F·P·A FINANCIAL
Investment Perspectives
19 August 2022

REAL ESTATE EQUITY RESEARCH

Hong Fok Corporation Limited

SGX: H30
Bloomberg: HFC:SP
ISIN code: SG1J14885763
Country: Singapore
Industry: Real Estate,
Real Estate Development & Management

19 August 2022
RECOMMENDATION: NEUTRAL

Current price: S$1.110
Target price: S$1.276
Issued units: 823.4 million (12 Aug 22)
Market capitalisation: S$913.99 million

52-week range: S$0.6950 - S$1.1800

PRICE PERFORMANCE

COMPANY DESCRIPTION

Hong Fok Corporation Limited is incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited. Presently, the principal activity of Hong Fok Corporation Limited and its subsidiaries' (collectively defined herein as Hong Fok) is that of investment holding primarily engaged in property investment, property development and construction, property management, investment trading and investment holding & management.

SUMMARY

For the half year ended 30 June 2022 (1H2022), Hong Fok recorded a 30.0% yoy increase in revenue to S$55.0 million from S$42.8 million over the same period a year ago. This increase is mainly due to the higher contribution from Hong Fok's mid-tier hotel property, YOTEL Singapore, as well as the sale of Hong Fok's development property, Concourse Skyline. Cost of sales of development properties also increased by 91.6% yoy from S$7.1 million in 1H2021 to S$13.6 million in 1H2022. Consequently, in 1H2022, Hong Fok reported profit attributable to owners of the company of S$14.1 million, compared to a S$7.9 million in 1H2022. Accordingly, Hong Fok reported an earnings per share of 1.38 cents in 1H2022. Meanwhile, no dividend has been recommended for the current financial period.

RECOMMENDATION

Based on Hong Fok's reported NAV of S$3.10, Hong Fok currently has a P/B multiple of 0.36x and is trading at a discount of approximately 64% to NAV. Our peer comparison results show that Hong Fok could be undervalued, given a lower P/B multiple of 0.36x compared to its peer average P/B multiple of 0.47x .Adopting a relative valuation approach, we estimate a target price of S$1.464 if Hong Fok's P/B were to adjust to the peer average P/B of 0.47x. However, our peer comparison analysis results show that Hong Fok's P/E multiple of 17.18x based on its trailing 12-month EPS of 6.46 cents is relatively less attractive than the peer average P/E multiple of 16.83x. Adopting a relative valuation approach, we estimate a target price of S$1.087 if Hong Fok were to trade at its peer average P/E multiple. Taken together, we estimate a target price of S$1.276, which is the average of our estimated target price based on the P/B and P/E peer comparison analysis. This target price is a 14.93% upside from the current share price of S$1.110. We believe this upside could be justified by the potential improvement to Hong Fok's earnings as supported by the positive outlook in Singapore's property market. In addition, in an event of a privatisation, we estimate a privatisation offer of S$1.551 per share, representing a price premium of 39.8%. Given the above, we believe a neutral recommendation is warranted on Hong Fok.

KEY FINANCIALS Year ended 31 December	Revenue (S$ million)	Profit [(1)] (S$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend Yield (%)	NAV per unit (S$)	P/B (x)
2020 Actual	80.4	(8.7)	(1.29)	NM	1.00	0.90%	2.95	0.38
2021 Actual	90.5	38.9	5.83	19.04	1.00	0.90%	3.00	0.37
2022 Forecast [(2)]	112.8	30.7	4.65	23.87	1.00	0.90%	3.10	0.36
2023 Forecast	113.7	21.5	3.25	34.17	1.00	0.90%	-	-

Figures have been rounded. P/E and P/B figures are based on the current share price of S$1.110

(1) Profit/(Loss) attributable to owners of the Company

(2) NAV as at 30 June 2022

NM: Not Meaningful

Source: Hong Fok, FPA Financial

Contributor: Lim Wei Yang
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COMPANY OVERVIEW

In this section, we will discuss Hong Fok's corporate profile, substantial shareholders, overview of its portfolio and its geographical revenue contribution.

(I) Corporate Profile

Hong Fok was incorporated in Singapore under the name of International Hotel Private Limited on 15 December 1967. On 5 September 1969 it was converted into a public company. On 15 August 1980, its name was changed to Hong Fok Corporation Limited. Presently, the principal activity of the Company is that of investment holding whose subsidiaries are primarily engaged in property investment, property development and construction, property management, investment trading and investment holding and management.

As at 30 June 2022, Hong Fok had approximately total assets of S$3,453.9 million, and capital & reserves attributable to ordinary shareholders of the company of S$2,015.5 million.

(II) Substantial Shareholders

As at 25 March 2022, Hong Fok Land Holding Limited is Hong Fok's largest substantial shareholder with 177,589,632 shares representing 21.05% total interest as shown in **Exhibit 1**. According to information available to Hong Fok, as at 25 March 2022, approximately 29.81% of the issued ordinary shares of Hong Fok are held by the public.

Exhibit 1: Hong Fok's Register of Substantial Shareholders

Substantial Shareholder	Direct Interest	Deemed Interest	Total interest	
			Number of shares	% (1)
Hong Fok Land Holding Limited	177,589,632	-	177,589,632	21.57%
Cheong Pin Chuan	19,152,528	150,323,053	169,475,581	20.58%
Cheong Sim Eng	115,029,256	53,659,778	168,689,034	20.49%
P.C. Cheong Pte Ltd	96,089,584		96,089,584	11.67%
Cheong Kim Pong	660,000	44,485,758	45,145,758	5.48%
Goodyear Realty Co Pte Ltd	44,485,758		44,485,758	5.40%

(1) Shareholding is calculated based on 823,417,640 issued units as at 12.08.22

Source: Hong Fok, FPA Financial

Hong Fok Land Holding Limited ("HF Land") is wholly owned indirectly by Hong Fok Land International Limited ("HFLIL") via Hong Fok Land Asia Limited, Hong Fok Land Investment Limited and Wellow Investment Limited. Following the privatisation of HFLIL, Hong Fok has interest of approximately 49.00% in HFLIL. Furthermore, Hong Fok, in calculating its earnings per share and net asset value (NAV), has excluded ordinary shares of held by HF Land that Hong Fok has interest in via HFLIL.

Mr. Cheong Pin Chuan is an Executive Director on the Board and is also Joint Chief Executive Officer of Hong Fok, principally involved in the Hong Fok's overall operations and management with greater emphasis in Hong Kong. He has (i) a direct interest in 19,152,528 units and (ii) a deemed interest of 150,323,053 units held by his wife, Corporate development Limited ("CDL") and Goodyear Realty Co Pte Ltd ("Goodyear") amounting to a total interest of 169,475,581 units.

Mr. Cheong Sim Eng, is an executive director and joint Chief Executive Officer, principally involved in the Hong Fok's overall operations and management with greater emphasis in Singapore. He has (i) a direct interest in115,029,256 units and (ii) a deemed interest of 53,659,779 units held by his wife, Corporate Development Limited and Goodyear Realty Co Pte Ltd amounting to a total interest of 168,689,034 units.

P.C. Cheong Pte Ltd, is a private limited company incorporated for the principal business of investment holding. It is 99% owned by Mr. Cheong Pin Chuan.

Mr. Cheong Kim Pong was the previous Chairman of the Board and Chief Executive Officer up till January 2014. He has (i) direct interest of 660,000 units and (ii) a deemed interest of 44,485,758 units held by Goodyear Realty Co Pte Ltd.

Goodyear Realty Co Pte Ltd, is a private limited company incorporated for the principal business of investment holding. It is 25% owned by Mr. Cheong Kim Pong, 25% owned by Mr. Cheong Pin Chuan, and 25% owned by Mr. Cheong Sim Eng.

(III) Overview of Portfolio

Hong Fok has 3 main business segments, namely Property Investment, Property Development & Construction, and Property Management. Hong Fok operates in two main geographical areas - Singapore, and Hong Kong SAR. The summary of Hong Fok's development properties and investment properties as at 31 Dec 2021 is shown in **Exhibit 2** and **Exhibit 3**.

Exhibit 2: Hong Fok's Investment Properties

Location	Property	Use	Tenure	Gross Floor Area (Sq m)	Currency	Value	Value SGD**	Interest in property
Singapore	**International Building**	Office/Shops/F&B	Freehold	14,997	S$	443,259,000	443,259,000	100%
	YOTEL Singapore Orchard Road	Hotel	Freehold	15,744	S$	767,900,000	767,900,000	100%
	362 & 364 Orchard Road	Commercial	Freehold	279	S$	31,300,000	31,300,000	100%
	The Concourse	Office/Retail	99-year lease expiring 2107	60,164	S$	1,408,370,000*	1,408,370,000	100%
	Concourse Skyline		99-year lease expiring 2107					
	Retail units at 1st storey	Retail		608	S$	-	-	100%
	8 strata units	Residential		710	S$	13,750,000	13,750,000	44%
	International Plaza	Residential	99-year lease expiring 2069	149	S$	1,720,000	1,720,000	44%
Hong Kong	**Magazine Gap Towers**	Residential	75-year lease expiring 2075	5,128	HK$	1,640,000,000	284,357,960	44%
	Magazine Heights	Residential	75-year lease expiring 2070	5,574	HK$	1,430,000,000	247,946,270	44%
	Upper Roof and Parking Spaces of THE ICON	Vacant	999-year lease expring 2860	47	HK$	13,480,000	2,337,284	44%

**Includes the value of The Concourse and retail units at Concourse Skyline*
***The equivalent in S$ is calculated at the prevailing exchange rate as at 31 December 2021 of S$1:HK$5.766*
Source: Hong Fok

Exhibit 3: Hong Fok's Development Properties

Location	Property	Use	Tenure	Total Units	Gross Floor Area (Sq m)	% of Units sold	Interest in property
Singapore	**Concourse Skyline**						
	67 strata units	Residential	99-year lease expiring 2107	360	12,645	79	100%

Source: Hong Fok

(IV) Geographical Revenue and Asset Value Contribution

Hong Fok has two reportable revenue segments, which are Singapore and Hong Kong SAR. In the half year ended 30 June 2022, Singapore remained as Hong Fok's largest revenue contributor, contributing 93.7% of its total revenue, with Hong Kong's contribution at 6.3%, as shown in **Exhibit 4.**

Exhibit 4: Hong Fok's Geographical Revenue Breakdown

S$'000	FY2020		FY2021		1H2022	
	Revenue	Contribution (%)	Revenue	Contribution (%)	Revenue	Contribution (%)
Singapore	72,652	90.4%	84,245	93.1%	52,090	93.7%
Hong Kong	7,747	9.6%	6,256	6.9%	3,516	6.3%
Total	**80,399**	**100.0%**	**90,501**	**100.0%**	**55,606**	**100.0%**

Source: Hong Fok, FPA Financial

As at 31 December 2021, Singapore remained where the bulk of Hong Fok's real assets are located, contributing 83.3% of its real asset value, with Hong Kong's contribution at 16.7%, as shown in **Exhibit 5.**

Exhibit 5: Hong Fok's Geographical Real Asset Breakdown

S$'000	FY2019		FY2020		FY2021	
	Value	%	Value	%	Value	%
Singapore	2,647,740	82.9%	2,637,320	83.5%	2,666,299	83.3%
Hong Kong	546,514	17.1%	519,854	16.5%	534,642	16.7%
Total	**3,194,254**	**100.0%**	**3,157,174**	**100.0%**	**3,200,941**	**100.0%**

Source: Hong Fok, FPA Financial

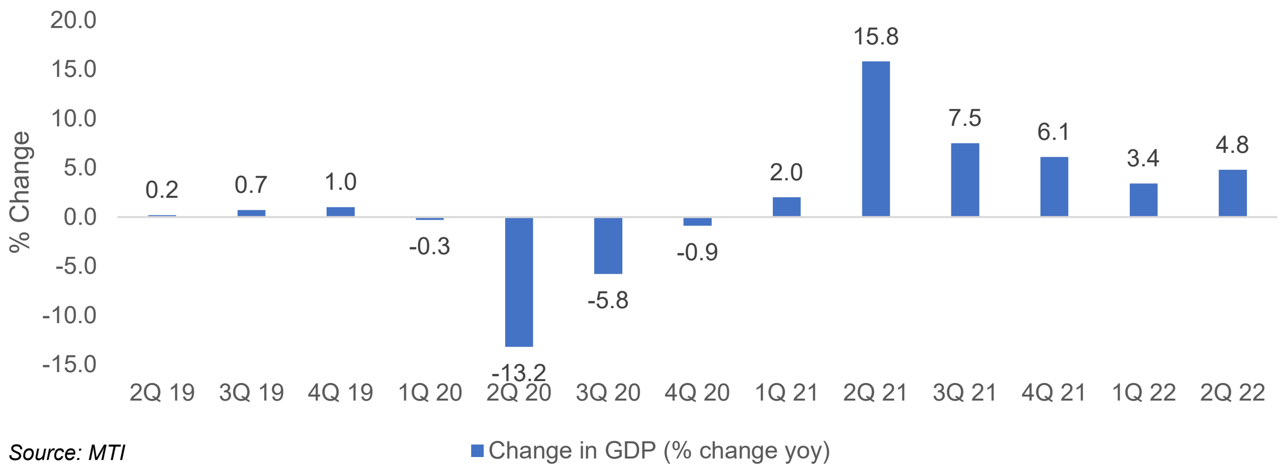
INDUSTRY OUTLOOK

As shown on the previous page, between FY2020 and 1H2022, Singapore had remained the largest revenue contributor contributing more than 93.7% of Hong Fok's revenue in 1H2022. Hence, we will focus our industry review on Singapore, which has a substantial impact on both Hong Fok's revenue & real asset value.

(I) Singapore's Economy

The Ministry of Trade and Industry (MTI) reported that, based on flash data, the Singapore economy grew by 4.8% on a year-on-year (yoy) basis in the second quarter of 2022, an increase from the 3.4% growth in the previous quarter, as shown in **Exhibit 6**.

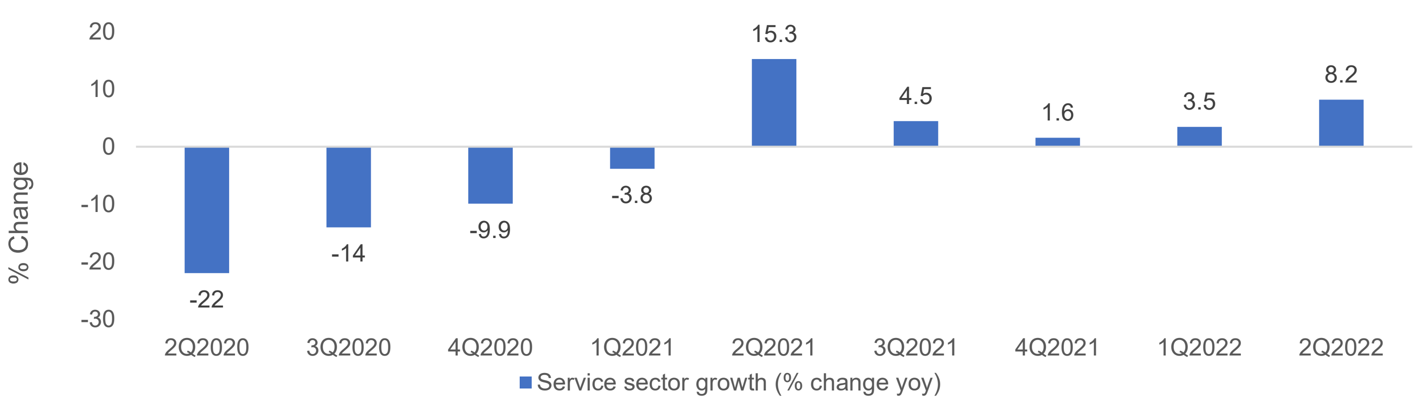
Exhibit 6: Change in Singapore Quarterly GDP (%, yoy)



Source: MTI

The services sectors - accommodation & food services, real estate, administrative & support services and other services sectors – grew by 8.2% yoy in 2Q2022, faster than the 3.5% growth in the previous quarter, as shown in **Exhibit 7**. Most sectors within the group expanded, with activities supported by the easing of domestic and border restrictions. Collectively, the value-added of this group of sectors (i.e. accommodation & food services, real estate, administrative & support services and other services sectors) remained 2.7 per cent below its level in Q2 2019. On a quarter-on-quarter seasonally-adjusted basis, the sectors grew by 1.7 per cent in the second quarter, moderating from the 3.4 per cent expansion in the previous quarter

Exhibit 7: Change in Singapore Service Sector (% yoy)

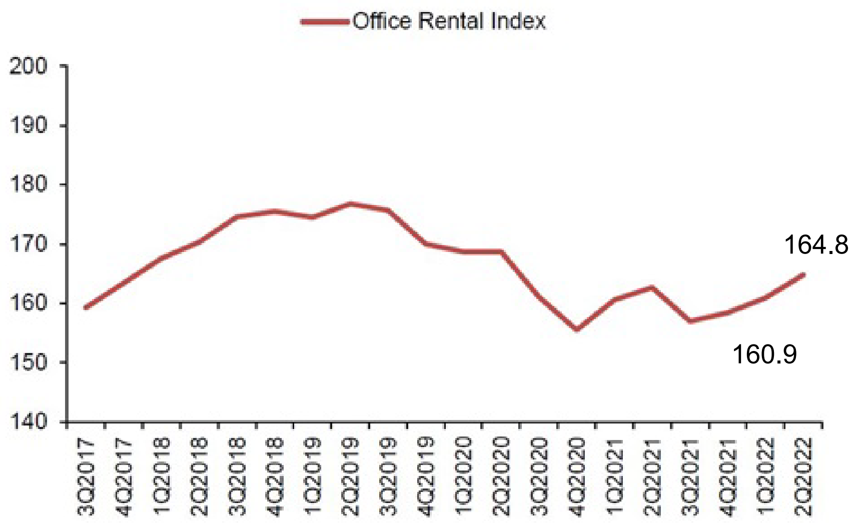


Source: MTI

(II) Singapore Office Market

According to data from the Urban Redevelopment Authority (URA), rentals of office space increased by 2.4% in 2Q2022, compared with the 1.6% increase in the previous quarter, as reflected by an increase in Office Rental index to 164.8 from 160.9 as shown in **Exhibit 8.**

Exhibit 8: Rental Index of Office Space



Source: Compiled data from URA

Knight Frank reported that Singapore is known for having a predominantly open business environment with clear and transparent policies. Thus, geopolitical tensions in other parts of the world have caused a “flight to safety” to Singapore by private wealth, corporates, and multinational companies (MNCs), increasing demand for office space in Singapore. Knight Frank believes that global economic recession or extended periods of global economic weakness would inevitably cascade to Singapore and the office market. However, office rentals are expected to withstand economic headwinds and remain on the road to recovery, owing to the tight supply of good-quality spaces at globally competitive rates in Singapore. The Singapore government regulates the release of office-zoned land sites, and redevelopment initiatives to build world-class office buildings will continue to attract MNCs to set up in the country. Shorter land leases for office developments have also been proposed by the government as part of their long-term plan review. Knight Frank believes that while this allows for flexibility in a fast-changing business environment, the environmental cost of demolishing and rebuilding over compressed time horizons must be considered to ensure alignment with Singapore’s sustainability goals. With the limited upcoming supply of CBD Grade A offices, office leasing activity is expected to remain firm throughout 2022, especially as up to 100% of employees are now allowed to return to the workplace. Going forward, Knight Frank maintains a forecast of 3%-5% growth in rents for the whole of the year.

