

## HONG FOK CORPORATION LIMITED

(Company Registration No. 196700468N)  
(Incorporated in the Republic of Singapore)

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### RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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The Board of Directors (the “**Board**”) of Hong Fok Corporation Limited (the “**Company**”), and together with its subsidiaries (the “**Group**”), refers to questions raised by the Securities Investors Association (Singapore) (“**SIAS**”) in relation to the Company’s annual report for the financial year ended 31 December 2019. The questions raised by SIAS and the Company’s corresponding responses are set out below:

**Q1.** As stated in the annual report, the company has stated its vision and mission statement as:

“To build and maintain a long-term sustainable real-estate related business”

The last major development carried out by the group was the Concourse Skyline which was completed in 2014. The group has also successfully developed the Orchard road site into YOTEL Singapore Orchard Road which was opened in 2017.

**(i) Would the board (re)state the strategic growth plans for the group, especially its plans for the next 3-5 years?** It would appear that the group has slowed down its pace in recent years. The group has no existing land bank as well.

The Board is always looking out for property projects for development and properties for investment and for sale.

The Board has been encouraged by the performance of YOTEL until the COVID-19 pandemic. The Board is interested in investments in hotels and are looking beyond Singapore for possible investment possibilities.

The Group has adequate financial resources (including available banking facilities) to draw on when there are available potential good investment opportunities. The Board will be prudent to ensure that any new business should increase the profitability of the Group and strengthen the Group’s financial position over a long term horizon.

If there are any significant developments in this area, the Group will make the appropriate announcements to shareholders.

The group has a relatively large senior management team, namely Mr Cheong Pin Chuan (joint chief executive officer), Mr Cheong Sim Eng (also joint chief executive officer) and Ms Cheong Hooi Kheng (chief operating officer). All three are executive directors of the company. The profile of the three directors can be found on page 3 of the annual report. However, there is little/no information on the roles and responsibilities of the executive directors.

**(ii) Would the company include a description of the roles and responsibilities of each of the executive directors in the annual report?**

The three executive directors are jointly responsible for the strategic planning in relation to the business operations of the Group and the execution of such strategic plans.

The responsibilities of Mr Cheong Pin Chuan and Mr Cheong Sim Eng also include managing the day-to-day affairs of the Group in Hong Kong and in Singapore respectively.

In addition, the responsibilities of Ms Cheong Hooi Kheng include formulating financing plans and recommending appropriate sources of funds to support the Group's mid to long term strategic plans and negotiations with contractors and banks to ensure that the most competitive terms are secured and the best terms are obtained from sales contracts/tenancy agreements.

- (iii) **Has the board reviewed the roles and responsibilities of the executive directors to ensure that there is no significant overlap and that the directors are set appropriate (individual) performance targets each year? If so, what are the performance targets?**

As explained above, there is no significant overlap in the roles and responsibilities of the executive directors.

The corporate level performance-related elements in the remuneration policy disclosed in item 3 below are cascaded down to the executive directors.

- (iv) **Given that there has been a lull in the development activities, can shareholders get a better understanding of the group's growth prospects?**

The Board will continuously monitor the market for business opportunities and will also strive to sell its development properties as and when the opportunity arises without having to resort to substantial price discounts.

When the COVID-19 pandemic is fully over, YOTEL as a strong and innovative brand with a highly cost-efficient business model is expected to ultimately benefit the Group with its market performance expected to continue to strengthen.

The Board continues to seek new business opportunities for the Group.

- Q2. Can the board/management provide shareholders with better clarity on the following operational/financial matters? Specifically:

- (i) **Concourse Skyline:** The group sold 13 units in the year, down from 21 units in FY2018. Gross rental income derived from development properties slipped to \$3.77 million in FY2019. The group still carries 80 units of development properties at the Concourse Skyline. **Can management disclose the occupancy rate of the remaining unsold units held as development properties? What is the cost of holding the unsold units?**

The Group's Concourse Skyline units are not required under the Residential Property Act's Qualifying Certificate ruling to sell all of its units within 2 years from the issuance of the Temporary Occupation Permit. Therefore, the Group plans to sell the units at the opportune time and at a reasonable profit margin.

- (ii) **Super penthouse:** It was reported in the media that the group has two super penthouses at Concourse Skyline, each in excess of 10,000 square feet. The group has just released one unit in 2019, more than a decade after the project's initial launch and more than 5 years after the project was completed. **Can management elaborate further on the plans for the super penthouses? How confident is management at selling the super penthouse given its location? Have the two penthouse units been left vacant and not utilised by the group? In choosing to develop the top floors as super penthouses, would the group achieve better returns than selling the space as smaller sized units?**

All the units at Concourse Skyline, including the penthouses are for sale with a limited number of units released in phases according to unit types so as not to compete against other sub sale units in the market. In collaboration with Robb Report Singapore, penthouse #39-08 is fitted out with a carefully curated selection of state-of-the-art furniture and products brought in by luxury brands such as Space Furniture, Lladro, Christopher Guy, Jung Asia, Swarovski and Leica amongst numerous others and was actively promoted from April to September in 2019 in Robb Report magazines. Numerous events were also held to promote the super penthouse to high net worth individuals through private invites. In addition, our appointed marketing agencies, ERA Realty Network Pte Ltd and List Sotheby have been and are actively marketing the remaining units at

Concourse Skyline. We continue to have enquiries including for the super penthouse despite the current pandemic. Currently viewings are conducted by virtual tours and once travel restrictions are eased, we look forward to a pick-up in sales activities.

