

OKP HOLDINGS LIMITED

(Incorporated in Singapore with Registration No. 200201165G)

RESPONSE TO QUESTIONS FROM SIAS

The Board of Directors of OKP Holdings Limited (the “Company” or “OKP”, and together with its subsidiaries, the “Group”) refers to the questions received from the Securities Investors Association (Singapore) (“SIAS”) ahead of the Company’s Annual General Meeting to be held on 27 April 2020 at 11.00 a.m. via live webcast. The Company wishes to provide its response below.

- Q1. On 14 February 2020, the company provided shareholders with a profit guidance that the group is “expected to report a net loss for 4Q2019, although the Group is expected to be profitable for the full financial year ended 31 December 2019 (“FY2019)”.**

While the group reported a net profit of \$681,000 for FY2019, it is observed that profit after income tax and non-controlling interests was negative at \$(378,000). This was due to the \$1.06 million of profit attributable to non-controlling interests.

The financial review section can be found on page 42 of the annual report (reproduced below).

FINANCIAL REVIEW				
Income Statement				
	FY2019	FY2018	Change	Change
	\$'000	\$'000	\$'000	
Revenue				
- Construction	49,966	46,051	3,915	8.5%
- Maintenance	25,683	40,363	(14,680)	(36.4%)
- Rental income	5,747	4,035	1,712	42.4%
Total revenue	81,396	90,449	(9,053)	(10.0%)
Cost of sales	(70,550)	(72,519)	(1,969)	(2.7%)
Gross profit	10,846	17,930	(7,084)	(39.5%)
Gross profit margin	13.3%	19.8%		
Other gains/(losses), net	2,543	(565)	3,108	550.1%
Expenses				
- Administrative	(10,022)	(9,540)	482	5.1%
- Finance	(1,288)	(1,133)	155	13.7%
Share of loss of associated companies and joint ventures (net of tax)	(1,039)	(121)	918	758.7%
Profit before income tax	1,040	6,571	(5,531)	(84.2%)
Income tax expense	(359)	(925)	(566)	(61.2%)
Net profit	681	5,646	(4,965)	(87.9%)
Net profit margin	0.8%	6.2%		
Profit attributable to:				
Equity holders of the Company	(378)	6,488	(6,866)	(105.8%)
Non-controlling interests	1,059	(842)	1,901	225.8%
	681	5,646	(4,965)	(87.9%)

(Source: company annual report)

- i. **In the Group MD's review (page 10), the maintenance business was described as the "bread-and-butter" of the group as it ensures a continuous and steady stream of recurrent income. Can management elaborate further on the reason(s) for the significant decrease in maintenance revenue for FY2019?**

Company's response

OKP recognises revenue from construction and maintenance projects based on the percentage of completion method and the amount of revenue contribution depends on the progress of each project. The decrease in revenue from the maintenance segment on a full year basis was due to a lower percentage of revenue recognised from a few newly-awarded maintenance projects in FY2019.

During 4Q2019, the maintenance segment recorded a \$0.2 million increase in revenue as a number of existing maintenance projects progressed to a more active phase.

Despite the decline in revenue, the maintenance segment still contributed 31.5% of the Group's total revenue.

Since its listing in July 2002, the full-year loss of \$(378,000) attributable to equity holders is the first for the group. The group's productivity measures (value add per employee, value add per dollar of employment cost, value add per dollar of investment in fixed assets etc.) have fallen to one of the lowest levels in the past 10 years.

- ii. **Can management help shareholders understand how it is pro-actively improving its productivity and its strategy to return to profitability in a highly competitive pricing environment given the rising manpower cost?**

Company's response

The civil engineering industry has been increasingly competitive over the years. This is further weighed down by the tightening of quota for foreign workers and wage growth pressure.

To address these issues, the Group has upgraded its operations and improved its productivity through various measures. These include adopting advanced technologies and conducting training programmes.

Through staff learning and training, we equip our workforce with the required technical and functional capabilities for the present and future requirements of the Group's business.

In FY2019, the Group recorded 8.8 hours of training per employee, up from 5.6 hours. The total training costs also increased to \$138,000 in FY2019 from \$61,000 in FY2018. Overall, total training hours for FY2019 increased significantly to 7,163 hours from 3,927 hours in FY2018.

- Q2. With the completion of Amber Skye and LakeLife, the group has ventured into new property developments, namely The Essence and Phoenix Heights. The former, a condominium project at Chong Kuo Road comprising two five-storey blocks with 84 units, was launched in March 2019 while the latter, a 74-unit residential development project at Bukit Panjang, is expected to be launched in 2020.**

- i. **Can management provide shareholders with regular updates on the sales progress of its development projects?**

Company's response

The Group had disposed of its interest in Amber Skye in January 2020.