Cushman & Wakefield (C&W) reported that global economic slowdown has increased recession risks in Singapore. Nonetheless, C&W believes that Singapore’s pro-business environment could appeal to firms seeking the flight to safety in times of uncertainty, and thus anticipate the office market to continue growing in H2 2022, albeit at a slower pace. C&W noted that office rentals increased by 1.6% qoq to S$10.17 psf per month even as vacancies rose to 5.1% from 4.6% in 1Q2022. C&W believes the increase in vacancies is due to a lag between relocations and lease negotiations and expects vacancy rates to decrease in Q3 2022. C&W also believes that robust activities for small to mid-sized office spaces, coupled with rising inflationary pressures, have fueled rental increases. C&W expects a flight to quality and new demand from wealth management firms, coupled with continued demand to return to the office, is expected to tighten office vacancy rates towards 4% and rents to grow 5.4% in 2022.

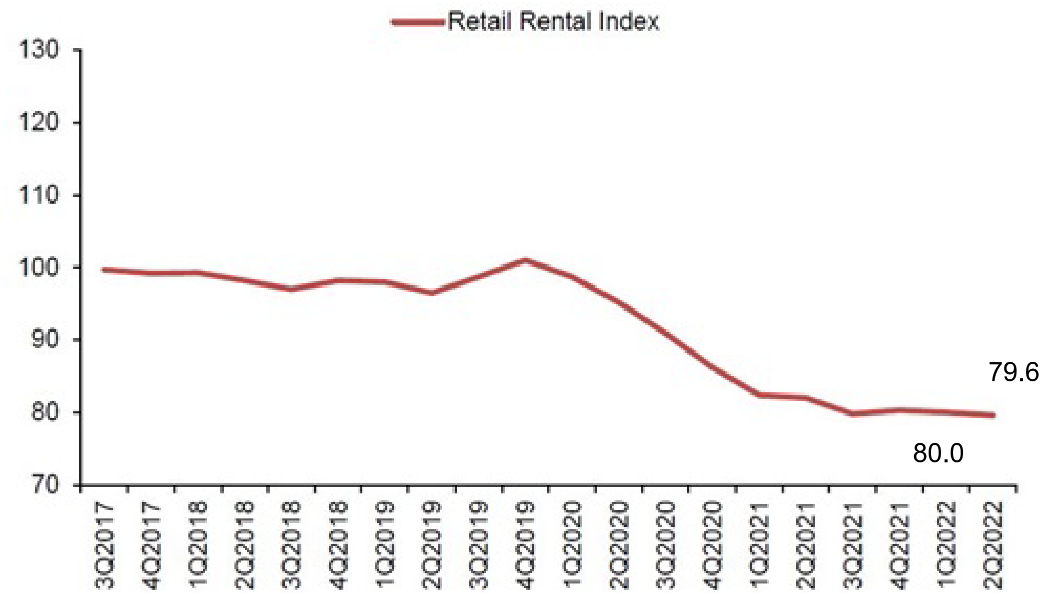
Colliers noted that the increases in the Office Rental Index can be attributed to Singapore's continued economic recovery as well as strong back-to-office momentum due to easing pandemic measures. The CBD Premium & Grade A rents, as tracked by Colliers Research, showed an expansion of 1.8% q-o-q to S$11.10 psf/month, supported by occupiers' continued preference for newer and higher quality office buildings with efficient specifications, smart features and green credentials. Colliers expects that for the rest of 2022, geopolitical and economic headwinds could dampen business sentiments and temper leasing demand as some occupiers adopt a wait-and-see approach on their business decisions. In addition, recent news about technology firms laying off and slowing their hiring might raise concerns that leasing demand from tech companies will slow. However, Colliers expects that multi-national tech firms with healthy financials will continue to grow their presence in Singapore, which is seen as a gateway to Southeast Asia, thus supporting office leasing activity. Furthermore, increasing operational costs faced by landlords due to inflationary pressures will result in higher gross rents as service charges rise. Colliers anticipates service charges could increase by up to 20%. Hence, the upward rental growth trajectory is expected by Colliers to remain well-supported. With office rents having grown by 3.1% in 1H2022, Colliers expects full year 2022 office rental growth to be around 5-7%.

CBRE noted that in the Singapore office market, The positive momentum from 2021 and 1Q2022 carried over to 2Q2022 as Singapore eased workplace restrictions. As vacancies further tightened to 4.4% in 2Q2022, landlords have been emboldened to raise their rental expectations. The pace for rental growth has accelerated from 1.4% qoq in 1Q2022 to 3.2% qoq in 2Q2022 and is the fastest pace of increase since the recovery in 2Q2021. CBRE believes that while the recent tech market volatility may have raised concerns of demand cooling for office space in Singapore, well established and financially-sound tech companies are expected to continue to grow their footprint in Singapore as their long-term prospects remain intact. With a stable domestic economic outlook, alongside a back-to-office recovery and limited new supply pipeline, CBRE Research expects office rents to increase by 8.3% for the full year of 2022, compared to 3.8% for 2021.

(III) Singapore Retail Market

According to data from URA, rentals of retail space decreased by 0.5% in 2Q2022, compared with the 0.4% decrease in the previous quarter, as reflected by a decrease in Retail Rental index to 79.6 from 80.0 as shown in **Exhibit 9.**

Exhibit 9: Rental Index of Retail Space



Source: Compiled data from URA

Knight Frank believes that the implementation of the Vaccinated Travel Framework (VTF) and the removal of restrictions have been a long-awaited boon for retailers, with tourist arrivals in April & May 2022 more than double that of 1Q2022. Prime retail rental in Orchard Road and Central Business District, as tracked by Knight Frank, increased by 0.5% qoq to S$28.00 psf/month and increased by 0.6% qoq to S$23.10 psf/month respectively. Overall island-wide retail rentals, according to Knight Frank Research, increased by 0.4% qoq to S$25.20. Knight Frank believes that as rentals bottomed out in the second quarter, a broad-based recovery is on the cards for Singapore's retail sector. Despite the looming uncertainty of a possible recession, Singapore remains a key destination for many tourists and major events such as the Singapore Grand Prix in September, which retailers are likely to benefit from. Growth in the retail market is projected for the remaining half of the year as Singapore transitions to normalcy, and retail rentals could post a growth of 2% to 4% for the whole of 2022.

C&W observed that amidst a return to pre-pandemic normalcy, total retail sales grew by 9.3% as of May 2022 YTD, fuelled by revenge spending and recovering tourism. Retail sales are poised to recover further, on the back of a gradual revival in international visitor arrivals. Tourism recovery remains weighed down by China's zero-Covid policy, given Chinese visitors' significant historical contribution to Singapore's tourism sector (around 19% of total visitor arrivals in 2019). Orchard and Sub-urban prime retail rents increased by 1.5% qoq and 1.3% qoq respectively in 2Q2022, supported by improving market sentiments on the back of significant easing of safe management measures and recovering tourism. Given the re-opening of borders and prevalence of hybrid work, the retail market is poised to experience rental growth of 3-4% yoy in 2022.

CBRE noted that retail indicators continued to improve alongside the easing of border restrictions and measures for dine-in, entertainment and social events from 1 Apr 2022.
Although borders have reopened and visitor arrivals have seen a sharp increase, retailers are cautiously optimistic about an eventual return of tourist spending in view of uncertain economic growth and rising inflation. Furthermore, retailers are now facing manpower shortage as well as rising input costs, putting a lid to landlords' capacity to raise rents in the near term. Nonetheless, with below-historical average new retail supply in the next few years, CBRE Research expects a more meaningful retail rent recovery after H2 2022

Colliers reported that despite rentals decreasing 0.5% qoq in 2Q2022, other retail indicators continued to show further signs of recovery, in tandem with the substantial relaxation of pandemic measures and border restrictions in April 2022. Based on Colliers' basket of retail malls, prime retail rents in both suburban and Orchard exhibited growth of 0.7% and 0.6%, respectively q-o-q in 2Q2022, compared with 0.7% and 0.4% in 1Q2022. Colliers believes that with the easing of domestic pandemic and travel restrictions, footfall to malls and tenant sales have shown firmer signs of picking up. However, retailers will face headwinds such as manpower shortages and higher operating costs arising from inflationary pressure and supply chain disruptions. Higher interest rates and the prospect of a possible recession could reduce discretionary income and prompt consumers to tighten their wallets, thus curtailing retail spending. Prime retail is unlikely to see a full recovery until tourist numbers recover to pre-pandemic levels and until travel restrictions in North Asia are lifted, which is expected to occur only in 2023. However, Colliers expects upcoming new retail supply to be muted, stating that average new retail supply in the next few years is approximately 30% of the historical 10-year average, with no new supply for prime retail. As such, this could lend support to a more meaningful improvement in rents and occupancies in the coming quarters.

(IV) Singapore Hotel Market

Hotel Performance

According to latest data from the Singapore Tourism Board (STB), Mid-tier hotel performance in Singapore improved in 2Q2022. During the period, the average occupancy level (AOR) across Mid-tier hotels increased to 75.48%, from 61.29% in the previous quarter, a quarter-on-quarter (qoq) increase of 14.19 percentage points (ppts). Compared to 2Q2019, the most recent pre-pandemic second quarter, AOR has decreased by 11.21ppts. Meanwhile, the average room rate (ARR) registered S$180.35 in 2Q2022, compared to S$130.26 in the previous quarter, a 38.45% increase. Compared 2Q2019, ARR has increased 10.15%. Overall, revenue per available room (RevPAR) in 2Q2022 was S$136.12, compared to S$79.83 in 1Q2022, a 70.51% increase. However, compared to 2Q2019, 2Q2022 still represents a 4.09% decrease, as summarised in **Exhibit 10.**

Exhibit 10: Performance comparison of key Mid-tier hotel indicators in 2Q2022, 1Q2022, and Q2 2019

Performance Indicator	Q2 2019	Q1 2022	Q2 2022	Change qoq	Change pre-covid
AOR (%)	86.69%	61.29%	75.48%	14.19%	-11.21%
ARR (S$)	163.73	130.26	180.35	38.45%	10.15%
RevPAR (S$)	141.93	79.83	136.12	70.51%	-4.09%

Source: Compiled data from STB

Jones Lang LaSalle (JLL) observed that at the end of 2021, Singapore counted 61,729 hotel rooms, more han a third of which identified as the mid-market segment. Despite a lower incoming supply in the next three years, mid-market hotels in Singapore have grown even faster than the upscale categories, underscoring higher demand for the mid-market hotel rooms. The occupancy in the mid-market segment has remained relatively stable during the harsh Covid-19 years, thanks to longer lengths of stay. Furthermore, JLL believes that Singapore’s mid-market segment has proven to be an attractive place for investors despite the slow transaction activity from the collapse of international visitor arrivals since the start of the pandemic. In 1Q2022, the segment registered two deals with a total transacted volume of SGD 103 million, already half of the full year of 2021. The increasing investment volume underscores the resiliency of the segment and its opportunity to diversify its clientele with longer length of stay. With strong appetite from investors, JLL expects the mid-market segment in Singapore to record SGD 400 million of transaction for the full year 2022. JLL believes that given the high vaccination levels and the recent easing of restrictions, the near term should be marked by an increase in inbound arrivals as more foreigners turn to Singapore as a destination with the least constraints in the region. JLL expects Singapore mid-market hotels to experience a rebound in the second half of 2022 as they continue diversifying their clientele in response to the dearth of Chinese travellers due to China’s quarantine requirements. The recovery should be even more noticeable towards the end of the year 2022 as international travel normalises.

Tourism Performance

The Singapore Tourism Board (STB) expects Singapore to receive between 4 and 6 million international visitors in 2022, following the city’s reopening of borders under the Vaccinated Travel Framework launched on 1 April 2022 and as global travel is picking up in pace. In the first half of 2022, Singapore clocked 1.5 million visitor arrivals, nearly 12 times more compared to the same period in 2021 (119,000). Within 1H2022, visitor arrivals increased to 1.26 million in 2Q2022 from 0.25 million in 1Q2022, a 411.9% increase. Tourism receipts (TR) reached an estimated S$1.3 billion in 1Q2022. While international visitor arrivals (IVA) and TR remain a fraction of Singapore’s pre-pandemic numbers, STB remains of the view that tourism flows will recover to pre-COVID levels by the mid-2020s. STB continues to believe that tourism flows will face some headwinds for the rest of the year because of the volatile global political and economic environment, as well as the evolving health situation. STB remains cautiously optimistic and anticipate a strong performance from key source markets this year, given a strong pipeline of events in H2 2022 such as the Formula 1 Singapore Airlines Grand Prix 2022 in early October and the Bloomberg New Economy Fourm in mid-November.

(V) Singapore Private Residential Market

Property Sales

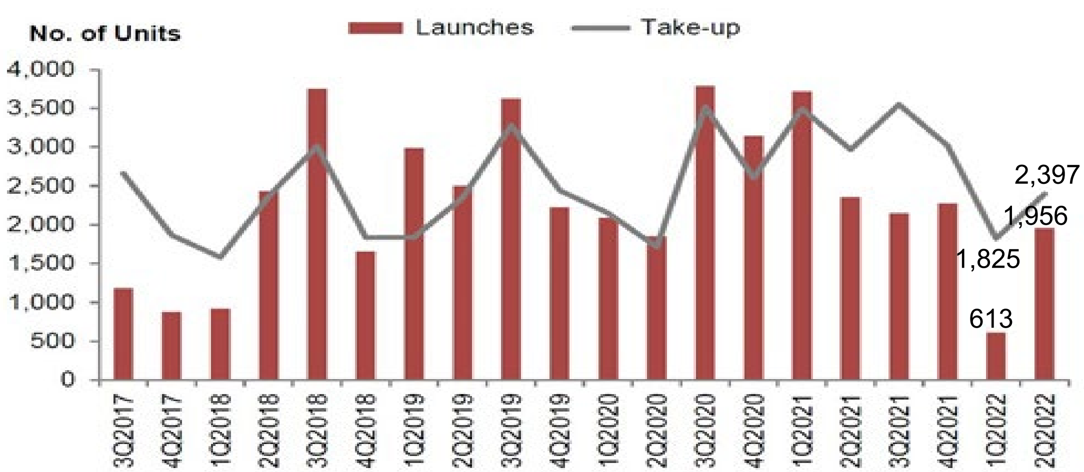
According to data from the URA, prices of private residential properties increased by 3.5% qoq in 2Q2022, compared with the 0.7% increase in the previous quarter, as reflected by an increase in Property Price Index to 180.9 from 174.8, as shown in **Exhibit 11.** Overall, in 1H2022 prices increased by 4.21%, from 173.6 in the Property Price Index in Q4 2021 to 180.9 in 2Q2022.

Exhibit 11: Property Price Index of Private Residential Properties

Source: Compiled data from URA

According to URA, developers launched 1,956 uncompleted private residential units (excluding ECs) for sale in 2Q2022, compared with the 613 units in the previous quarter. At the same time, developers sold 2,397 private residential units (excluding ECs) in 2Q2022, compared with the 1,825 units sold in the previous quarter as shown in **Exhibit 12.**

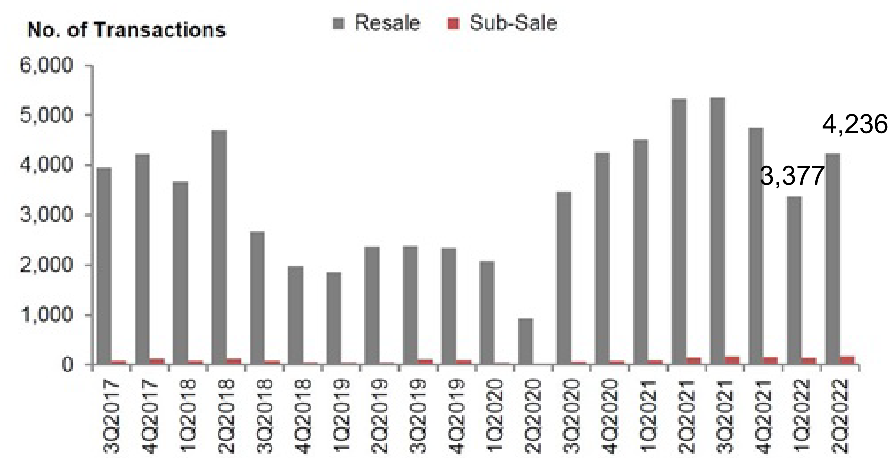
Exhibit 12: Number of Private Housing Units Launched and Sold by Developers (excluding ECs)



Source: Compiled data from URA

URA noted that as at the end of 2Q2022, there were 4,236 resale transactions, compared to 3,377 units transacted in 1Q 2022, as shown in **Exhibit 13.** This represents a 25.44% qoq increase in resale transactions. Resale transactions accounted for 62.6% of all sale transactions in 2Q2022, compared with 63.2% in 1Q 2022. There were also 178 sub-sale transactions in 2Q2022, compared to 141 units transacted in 1Q 2022. Sub-sales accounted for 2.6% of all sale transactions in 2Q2022, same as that of 1Q 2022.

Exhibit 13: Number of Resale and Sub-sale Transactions for Private Residential Units

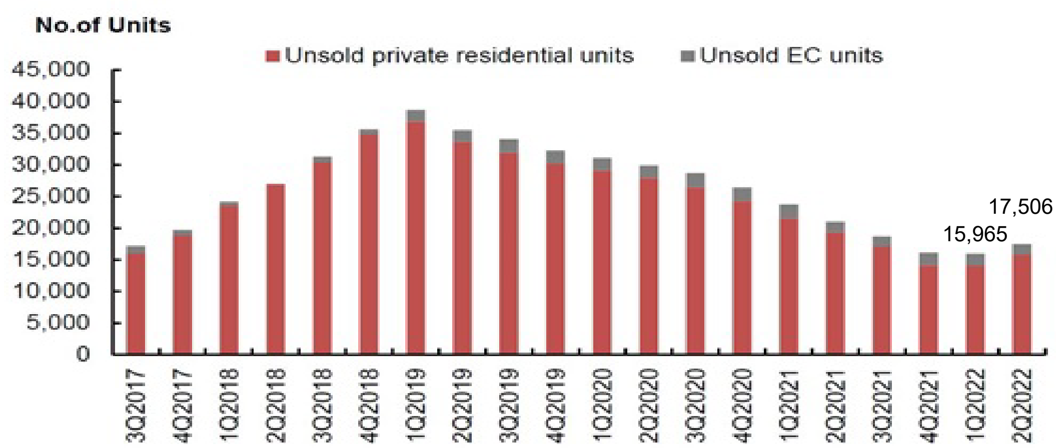


Source: Compiled data from URA

URA noted that as at the end of 2Q2022, there was a total supply of 48,836 uncompleted private residential units (excluding ECs) in the pipeline with planning approvals, compared with the 47,415 units in the previous quarter Of this number, 15,805 units remained unsold as at the end of 2nd Quarter 2022, compared with the 14,087 units in the previous quarter.