The super penthouses enhance the overall exclusivity and attractiveness of the Concourse Skyline as a whole and add value to all units in the development.

- (iii) **YOTEL Singapore: What are the key operating metrics achieved by the hotel? Please disclose the occupancy rate, average daily room rate and the revenue per available room (RevPAR). Can management also disclose the profile of the guests (e.g., business/leisure, nationality, average length of stay)? How badly affected are the operations at the hotel due to the pandemic?**

The average occupancy rate was above 85% in FY2019 and room rates are published on the hotel's website. The other information requested is commercially sensitive and we prefer not to divulge them in this forum.

The COVID-19 pandemic negatively impacted the hotel industry from late January 2020 onwards as travel restrictions and border closures globally forced mass cancellations and halted forward bookings. Thus, the operations of YOTEL Singapore have been and will continue to be adversely affected by the pandemic.

- Q3.** The table below shows the remuneration of the executive directors for FY2019 (page 17).

Remuneration Band Name of Executive Director	Salary %	Fees %	Bonus %	Other Benefits <sup>16</sup> %	Total %
<b>\$3,500,000 to \$3,749,999</b>					
Ms Cheong Hooi Kheng <sup>(1)</sup>	38	-	59	3	100
<b>\$3,750,000 to \$4,749,999</b>					
-	-	-	-	-	-
<b>\$4,750,000 to \$4,999,999</b>					
Mr Cheong Pin Chuan <sup>(1)</sup>	29	-	59	12	100
Mr Cheong Sim Eng <sup>(1)</sup>	41	-	55	4	100

<sup>(1)</sup> The remuneration reflected in this table includes the remuneration given by those subsidiary companies or subsidiary corporations whose financial statements are consolidated with the Company's financial statements, aggregated together with the remuneration given by the Company.

The issue of executive remuneration is an evergreen topic at shareholder meetings. The company has used a professional and independent remuneration consultant to justify the remuneration of the executive directors.

As noted in the Corporate Governance statement, the remuneration of the executive directors and key management personnel comprises a fixed component and a variable component. The fixed component is in the form of a base salary. The variable component is in the form of a variable bonus that is linked to the performance of the group and each individual's performance. A significant and appropriate proportion of executive directors' and key management personnel's remuneration is structured so as to link rewards to corporate and individual performance.

- (i) **Can the remuneration committee ("RC") help shareholders understand the key performance indicators (both financial and non-financial) used in the assessment?**

The key financial indicator used to assess the performance of the executive directors is sustainable profit over 3-years (including revaluation gains/losses). The RC also takes into consideration the individual performance of each executive director based on the contributions and achievement of his/her short-term and long-term objectives (including financial management, sustainability, employee engagement and project execution).

- (ii) **Specifically, for the three executive directors, especially the joint CEOs, how does the RC monitor and assess the directors in a fair and impartial manner?**

The RC assesses the executive directors' performance annually, using objective and appropriate criteria (both financial and non-financial). When assessing their performance, the RC also takes into consideration their competencies and effectiveness on performing their respective roles.

- (iii) While the group has benefitted from the (non-cash) revaluation of the hotel, it is possible that the valuation of the hotel may decline as a result of market forces. **Has the remuneration consultant/company accounted for the possibility that the investment properties may suffer revaluation losses (especially likely in a recession/caused by the pandemic)? In such scenario, would it be possible that the bonuses for the executive directors would be negative? If so, are there clawback provisions for the directors to pay-back the bonuses that were due to the non-cash, unrealized revaluation gains?**

The executive directors are incentivized by having to achieve sustainable 3-year profits. Their bonuses will be affected by losses including revaluation losses (if any) in 2020. If the average 3-year profits is negative, there will be no bonuses paid for the executive directors for FY2020. The Group's profits will need to recover in future years to bring the average 3-year profits to positive territory before any bonuses are paid to them.

The Group did not introduce claw back provisions for the executive directors to recover bonuses paid previously as the bonuses were computed based on profits over 3 years. Claw back provisions may be more appropriate for professional managers as they may leave the company after one good year of huge bonuses. The executive directors are committed to stay with the Group and ride out any economic downturns even if the incentive formula produces no bonus payout for several years.

#### **BY ORDER OF THE BOARD**

CHEONG HOOI KHENG  
Director  
4 June 2020