**HIAP HOE LIMITED**
(Incorporated in the Republic of Singapore)
(Company Registration No. 199400676Z)

**RESPONSES TO QUESTIONS FROM SHAREHOLDERS IN RESPECT OF THE ANNUAL GENERAL MEETING TO BE HELD ON 25 JUNE 2020 AND QUESTIONS RECEIVED FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS") ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

## A. RESPONSES TO QUESTIONS FROM SHAREHOLDERS

Hiap Hoe Limited (the "**Company**" and together with its subsidiaries, the "**Group**") would like to thank shareholders for submitting questions ahead of the Company's Annual General Meeting to be held by electronic means on Thursday, 25 June 2020 at 10.30 a.m.

Due to overlaps in the questions received, the Company will not be providing responses to every question. Instead, the Company has categorised the questions in themes as set out below.

### FINANCIAL AND CAPITAL MANAGEMENT

1. **There is big difference between the NAV and the traded price, why is the Board of Directors not proactively implementing measures to narrow this gap?**

   The Company cannot dictate capital market conditions or sentiment and there will always be volatilities in the share price. As the Company continues to weather the COVID-19 situation, it is crucial to adopt a cautious approach and our immediate focus is on strengthening our recurring income base and conserving our liquidity while maintaining a stable balance sheet and cash position. The Company will capitalise on any potential opportunities that may arise and will continue to consider all options that will enable us to deliver long-term sustainable value for shareholders.

2. **The Company is fully capable of paying higher dividend but yet chose not to do so. Can the Board explain why they chose not to bearing in mind the wide gap between market valuation of the Company and its intrinsic value?**

   The Company has been paying dividend consistently in the past years. The Board has taken on a more prudent and conservative approach with the retention of cash for working capital and other requirements The Company will endeavour to improve the dividend payout where possible.

### INVESTMENT INITIATIVES

3. **The Group has a loan of around $753,023,000 loan and the Company has to buy trading instruments of $205,420,000 to secure such loan. Although such instruments provide Company with lower interests, under the current CORVIC 19 situation, such instruments would incur large trading instruments that outweighs the benefits of low interest rate. How much is the trading instrument loss till today due to CORVIC 19. Has the Board considered that such investments have increased the Company financial risk?**

   The current trading environment remains volatile and the Group expects the impact on its trading investment portfolio to be in line with financial markets. However, the full financial impact cannot be ascertained at this point. The Company's next financial results release in respect of the half year ending 30 June 2020, will be announced via SGXNet on or before 14 August 2020.

The Board and the investment committee will also actively monitor the risks associated with the Group's financial investments.

**4. Could the Board explain why the Company needs to set aside such trading instrument knowing that these are risky instruments? Is there any value to the shareholders to hold such instruments?**

As the property market in Singapore remains challenging with relatively low profit margins, the Group has decided to invest in trading instruments while seeking the right opportunities in property development. These investments are mainly property-related assets and aim to generate capital appreciation and consistent income. These investments can be sold from time to time for liquidity management.

**5. What is the rate of return from A2I investment for 2019? Are we expected to incur large loss due to CORDVIC? What is the value to shareholder for investing in A2I?**

The Group's investment in A2I relates to the investment in AccorInvest Group, which owns or leases hotels mainly operated by the Accor Group. This investment allows the Company to gain access to strategic properties dominantly located in Europe while reducing the risks associated with active management of foreign property.

Total distributions by A2I in FY2019 amounted to approximately 4.9% of the initial investment amount. As the investment environment continues to be affected by the global pandemic, we are not able to comment on the financial impact at this moment. The Group however remains confident on the long-term viability of the investment.

## B. QUESTIONS RECEIVED FROM SIAS

The Company has also received questions from SIAS and would like to provide the following information in response to the questions.

