**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) AND A SHAREHOLDER ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

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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**") and a shareholder in relation to the Company's annual report for the financial year ended 31 December 2022. The questions raised by SIAS, the shareholder and the Company's corresponding responses are set out below:

## Questions and Answers from/to SIAS

**Q1**. As mentioned in the chairman's statement, the group saw improvements in contributions from its hotel investment property, YOTEL Singapore Orchard Road, as cross-border travel increased due to the relaxation of COVID-19 measures. Higher revenue generated from the sale of residential units in Concourse Skyline was also recognised.

Profit for the year was approximately $234 million, with about $220 million attributable to owners of the company.

The chairman shared that, for FY2023, the tourism and hospitality industry outlook remains positive as international travel recovers. YOTEL's performance may continue to improve, despite challenges like high energy costs, staff recruitment issues, and high commission costs.

In addition, the group's other investment properties are expected to maintain stable occupancy rates. The group will continue to recognise revenue from Concourse Skyline's residential unit sales. However, increased buyer stamp duty for residential properties and higher mortgage rates may negatively impact the sales of higher-value residential properties in Singapore.

(i) **Given that the challenges in the high-end residential property market are well-recognised by the board, what is management doing to sell its completed development properties and de-risk the group?** As of 31 December 2022, the group still holds $122.3 million in completed properties, down from $158.1 million a year ago, with the number of units at Concourse Skyline decreasing from 67 to 57 strata units. Revenue of $36.0 million [should be $75.6 million] was recognised in FY2022. **What is management's strategy to sell the remaining units?**

The Group's completed development properties are not governed by the Residential Property Act's Qualifying Certificate ruling to sell all its units within a specified timeframe.

The Group will continue to develop marketing strategies to sell the residential units in Concourse Skyline at the opportune time and at a reasonable profit margin. Hence, management is constantly in active discussion with real estate agencies to develop these marketing strategies and monitor their effectiveness.

(ii) **What is management's view of the real estate market? How impactful was the last round of cooling measures in the opinion of management?**

The buyers in the property market are turning cautious amid high interest rates and economic uncertainty. Hence, the take-up rate for the sale of residential properties in Singapore has slowed down.

The last round of cooling measures did its job of slowing down the property market but there are still buyers with the financial resources who are willing to bear higher prices for properties.

We may continue to see demand from foreign buyers as borders have re-opened.

(iii) **With regard to Magazine Gap Towers and Magazine Heights, what were the reasons that their valuations have decreased? What are the occupancy rates of these two completed residential buildings?**

Magazine Gap Towers and Magazine Heights are investment properties and are old buildings built in 1960s. Their valuations were assessed with reference to the sales of comparable properties in nearby areas. The decreases were mainly due to the drops in the sales price of the comparable properties.

The occupancy rates of Magazine Gap Towers and Magazine Heights were approximately 71% and 83% as at 31 December 2022 and had improved to 83% and 87% respectively as at 31 March 2023.

**Q2.** Would the board/management provide shareholders greater clarity on the following financial matters? Specifically:

(i) **Unutilised bank facilities: What is the reason to have such unutilised bank facilities which cost the group \$1.40 million in unutilised bank facilities fees? Would the board be helping management to improve its working capital and cash management with a view of optimising overall cost of financing?** The group paid \$1.39 million in 2022 and \$1.54 million in 2021. **How likely is the group to utilise the bank facilities? Are there other sources of financing that the group can tap?** In comparison, the total amount of dividends paid out to shareholders was only \$6.5 million.

The Group's property business is capital intensive and requires it to have available bank facilities to fund capital expenditure to support the growth of its businesses, land acquisitions, property developments and/or property investments.

In addition, the Group's unutilised bank facilities can ensure that it has enough working capital in times when liquidity, interest rates and availability of funding sources are adversely affected by market disruptions and other risks beyond its control.

(ii) **Finance expense:** Finance expense increased to \$26.5 million in 2022 (2021: \$20.1 million). **Has management analysed the impact on the group's cash flow and profitability due to increasing interest rates? Are there ways to reduce its borrowings?**

The Group is constantly doing its best to achieve higher operating cash flows from its properties. The net income from its commercial and residential properties and from the hotel coupled with revenue from the sales of its development properties will help to reduce its borrowings.

The Group is also always on the look-out to tap other sources of funds at a lower financing cost than its existing borrowings.

(iii) **Other investments:** The group also holds other investments with carrying value of \$19.6 million (2021: \$21.7 million). These are debt and equity investments at fair value through profit and loss. The losses were \$1.15 million in 2022 and \$0.22 million in 2021. **What are the underlying debt and equity investments? What is the long term track record of the group's other investments?**

Other investments are mainly listed on the Singapore Exchange Securities Trading Limited, The Stock Exchange of Hong Kong Limited ("HKSE") and The Nasdaq Stock Market.

The losses in 2022 were mainly due to mark-to-market remeasurements of equity investments listed on HKSE at fair values as at 31 December 2022.

The Group's other investments represent only 0.5% of the total assets as at 31 December 2022.

Management will continue to take a prudent and cautious approach in the Group's business of investment trading and investment holding in securities.