After adding the supply of 5,333 EC units in the pipeline, there were 54,169 units in the pipeline with planning approvals. Of the EC units in the pipeline, 1,701 units remained unsold. In total, 17,506 units with planning approvals (including ECs) remained unsold, compared to 15,965 units in the previous quarter as shown in **Exhibit 14**.

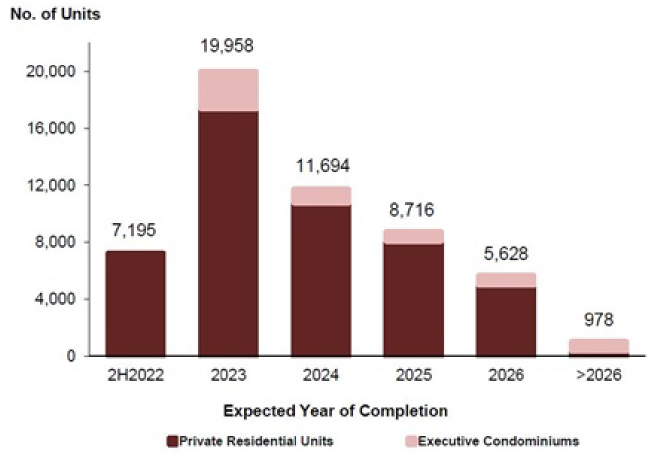
Exhibit 14: Total Number of Unsold Private Residential Units in the Pipeline



Source: Compiled data from URA

According to the URA, based on expected completion dates reported by developers, 7,195 units (including ECs) will be completed in 2H2022, with another 19,958 units (including ECs) are expected to be completed in 2023, as shown in **Exhibit 15.** In total, URA stated that around 30,700 units (including ECs) are expected to be completed in 2022 and 2023, which is almost three times the 10,400 units completed in 2020 and 2021.

Exhibit 15: Pipeline Supply of Private Residential Units and Ecs

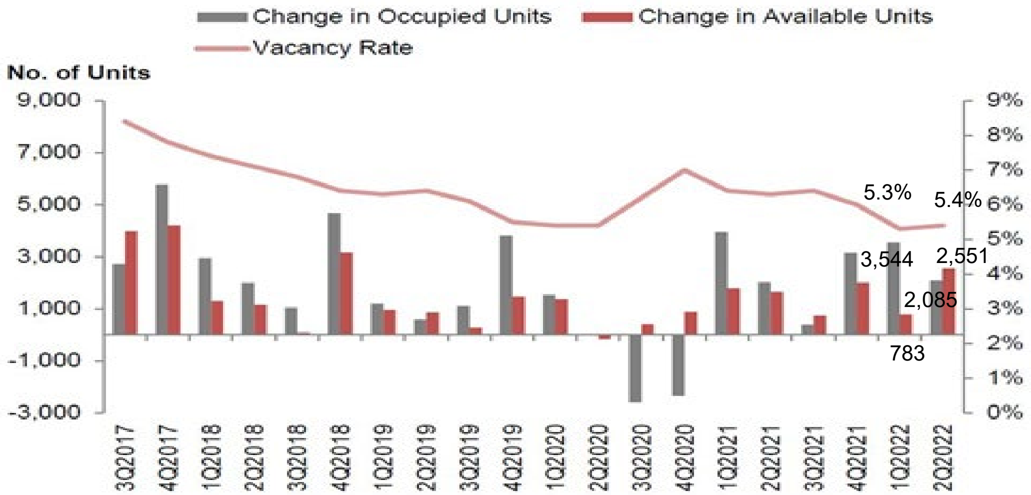


Note: 3,501 private residential units and no executive condominiums were completed (i.e. obtained TOP) in 1H2022.

Source: Compiled data from URA

According to URA the stock of completed private residential units (excluding ECs) increased by 2,551 units in 2Q2022, compared with the increase of 783 units in the previous quarter. The stock of occupied private residential units (excluding ECs) increased by 2,085 units in 2Q2022, compared with the increase of 3,544 units in the previous quarter. As a result, the vacancy rate of completed private residential units (excluding ECs) increased to 5.4% as at the end of 2Q2022, from 5.3% in the previous quarter as shown in **Exhibit 16.**

Exhibit 16: Stock and Vacancy of Private Residential Units (excluding ECs)



Source: Compiled data from URA

CBRE noted that following the lull period in 1Q2022, sales volumes in 2Q2022 saw an uptick as developers rolled out more new homes. CBRE also believes the increase in Private Residential Property Index was led by new project launches in the City Fringe(RCR) –which set new benchmark prices –as developers held firm on their asking prices amid higher construction costs and low unsold inventory. Overall, CBRE is of the view that strong economic growth, upgraders' demand and rising rents have underpinned the private and public residential market thus far. However, rising macroeconomic uncertainties and mortgage rates may deter potential homebuyers moving forward. CBRE Research maintains its 2022 new home sales forecast at 9,000 –10,000 units, from 13,027 units in 2021. In view of the stronger-than-expected pick-up in home prices in 2Q2022, 2022's full-year price forecast has been raised to 5% from 3% previously, which still represents a slowdown from the 10.6% increase in 2021.

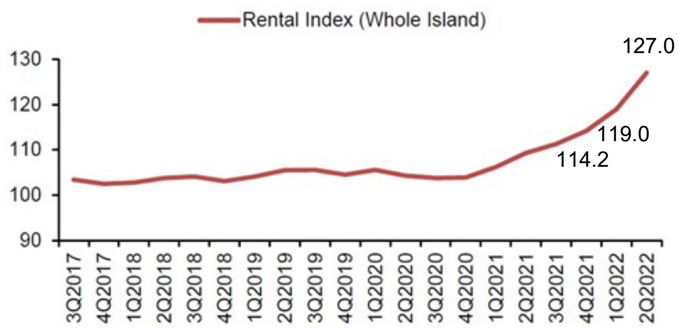
Knight Frank notes that the state of pause in the private residential market in 1Q2022 was short-lived when compared to the previous imposition of cooling measures, evidenced by the 3.6% increase in prices of non-landed properties in 2nd Quarter 2022, compared with the 0.3% decrease in the previous quarter. Knight Frank believes that while the cooling measures of increased Additional Buyers' Stamp Duty, lower Loan-to-Value limits, and lower Total Debt Servicing Ratio threshold muted residential market activity in 1Q2022, the sheer weight of demand is outpacing the backlog of supply as Singapore normalises from the pandemic years. Nevertheless, activity could taper in the coming months with rising interest rates acting as a natural cooling measure in H2 2022, reining in homebuyer affordability. Knight Frank believes buyers have shown an unanticipated resilience, the kind that will now embolden developers to launch projects to tap on this buyer demand before interest rates rise further. Notwithstanding the Additional Buyer's Stamp Duty (ABSD) for foreigners, interest in Singapore homes in a flight to safety will also gain momentum with increasingly open borders. Overall, Knight Frank projects private residential prices to increase around 5% to 7% for the whole of 2022, against the initial conservative forecast of 1% to 3% growth when the cooling measures were first announced in December 2021.

Colliers believes that 2Q2022 have demonstrated the strong purchasing power of buyers, with higher mortgage rates appearing to have limited impact on buyers' sentiments. The strong take-up at some projects reflects pent-up demand for attractive projects with strong attributes such as location and proximity to amenities. Colliers expects residential market prices to remain resilient in the near term on the back of attractive launches. Additionally, developers will be motivated to bring forward their launches in light of rising interest rates which will impact buyer affordability, and higher construction costs affecting their margins. However, the upcoming hikes in borrowing rates may eventually price some buyers out of the market in terms of their mortgage eligibility. In addition, the combination of macroeconomic uncertainties, higher cost of living and historical high prices may also deter some prospective buyers. Finally, the increasing supply of homes, in terms of unsold inventory, pipeline coming onto the market and newly completed units will also help to alleviate the supply crunch as well as moderate price and rental growth.

Rental

According to data from URA, rentals of private residential properties increased by 6.7% in 2Q2022, compared with the 4.2% increase in the previous quarter, as reflected by an increase in the Rental index to 127.0 from 119.0 as shown in **Exhibit 17.** Overall, in 1H2022 rentals increased by 11.2%, from 114.2 in the Rental Index in Q4 2021 to 127.0 in 2Q2022.

Exhibit 17: Rental Index of Private Residential Properties



Knight Frank noted that island wide rental contracts of non-landed private homes totalled 12,893 in April and May 2022, about 9.6% lower than the same period last year. Despite the dip in rental volumes, rents have increased between 6% to 16% qoq across the various market segments with competition remaining fierce among lessees. Knight Frank believes companies who have not adjusted their accommodation budgets accordingly for expatriates might face challenges settling in employees. Knight Frank believes rental demand will continue to flow in from multiple target sources, vying for the same piece of the leasing pie. Expatriates from Hong Kong who secured professional opportunities in Singapore are expected by Knight Frank to be a key source of rental demand, with many renting homes while waiting for permanent residency status or citizenship, while time will be needed for projects affected by construction delays to complete.

Colliers noted that rentals of private residential properties increased at a faster pace of 6.7% in 2Q2022 compared with the 4.2% increase in 1Q2022 and believes higher rents may be fueled by the tight supply in the market, but may moderate as more homes get completed. Colliers expects the number of completed private residential units in 2022-2023 to be significantly higher than the preceding two years, and that these newly completed homes will cater to those looking to rent in the near term.

CBRE observed that based on the URA Rental Index for all private residential properties, rents reached a new high in 1Q2022. Following the reopening of Singapore's borders, median psf rents for non-landed properties rose at an accelerated pace in Apr and May 2022. CBRE believes this was likely due to increased demand from inbound travellers and recent home sellers whose new home completions have been affected by construction delays. CBRE expects this upward rental trend to be sustained until more supply is completed in 2023.

Summary of Singapore Real Estate Markets

We have summarized the forecasted growth in office rentals, retail rentals, and private residential property prices by the various commercial real estate services companies in **Exhibit 18**.

Exhibit 18: Singapore Real Estate Markets Forecasts

Company	Office Rentals	Retail Rentals	Private Residential Prices
Knight Frank	3%-5%	2%-4%	5%-7%
Colliers	5%-7%	-	-
C&W	5%	3%-4%	-
CBRE	8%	-	5%

Source: Respective companies

RECENT SHARE PRICE DEVELOPMENT

In the past year, Hong Fok's share price rose by 37.79% from S$0.805 on 18 August 2021 to S$1.110 on 19 August 2022 as shown in **Exhibit 19**.

Exhibit 19: Hong Fok's 1 Year Share Price Performance

Source: Yahoo Finance, FPA Financial

On 22 March 2022, several of Hong Fok's wholly owned subsidiaries acquired and privatized Hong Fok Land International Limited (HFLIL) at a price of HK$0.56 per share. HFLIL has previously listed in Hong Kong, and the purchase price of HK$0.56 per share represented a 76.7% discount to NAV of approximately HK$2.40. We note that following the announcement, Hong Fok's share price rose by 12.58% and ended the week at S$0.840.

On 28 March 2022, Hong Fok announced the redemption of S$100 million 4.20% bonds, without any re-issuance of debt. We note that following the announcement, Hong Fok's share price rose by 7.27% after a week from S$0.816 to S$0.875.

On 5 April 2022, Hong Fok released their annual report for FY2021 and reported a net profit of S$44 million in FY2021 from a S$26 million loss in FY2020. We note that following the announcement, Hong Fok's share price rose by 1.13% and ended the week at S$0.885.

On 19 April 2022, the Straits Times reported that the sons of Hong Fok's late founder Mr. Cheong Eak Chong put up their Oxley Rise mansion for sale. The hilltop two-storey bungalow sits on a 151,205 sq ft freehold site in prime District 9. CBRE at the time suggested that the property could attract offers of over S$300 million, close to our estimated acquisition cost to privatise Hong Fok which we will discuss on page 57. Following the report, Hong Fok's share price rose by 9.27% from S$0.959 to S$1.048 the next day. We note that the property has yet to be sold, but according to the Business Times, talks are still ongoing.

On 27 April 2022, at its 54th Annual General Meeting, Hong Fok passed the Renewal of Share Purchase Mandate with 100% of its shareholders voting for the renewal. We note that following the announcement and the renewal, Hong Fok's share price rose by 1.70% and ended the week at S$0.890.

On 12 August 2022 Hong Fok released their financial statements for 1H2022 and reported an 80.1% increase in net profit attributable to equity holders of the company. We note that the trading day following the announcement, Hong Fok's share price rose by 6.80% to S$1.10.

In terms of insider trades, Hong Fok has a Share Purchase Mandate which authorises the directors of Hong Fok to make purchases of ordinary shares in the capital of the Company representing up to a maximum of ten per cent (10%) of the issued Shares (excluding treasury shares and subsidiary holdings) at a price of up to but not exceeding the maximum price.

Maximum Price

The purchase price (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) to be paid for a Share will be determined by the Directors. However, the purchase price to be paid for the Shares pursuant to the purchases or acquisitions of the Shares, excluding related expenses of the purchase or acquisition, must not exceed the maximum price (Maximum Price) which is:

i. in the case of an On-Market Purchase, five per cent. (5%) above the average closing market prices of the Shares over the five (5) days on which the SGX-ST is open for securities trading (Market Days) and on which transactions in the Shares were recorded, before the day on which the On-Market Purchase was made by the Company and deemed to be adjusted for any corporate action that occurs during the relevant five (5)-day period and the day on which the purchases are made; and

ii. in the case of an Off-Market Purchase, twenty per cent. (20%) above the average closing market prices of the Shares over the last five (5) Market Days on which transactions in the Shares were recorded, before the day on which the Company makes an announcement of an offer under the Off-Market Purchase scheme.

Rationale

The Share Purchase Mandate will give the Directors the flexibility to purchase Shares when circumstances permit, with the objective of enhancing the earnings per Share (EPS) of Hong Fok and its subsidiaries (the Group). Such flexibility will also allow the Directors to better manage Hong Fok’s capital structure, dividend payout, and cash reserves. Share purchases will also help buffer short-term share price volatility and off-set the effects of short-term speculators and investors and, in turn, bolster shareholder confidence and employee morale.

The Share Purchase Mandate will thus provide the Company with an efficient mechanism to enhance return to Shareholders when circumstances permit

Given the Share Purchase Mandate as mentioned on the previous page, since the renewal of the mandate, Hong Fok has since conducted a series of share buyback. From 27 April 2022 till date, Hong Fok has conducted a total of 30 share buybacks for a total consideration of S$12.5 million for 13,343,400 shares as shown in **Exhibit 20**. This represents a total of 1.60% stake in Hong Fok. Following the latest buyback on 12 August 2022, Hong Fok has 823,417,640 issued shares excluding treasury shares, and 47,194,500 treasury shares.

Exhibit 20: Details of Hong Fok's Share Buyback Transactions

Date	No. of shares purchased	Price Paid per Share (S$)	Total consideration (S$)	Cumulative No. of shares purchased to date	Cumulative Percentage of Issued Shares	Issued Shares Excluding Treasury Shares after Purchase	Treasury Shares after Purchase
27/4/2022	500,000	.888	$ 443,873	500,000	0.06%	836,261,040	34,351,100
29/4/2022	350,000	.878	$ 307,201	850,000	0.10%	835,911,040	34,701,100
4/5/2022	776,000	.891	$ 691,328	1,626,000	0.19%	835,135,040	35,477,100
5/5/2022	622,000	.897	$ 557,944	2,248,000	0.27%	834,513,040	36,099,100
6/5/2022	563,000	.892	$ 502,021	2,811,000	0.34%	833,950,040	36,662,100
9/5/2022	310,000	.880	$ 272,845	3,121,000	0.37%	833,640,040	36,972,100
10/5/2022	460,100	.848	$ 390,333	3,581,100	0.43%	833,179,940	37,432,200
11/5/2022	336,900	.849	$ 286,139	3,918,000	0.47%	832,843,040	37,769,100
12/5/2022	820,800	.843	$ 691,752	4,738,800	0.57%	832,022,240	38,589,900
13/5/2022	103,500	.853	$ 88,248	4,842,300	0.58%	831,918,740	38,693,400
17/5/2022	190,800	.878	$ 167,468	5,033,100	0.60%	831,727,940	38,884,200
18/5/2022	349,300	.901	$ 314,820	5,382,400	0.64%	831,378,640	39,233,500
19/5/2022	155,000	.903	$ 139,933	5,537,400	0.66%	831,223,640	39,388,500
23/5/2022	278,000	.903	$ 250,977	5,815,400	0.70%	830,945,640	39,666,500
24/5/2022	800,000	.903	$ 722,235	6,615,400	0.79%	830,145,640	40,466,500
25/5/2022	250,000	.918	$ 229,460	6,865,400	0.82%	829,895,640	40,716,500
31/5/2022	450,000	.948	$ 426,570	7,315,400	0.87%	829,445,640	41,166,500
6/6/2022	476,000	.988	$ 470,315	7,791,400	0.93%	828,969,640	41,642,500
20/6/2022	155,000	.938	$ 145,375	7,946,400	0.95%	828,814,640	41,797,500
21/6/2022	350,000	.973	$ 340,554	8,296,400	0.99%	828,464,640	42,147,500
22/6/2022	298,400	.961	$ 286,680	8,594,800	1.03%	828,166,240	42,445,900
23/6/2022	256,200	.968	$ 248,001	8,851,000	1.06%	827,910,040	42,702,100
24/6/2022	180,000	.978	$ 176,045	9,031,000	1.08%	827,730,040	42,882,100
30/6/2022	321,600	.966	$ 310,782	9,352,600	1.12%	827,408,440	43,203,700
1/7/2022	100,000	.963	$ 96,298	9,452,600	1.13%	827,308,440	43,303,700
4/7/2022	625,700	.976	$ 610,840	10,078,300	1.20%	826,682,740	43,929,400
5/7/2022	240,000	.987	$ 236,833	10,318,300	1.23%	826,442,740	44,169,400
7/7/2022	2,700	.973	$ 2,628	10,321,000	1.23%	826,440,040	44,172,100
8/7/2022	160,000	.978	$ 156,484	10,481,000	1.25%	826,280,040	44,332,100
12/8/2022	2,862,400	1.018	$ 2,914,811	13,343,400	1.60%	823,417,640	47,194,500

Source: Hong Fok, FPA Financial

We also note that since Hong Fok's disclosure of its substantial shareholders on 25 March 2022, there have been additional share transactions by its joint Chief Executive Officers, Mr. Cheong Pin Chuan and Mr. Cheong Sim Eng. Mr. Cheong Pin Chuan made a total of 4 trades for a total consideration of S$1.6 million, purchasing 1,813,200 shares. This has increased his shareholding of Hong Fok to 20.8%, as summarised in **Exhibit 21.** On the other hand, Mr. Cheong Sim Eng made 4 trades for a total consideration of S$0.6 million, selling 632,500 shares and decreasing his shareholding to 20.41%, as summarised in **Exhibit 22**.