**<u>SIAS Query 1</u>**

**As the Group increases its exposure to investment properties, the leasing performance of its assets would be critical to the Group's long-term success. Based on Note 39 (page 130 of the annual report – Segment information), the Group has committed over $550 million to the "Rental income" segment.**

**As noted in the Operations review (page 10), the occupancy at the 13-storey Hiap Hoe Building office tower dropped to 81% (from 98%) and the Orchard Towers units (comprising 21 retail spaces and 38 offices) was only 66% occupied as at 31 December 2019. Occupancy at HH@Kallang remains flat at 79%.**

**In addition, for its Perth property (130 Stirling Street) acquired in 2014, the occupancy slipped to 24%.**

**(i) Can Management help shareholders understand the Group's strength and track record in asset management (leasing)? What were the reasons for the significant drop in occupancy rates across its various assets?**

**(ii) What were the marketing efforts carried out by the Group prior to the lease expiries?**

**(iii) Has the Board evaluated if the occupancy rates are at least in line with the general market?**

**(iv) What guidance has the Board given to management to ensure that its assets are well looked after and generate a sustainable and fair return for shareholders over the long term?**

**<u>Company Response</u>**

Our investment properties are held in different markets and hence face variable operating conditions. Each property has its unique strengths and differentiating factors which will affect its performance. These include location, tenancy mix, and economic conditions of the region in which the property is located. Such factors affect the occupancy rates of the investment properties. This has however allowed the Group to achieve a degree of diversification in its rental income.

Marketing efforts carried out by the Group prior to lease expiries include, but are not limited to, lease renewal negotiations, reviews of the tenants' historical performance in terms of fulfilment of obligations and credit worthiness, as well as active consideration of tenant mixes to ensure suitability to prevailing market conditions. The Group also engages marketing agents actively to seek new tenants.

The Board actively monitors the performance of the investment properties and the management's effort in improving the rental yields and occupancy rates of our properties in line with the overall objective of increasing the Group's recurring income base.

**<u>SIAS Query 2</u>**

**In the investments segment, the market value of the Group's trading investment portfolio increased by 9.2% over the year from $280.4 million in FY2018 to $306.2 million in FY2019.**

**In FY2017-2018, the portfolio was scaled up from $117.7 million to $280.4 million. At the end of the FY2018, mark-to-market losses of $(23.5) million was recognised although the Group reversed some of that with mark-to-market gains of $13.7 million from its investment portfolio in FY2019.**

**The Group has also stated that it maintains a diversified investment portfolio across different asset classes and geographies, which comprises both quoted and unquoted investments. Quoted investments include listed equities whereas unquoted investments include fixed income instruments, mutual and private equity funds.**

**(i) Given the significant amount of capital invested in the portfolio, can the Company provide a breakdown of the portfolio by geography, by sector and by asset class? Please also disclose the target allocation and the major holdings.**

**(ii) How is the portfolio managed? What is the investment mandate?**

**(iii) What is the level of oversight by the Board/audit committee on the Group's investment portfolio, especially on the performance and risks? What are the safeguards put in place to ensure that the risks are well managed?**

**(iv) Who are the members of the financial investment committee?**

**(v) Given that the Group has a net debt-equity ratio of 0.96x as at 31 December 2019, would the Board consider it more prudent to scale back the investment portfolio and to return any excess capital to shareholders?**

**<u>Company Response</u>**

The Group maintains a diversified investment portfolio which comprises of 42% quoted investments and 58% unquoted investments as at the financial year ended 31 December 2019. Quoted investments include listed equites whereas unquoted investments include fixed income instruments, mutual and private equity funds. The Group's investment portfolio is mainly in property related assets with a geographic focus on United States of America, Europe and Singapore.

The Group has an investment committee, comprising senior members of the management, that performs market studies and research as well as evaluates the valuation of proposed assets before investing. The Group also relies on recommendations and research provided by various financial institutions.

The market performance, asset / geographical allocation and diversification, amongst others, of the portfolio are reviewed regularly during Audit and Risk Committee meetings and presented to the Board.

A large part of the portfolio comprises property-related financial investments in sub-sectors or geographical locations not readily accessible to the Group. A key objective of the portfolio is to provide flexibility to the Group in the deployment of capital when opportunities in property development and direct investments arise. As the current environment remains challenging for property development, the Group has no definitive plans in terms of the sizing of the portfolio.

