |
|---|---|---|
| Master Contract Services Pte Ltd | - | 70% |
| KHC | - | 15% |
| JBE Holdings Pte Ltd | - | 15% |

The Company classified the above investments as joint ventures in FY2015 and FY2016 as the management was of the view that the Company has joint control over the companies, giving inputs and making joint decisions related to the construction and development.

As the investments have entered into their respective post construction phases, coupled with the fact that the hotels are managed by IHG, the Company have determined that there is no longer joint control of the investments and have discontinued the use of equity accounting beginning 1January 2017. This is in line with the Financial Reporting Standard (FRS) 28 “Investments in Associates and Joint Ventures”.

***iii. Further details on the joint ventures***

**Response**:

Please refer to response above for the details of the joint ventures.

***iv. How the gains are derived and why is the amount so significant***

**Response**:

In accordance with FRS 28, an entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture and the entity shall measure the retained interest at fair value.

Accordingly, the Company measured the retained investment at its fair value. Any difference between the fair value of the aggregate of the retained interest and the carrying amount of the investment at the date of equity method was discontinued is recognised in profit or loss.

The measurement of the retained interest in KHPL and MKHP was based on the following valuation approach:

| Entity | Valuation Approach |
|---|---|
| KHPL | The asset-based approach - Net Asset Value (NAV) Method<br><br>The asset-based approach is applicable when the underlying asset values constitute the prime determinant of corporate worth. The application of this approach depends on the nature of the company's operations, such as an investment or real estate holding company.<br><br>This approach focuses on the values of individual asset and liability derived from the company's balance sheet, which are adjusted to reflect the fair market value.<br><br>The fair value gain from re-measurement attributable to the Company was based on 20% of the net assets of KHPL as of 1 January 2017. |
| MKHP | Income approach – Dividend Discount Model<br><br>Given that MKHP was established for the sole purpose of the development of the executive condominium, and that the owners intend to distribute the free cash flow that is retained in MKHP as dividends, the dividend discount model is considered as an appropriate valuation methodology.<br><br>Management has estimated the free cashflow based on sales revenue from the completed sale of all units less the costs of development and other costs incurred over the period. The future dividend payments estimated based on the free cash flow is discounted by the cost of equity, computed based on market comparables of MKHP.<br><br>The fair value gain from re-measurement attributable to the Company was based on 15% share of the present value of the estimated future dividend payments. |

The aggregate fair value gain from the re-measurement of the retained interest in the above two entities was S$49.8 million.

**SGX Query 2**

It was disclosed in page 19 under "non-current assets" that the increase in available-for-sale financial assets was mainly due to the re-measurement of retained interest in joint ventures to fair value. Please provide further details on the reasons for the increase in fair value on the joint ventures.

**Company's Response**

As the Company ceased the recognition of investments in KHPL and MKHP as investments in joint ventures, the gain from re-measurement of these two entities, as explained above, was taken in the book as available-for-sale financial assets and therefore resulted in the increase in available-for-sale financial assets in the statement of financial position.

By Order of the Board

Lim Guek Hong
Company Secretary

15 December 2017