Exhibit 21: Details of Mr. Cheong Pin Chuan's Trades

Date	No. of shares purchased	Estimated price paid per share	Total consideration	Total interest after acquisition		
				Direct interest	Deemed interest	Shareholdings (%) (1)
6-Apr-22	1,135,000	.890	$ 1,010,150	20,287,528	150,323,053	20.720%
7-Apr-22	400,000	.885	$ 354,000	20,687,528	150,323,053	20.768%
8-Apr-22	80,000	.885	$ 70,800	20,767,528	150,323,053	20.778%
20-Jun-22	198,200	.930	$ 184,345	20,969,328	150,323,053	20.803%

(1) Shareholding is calculated based on 823,417,640 issued units as at 12.08.22

Source: Hong Fok

Exhibit 22: Details of Mr. Cheong Sim Eng's Trades

Date	No. of shares purchased	Estimated price paid per share	Total consideration	Total interest after acquisition		
				Direct interest	Deemed interest	Shareholdings (%) (1)
1-Apr-22	80,000	.880	$ 70,400	115,109,256	53,659,778	20.496%
21-Apr-22	(555,500)	.985	$ (547,023)	114,553,756	53,659,778	20.429%
22-Apr-22	(200,000)	.935	$ (187,000)	114,353,756	53,659,778	20.404%
10-Jun-22	43,000	.975	$ 41,925	114,396,756	53,659,778	20.410%

(1) Shareholding is calculated based on 823,417,640 issued units as at 12.08.22

Source: Hong Fok

FINANCIAL ANALYSIS

In this section, we will provide a review of Hong Fok's financial performance and capital management.

(I) Financial Review

Review of Half-Year 2022 Results

Revenue

For the half year ended 30 June 2022 (1H2022), Hong Fok recorded a total revenue of S$55.6 million. This represents a 30.0% yoy increase from the S$42.8 million revenue recorded for the half year ended 30 June 2021. This increase is mainly due to the higher contribution from the sale of Hong Fok's completed development property Concourse Skyline, which contributed S$10.6 million of the S$12.8 million increase in revenue. Based on URA data, we estimate that Hong Fok sold 9 units of Concourse Skyline in 1H2022, based on an average price of S$2.32 million per unit which we will elaborate on page 36. As a result, revenue from contracts from customers increased by 85.7% from S$11.9 million in 1H2021 to S$22.0 million in 1H2022. Similarly, rental income from investment properties, the other significant source of Hong Fok's revenue, increased by 14.2% from S$23.4 million in 1H2021 to S$26.8 million in 1H2022. We estimate that the increase is largely due to increases in income from YOTEL Singapore as Singapore reopens its borders to fully vaccinated foreign visitors in 2Q2022. The breakdown of Hong Fok's revenue can be found in **Exhibit 23.**

Exhibit 23: Breakdown of Hong Fok's revenue

S$'000	1H 2021	1H 2022	yoy change
Gross dividend income from investments	565	518	-8.3%
Rental income from:			
- investment properties	23,419	26,755	14.2%
- development properties	1,721	1,425	-17.2%
Rental Income	**25,140**	**28,180**	**12.1%**
Hiring charges from:			
- investment properties	73	67	-8.2%
- development properties	748	641	-14.3%
Hiring Charges	**821**	**708**	**-13.8%**
Maintenance fees from:			
- investment properties	4,219	4,036	-4.3%
- development properties	145	131	-9.7%
Maintenance Fees	**4,364**	**4,167**	**-4.5%**
Revenue from contracts from customers			
- sale of completed development properties	10,204	20,826	104.1%
- carpark income	290	330	13.8%
- property management income	1,374	877	-36.2%
Revenue from contracts from customers	**11,868**	**22,033**	**85.7%**
Revenue	**42,758**	**55,606**	**30.0%**

Source: Hong Fok, FPA Financial

Profit

The increase in sales of Concourse Skyline also led to an increase in cost of sales of development properties, which increased by 91.6% yoy from S$7.1 million in 1H2021 to S$13.6 million in 1H2022. Hong Fok conducts external valuations of their investment properties once per annum and assessed that the latest appraised values of investment properties as at 31 December 2021 are still appropriate as at 30 June 2022. Hence, Hong Fok did not record any changes to the valuations of their investment property for 1H2022. Consequently, Hong Fok's operating profit increased by 28.1% from S$16.2 million in 1H2021 to S$20.8 million in 1H2022.

Hong Fok recorded a 7.5% decrease in finance expense from S$10.8 million in 1H2021 to S$10.0 million in 1H2022 due to the redemption of a Singapore Dollar 4.20% note in March 2022. As a result, Hong Fok's profit before income tax increased by 93.6% from S$5.7 million in 1H2021 to S$11.0 million in 1H2022. For the period, income tax expense of S$2.9 million was recorded in 1H2022 as compared to the income tax expense of S$2.1 million a year ago in 1H2021. After adjusting for income tax expense, total profit after tax increased by 127.0% yoy from S$3.6 million in 1H2021 to S$8.2 million in 1H2022. In 1H2022, Hong Fok's net profit attributable to shareholders was S$9.1 million compared to S$5.1 million in 1H2021. Accordingly, Hong Fok reported an earnings per share of 1.38 cents for 1H2022, compared to 0.76 cents in 1H2021.

Hong Fok's 1H2021 and 1H2022 financial results are summarised in **Exhibit 24.**

Exhibit 24: Hong Fok's FY2021 and FY2020 Financial Results

S$'000	1H 2021	1H 2022	y-o-y change
Revenue	42,758	55,606	30.0%
Other income	271	151	-44.3%
Commitment fee on unutilised bank facilities	(766)	(710)	-7.3%
Cost of sales of development properties	(7,087)	(13,580)	91.6%
Depreciation of property, plant, and equipmer	(455)	(512)	12.5%
Depreciation of right-of-use assets	(506)	(202)	-60.1%
Employee benefits expenses	(9,227)	(9,684)	5.0%
Exchange gain, net	537	625	16.4%
Gain/(Loss) on revaluation of investment prop	-	-	-
Changes in fair value of other investments at fair value through profit or loss	1,042	107	-89.7%
Impairment loss on trade receivables, net	(30)	5	-116.7%
Impairment loss written back on other assets	10	9	-10.0%
Maintenance expenses	(4,295)	(4,101)	-4.5%
Lease expenses	(99)	(102)	3.0%
Professional fees	(711)	(745)	4.8%
Property tax	(3,150)	(2,884)	-8.4%
Rental commission	(366)	(330)	-9.8%
Other expenses	(1,694)	(2,865)	69.1%
Operating Profit	**16,232**	**20,788**	**28.1%**
Operating Margin	37.96%	37.4%	-1.5%
Finance income	246	221	-10.2%
Finance expense	(10,776)	(9,969)	-7.5%
Net Finance expense	**(10,530)**	**(9,748)**	**-7.4%**
Profit before income tax	**5,702**	**11,040**	**93.6%**
Tax expense	(2,103)	(2,869)	36.4%
Profit for the period	**3,599**	**8,171**	**127.0%**
Profit attributable to:			
Owners of the company	5,050	9,093	80.1%
Non-controlling interest	(1,451)	(922)	-36.5%
Earnings per share (SGD cents)	**0.76**	**1.38**	**81.6%**

NM: Not Meaningful
Source: Hong Fok, FPA Financial

Review of Historical Financials

We also reviewed Hong Fok's historical financial results to evaluate how it has performed prior to the Covid-19 pandemic. We note that Hong Fok's revenue stream has varied over the years, with increases in FY2018 and FY2021 due to the sale of developmental properties. FY2018 in particular also received a boost from positive contributions from the first full year of operations of YOTEL Singapore. The decreases in FY2019 and FY2020 can be attributed to property cooling measures reducing Hong Fok's sale of its development properties in FY2019 and the effect of COVID-19 on property sales and revenue from YOTEL in FY2020.

Meanwhile, we note that from FY2017 to FY2019, Hong Fok's total profit exceeds that of its revenue, due to upward revaluations of its investment properties. In FY2017 the gain of S$233.5 million is primarily due to the completion of YOTEL Singapore. In FY2018 the S$253.1 million gain can be split between valuation gains in YOTEL, The Concourse, International Building, and Magazine Gap Towers. Finally, the S$103.2 million gain in FY2019 can be attributed to adjustments in the value of The Concourse and International Building.

In calculating Hong Fok's earnings per share, Hong Fok uses a weighted average number of ordinary shares, which equals issued shares excluding treasury shares as well as ordinary shares held by Hong Fok Land Holding via Hong Fok Land International, as shown in **Exhibit 25.**

Exhibit 25: Hong Fok's weighted average number of ordinary shares

	31-Dec-17*	31-Dec-18*	31-Dec-19*	31-Dec-20	31-Dec-21
Issued ordinary shares including treasury shares	870,612,000	870,612,000	870,612,000	870,612,140	870,612,140
Effect of ordinary shares held by an investee and treasury shares	(177,589,000)	(177,589,000)	(185,470,000)	(197,957,872)	(203,527,032)
Weighted average number of ordinary shares during the year	**693,023,000**	**693,023,000**	**685,142,000**	**672,654,268**	**667,085,108**

**rounded to the nearest thousand*
Source: Hong Fok

Further, we also note that over the past 5 years, Hong Fok's dividend per share has remained stable at 1 cents, with the exception of an additional 0.3 cent special dividend in FY2019. Based on Hong Fok's closing prices as at 31 December between FY2017 and FY2021, Hong Fok has a dividend yield of between 1.2% to 1.7% over those years.

We have summarized Hong Fok's historical financial figures in **Exhibit 26**.

Exhibit 26: Hong Fok's Historical Financial Figures (FY2017-FY2021)

S$'000	FY2017	FY2018	FY2019	FY2020	FY2021
Revenue	69,975	131,127	113,245	80,399	90,501
Gain/(Loss) on revaluation of investment properties	233,509	253,120	103,190	(30,594)	35,692
Profit/(Loss) before tax	227,767	273,606	119,782	(22,116)	49,181
Tax expense	(4,449)	(4,651)	(4,996)	(4,180)	(4,516)
Profit/(Loss) attributable to:					
Owners of the Company	178,070	188,921	112,514	(8,696)	38,908
Non-controlling Interests	45,248	80,034	2,272	(17,600)	5,757
Total profit/(loss) for the year	223,318	268,955	114,786	(26,296)	44,665
Earnings per share (cents)	25.69	27.26	16.42	(1.29)	5.83
Dividend per share (cents)	1.00	1.00	1.30	1.00	1.00
Payout ratio	3.9%	3.7%	7.9%	(0.78)	17.2%
Closing price as at 31 December	0.814*	0.652	0.760	0.723	0.751
Dividend yield (%)	1.2%	1.5%	1.7%	1.4%	1.3%

**Closing price as at 29.12.17*

Source: Hong Fok, Yahoo Finance, FPA Financial,

(II) Capital Management

Review of Balance Sheet

Net Asset Value

Hong Fok reported total assets of S$3,453.9 million as at 30 June 2022 compared to S$3,467.0 million as at 31 December 2021. The increases in investment properties was balanced by decreases in development properties from sales, as well as a reduction in cash & cash equivalents. At the same time, total liabilities decreased slightly to S$846.7 million as at 30 June 2022 from S$850.1 million as at 31 December 2021. The decrease can be attributed to the redemption of unsecured fixed rate notes in March.

Consequently, Hong Fok recorded total equity or net assets of S$2,607.2 million as at 30 June 2022 compared to S$2,616,9 million as at 31 December 2021. Excluding perpetual securities and non-controlling interests, net assets attributable to ordinary shareholders amounted to S$2,015.5 million as at 30 June 2022, due to a reduction in non-controlling interests from the privatisation of Hong Fok Land International Limited.

Accordingly, Hong Fok's net asset value (NAV) per ordinary share stood at S$3.10 based on 649.8 million units in issued share capital, excluding treasury shares and ordinary shares held by Hong Fok Land International Limited via Hong Fok Land Holdings .

A summary of Hong Fok's balance sheet as at 31 December 2021 and 30 June 2022 is shown in **Exhibit 27**.

Exhibit 27: Summary of Hong Fok's Balance Sheet as at 31 Dec 2021 and 30 June 2022

S$'000	31-Dec-21	30-Jun-22
Total assets	3,467,012	3,453,893
Total liability	850,131	846,697
Total equity/ net assets	2,616,881	2,607,196
Net assets attributable to ordinary shareholders	2,000,219	2,015,473
Issued share capital	667,085,108	649,818,108
Net asset value per ordinary share (S$)	3.00	3.10

Source: Hong Fok

Bank Borrowings

We note that Hong Fok's total borrowings decreased from S$765.1 million as at 31 December 2021 to S$759.2 million as at 30 June 2022. Of Hong Fok's total borrowings of S$759.2 million, S$117.8 million are current borrowings and S$641.4 million are non-current borrowings as shown in **Exhibit 28** on the next page. We also note that Hong Fok's borrowings as at 30 June 2022 are exposed to SGD and HKD, with majority of its borrowings in SGD. Hong Fok currently has 93.2% = [118.3 million (current Singapore Dollar secured bank loans) + 589.1 million (non-current Singapore Dollar Secured bank loans)]/759.2 million (total borrowings) of its borrowings denominated in Singapore Dollar, with the remaining 7.8% = [30.0 million (non-current Hong Kong Dollar secured bank loans) + 28.9 million (non-current Hong Kong Dollar unsecured bonds)]/759.2 million (total borrowings) of its borrowings denominated in Hong Kong Dollars.

Exhibit 28: Breakdown of Hong Fok's Borrowings

S$'000	31-Dec-21	30-Jun-22
Amount repayable within one year or less or on demand		
Secured		
Singapore Dollar bank loans	-	118,300
Hong Kong Dollar bank loans	-	-
Unsecured		
Singapore Dollar fixed rate notes	100,000	-
Hong Kong Dollar bonds		
Unamortised transaction cost	(72)	(505)
Total current borrowings	**99,928**	**117,795**
Amount repayable after one year		
Secured		
Singapore Dollar bank loans	615,477	589,063
Hong Kong Dollar bank loans	30,656	29,964
Unsecured		
Singapore Dollar fixed rate notes	-	-
Hong Kong Dollar bonds	28,232	28,900
Unamortised transaction cost	(6,513)	(4,947)
Unamortised imputed interest on unsecured bonds	(2,653)	(1,584)
Total non-current borrowings	**665,199**	**641,396**
Total borrowings	**765,127**	**759,191**

Source: Hong Fok

Net Gearing Ratio

Hong Fok uses a net debt equity ratio, which is calculated as total borrowings less pledged bank deposits and cash & cash equivalents, divided by total equity. As at 30 June 2022, Hong Fok's borrowings were S$759.2 million, its pledged bank deposits were S$3.8 million, and its cash & cash equivalents (less restricted cash) were S$63.1 million. Hence, Hong Fok's net debt decreased from S$713.3 million as at 31 December 2021 to S$692.3 million as at 30 June 2022. Net debt to equity ratio also decreased by 0.7 percentage points to 26.6% as at 30 June 2022 from 27.3% as at 31 December 2021, as shown in **Exhibit 29**. The increase in cash & cash equivalents from 31 December 2021 to 30 June 2022 is due to a proposed corporate transaction the contributed to a restricted cash of approximately S$26.0 million.

Exhibit 29: Hong Fok's Net Gearing Ratio as at 31 December 2021 and 30 June 2022

S$'000	31-Dec-21	30-Jun-22
Total debt	765,127	759,191
Pledged bank deposits	(3,617)	(3,764)
Cash and cash equivalents	(48,246)	(63,130)
Net debt	**713,264**	**692,297**
Total equity	2,616,881	2,607,196
Net debt to equity ratio	**27.3%**	**26.6%**

Source: Hong Fok

POTENTIAL CATALYSTS

(I) Rebound of Tourism in Singapore

As mentioned in **Exhibit 2** on page 4, Hong Fok's hotel investment property, YOTEL, has the second largest floor area amongst the group's properties, and comprises 610 rooms. The repeated emphasis by the board on YOTEL's performance also underscores its importance towards Hong Fok's financial performance. As mentioned on page 11, Singapore opened its borders to international visitors under the Vaccinated Travel Framework, which allows for free movement for vaccinated travellers. As a result, Singapore received 1.5 million visitor arrivals in 1H2022, and the Singapore Tourism Board (STB) expects 4 to 6 million international visitor arrivals in 2022, signalling a growing momentum in tourism recovery. Should the trend continue and international travel normalise, Hong Fok could see YOTEL contribute meaningfully to its revenue. As mentioned in **Exhibit 10** on page 11, average room rates for Mid-tier hotels are already 10.15% higher than the corresponding pre-pandemic period. Thus, a significant increase in visitor arrivals and hotel occupancy rates could see YOTEL and thus Hong Fok fully recover from the effects of the pandemic.

(II) Safe Haven Investment Flows

In a Business Times report dated 2 June 2022, the report noted the sale of 20 residential units at CaningHill Piers for S$85 million by a Chinese high-net-worth individual. Furthermore, both Colliers and C&W, in their respective reports on the Singapore investment property market project increased investment property sales volume in 2H2022. Amid rising interest rates, weakening global economic growth, and rising geopolitical tensions, Singapore's status as a safe haven for property investment could attract foreign investments in the real estate market. This could suggest that both sales of Concourse Skyline as well as property valuation gains by Hong Fok might be higher than anticipated in 2H2022 and FY2023, which would significantly improve Hong Fok's financial performance.