**SIAS Query 3**

**In the past three years, the net profit/(loss) attributable to the owners of the Company are:**

**- FY2017: $80.47 million**
**- FY2018: $(9.93) million**
**- FY2019: $22.10 million**

**As disclosed in the Corporate Governance Report, the remuneration package of Mr Teo Ho Beng has been:**

**- FY2017: $2 million - $2.5 million; 33% bonus**
**- FY2018: $2 million - $2.25 million; 25% bonus**
**- FY2019: $2 million - $2.25 million; 25% bonus**

**In fact, in 2018 when the Company was loss making, all the executive directors received remuneration packages with bonuses between 23%-25%. In FY2019, the bonuses accounted for 23%-25% of the annual remuneration as well.**

**On page 24 of the annual report, the remuneration committee ("RC") has stated that the variable component of the salary for executive director is in the form of a variable bonus that is linked to the performance of the Company and the individual. The award of variable bonus is aligned with the interests of shareholders and other stakeholders and promotes the long term success of the Company.**

**(i) Would the RC help shareholders understand how its remuneration practices reflect the policy of linking variable bonus to the performance of the Company and the individual? It would appear that the minimum bonus component is 23%-25% regardless of the performance of the Group.**

**(ii) What were the performance indicators used by the RC?**

**(iii) Would the RC be re-evaluating its remuneration policies and practices to ensure better alignment between the executive directors and minority shareholders so as to promote the long-term success of the Group?**

**In addition, the RC has stated that the Company is not disclosing the precise remuneration and in aggregate the total remuneration of the directors and top key management personnel of the Group in the annual report to avoid poaching of the Company's staff and in the interest of privacy and confidentiality.**

**Mr Teo Ho Beng is the CEO of the Company. Mr Roland Teo Ho Kang, brother of Mr Teo Ho Beng, is the managing director of the Company and Mr Teo Keng Joo, Marc, son of Mr Teo Ho Beng, is an executive director of the Company.**

**In addition, four out of the five executives are part of the Teo family.**

**(iv) Would the RC help shareholders understand if it is logical to say that poaching is likely? From Note 32 (b) (page 114 – Compensation of key management personnel), it was disclosed that directors of the Company received $3.2 million while other key management personnel received $833,408.**

**32. RELATED PARTY TRANSACTIONS (CONT'D)**

**(b) Compensation of key management personnel**

| Group | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Short-term employee benefits | 3,912,286 | 4,070,663 |
| Central Provident Fund contributions | 123,714 | 148,510 |
| | 4,036,000 | 4,219,173 |
| Comprise amounts paid to: | | |
| Directors of the Company | 3,202,592 | 3,125,887 |
| Other key management personnel | 833,408 | 1,093,286 |
| | 4,036,000 | 4,219,173 |

The remuneration of certain key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

**(Source: company annual report)**

**Company Response**

*Remuneration Policy and Performance Factors Considered*

The Remuneration Committee's ("**RC**") remuneration policy is as disclosed on page 24 in the Company's Annual Report. In setting remuneration packages, the Company takes into consideration the remuneration and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of the individuals.

In respect of the Group's relative performance, the RC takes into consideration the financial results and the financial performance of the Company both holistically as well as in respect of each revenue segment.

In respect of the performance of the individuals, the RC takes into consideration factors such as (but not limited to): (i) the Executive Directors' performance and contribution to the Company's operations, and (ii) the success of the initiatives, continual work or projects undertaken by the Executive Directors' during the financial year.

The RC also considers performance of comparable companies in the same industry and the remuneration package declared by such companies to determine if the Executive Directors are receiving a fair and reasonable remuneration package and to ensure that they are not receiving excessive remuneration packages.

*Re-evaluation of Remuneration Policy*

Currently, the RC has not considered re-evaluating its remuneration policies and practices as the current remuneration packages are aligned with the industry's practice and is not prejudicial to the interests of the minority shareholders. The RC is aware of the need to ensure that the Company pays its Executive Directors a remuneration package that balances the following conditions: (i) a fair and reasonable amount commensurate with the individual's experience, capabilities and contributions, (ii) one that promotes the long-term success of the Group and (iii) is aligned with the minority shareholders' interests whilst promoting and reflecting the Group's long term success. The RC will at the appropriate juncture, based on market conditions, re-evaluate its remuneration policies where necessary.

*Likelihood of poaching of key management personnel*

The poaching or alternative employment of employees is applicable to all employees of the Company, regardless of whether they are related to the controlling shareholder. The ability or performance of employees is not determined by their familial relationship. As such, the disclosure of the remuneration packages of the top 5 key management personnel, including the non-related financial controller, may be taken as an indicator or benchmark of the remuneration policy of the Company and this may increase the risk of the Company's employees being poached.

By Order of the Board

Ong Beng Hong
Joint Company Secretary

25 June 2020