**Q3.** Mr Chong Weng Hoe was appointed to the board as an independent director with effect from 15 February 2022 and as chairman of the remuneration committee and a member of the nominating committee and audit and risk management committee on 31 March 2022. Mr Lim Jun Xiong Steven and Mr Chan Pengee, Adrian, the other two independent directors, would have each served on the board for 9 years on 25 July 2023 and 31 December 2023 respectively.

On 11 January 2023, Singapore Exchange Regulation (SGX RegCo) announced that it will limit the tenure of independent directors (IDs) serving on the boards of listed issuers to nine years[1]. This stemmed from recommendations by the Corporate Governance Advisory Committee (CGAC). There was broad market support for this change during the public consultation carried out by SGX RegCo.

Mr Tan Boon Gin, CEO of SGX RegCo, also noted that the limit on tenure of IDs provides an opportunity for companies to inject new skills, experience and knowledge into their boards, all of which will be invaluable in guiding the business for the long term.

(i) **Has the nominating committee (NC) reviewed the current competency matrix of the board and identified any gaps in skills or competencies that need to be addressed in future director appointments?**

The NC has reviewed the current competency matrix of the Board and is satisfied that the current Board comprises Directors who have diverse qualifications and backgrounds in areas such as law, banking, trusts, finance and business. The non-executive independent Directors have exposure to the business industry in which the Group operates. The NC will continue to ensure that the Company has an appropriately diverse board, with the right mix of directors with a view to enhancing board effectiveness, including maintaining and increasing the levels of diversity across the different dimensions of gender, age, tenure, skills, knowledge, industry exposure, domain knowledge and international experience.

(ii) **What is the progress made in identifying and appointing new directors? Can the NC provide shareholders with greater detail the search and nomination process?**

All new appointments and selection of Directors are reviewed and proposed by the NC. The NC will first identify the knowledge, skills, experience and background of the candidate being considered for appointment to the Board. Suitable candidates for Board membership are then identified through, inter alia, recommendations from current Board members, searches conducted by external search consultants or the Singapore Institute of Directors and other referrals. The NC and the Board will interview short-listed candidates before discussing and approving the final appointment.

The Board is well aware that independent directors, Mr Lim Jun Xiong Steven and Mr Chan Pengee, Adrian, will reach the end of their nine-year terms within 2023. At the appropriate time, the Company will make the relevant announcements on the appointment of any new director and upon any changes being made to the constitution of the Board and Board committees.

(iii) **In addition, what is the succession plan for the chairman of the board?**

Listing Rule 710 of the SGX Listing Manual requires issuers to ***explicitly state***, when deviating from the provisions prescribed in the Code of Corporate Governance 2018, the provision from which it has varied, ***the reason(s) for the variation***, and the explanation(s) on how the practices it had adopted are consistent with the intent of the relevant principle [emphasis added].

Mr Chan Pengee, Adrian, upon re-election as a Director at the upcoming AGM on 28 April 2023 will remain as the Chairman of the Board. Mr Chan may continue to be considered independent until the conclusion of the Company's annual general meeting to be held in 2024. The NC and the Board will continue to deliberate on the succession plans for the chairman of the Board and the other directors.

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[1] https://www.sgxgroup.com/media-centre/20230111-sgx-regco-caps-independent-directors-tenure-enhances-remuneration

(iv) **Can the NC help shareholders better understand the deliberations it has had and the underlying reasons, if any, for the board's deviation from Provision 2.3 of the Code?**

The NC has evaluated the Board's composition and is of the view that notwithstanding the Board's deviation from Provision 2.3 of the 2018 Code, there is an appropriate level of independence and diversity of thought and background in its composition to enable the Board to make decisions in the best interests of the Company, as the non-executive independent Directors make up 50% of the Board and the Chairman of the Board is an independent Director. The non-executive independent Directors have been constructively challenging and helping Management develop proposals on business strategies for the Company and the Group. The non-executive independent Directors also continually review the performance of Management in achieving agreed goals and objectives for the Company and the Group. All of the Company's non-executive Directors are independent Directors. Their views and opinions also provide different perspectives on the Group's business.

The NC and the Board will continue to review and evaluate the board composition considering Provision 2.3 of the 2018 Code.

**<u>Questions and Answers from/to Shareholder</u>**

**Q1. Can the 2 CEOs provide me with the business outlook of the companies in Singapore and Hong Kong? What are the plans going forward and the opportunities available to the company in these 2 areas?**

The business outlook of the Group in Singapore and Hong Kong remains relatively stable.

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

The Board is also interested in investments in hotels and is looking beyond Singapore for possible investment opportunities.

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

If there are any significant developments in this area, the Company will make the appropriate announcement(s) to our shareholders.

**Q2. Is the company hotel business back to pre-Covid level? If not, what is the level of recovery?**

In 2022, the hotel had not fully recovered to pre-Covid levels purely from an occupancy perspective, although revenue per available room has since strengthened with the opening of borders and the resumption of international travel.

The Group is cautiously optimistic of achieving a better performance for the hotel in 2023, if the tourism and hospitality industry's outlook remains positive.

**Q3. Can the company be more generous with the dividends? Higher dividends will help in the share price.**

The Group is always careful to conserve its financial resources for its business needs and other potential investments, especially since investments in real estate are usually capital intensive, and also given the volatility and uncertainties in the global macro-economic environment.

**BY ORDER OF THE BOARD**

CHEONG HOOI KHENG
Director
21 April 2023