FINANCIAL PROJECTION

In this section, we will be providing our projections for Hong Fok's revenue, earnings and distribution for FY2022 and FY2023

(I) Revenue Projection

(a) Investment Properties

As shown in **Exhibit 2** on page 4, Hong Fok's investment properties include International Building, YOTEL Singapore, 362 & 364 Orchard Road, The Concourse, several units of Concourse Skyline, and several units at International Plaza. Also in **Exhibit 2** on page 4, Hong Fok's Hong Kong investment properties include Magazine Gap Towers, Magazine, Heights, and the Upper Roof and Parking Spaces of THE ICON. YOTEL Singapore is a mid-tier hotel property, while the units in International Plaza, Magazine Gap Towers, & Magazine Heights are residential in nature, while 362 & 364 Orchard road is used for retail rental. International Building and The Concourse are primarily used for office rental, while the investment units at Concourse Skyline are split between retail and residential use. We estimate that for International Building and The Concourse, 80% of the floor area is used for office purposes, while 20% is used by retailers. The Upper Roof and Parking Spaces at THE ICON is currently vacant. With that in mind, for our revenue projection, we will consider the outlook of Singapore's office, retail, private residential, and hotel markets, as Singapore contributes over 93.7% of Hong Fok's revenue in 1H2022, as highlighted in **Exhibit 4** on page 5.

Given insufficient information as to the specific contribution of each property to Hong Fok's total investment property revenue, we shall estimate the amount to revenue generated by each property based on its gross floor area. To that end, we first calculate the gross floor area Hong Fok has interest in for each of its properties, as not all of Hong Fok's investment properties are wholly owned by Hong Fok. In the case of The Concourse's contribution to Singaopre office property revenue, we estimate Hong Fok's interest as follows:

- Gross Floor Area = 48,131sq m = 60,164sq m (gross floor area of The Concourse as stated in **Exhibit 2** on page 4) x 80% (estimated floor area used for office purposes)
- Floor Area of Interest = 48,131sq m = [48,131sq m (gross office floor area of The Concourse) x 100% (Hong Fok's interest in The Concourse)]

In the case of Magazine Gap Towers in Hong Kong, where Hong Fok does not have 100% interest, the calculation is as follows:

- Floor Area of Interest = 2,256sq m = [5,128sq m (gross floor area of Magazine Gap Towers) x 44% (Hong Fok's interest in Magazine Gap Towers)]

Summing all the floor areas of interest for Hong Fok's investment properties, we arrived at a total floor area of interest of 96,621sq m.

With that in mind, we are able to estimate the revenue contribution of each property as a percentage of the total floor area of interest, again in the case of The Concourse for the office market and Magazine Gap Towers:

- The Concourse: estimated revenue contribution (%) = 49.7% = [48,131sq m (office floor area of interest of The Concourse) / 96,900sq m (total floor area of interest)]

- Magazine Gap Towers: 2.3% = [2,256sq m (floor area of interest for Magazine Gap Towers) / 96,900sq m (total floor area of interest)]

Accordingly, our estimated revenue contribution for each of Hong Fok's investment properties is as shown in **Exhibit 30:**

Exhibit 30: Estimated Revenue Contribution (%)

Property	Interest in Property	Gross Floor Area (Sq m)	Floor Area of Interest (Sq m)	Estimated Revenue Contribution (%)
Singapore Office				
The Concourse	100%	48,131	48,131	49.7%
International Building	100%	11,998	11,998	12.4%
Singapore office market		**60,129**	**60,129**	**62.1%**
Singapore Retail				
The Concourse	100%	12,033	12,033	12.4%
International Building	100%	2,999	2,999	3.1%
Concourse Skyline	100%	608	608	0.6%
362 & 364 Orchard Road	100%	279	279	0.3%
Singapore retail market		**15,919**	**15,919**	**16.4%**
Singapore Residential				
Concourse Skyline	44%	710	312	0.3%
International Plaza	44%	149	66	0.1%
Singapore residential market		**859**	**378**	**0.4%**
Singapore Hotel				
YOTEL Singapore	100%	15,744	15,744	16.2%
Hong Kong				
Magazine Gap Towers	44%	5,128	2,256	2.3%
Magazine Heights	44%	5,574	2,453	2.5%
Upper Roof and Parking Spaces at THE ICON	44%	47	21	0.0%
Hong Kong market		**10,749**	**4,730**	**4.9%**
Total		**103,400**	**96,900**	**100%**

Source: Hong Fok, FPA Financial

With the estimate percentage contribution of each property, we can estimate the revenue generated by each property. In the case of The Concourse's contribution to Singapore office market revenue for 1H2022, the estimation is as follows:

- The Concourse office revenue contribution 1H2022 = S$15.5 million = 49.7% (estimated office percentage contribution of The Concourse) x S$31.2 million (total investment property revenue in 1H2022)

Similarly, the estimation for Magazine Gap Towers is as follows:

- Magazine Gap Towers revenue contribution 1H2022 = S$0.7 million = 2.3% (estimated percentage contribution of Magazine Gap Towers) x S$31.2 million (total investment property revenue in 1H2022)

Accordingly, our estimated revenue contribution for each of Hong Fok's investment properties for FY2020 and FY2021 is as shown in **Exhibit 31:**

Exhibit 31: Estimated Revenue Contribution (S$'000)

Property	Estimated Revenue Contribution (%)	FY2020 Estimated Revenue Contribution (S$'000)	FY2021 Estimated Revenue Contribution (S$'000)	1H 2022 Estimated Revenue Contribution (S$'000)
Singapore Office				
The Concourse	49.7%	29,868	28,118	15,491
International Building	12.4%	7,445	7,009	3,862
Singapore office market	**62.1%**	**37,314**	**35,127**	**19,353**
Singapore Retail				
The Concourse	12.4%	7,467	7,029	3,873
International Building	3.1%	1,861	1,752	965
Concourse Skyline	0.6%	377	355	196
362 & 364 Orchard Road	0.3%	173	163	90
Singapore retail market	**16.4%**	**9,879**	**9,300**	**5,124**
Singapore Residential				
Concourse Skyline	0.3%	194	183	101
International Plaza	0.1%	41	38	21
Singapore residential market	**0.4%**	**235**	**221**	**122**
Singapore Hotel				
YOTEL Singapore	16.2%	9,770	9,198	5,067
Hong Kong				
Magazine Gap Towers	2.3%	1,400	1,318	726
Magazine Heights	2.5%	1,522	1,433	789
Upper Roof and Parking Spaces at THE ICON	0.0%	13	12	7
Hong Kong market	**4.9%**	**2,935**	**2,763**	**1,522**
Total	**100%**	**60,132**	**56,608**	**31,188**

Source: Hong Fok, FPA Financial

With the estimated revenue contribution for each of Hong Fok's investment properties, we will project the revenue contributed by each property in 2H2022.

Singapore Office

As noted on page 7, URA data shows that the rentals of office space increased by 2.4% in 2Q2022, while various commercial real estate services companies are positive on their outlook for office rentals. In particular, on page 8, Colliers expects Core CBD Premium & Grade A rents to grow by 5-7% for the whole of 2022. For our Singapore office revenue projection, we would use the midway point of the forecasted growth in office rentals = 6% = [(5%+7%)/2]

Therefore, we project revenue from Hong Fok's Singapore office properties as follows:

- The Concourse: Projected office revenue in 2H2022 = S$16.4 million = S$15.5 million (estimated revenue contribution in 1H2022) x 106% (projected growth rate)

- International Building: Projected office revenue in 2H2022 = S$4.1 million = S$3.9 million (estimated revenue contribution in 1H2022) x 106% (projected growth rate)

The summary of the above is shown in **Exhibit 32:**

Exhibit 32: Projected Revenue Contribution of Singapore Office Properties

Property	Actual	Projected growth	Forecast	
	1H 2022		2H2022	FY2022
	Estimated Revenue Contribution (S$'000)		Projected Revenue Contribution (S$'000)	Projected Revenue Contribution (S$'000)
Singapore Office				
The Concourse	15,491	6%	16,421	31,912
International Building	3,862	6%	4,093	7,955
Singapore office market	**19,353**	**-**	**20,514**	**39,867**

Source: Hong Fok, FPA Financial

Singapore Retail

We noted on page 9 that according to URA data, rentals of retail space decreased 0.5% in 2Q2022. However, on pages 9 and 10, various commercial real estate services companies remain positive on their outlook for retail rentals, with Knight Frank on page 9 projecting 2-4% growth in prime retail rents for the whole of 2022. Similar to our projection for the Singapore office market, we would take the midway point of the forecast growth in Singapore retail rentals = 3% = [(2% + 4%) / 2].

Thus, we project revenue from Hong Fok's retail properties as follows:

- The Concourse: Projected retail revenue in 2H2022 = S$4.0 million = S$3.9 million (estimated revenue contribution in 1H2022) x 103% (projected growth rate)

- International Building: Projected retail revenue in 2H2022 = S$0.99 million = S$0.97 million (estimated revenue contribution in 1H2022) x 103% (projected growth rate)

- Concourse Skyline: Projected retail revenue in 2H2022 = S$0.2 million = S$0.196 million (estimated revenue contribution in 1H2022) x 103% (projected growth rate)

- 362 & 364 Orchard Road: Projected retail revenue in 2H2022 = S$0.09 million = S$0.09 million (estimated revenue contribution in 1H2022) x 103% (projected growth rate)

Thus, the projected summary of the above is shown in **Exhibit 33:**

Exhibit 33: Projected Revenue Contribution of Singapore Retail Properties

Property	Actual 1H 2022 Estimated Revenue Contribution (S$'000)	Projected growth	Forecast 2H2022 Projected Revenue Contribution (S$'000)	Forecast FY2022 Projected Revenue Contribution (S$'000)
Singapore Retail				
The Concourse	3,873	3%	3,989	7,862
International Building	965	3%	994	1,960
Concourse Skyline	196	3%	202	397
362 & 364 Orchard Road	90	3%	92	182
Singapore retail market	**5,124**	**-**	**5,277**	**10,401**

Source: Hong Fok, FPA Financial

Singapore Residential

With reference to page 16, URA data stated that rentals of private residential properties increased by 6.7% in 2Q2022, and 11% in 1H2022. On the same page, Knight Frank also expects private residential rental prices to remain elevated till more units are completed in 2023. As demand is expected to remain elevated for the rest of FY2022, we would assume the that growth in 2H2022 would be the same as that of 1H2022, 11%

Hence, we project revenue from Hong Fok's residential investment properties as follows:

- Concourse Skyline: Projected residential revenue in 2H2022 = S$0.11 million = S$0.101 million (estimated revenue contribution in 1H2022) x 111% (projected growth rate)

- International Plaza: Projected residential revenue in 2H2022 = S$0.023 million = S$0.021 million (estimated revenue contribution in 1H2022) x 111% (projected growth rate)

Taken together, the projected summary of Hong Fok's Singapore residential investment properties is shown in **Exhibit 34.**

Exhibit 34: Projected Revenue Contribution of Singapore Residential Investment Properties

Property	Actual 1H 2022 Estimated Revenue Contribution (S$'000)	Projected growth	Forecast 2H2022 Projected Revenue Contribution (S$'000)	Forecast FY2022 Projected Revenue Contribution (S$'000)
Singapore Residential				
Concourse Skyline	101	11%	112	212
International Plaza	21	11%	23	45
Singapore residential market	**122**	**-**	**135**	**257**

Source: Hong Fok, FPA Financial

Singapore Hotel

Regarding the hotel market, as highlighted on page 11, following the lifting of travel restrictions to vaccinated visitors in 2Q2022, STB data shows that visitor arrivals increased by 411.9% qoq in 2Q2022. Similarly, RevPAR for Mid-tier hotels increased by 70.51% qoq in 2Q2022. STB is optimistic regarding tourism recovery and given a strong pipeline of events in 2H2022, expects 4-6 million visitor arrivals in 2022. We note that according to data from STB, pre-pandemic RevPAR for mid-tier hotels in the second half of the year have consistently outperformed compared to the first half of the year, as shown in **Exhibit 35.**

Exhibit 35: Half-on-half Mid-tier Hotel RevPAR

Period	Average RevPAR	Half on Half Change
2H2019	156.79	8.97%
1H2019	143.88	-3.07%
2H2018	148.44	2.75%
1H2018	144.47	-2.50%
2H2017	148.17	5.96%
1H2017	139.84	

Source: STB, FPA Financial

Given that Singapore has reopened its borders to fully vaccinated visitors, we would take the pre-pandemic average half-on-half growth from first half to second half of 5.89% = [(8.97% (RevPAR growth from 1H2019 to 2H2019) + 2.75% (RevPAR growth from 1H2018 to 2H2018) + 5.96% (RevPAR growth from 1H2017 to 2H2017)) / 3]. Accordingly, we project revenue from YOTEL Singapore as follows:

- YOTEL Singapore: Projected revenue in 2H2022 = S$5.4 million = S$5.1 million (estimated revenue contribution in 1H2022) x 105.89% (projected growth rate)

Hence, projected revenue from Hong Fok's Singapore hotel property is summarized in **Exhibit 36.**

Exhibit 36: Projected Revenue Contribution of Singapore Hotel Properties

Property	Actual	Projected growth	Forecast	
	1H 2022		2H2022	FY2022
	Estimated Revenue Contribution (S$'000)		Projected Revenue Contribution (S$'000)	Projected Revenue Contribution (S$'000)
Singapore Hotel				
YOTEL Singapore	5,067	6%	5,366	10,433

Source: Hong Fok, FPA Financial

Hong Kong

As mentioned in page 5, the majority of Hong Fok's revenue stems from Singapore. Hence, in 2H2022 we would project the same revenue contribution for Hong Fok's Hong Kong properties as our estimated revenue contribution percentage in 1H2022 as shown in **Exhibit 30** on page 28**.** The projection would be as follows:

- Total estimated revenue contribution percentage from Hong Kong investment properties = 4.88% = 2.33% (estimated revenue contribution percentage from Magazine Gap Towers) + 2.53% (estimated revenue contribution percentage from Magazine Heights) + 0.02% (estimated revenue contribution percentage from Upper roof and parking spaces at THE ICON)

- Estimated revenue contribution percentage from Singapore investment properties = 95.12% = 62.23% (estimated contribution from Singapore office) + 16.19% (estimated contribution from Singapore retail) + 0.39% (estimated contribution from Singapore residential) + 16.29% (estimated contribution from Singapore hotel)

- Total projected revenue from Singapore investment properties = S$31.3 million = S$20.5 million (total projected revenue from Singapore office properties, page 30) + S$5.3 million (total projected revenue from Singapore retail properties, page 31) + S$0.1 million (total projected revenue from Singapore residential properties, page 31) + S$5.4 million (total projected revenue from Singapore hotel properties, page 32)

- Magazine Gap Towers: Projected revenue for 2H2022 = S$0.8 million = [S$31.3 million (total projected revenue from Singapore investment properties) / 95.12% (rebasing to 100%)] x 2.33% (estimated revenue contribution percentage from Magazine Gap Towers

- Magazine Heights: Projected revenue for 2H2022 = S$0.8 million = [S$31.3 million (total projected revenue from Singapore investment properties) / 95.12% (rebasing to 100%)] x 2.53% (estimated revenue contribution percentage from Magazine Heights

- Upper roof and parking spaces at THE ICON: Projected revenue for 2H2022 = S$7,000 = [S$31.3 million (total projected revenue from Singapore investment properties) / 95.12% (rebasing to 100%)] x 0.02% (estimated revenue contribution percentage from Upper roof and parking space at THE ICON

Taken together, the projected revenue contribution of Hong Fok's Hong Kong investment properties is shown in **Exhibit 37:**

Exhibit 37: Estimated Revenue Contribution of Hong Kong Investment Properties

Property	Actual	Estimated Revenue Contribution (%)	Forecast	
	1H 2022		2H2022	FY2022
	Estimated Revenue Contribution (S$'000)		Projected Revenue Contribution (S$'000)	Projected Revenue Contribution (S$'000)
Hong Kong				
Magazine Gap Towers	726	2.33%	766	1,492
Magazine Heights	789	2.53%	833	1,622
Upper Roof and Parking Spaces at THE ICON	7	0.02%	7	14
Hong Kong market	**1,522**	**-**	**1,606**	**3,128**

Source: Hong Fok, PA Financial

Taken together, the projected revenue for Hong Fok's investment properties is summarised in **Exhibit 38**.

Exhibit 38: Projected Investment Properties Revenue for 2H2022 and FY2022

Property	Actual	Forecast	
	1H 2022	2H 2022	FY2022
	Estimated Revenue Contribution (S$'000)	Projected Revenue Contribution (S$'000)	Projected Revenue Contribution (S$'000)
Singapore Office			
The Concourse	15,491	16,421	31,912
International Building	3,862	4,093	7,955
Singapore office market	**19,353**	**20,514**	**39,867**
Singapore Retail			
The Concourse	3,873	3,989	7,862
International Building	965	994	1,960
Concourse Skyline	196	202	397
362 & 364 Orchard Road	90	92	182
Singapore retail market	**5,124**	**5,277**	**10,401**
Singaproe Residential			
Concourse Skyline	101	112	212
International Plaza	21	23	45
Singapore residential market	**122**	**135**	**257**
Singapore Hotel			
YOTEL Singapore	5,067	5,366	10,433
Hong Kong			
Magazine Gap Towers	726	766	1,492
Magazine Heights	789	833	1,622
Upper Roof and Parking Spaces	7	7	14
Hong Kong market	**1,522**	**1,606**	**3,128**
Total	**31,188**	**32,898**	**64,086**

Source: Hong Fok, FPA Financial

Looking ahead in FY2023, as countries globally steadily recover from high inflation and weak economic output, stronger economic performance might be possible. A global relaxation of travel restrictions and geopolitical tensions could see investment flows towards Singapore which might underpin Hong Fok's performance.