The Essence was launched in March 2019 and we have achieved sales of approximately 47.6%. This property development has already bagged three awards – Boutique Condo Interior Design (Winner), Best Boutique Development High Density (Highly Commended) and Best Boutique Condo Architectural Design (Highly Commended) - at Property Guru Asia Property Awards Singapore 2019. This 99-year leasehold project is expected to receive its temporary occupation permit (TOP) in 2023.

The showflat for Phoenix Heights is currently under construction and sales has yet to commence. The Group expects to launch the project in the second half of 2020, depending on the prevailing market conditions.

We will endeavour to provide updates on the sales progress of the projects when there are material developments.

- Q3. At the annual general meeting scheduled to be held on 27 April 2020, Dr Chen Seow Phun, John will be retiring by rotation pursuant to Regulation 107 of the Constitution and will be seeking his re-election.**

Dr Chen was first appointed to the board on 25 June 2002 and has been appointed the “lead independent director” since August 2006.

As noted in the director’s profile (page 32), Dr Chen is currently the executive chairman of Pavillon Holdings Limited and the chairman of SAC Capital Private Limited. In addition, the director sits on six other boards as follows:

- **Fu Yu Corporaion Ltd**
- **Hanwell Holdings Ltd (previously known as PSC Corporation Ltd)**
- **Hiap Seng Engineering Ltd**
- **Hong Lai Huat Group Limited (previously known as HLH Group Limited)**
- **Matex International Limited**
- **Tat Seng Packaging Group Ltd**

- i. How does Dr Chen ensure that he devote sufficient time, energy and attention to the company’s matters?**

Company’s response

When a Director has multiple board representations, the Nominating Committee (“NC”) considers whether or not the Director is able to and has adequately carried out his duties as a Director of the Company, taking into consideration the Director’s number of listed company board representations and other principal commitments. In support of their candidature for directorship or re-election, Directors are to provide the NC with details of their other commitments and an indication of the time involved. In addition, Directors should consult the NC before accepting any new appointments as Directors. The NC has addressed the competing time commitments faced by Directors serving on multiple boards and is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Company, notwithstanding that some of the Directors have multiple board representations. Following the cessation of quarterly reporting of financial statements by the Company, the Board has conducted a review and determined that a Director may hold up to 10 listed company board representations.

The NC is satisfied that sufficient time and attention has been given by Dr Chen to the affairs of the Company. Dr Chen has attended all meetings of the Board and the Board Committees during FY2019.

- ii. **As the lead independent director, would Dr Chen be holding himself to a higher standard of governance practices and norms? For example, is it in line with current governance standards and best practice for a “lead independent director” to hold tenure for nearly 14 years?**

Company’s response

The NC and the Board determine annually whether a Director who has served on the Board beyond nine years from the date of his first appointment, is independent. The Board observes that Dr Chen who has served on the Board for more than nine years has been exercising independent judgement in the best interests of the Company in the discharge of his duties and should continue to be deemed independent. The Board recognises the contribution of Dr Chen who over time has developed deep insights into the Group’s business and operations, and who is therefore able to provide invaluable contributions to the Board. It is also noted that Dr Chen is able to exercise objective judgement on commercial and corporate governance matters independently. Dr Chen seeks clarification as he deems necessary, with direct access to the Management. As such, the Board would exercise its discretion to extend the term and retain the services of Dr Chen rather than lose the benefit of his contribution. After due consideration and careful assessment, the NC and the Board are of the view that Dr Chen continues to be considered independent, notwithstanding that he has served on the Board for more than nine years.

- iii. **Has the board, especially the nominating committee, evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**

Company’s response

The Board has reviewed and set out the corporate practices in place to comply with the Code of Corporate Governance 2018 (the “Code”), where appropriate.

The revised Code issued in August 2018 requires that “Independent Directors make up a majority of the Board where the Chairman is not independent” (Provision 2.2), and “Non-executive Directors make up a majority of the Board” (Provision 2.3). The amendments to the Listing Rules will require the Independent Directors to comprise at least one-third of the Board, and an Independent Director who has served for more than nine years to undergo a two-tier shareholders’ vote for re-election.

Currently, the Board consists of nine Directors, of whom three are considered independent by the Board. All three Independent Directors have also served on the Board for over nine years.

The amendments to the Listing Rules on the tenure and board composition will come into effect on 1 January 2022. The Company will comply with such amendments and will provide for a second-tier voting by the shareholders for the re-election of the Independent Directors.

By Order of the Board

Or Toh Wat
Group Managing Director
22 April 2020