According to the International Monetary Fund (IMF), the Singapore and Hong Kong economies are expected to by 2.6% and 3.0% respectively. We thus assume that in FY2023 the revenue contributed by Hong Fok's Singapore investment properties will grow at a rate of 2.6%, and Hong Fok's Hong Kong investment properties' revenue contribution will grow at a rate of 3.0%. As a result, the projected revenue for Hong Fok's investment properties in FY2023 would be S$65.8 million as follows:

- Projected revenue for Singapore office properties for FY2023 = S$39.9 million (projected FY2022 revenue) x 102.6% (expected growth rate) = S$40.9 million
- Projected revenue for Singapore retail properties for FY2023 = S$10.4 million (projected FY2022 revenue) x 102.6% (expected growth rate) = S$10.7 million
- Projected revenue for Singapore residential properties for FY2023 = S$0.3 million (projected FY2022 revenue) x 102.6% (expected growth rate) = S$0.3 million
- Projected revenue for Singapore hotel properties for FY2023 = S$10.4 million (projected FY2022 revenue) x 102.6% (expected growth rate) = S$10.7 million
- Projected revenue for Hong Kong investment properties for FY2023 = S$3.1 million (projected FY2022 revenue) x 103% (expected growth rate) = S$3.2 million

Our projected revenue for Hong Fok's investment properties, for FY2022 and FY2023 is summarised in **Exhibit 39.**

Exhibit 39: Projected Investment Property Revenue for FY2022 and FY2023

S$'000	Actual	Forecast		
	1H 2022	2H 2022	FY2022	FY2023
Singapore Office	19,353	20,514	39,867	40,904
Singapore Retail	5,124	5,277	10,401	10,672
Singapore Residential	122	135	257	264
Singapore Hotel	5,067	5,366	10,433	10,704
Hong Kong	1,522	1,606	3,128	3,222
Total Investment Properties Revenue	**31,188**	**32,898**	**64,086**	**65,765**

Source: Hong Fok, FPA Financial

(b) Sale of Development Properties

Singapore

As shown in **Exhibit 3** on page 4, Hong Fok's development properties for sale is limited to Concourse Skyline. To determine the total sales value of the property, we calculated the average sales price of the last 20 transactions of the property and multiplied the average sales value by total number of units for the project. The average sales price (based on last 20 transactions) of one unit of Concourse Skyline is estimated to be S$2.32 million and as shown in **Exhibit 40.**

Exhibit 40: Average Sales Value of Concourse Skyline

No.	Project name	Price ($)	Area (Sqft)	Unit Price ($psf)	Date of Sale
1	CONCOURSE SKYLINE	2,250,000	1,152	1,954	Jun-22
2	CONCOURSE SKYLINE	2,534,477	1,163	2,180	Apr-22
3	CONCOURSE SKYLINE	5,200,000	2,142	2,428	Apr-22
4	CONCOURSE SKYLINE	2,600,000	1,335	1,948	Apr-22
5	CONCOURSE SKYLINE	2,080,000	1,087	1,913	Mar-22
6	CONCOURSE SKYLINE	1,980,000	1,152	1,719	Mar-22
7	CONCOURSE SKYLINE	1,850,000	840	2,203	Feb-22
8	CONCOURSE SKYLINE	2,750,000	1,410	1,950	Feb-22
9	CONCOURSE SKYLINE	1,348,000	861	1,565	Jan-22
10	CONCOURSE SKYLINE	1,950,000	1,173	1,662	Jan-22
11	CONCOURSE SKYLINE	5,000,000	2,174	2,300	Dec-21
12	CONCOURSE SKYLINE	1,400,000	807	1,734	Dec-21
13	CONCOURSE SKYLINE	2,100,000	1,098	1,913	Dec-21
14	CONCOURSE SKYLINE	1,890,000	1,109	1,705	Nov-21
15	CONCOURSE SKYLINE	2,500,000	1,109	2,255	Nov-21
16	CONCOURSE SKYLINE	2,300,000	1,109	2,075	Nov-21
17	CONCOURSE SKYLINE	1,450,000	818	1,772	Oct-21
18	CONCOURSE SKYLINE	2,360,000	1,173	2,011	Oct-21
19	CONCOURSE SKYLINE	1,400,000	883	1,586	Aug-21
20	CONCOURSE SKYLINE	1,388,000	818	1,697	Aug-21
Average	**CONCOURSE SKYLINE**	**2,316,524**	**1,171**	**1,929**	**-**

Source: URA, FPA Financial

Projected Sales for Concourse Skyline

Based on Hong Fok's revenue from sales of development properties of S$20.8 million and our estimated cost of each unit of S$2.32 million, we estimate that Hong Fok has sold 9 = [S$20.8 million (revenue from sale of completed development properties) / S$2.32 million (estimated cost of 1 Concourse Skyline unit)] units of Concourse Skyline. As mentioned in page 15 Knight Frank projects private residential price growth of 5%-7% in FY2022, citing increasing mortgage interest rates balanced against a housing supply crunch. Furthermore, as noted on page 25 Colliers and C&W expect increased foreign investment flows into the Singapore private residential market. Also highlighted on page 13 is URA data that stated that transactions of resale units increased by 25.44%. With that in mind and maintaining a more conservative outlook on the private residential market, we expect that private residential sales to maintain at their current levels in 2H2022. Thus, in 2H2022, the we project that another 9 units of Concourse Skyline will be sold for a total of 18 units in FY2022, and 18 more units to be sold in FY2023 as shown in **Exhibit 41** on the next page.

Exhibit 41: Projected Sales for Concourse Skyline for FY2022 and FY2023

Project name	Sales completion as at 31 December		Projected units sold		Projected % of units sold	
Singapore	Unit	%	FY2022	FY2023	FY2022	FY2023
Concourse Skyline	293	81%	18	18	86%	91%

Source: Hong Fok, FPA Financial

Projected Revenue to Recognise for Concourse Skyline

As the Concourse Skyline project has already been completed, the attributable revenue to be recognised for FY2022 and FY2023 would be recognised once the corresponding unit has been sold. Accordingly, with 9 more units projected to be sold in 2H2022 the projected revenue to recognise for 2H2022 would be S$20.8 million =[9 units sold x S$2.3 million (average value per unit)] and with another 18 units to be sold in FY2023, the projected revenue to recognise for FY2023 would be S$41.7million =[18 units sold x S$2.3 million (average value per unit)] as shown in **Exhibit 42.**

Exhibit 42: Projected Revenue to Recognise for Concourse Skyline for FY2022 and FY2023

Project name	Average value per unit	Projected units sold			Projected revenue to recognise (S$ million)		
Singapore	S$ million	2H 2022	FY2022	FY2023	2H 2022	FY2022	FY2023
Concourse Skyline	2.3	9	18	18	20.8	41.7	41.7

Source: Hong Fok, URA, FPA Financial

Rental Income from Development Properties

Rental income from development properties has decreased from FY2020 to FY2021, from S$3.5 million to S$3.3 million, due to the decrease in the number of units owned by Hong Fok caused by the sale of Concourse Skyline units. Given that in FY2021 10 units of Concourse Skyline was sold, and we project 18 units to be sold in FY2022 and FY2023 each year, we project that rental income would continue to decrease in FY2022 and FY2023, and that between FY2021 and FY2022, the decrease in rental income would increase by 80% = [18 (projected units sold FY2022) – 10 (units sold FY2021)] / 10 (units sold FY2021). Given that rental income from FY2020 and FY2021 decreased by S$0.3 million = S$3.5 million (FY2020) – S$3.3 million (FY2021), we project that rental income in FY2022 would decrease by S$0.5 million = S$0.3 million (FY2022 to FY2021 decrease) x 180% (80% increase). Similarly, we would project that rental income in FY2023 would decrease by the same amount, S$0.5 million, as we project another 18 units to be sold. Accordingly, rental income for FY2022 and FY2023 would be projected to be S$2.8 million and S$2.3 million respectively, as shown in **Exhibit 43.**

Exhibit 43: Projected Rental Income from Development Properties for FY2022 and FY2023

S$'000	Actual			Forecast		
	FY2020	FY2021	1H2022	2H 2022	FY2022	FY2023
Number of development property units owned*	**77**	**67**	**58**	**49**	**49**	**31**
Rental income from development properties	3,527	3,251	1,425	1,329	2,754	2,257
yoy decrease	-	(276)	-	-	(497)	(497)

*estimated in 1H2022 based on 9 estimated units sold

Source: Hong Fok, FPA Financial

<u>Hiring Charges from Development Properties</u>

Similar to rental income from development properties, hiring charges from development properties has decreased from FY2020 to FY2021, from S$1.6 million to S$1.4 million, a decrease of S$147,000 = S$1.6 million (FY2020) – S$1.4 million (FY2021). Accordingly, we would also project a decrease in hiring charges from development properties in FY2022 and FY2023, and that the drop would grow by 80%, similar to the changes in rental income from development properties. Thus, we would project that hiring charges from development properties in FY2022 would decrease from FY2021 by S$265,000 = S$147,000 (yoy change from FY2020 to FY2021) x 180% (projected increase). Similarly, we project another S$265,000 decrease between FY2022 and FY2023. Accordingly, we project that hiring charges from development properties in FY2022 and FY2023 to be S$1.2 million and S$0.9 million respectively, as shown in **Exhibit 44.**

Exhibit 44: Projected Hiring Charges from Development Properties for FY2022 and FY2023

S$'000	Actual			Forecast		
	FY2020	FY2021	1H2022	2H 2022	FY2022	FY2023
Number of development property units owned*	**77**	**67**	**58**	**49**	**49**	**31**
Hiring charges from development properties	1,568	1,421	641	515	1,156	892
yoy decrease	-	(147)	-	-	(265)	(265)

*estimated in 1H2022 based on 9 estimated units sold
Source: Hong Fok, FPA Financial

<u>Maintenance Fees from Development Properties</u>

Maintenance fees from development properties have also decreased by S$12,000 = S$296,000 (FY2020) – S$284,000 (FY2021). Thus, we would also project a decrease in maintenance fees from development properties in FY2022 and FY2023. Similar to rental income and hiring charges, we would project an 80% increase to S$22,000 = S$12,000 (yoy change from FY2020 to FY2021) x 180% (projected increase) in in both FY2022 and FY2023. Accordingly, we project maintenance fees from development properties in FY2022 and FY2023 to be S$262,000 and S$241,000 respectively, as shown in **Exhibit 45**.

Exhibit 45: Projected Maintenance Fees from Development Properties for FY2022 and FY2023

S$'000	Actual			Forecast		
	FY2020	FY2021	1H2022	2H 2022	FY2022	FY2023
Number of development property units owned*	**77**	**67**	**58**	**49**	**49**	**31**
Maintenance fee from development properties	296	284	131	131	262	241
yoy decrease	-	(12)	-	-	(22)	(22)

*estimated in 1H2022 based on 9 estimated units sold

Source: Hong Fok, FPA Financial

<u>Total Revenue from Development Properties</u>

In summary, in FY2022 and FY2023 we project total revenue projected from development properties to be S$45.8 million and S$45.1 million as shown in **Exhibit 46.**

Exhibit 46: Projected Revenue from Development Properties

S$'000	Actual			Forecast		
	FY2020	FY2021	1H2022	2H 2022	FY2022	FY2023
Sale of completed development properties	12,116	25,539	20,826	20,849	41,675	41,697
Number of development property units owned*	77	67	58	49	49	31
Rental income from development properties	3,527	3,251	1,425	1,329	2,754	2,257
Hiring charges from development properties	1,568	1,421	641	515	1,156	892
Maintenance fee from development properties	296	284	131	131	262	241
Total Revenue	**17,507**	**30,495**	**23,023**	**22,825**	**45,848**	**45,087**

*estimated in 1H2022 based on 9 estimated units sold
Source: Hong Fok, FPA Financial

(c) Property Management and Other Operations

We note that Hong Fok's revenue from property management represents between 1.6% and 2.8% of Hong Fok's total revenue, and other operations represent between 0.7% and 1.0% of Hong Fok's total revenue as shown in **Exhibit 47.**

Exhibit 47: Revenue Contribution Breakdown by Segment

S$'000	FY2020	Contribution (%)	FY2021	Contribution (%)	1H 2022	Contribution (%)
Investment Property	60,132	74.8%	56,608	62.5%	31,188	56.1%
Development Property	17,507	21.8%	30,495	33.7%	23,023	41.4%
Property Management	2,189	2.7%	2,536	2.8%	877	1.6%
Other Operations	571	0.7%	862	1.0%	518	0.9%
Total	**80,399**	**100.0%**	**90,501**	**100.0%**	**55,606**	**100.0%**

Source: Hong Fok, FPA Financial

For our projection of property management and other operations revenue, we would assume the same revenue contribution percentage recorded in 1H2022 of 1.6% and 0.9% for property management and other operations respectively to derive the total revenue for 2H2022 and FY2023. Accordingly, the projected property management and other operations revenue would amount to S$0.9 million and S$0.5 million for 2H2022 respectively as follows:

- Contribution percentage of investment & development properties = 97.5% = 56.1% (percentage revenue contribution of investment properties in 1H2022) + 41.4% (percentage revenue contribution of development properties in 1H2022)

- Projected revenue contribution of investment & development properties in 2H2022 = S$55.7 million = S$32.9 million (projected revenue of investment properties in 2H2022) + S$22.8 million (projected revenue of development properties in 2H2022)

- Projected property management revenue for 2H2022 = 1.6% (percentage revenue contribution of property management in 1H2022) x [S$55.7 million (projected revenue for investment & development properties) / 97.5% (contribution percentage of investment & development properties] (rebasing to 100%) = S$0.9 million

- Projected other operations revenue for 2H2022 = 0.9% (percentage revenue contribution of other operations in 1H2022) x [S$55.7 million (projected revenue for investment & development properties in 2H2022) / 97.5% (contribution percentage of investment & development properties] (rebasing to 100%) = S$0.5 million

Similarly, the projected revenue from property management & other operations would amount to S$1.8 million and S$1.1 million for FY2023 as follows:

- Projected revenue contribution of investment & development properties in FY2023 = S$110.9 million = S$65.8 million (projected revenue of investment properties in FY2023) + S$45.1 million (projected revenue of development properties in FY2023)

- Projected property management revenue for 2H2022 = 1.6% (percentage revenue contribution of property management in 1H2022) x [S$110.9 million (projected revenue for investment & development properties in FY2023) / 95.7% (contribution percentage of investment & development properties)] (rebasing to 100%) = S$1.8 million

- Projected other operations revenue for FY2023 = 0.9% (percentage revenue contribution of other operations in 1H2022) x [S$110.9 million (projected revenue for investment and development properties in FY2023) / 95.7% (contribution percentage of investment & development properties)] (rebasing to 100%) = S$1.1 million

Putting everything together, our projected total revenue for Hong Fok for FY2022 and FY2023 is summarized in **Exhibit 48.**

Exhibit 48: Projected Total Revenue for FY2022 and FY2023

S$'000	Actual		Forecast		
	1H 2022	Contribution (%)	2H 2022	FY2022	FY2023
Investment Properties	31,188	56.1%	32,898	64,086	65,765
Development Properties	23,023	41.4%	22,825	45,848	45,087
Property Management	877	1.6%	901	1,778	1,793
Other Operations	518	0.9%	532	1,050	1,059
Total Revenue	**55,606**	**100%**	**57,157**	**112,763**	**113,705**

Source: Hong Fok, FPA Financial

(II) Earnings Projection

Given our projected revenue figures for FY2022 and FY2023, we will now estimate Hong Fok's earnings for these periods.

Gain/(loss) on revaluation of investment properties

From Hong Fok's historical valuation of investment properties, valuation of investment properties dropped sharply in FY2020 with a S$30.6 million loss from a S$37 million downward adjustment in the value of YOTEL Singapore due to the pandemic, mitigated by upward adjustments in both The Concourse and International Building. In FY2021 revaluation of investment properties saw a reversal and posted a gain of S$35.7 million, attributed mainly to a S$20.2 million upward adjustment in the value of The Concourse and an appreciation in International Building of S$8.4 million, while the value of YOTEL Singapore remained unchanged. As highlighted in page 11, the Singapore hotel market is expected to recover, and as mentioned in page 21, YOTEL Singapore has started to increase its revenue contribution to Hong Fok's profit. Thus, we would assume that over FY2022 and FY2023, the write down on the value of YOTEL Singapore in FY2020 would be reversed and split over FY2022 and FY2023 by S$18.5 million = [S$37 million (original YOTEL write down) / 2] per year as shown in **Exhibit 49.**

Exhibit 49: Projected Gain/(Loss) on revaluation of Investment Properties for FY2022 and FY2023

S$ '000	Actual			Forecast	
	FY2019	FY2020	FY2021	FY2022	FY2023
Gain/(loss) on revaluation of investment properties	103,190	(30,594)	35,692	18,500	18,500

Source: Hong Fok, FPA Financial

Changes in fair value of other investments at fair value through profit or loss

Hong Fok's changes in fair value of other investments at fair value through profit or loss recorded increasing losses in FY2020 and FY2021, but recorded a gain of S$0.1 million in 1H2022. Given the lack of information regarding the components of the chances, we would assume no changes in fair values of other investments in 2H2022 and FY2023 as shown in **Exhibit 50.**

Exhibit 50: Projected Changes in Fair Value for Other Investments at Fair Value through Profit/Loss for FY2022 and FY2023

S$ '000	FY2020			Forecast		
	FY2020	FY2021	1H2022	2H2022	FY2022	FY2023
Changes in fair value of other investments at fair value through profit or loss	(94)	(224)	107	-	107	-

Source: Hong Fok, FPA Financial

Exchange gain, net

Hong Fok has recorded exchange losses in FY2017, FY2018, and FY2020 but recording gains in FY2019, FY2021 and 1H2022. We note that in FY2022 thus far, SGD has been depreciating against the HKD. However, we would assume no exchange gains or losses on foreign exchange for FY2022 and FY2023 as shown in **Exhibit 51.**

Exhibit 51: Projected changes in Exchange Gain, Net for FY2022 and FY2023

S$ '000	Actual						Forecast	
	FY2017	FY2018	FY2019	FY2020	FY2021	1H2022	FY2022	FY2023
Exchange gain, net	(181)	(643)	480	(755)	594	625	-	-

Source: Hong Fok, FPA Financial

Impairment loss

Hong Fok's impairment losses comprises writing off trade receivables, as well as impairment losses from associates, joint ventures, and non-financial assets, which occur when carrying amount of the respective asset exceeds its recoverable amount. Comparing Hong Fok's impairment losses from FY2017 to FY2021, we would disregard FY2018 due to the large gain on impairment loss written back on trade receivables. Taking the average impairment gain/(loss) on trade receivables of:

-S$0.047 million = [-S$32,000 (impairment loss on trade receivables in FY2017) - S$20,000 (impairment loss on trade receivables in FY2019) - S$94,000 (impairment loss on trade receivables in FY2020) - S$40,000 (impairment loss on trade receivables in FY2021)] / 4

and the average impairment gain/(loss) on other assets of: S$17,000 = [S$25,000 (impairment gain on other assets in FY2017) + S$2,000 (impairment gain on other assets in FY2019) – S$10,000 (impairment gain on other assets in FY2020) + S$30,000 (impairment gain on other assets in FY2021)] / 4,

We project a S$30,000 total impairment loss in both FY2022 as well as FY2023, as shown in **Exhibit 52.**

Exhibit 52: Projected changes in Impairment Loss for FY2022 and FY2023

S$ '000	Actual						Forecast		
	FY2017	FY2018	FY2019	FY2020	FY2021	1H2022	2H2022	FY2022	FY2023
Impairment loss writtten back on trade receivables, net	(32)	214	(20)	(94)	(40)	5	(42)	(47)	(47)
Impairment loss written back on other assets	25	(40)	2	10	30	9	26	17	17
Total impairment loss	(7)	174	(18)	(84)	(10)	14	(16)	(30)	(30)

Source: Hong Fok, FPA Financial

Other income

Between FY2020 and FY2021, other income decreased from S$6.8 million in FY2020 to S$0.7 million in FY2021. The drop in FY2021 was due to a large decrease in government grants and wage subsidies, and in their half-year results announcement, Hong Fok attributed the decrease in other income in 1H2022 again to the absence of government grants. We would assume that Hong Fok's other income would continue to be devoid of government grants in FY2022 and FY2023, maintaining at the level of 1H2022 as shown in **Exhibit 53.**

Exhibit 53: Projected changes in Other Income for FY2022 and FY2023

S$ '000	FY2020			Forecast		
	FY2020	FY2021	1H2022	2H2022	FY2022	FY2023
Other income	6,832	727	151	151	302	302

Source: Hong Fok, FPA Financial

Commitment fees on unused bank facilities

Commitment fees on unused bank facilities has kept within a range of S$1.5 million and S$1.6 million from FY2019 to FY2021. Given that interest rates in FY2022 and FY2023 are expected to continue rising, we shall assume that in FY2022, commitment fees on unused bank facilities would revert to the S$1.5 million of FY2021, and in FY2023 commitment fees would revert to the S$1.6 million of FY2019, as shown in **Exhibit 54.**

Exhibit 54: Projected changes in Commitment fees for unused bank facilities for FY2022 and FY2023

S$ '000	Actual				Forecast		
	FY2019	FY2020	FY2021	1H2022	2H2022	FY2022	FY2023
Commitment fees on unused bank facilities	1,594	1,493	1,542	710	832	1,542	1,594

Source: Hong Fok, FPA Financial

Depreciation of Property, Plant, & Equipment, and right-of-use assets

We note that Hong Fok measures depreciation using the straight-line method. However, Hong Fok's depreciation expenses has varied between S$1.7 million and S$2.0 million from FY2019 to FY2021, due to additions and disposals on property, plant, & equipment, as well as right-of-use assets. With that in mind, we would assume that depreciation expense in FY2022 and FY2023 would change at the average yoy change from FY2019 to FY2021. Accordingly, the change in depreciation of property, plant, and equipment would be projected to be 4.28% = [4.88% (FY2020) + 3.68% (FY2021)] / 2, and the change in depreciation of right-of-use assets would be projected to be -12.1% = [7.37% (FY2020) – 31.50% (FY2021)] / 2. Consequently, we project total depreciation in FY2022 and FY2023 to both be S$1.6 million as shown in **Exhibit 55.**

Exhibit 55: Projected changes in Depreciation for FY2022 and FY2023

S$ '000	Actual				Forecast		
	FY2019	FY2020	FY2021	1H2022	2H2022	FY2022	FY2023
Depreciation of property, plant, and equipment	882	925	959	512	488	1,000	1,043
% yoy change		4.88%	3.68%			4.28%	4.28%
Depreciation of right-of-use assets	964	1,035	709	202	421	623	548
% yoy change		7.37%	-31.50%			-12.1%	-12.1%
Total depreciation	**1,846**	**1,960**	**1,668**	**714**	**909**	**1,623**	**1,591**

Source: Hong Fok, FPA Financial

Lease Expenses

We note that Hong Fok's lease expenses have decreased from S$2.9 million in FY2019 to S$2.0 million in FY2021. We also note that Hong Fok's lease payments comprise: fixed payments, variable payments that depend on an index/rate initially measured using the index/rate as at lease commencement, amount expected to be payable under a residual value guarantee, the exercise price under a purchase option Hong Fok is reasonably certain to exercise, lease payments in an optional renewal period if Hong Fok is reasonably certain to exercise an extension option, and penalties for early termination of a lease uless Hong Fok is reasonably certain not to terminate early. We would project a decrease in lease expenses in FY2022 and FY2023, continuing the trend from FY2019 to FY2021. Our projected rate of decrease would be the average yoy decrease from FY2019 to FY2021 = 15.32% = [26.83% (FY2020) + 3.81% (FY2021)] / 2. Accordingly, our projected lease expenses for FY2022 and FY2023 would be S$171,000 and S$145,000 respectively, as shown in **Exhibit 56.**

Exhibit 56: Projected changes in lease expenses for FY2022 and FY2023

S$ '000	Actual				Forecast		
	FY2019	FY2020	FY2021	1H2022	2H2022	FY2022	FY2023
Lease expenses	287	210	202	102	69	171	145
% yoy change		-26.83%	-3.81%			-15.32%	-15.32%

Source: Hong Fok, FPA Financial

Property tax

In FY2019 and FY2020, property tax was recorded at S$6.3 million and S$6.4 million respectively, before decreasing to S$5.9 million in FY2021. Given insufficient information regarding how property tax is recorded, we would take the average property tax from FY2019 to FY2020 to project property tax in FY2022 and FY2023. the average property tax between FY2019 and FY2021 = S$6.2 million = [S$6.3 million (property tax in FY2019) + S$6.4 million (property tax in FY2020) + S$5.9 million (property tax in FY2021)] / 3. Accordingly, our projected property tax for 2H2022 and FY2023 are S$3.3 million and S$6.2 million respectively, as shown in **Exhibit 57.**

Exhibit 57: Projected changes in Property Tax for FY2022 and FY2023

S$ '000	Actual				Forecast		
	FY2019	FY2020	FY2021	1H2022	2H2022	FY2022	FY2023
Property tax	6,324	6,369	5,938	2,884	3,326	6,210	6,210

Source: Hong Fok, FPA Financial

Rental Commission

Rental commission decreased from S$1.0 million in FY2019 to between a range of S$0.66 million to S$0.67 million in FY2020 and FY2021 that is seemingly corroborated by S$0.3 million rental commission in 1H2022. Hence, we would assume that rental commission in FY2022 and FY2023 would be equivalent to the average rental commission in FY2020 and FY2021 of S$0.33 million = [S$0.66 million (rental commission in FY2020) + S$0.67 million (rental commission in FY2021)] / 2. Therefore, our projected rental commission for 2H2022 and FY2023 would be S$0.3 million and S$0.7 respectively, as shown in **Exhibit 58.**

Exhibit 58: Projected changes in Rental Commission for FY2022 and FY2023

S$ '000	Actual				Forecast		
	FY2019	FY2020	FY2021	1H2022	2H2022	FY2022	FY2023
Rental Commission	1,003	657	667	330	332	662	662

Source: Hong Fok, FPA Financial

Employee benefits expenses

Employee benefits expenses include expenses regarding employee salaries, defined contribution plans, short term benefits, and other long-term benefits. We note that in the pre-pandemic period from FY2017 to FY2019, employee benefits expenses have ranged between S$22.6 million in FY2017 and S$23.8 million in FY2019. However, in FY2020 and FY2021 employee benefits expenses steadily decreased to S$17.3 million in FY2021. Given that Singapore has reopened its borders and has largely recovered from the pandemic, we would project that employee benefits expenses in FY2022 would revert to the S$20.5 million of FY2020, and that employee benefits expenses in FY2023 would revert to the S$22.6 million seen in FY2017. Consequently, our projected employee benefits expense for 2H2022 and FY2023 are S$10.8 million and S$22.6 million respectively, as shown in **Exhibit 59.**

Exhibit 59: Projected changes in Employee Benefits Expenses for FY2022 and FY2023

S$ '000	Actual						Forecast		
	FY2017	FY2018	FY2019	FY2020	FY2021	1H2022	2H2022	FY2022	FY2023
Employee benefits expenses	22,567	23,007	23,752	20,462	17,295	9,684	10,778	20,462	22,567

Source: Hong Fok, FPA Financial

Professional fees

We note that between FY2019 and FY2021, Hong Fok's professional fees has remained consistent between S$1.2 million and S$1.4 million. Hence, for FY2022 and FY2023 we would project the average professional fees of FY2019, FY2020, and FY2021 of S$1.3 million = [S$1.2 million (professional fees in FY2019) + S$1.4 million (professional fees in FY2020) + S$1.3 million (professional fees in FY2021)] / 3. Accordingly, our projected professional fees for 2H2022 and FY2023 are S$0.6 million and S$1.3 million respectively, as shown in **Exhibit 60.**

Exhibit 60: Projected changes in Professional Fees for FY2022 and FY2023

S$ '000	Actual				Forecast		
	FY2019	FY2020	FY2021	1H2022	2H2022	FY2022	FY2023
Professional fees	1,239	1,376	1,304	745	561	1,306	1,306

Source: Hong Fok, FPA Financial

Maintenance expense

We note that maintenance expense has remained stable as a percentage of revenue, within a range of 9.36% to 10.49% from FY2019 to FY2021. Hence, we would assume the average full year maintenance expense as a percentage of total revenue from FY2019 to FY2021 as a proxy for our projections for FY2022 and FY2023. The average maintenance fee is as follows:

- Average maintenance expenses as percentage of revenue from FY2019 to FY2021 = [9.36% (FY2019) + 10.49 % (FY2020) + 9.80% (FY2021)] / 3 = 9.88%

Therefore, our projected maintenance expense for 2H2022 and FY2023 are S$5.7 million and S$11.2 million respectively, as follows and as shown in **Exhibit 61.**

- Projected maintenance expenses for 2H2022 = 9.88% (projected maintenance expenses as percentage of revenue) x S$57.2 million (projected revenue for 2H2022) = S$5.7 million
- maintenance expenses for FY2022 = S$4.1 million (actual 1H2022) + S$4.8 million (projected 2H2022) = S$9.8 million
- Projected maintenance expenses for FY2023 = 9.88% (maintenance expenses as percentage of revenue) x S$113.7 million (projected revenue for FY2023) = S$11.2 million

Exhibit 61: Projected changes in Maintenance Expense for FY2022 and FY2023

S$'000	Actual					Forecast		
	FY2019	FY2020	FY2021	Average	1H2022	2H2022	FY2022	FY2023
Revenue	**113,245**	**80,399**	**90,501**	**-**	**55,606**	**57,157**	**112,763**	**113,705**
maintenance expense	10,604	8,434	8,868	9.88%	4,101	5,650	9,751	11,239
as % of revenue	*9.36%*	*10.49%*	*9.80%*		7.38%	*9.88%*	*8.65%*	*9.88%*

Source: Hong Fok, FPA Financial

Cost of sales of development properties

Hong Fok's cost of sales of development properties, as a percentage of Hong Fok's revenue from development property sales, has remained within a range of 68.16% to 69.79% from FY2019 to FY2021. Hence, we would assume the average full year cost of sales of development properties as a percentage of total sales from development properties from FY2019 to FY2021 as a proxy for our projections for 2H2022 and FY2023. The average cost of sale of development property is as follows:

- Average cost of sales of development properties as percentage of sales of development properties from FY2019 to FY2021 = [68.33% (FY2019) + 68.16 % (FY2020) + 69.79% (FY2021)] / 3 = 68.76%

Accordingly, our projected cost of sales of development properties for 2H2022 and FY2023 are S$14.3 million and S$28.7 million respectively, as follows and as shown in **Exhibit 62.**

- Projected cost of sales of development properties for 2H2022 = 68.76% (projected cost of sales of development properties as percentage of sales of development properties) x S$20.8 million (projected sales of development properties for 2H2022) = S$14.3 million
- Cost of sales of development properties for FY2022 = S$13.6 million (actual 1H2022) + S$14.3 million (projected 2H2022) = S$27.9 million
- Projected maintenance expenses for FY2023 = 68.76% (projected cost of sales of development properties as percentage of revenue) x S$41.7 million (projected sales of development properties for FY2023) = S$28.7 million

Exhibit 62: Projected changes in Cost of Sales of Development Properties for FY2022 and FY2023

S$'000	Actual					Forecast		
	FY2019	FY2020	FY2021	Average	1H2022	2H2022	FY2022	FY2023
sale of development properties	**30,383**	**12,116**	**25,539**	**-**	**20,826**	**20,849**	**41,675**	**41,697**
cost of sales of development properties	20,762	8,258	17,823	68.76%	13,580	14,336	27,916	28,671
as % of revenue	*68.33%*	*68.16%*	*69.79%*		65.21%	*68.76%*	*66.98%*	*68.76%*

Source: Hong Fok, FPA Financial

Other expenses

In FY2019 and FY2020, other expense have been S$3.5 million and S$3.6 million respectively, before decreasing to S$2.5 million in FY2021. In 1H2022, the increase in other expenses was due to legal and professional costs incurred for the privatisation of Hong Fok Land International Limited. With that in mind, we would project other expenses in 2H2022 to revert to the average of other expenses from FY2019 to FY2021 = S$1.6 million = [S$3.5 million (FY2019) + S$3.6 million (FY2020) + S$2.5 million (Y2021) / 3 (average)] / 2 (adjusting for half year). Similarly, we would project other expenses in FY2023 to revert to the average from FY2019 to FY2021 = S$3.2 million = [S$3.5 million (FY2019) + S$3.6 million (FY2020)] + S$2.5 million (FY2021) / 3 (average). Consequently, our projected other expenses for 2H2022 and FY2023 are S$1.6 million and S$3.2 million respectively, as shown in **Exhibit 63.**

Exhibit 63: Projected changes in Other Expenses for FY2022 and FY2023

S$ '000	Actual				Forecast		
	FY2019	FY2020	FY2021	1H2022	2H2022	FY2022	FY2023
Other expenses	3,456	3,602	2,500	2,865	1,593	4,458	3,186

Source: Hong Fok, FPA Financial

Given the above, the operating profit projected for 2H2022, FY2022, and FY2023 amount to S$37.4 million, S$58.2 million, and S$55.3 million respectively, as shown in **Exhibit 64.**

Exhibit 64: Projected Operating Profit for FY2022 and FY2023

S$'000	Actual	Forecast		
	1H 2022	2H 2022	FY2022	FY2023
Revenue	55,606	57,157	112,763	113,705
Other income	151	151	302	302
Commitment fee on unutilised bank facilities	(710)	(832)	(1,542)	(1,594)
Cost of sales of development properties	(13,580)	(14,336)	(27,916)	(28,671)
Depreciation of property, plant, and equipment	(512)	(488)	(1,000)	(1,043)
Depreciation of right-of-use assets	(202)	(421)	(623)	(548)
Employee benefits expenses	(9,684)	(10,778)	(20,462)	(22,567)
Exchange gain, net	625	-	625	-
Gain/(Loss) on revaluation of investment properties	-	18,500	18,500	18,500
Changes in fair value of other investments at fair value through profit or loss	107	-	107	-
Impairment loss on trade receivables, net	5	(42)	(37)	(47)
Impairment loss written back on other assets	9	26	35	17
Maintenance expenses	(4,101)	(5,650)	(9,751)	(11,239)
Lease expenses	(102)	(69)	(171)	(145)
Professional fees	(745)	(561)	(1,306)	(1,306)
Property tax	(2,884)	(3,326)	(6,210)	(6,210)
Rental commission	(330)	(332)	(662)	(662)
Other expenses	(2,865)	(1,593)	(4,458)	(3,186)
Operating Profit	**20,788**	**37,407**	**58,195**	**55,307**

Source: Hong Fok, FPA Financial

Interest paid

Hong Fok's gross borrowings have decreased from S$774.4 million as at 31 December 2021 to S$766.2 million as at 30 June 2022. In addition, in mentioned on page 16, Hong Fok in March announced the redemption of its S$100 million 4.20% note, without any reissuance of debt. As highlighted in **Exhibit 29** on page 25, as at 31 December 2021 Hong Fok has cash & cash equivalents of S$48.2 million, which is insufficient to fully redeem the note. Furthermore, Hong Fok's current cash & cash equivalents as at 30 June 2022 of S$63.1 million would similarly be insufficient to fully redeem its current Singapore Dollar secured bank loans. We would thus assume that Hong Fok's redemption of the note and other future borrowings would be refinanced, leaving their gross borrowings unchanged at S$766.2 million. We would also assume that Hong Fok's bank loan due 2023 would be rolled over as another Singapore Dollar (SGD) secured bank loan, thus increasing non-current Singapore Dollar secured bank loans from S$589.1 million to S$707.4 million. We also note that Hong Fok's Hong Kong Dollar (HKD) unsecured fixed rate bonds have a fixed interest rate of 2.75% and are due on 9 March 2025. Hence, split by geography, Hong Fok's current and forecasted borrowings are summarized in **Exhibit 65:**

Exhibit 65: Summary of Hong Fok's Gross Borrowings by Geography

S$'000	Actual		Forecast	
	FY2021	1H2022	FY2022	FY2023
Singapore				
Current				
Singapore Dollar secured bank loans	-	118,300	118,300	-
Singapore Dollar unsecured fixed rate notes	100,000	-	-	-
Non-current				
Singapore Dollar secured bank loans	615,477	589,063	589,063	707,363
Gross Singapore borrowings	**715,477**	**707,363**	**707,363**	**707,363**
Hong Kong				
Current				
-	-	-	-	-
Non-current				
Hong Kong Dollar secured bank loans	30,656	29,964	29,964	29,964
Hong Kong Dollar unsecured fixed rate bonds	28,232	28,900	28,900	28,900
Gross Hong Kong borrowings	**58,888**	**58,864**	**58,864**	**58,864**
Gross borrowings	**774,365**	**766,227**	**766,227**	**766,227**

Source: Hong Fok, FPA Financial

To project the interest expense on Hong Fok's borrowings, we would use the average 10-year bond yield of the respective geographies for the first 8 months of FY2022 as a proxy for the projected interest rate. Accordingly, in the first 8 months of FY2022, the average yield of the Singapore SGS 10-year bond = 2.45%, while the Hong Kong Government 10-year bond = 2.41%, compared to an average yield in FY2021 of 1.52% in Singapore and 1.27% in Hong Kong, as shown in **Exhibit 66.**

Exhibit 66: Average 10-year bond yield

Date	2021		2022	
	Singapore	Hong Kong	Singapore	Hong Kong
Jan	1.00%	0.79%	1.77%	1.72%
Feb	1.33%	1.30%	1.90%	1.78%
Mar	1.74%	1.40%	2.34%	2.06%
Apr	1.59%	1.23%	2.53%	2.73%
May	1.48%	1.15%	2.71%	2.69%
Jun	1.58%	1.30%	2.98%	3.01%
Jul	1.30%	1.07%	2.66%	2.58%
Aug	1.41%	1.14%	2.71% (1)	2.74% (1)
Sep	1.59%	1.36%		
Oct	1.84%	1.51%		
Nov	1.70%	1.54%		
Dec	1.67%	1.50%		
Average	**1.52%**	**1.27%**	**2.45%**	**2.41%**

(1) As at 19 August 2022

Source: MAS, Hong Kong Government, FPA Financial

Consequently, we note that the average 10-year bond yields have increased by 0.93 percentage points (ppts) = 2.45% (average yield in first 8 months of 2022 in Singapore) – 1.52% (average Singapore yield in 2021) in Singapore, and 1.14ppts = 2.41% (average yield in first 8 month of 2022 in Hong Kong) – 1.27% (average Hong Kong yield in 2021) in Hong Kong. For the rest of FY2022 and FY2023, we would assume that interest rates continue to remain elevated and in FY2023 we would assume that interest rates increase by another 0.93ppts in Singapore to 3.38% = 2.45% (projected FY2022 interest rate) + 0.93% (projected interest rate) and 1.14ppts in Hong Kong to 3.56% = 2.41% (projected FY2022 interest rate + 1.14% (projected interest rate) , as shown in **Exhibit 67.**

Exhibit 67: 10-year bond yield

Currency	Actual	Forecast			
	FY2021	FY2022 (1)	yoy change (ppts)	FY2023	yoy change (ppts)
SGD	1.52%	2.45%	0.93%	3.38%	0.93%
HKD	1.27%	2.41%	1.14%	3.56%	1.14%

(1) Average of the first 8 months of FY2022 (as at 17 August 2022)

Source: MAS, Hong Kong Government, FPA Financial

Accordingly, the projected interest expense for 2H2022 is as follows:

- Interest expense on SGD current bank loans in 2H2022 = S$118.3 million (current SGD bank loans) x [2.45% / 2] (half-year interest rate) = S$1.4 million
- Interest expense on SGD non-current bank loans in 2H2022 = S$589.1 million (non-current SGD bank loans) x [2.45% / 2] (half-year interest rate) = S$7.2 million
- Interest expense on HKD bank loans in 2H2022 = S$30.0 million (HKD bank loans) x [2.41% / 2] (half-year interest rate) = S$0.4 million
- Interest expense on HKD fixed rate bonds in 2H2022 = S$28.9 million (HKD fixed rate bonds) x [2.75% / 2] (half-year interest rate) = S$0.4 million

The total projected interest expense on all SGD and HKD borrowings in 2H2022 would be S$9.4 million as follows and as shown in **Exhibit 68.**

- Total projected interest expense on borrowings in 2H2022 = S$9.4 million = S$1.4 million (interest expense for current SGD bank loans) + S$7.2 million (interest expense for non-current SGD bank loans) + S$0.4 million (interest expense for HKD bank loans) + S$0.4 million (interest expense for HKD fixed rate bonds)

Exhibit 68: Forecasted interest expense in FY2022

S$'000	Forecast		
	2H2022	Interest rate	Interest expense
Singapore			
Current			
Singapore Dollar secured bank loans	118,300	1.23%	1,449
Non-current			
Singapore Dollar secured bank loans	589,063	1.23%	7,216
Total Singapore interest expense	**707,363**		**8,665**
Hong Kong			
Non-current			
Hong Kong Dollar secured bank loans	29,964	1.21%	361
Hong Kong Dollar unsecured fixed rate bonds	28,900	1.38%	397
Total Hong Kong interest expense	**58,864**	-	**758**
Total interest expense on borrowings	**766,227**	-	**9,424**

Source: Hong Fok, FPA Financial

In FY2023, we would assume that Hong Fok would roll-over its current SGD secured bank loans of S$118.3 million. Therefore, the projected interest expense for FY2023 is as follows:

- Interest expense on non-current SGD bank loans = S$707.4 million (non-current SGD bank loans) x 3.38% (projected FY2023 interest rate) = S$23.9 million

- Interest expense on non-current HKD bank loans = S$30.0 million (non-current HKD bank loans) x 3.56% (projected FY2023 interest rate) = S$1.1 million

- Interest expense on HKD fixed rate bonds = S$28.9 million (HKD fixed rate bonds) x 2.75% (interest rate) = S$0.8 million

Therefore, the projected total interest expense on all SGD and HKD borrowings in FY2023 would be S$25.8 million as follows and as shown in **Exhibit 69** on the next page**.**

- Total projected interest expense on borrowings in FY2023 = S$25.8 million = S$23.9 million (interest expense on SGD bank loans) + S$1.1 million (interest expense on HKD bank loans) + S$0.8 million (interest expense on HKD fixed rate bonds)

Exhibit 69: Forecasted interest expense in FY2023

S$'000	Forecast		
	FY2023	Interest rate	Interest expense
Singapore			
Non-current			
Singapore Dollar secured bank loans	707,363	3.38%	23,909
Total Singapore interest expense	**707,363**		**23,909**
Hong Kong			
Non-current			
Hong Kong Dollar secured bank loans	29,964	3.56%	1,065
Hong Kong Dollar unsecured fixed rate bonds	28,900	2.75%	795
Total Hong Kong interest expense	**58,864**	-	**1,860**
Total interest expense on borrowings	**766,227**	-	**25,769**

Source: Hong Fok, FPA Financial

Interest on lease liabilities

Interest expense on lease liabilities have steadily decreased since FY2019 to FY2021. We would thus project interest on lease liabilities to similarly decrease in FY2022 and FY2023. We would take the average yoy decrease from FY2019 to FY2021 of 37.73% = [44.68% (FY2020) + 30.77% (FY2021)] / 2 (average) and project that interest on lease liabilities in FY2022 and FY2023 would decrease by a similar amount. Accordingly, we project interest expense on lease liabilities in FY2022 and FY2023 to be S$11,000 and S$7,000 respectively, as shown in **Exhibit 70.**

Exhibit 70: Projected Interest Expense on Lease Liabilities for FY2022 and FY2023

S$ '000	Actual			Forecast	
	FY2019	FY2020	FY2021	FY2022	FY2023
Interest on lease liabilities	47	26	18	11	7
yoy % change		-44.68%	-30.77%	-37.73%	-37.73%

Source: Hong Fok, FPA Financial

Finance Income

Finance income increased in FY2018 due to increased interest income from cash & cash equivalents but has steadily decreased since then from S$1.5 million in FY2018 to S$0.5 million in FY2021. We note that finance income in 1H2022 was equal to the average Singapore Standing Facility Deposit Rate for the first 6 months of FY2022. Thus, we would take the average deposit rate from July and August in 2H2022 as our proxy for the deposit rate. Since 30 June 2022, as at 19 August 2022, the average deposit rate is 1.7%, an increase of 1.4ppts = 1.7% (average rate in 2H2022) – 0.3% (average 1H2022 rate) from 1H2022. In FY2023, we would similarly project another 1.4ppts increase in the deposit rate to 3.1% = 1.7% (projected deposit rate for FY2022) + 1.4% (projected increase in deposit rate). Assuming that Hong Fok's cash & cash equivalents remain the same in FY2022 and FY2023, we would project finance income of S$1.1 million in 2H2022, and S$2.0 million in FY2023, as shown in **Exhibit 71.**

Exhibit 71: Projected Finance Income for FY2022 and FY2023

S$ '000	Actual						Forecast		
	FY2017	FY2018	FY2019	FY2020	FY2021	1H2022	2H2022	FY2022	FY2023
Finance income	565	1,508	1,014	853	464	221	1,094	1,315	1,958
Cash & Cash Equivalents [(1)]	50,636	50,229	40,405	41,175	74,284	63,159	63,159	63,159	63,159
% of Cash	1.1%	3.0%	2.5%	2.1%	0.6%	0.3%	1.7%	2.1%	3.1%

(1): Includes restricted cash

Source: Hong Fok, FPA Financial

Net Finance Expense

Due to the non-disclosure finance expenses in 1H2022, we would estimate both interest expense on borrowings as well as amortisation. We would estimate interest expense on borrowings based on the interest paid by Hong Fok in their cash flow statement. Amortisation for 1H2022 is estimated by subtracting the estimated interest expense on borrowings and projected interest expense on lease liabilities from the actual finance expense of 1H2022. Amortisation includes amortisation of transaction costs previously capitalized and amortisation of imputed interest on unsecured bonds. Given that total amortisation from FY2019 to FY2021 has ranged between S$5.3 million in FY2019 and S$5.9 million in FY2021, we would project amortisation for FY2022 and FY2023 by applying the average amortisation from FY2019 to FY2021 = S$5.6 million = [S$5.3 million (FY2019) + S$5.6 million (FY2020) + S$5.9 million (FY2021)] / 3. For FY2022, given that we had already estimated amortisation for 1H2022, we would project that the balance amortisation for FY2022 would be incurred in 2H2022. Given the above, we project net finance expense for 2H2022 and FY2023 of S$12.5 million and S$29.4 million respectively, as shown in **Exhibit 72.**

Exhibit 72: Net Finance Expense for FY2022 and FY2023

S$ '000	Actual				Forecast		
	FY2019	FY2020	FY2021	1H2022	2H2022	FY2022	FY2023
Finance income	1,014	853	464	221	1,094	1,315	1,958
Interest expense on							
Borrowings	(25,170)	(17,311)	(14,232)	(8,556) (2)	(9,424)	(17,980)	(25,769)
Lease liabilities	(47)	(26)	(18)	(15) (3)	(15)	(30)	(30)
Amortisation (1)	(5,279)	(5,622)	(5,882)	(1,398) (4)	(4,181)	(5,579)	(5,594)
Net finance expense	**(29,482)**	**(22,106)**	**(19,668)**	**(9,748)**	**(12,526)**	**(22,274)**	**(29,435)**

(1): Amortisation includes amortisation of transaction costs and imputed interest on unsecured bonds
(2): Estimated based on interest paid in cash flow statement
(3): Projected interest expense on lease liabilities
(4): Estimated based on (Actual Finance Expense - Estimated Interest Expense above)

Source: Hong Fok, FPA Financial

Profit Before Income Tax

Given the above projections, we estimate a profit before tax of S$35.9 million in FY2022 and S$25.9 million in FY2023 as shown in **Exhibit 73.**

Exhibit 73: Projected Profit before Income Tax for FY2022 and FY2023

S$'000	Actual	Forecast		
	1H 2022	2H 2022	FY2022	FY2023
Revenue	55,606	57,157	112,763	113,705
Other income	151	151	302	302
Commitment fee on unutilised bank facilities	(710)	(832)	(1,542)	(1,594)
Cost of sales of development properties	(13,580)	(14,336)	(27,916)	(28,671)
Depreciation of property, plant, and equipment	(512)	(488)	(1,000)	(1,043)
Depreciation of right-of-use assets	(202)	(421)	(623)	(548)
Employee benefits expenses	(9,684)	(10,778)	(20,462)	(22,567)
Exchange gain, net	625	-	625	-
Gain/(Loss) on revaluation of investment properties	-	18,500	18,500	18,500
Changes in fair value of other investments at fair value through profit or loss	107	-	107	-
Impairment loss on trade receivables, net	5	(42)	(37)	(47)
Impairment loss written back on other assets	9	26	35	17
Maintenance expenses	(4,101)	(5,650)	(9,751)	(11,239)
Lease expenses	(102)	(69)	(171)	(145)
Professional fees	(745)	(561)	(1,306)	(1,306)
Property tax	(2,884)	(3,326)	(6,210)	(6,210)
Rental commission	(330)	(332)	(662)	(662)
Other expenses	(2,865)	(1,593)	(4,458)	(3,186)
Operating Profit	**20,788**	**37,407**	**58,195**	**55,307**
Finance income	221	1,094	1,315	1,958
Finance expense	(9,969)	(13,620)	(23,589)	(31,393)
Net Finance expense	**(9,748)**	**(12,526)**	**(22,274)**	**(29,435)**
Profit before income tax	**11,040**	**24,881**	**35,921**	**25,872**

Source: Hong Fok, FPA Financial

Income Tax Expense

Given limited access to details regarding Hong Fok's income tax expense in 1H2022, we would use tax expense in FY2021 as a proxy for our projections for FY2022 and FY2023. We would assume that the percentage of each component of tax expense as part of profit before tax to remain the same as in FY2021. Consequently, our projected income tax expense for FY2022 and FY2023 would be S$3.3 million and S$2.4 million respectively as shown in **Exhibit 74.**

Exhibit 74: Projected Income Tax Expense for FY2022 and FY2023

S$'000	Actual		Forecast			
	FY2021	% of profit before tax	FY2022	% of profit before tax	FY2023	% of profit before tax
Profit before tax	**49,181**		**35,921**		**25,872**	
Tax using the Singapore tax rate at 17%	8,361	17.0%	6,107	17.0%	4,398	17.0%
Effect of tax rates in foreign jurisdictions	(8)	0.0%	(6)	0.0%	(4)	0.0%
Tax exempt income	(6,747)	-13.7%	(4,928)	-13.7%	(3,549)	-13.7%
Non-deductible expenses	2,370	4.8%	1,731	4.8%	1,247	4.8%
Deferred tax assets not recognised	709	1.4%	518	1.4%	373	1.4%
Tax incentives	(2)	0.0%	(1)	0.0%	(1)	0.0%
Utilisation of previously unrecognised tax losses	(266)	-0.5%	(194)	-0.5%	(140)	-0.5%
Adjustments in prior years	(26)	-0.1%	(19)	-0.1%	(14)	-0.1%
Others	125	0.3%	91	0.3%	66	0.3%
Income tax expense	**4,516**	**9.2%**	**3,298**	**9.2%**	**2,376**	**9.2%**

Source: Hong Fok, FPA Financial

Total Profit

Adjusted for tax expense, the projected total profit for 2H2022 would be S$21.6 million =[S$24.9 million (2H2022 profit before income tax) – S$3.2 million (2H2022 income tax expense)]. This would result in a projected total profit for FY2022 of S$29.8 million = [S$35.9 million (FY2022 profit before income tax) – S$6.1 million (FY2022 income tax expense)]. For FY2023, projected profit would be S$21.4 million =[S$25.9 million (FY2023 profit before income tax) – S$4.4 million (FY2023 income tax expense)].

We note that losses attributable to non-controlling interest (NCI) for 1H2022 was a S$0.9 million. As we are projecting a strong increase in revenue in 2H2022, we would assume that NCI rebounds to break even. For FY2023, as we are projecting a decrease in profit, there would be no changes to NCI. Accordingly, profit attributable to equity holders of the company would amount to S$30.7 million in FY2022 and S$21.5 million in FY2023, as shown in **Exhibit 75** on the next page**.**

Exhibit 75: Projected Total Profit for FY2022 and FY2023

S$'000	Actual	Forecast		
	1H 2022	2H 2022	FY2022	FY2023
Revenue	55,606	57,157	112,763	113,705
Other income	151	151	302	302
Commitment fee on unutilised bank facilities	(710)	(832)	(1,542)	(1,594)
Cost of sales of development properties	(13,580)	(14,336)	(27,916)	(28,671)
Depreciation of property, plant, and equipment	(512)	(488)	(1,000)	(1,043)
Depreciation of right-of-use assets	(202)	(421)	(623)	(548)
Employee benefits expenses	(9,684)	(10,778)	(20,462)	(22,567)
Exchange gain, net	625	-	625	-
Gain/(Loss) on revaluation of investment properties	-	18,500	18,500	18,500
Changes in fair value of other investments at fair value through profit or loss	107	-	107	-
Impairment loss on trade receivables, net	5	(42)	(37)	(47)
Impairment loss written back on other assets	9	26	35	17
Maintenance expenses	(4,101)	(5,650)	(9,751)	(11,239)
Lease expenses	(102)	(69)	(171)	(145)
Professional fees	(745)	(561)	(1,306)	(1,306)
Property tax	(2,884)	(3,326)	(6,210)	(6,210)
Rental commission	(330)	(332)	(662)	(662)
Other expenses	(2,865)	(1,593)	(4,458)	(3,186)
Operating Profit	**20,788**	**37,407**	**58,195**	**55,307**
Finance income	221	1,094	1,315	1,958
Finance expense	(9,969)	(13,620)	(23,589)	(31,393)
Net Finance expense	**(9,748)**	**(12,526)**	**(22,274)**	**(29,435)**
Profit before income tax	**11,040**	**24,881**	**35,921**	**25,872**
Tax expense	(2,869)	(3,238)	(6,107)	(4,398)
Profit for the period	**8,171**	**21,643**	**29,814**	**21,474**
Profit attributable to:				
Owners of the company	9,093	21,643	30,736	21,474
Non-controlling interest	(922)	-	(922)	-
Earnings per share (SGD cents)	**1.38**	**3.27**	**4.65**	**3.25**

Source: Hong Fok, FPA Financial

Earnings Per Share

Earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the financial year.

As at 12 August 2022, the latest available weighted average number of ordinary shares less treasury shares and ordinary shares held by Hong Fok Land Holding via Hong Fok Land International is 661.0 million. Accordingly, we projected an earnings per share of 4.65 cents in FY2022 and 3.25 cents in FY2023 as shown in **Exhibit 76.**

Exhibit 76: Projected Earnings Per Share for FY2022 and FY2023

S$'000	Actual	Forecast		
	1H2022	2H2022	FY2022	FY2023
Earnings per share attributable to ordinary shareholders of the Company (cents):				
Profit attributable to ordinary shareholders	9,093	21,643	30,736	21,474
Weighted average number of ordinary shares	660,983	660,983	660,983	660,983
Earnings per share	**1.38**	**3.27**	**4.65**	**3.25**

Source: Hong Fok, FPA Financial

(III) Dividends Projection

We note that from FY2017 to FY2021, Hong Fok's cash dividend per share is 1 cent per share, with the exception of FY2019 when a special dividend of 1.3 cents per share was declared. Considering the above, we would project cash dividend of 1.00 cents for FY2022 and FY2023, which is Hong Fok's historical cash dividend as shown in **Exhibit 77.**

Exhibit 77: Projected Dividend for FY2022 and FY2023

cents	Actual					Forecast	
	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Earnings per share	25.69	27.26	16.42	(1.29)	5.83	4.65	3.25
Cash dividend per share	1.00	1.00	1.30	1.00	1.00	1.00	1.00

Source: Hong Fok, FPA Financial

VALUATION ANALYSIS

(I) Peer Comparison Analysis

We performed a peer comparison analysis to review how Hong Fok is faring against industry peers in terms of valuation metrics. We selected peer companies that are similar to Hong Fok in terms of industry and business operations and did a comparison by considering the peer's P/E and P/B. Considering the above, we selected Singapore listed real estate investment holding companies with similar market capitalisation. We have included the summary of the peer companies' corporate profile as follows:

(a) Tuan Sing Holdings Limited

Tuan Sing Holdings Limited is a Singapore-based regional investment holding company. The company has interests in real estate investment, real estate development, and hospitality. The Company has property investments and developments in Singapore, Indonesia, China, and Australia.

(b) Wing Tai Holdings Limited

Wing Tai Holdings Limited is a Singapore-based regional property company. The principal activity of the Company and its subsidiaries is that of an investment holding company focused on key markets in Asia Pacific, including Singapore, Malaysia, Hong Kong, China, Australia, and Japan. The core business of the Company is that of property investment & development, lifestyle retail, and hospitality management.

(c) GuocoLand Limited

GuocoLand Limited is a Singapore-based regional property company. The principal activities of the company and its subsidiaries include investment holding, property development and investment, hotel operations, and provision of management, property management, marketing and maintenance services. Its portfolio consists of residential, hospitality, commercial, retail and integrated developments spanning across the region. Its segments include GuocoLand Singapore, GuocoLand China, GuocoLand Malaysia, and others. Its segments provide development of residential, commercial and integrated properties, and property investment in Singapore, China and Malaysia.

(d) Ho Bee Land Limited

Ho Bee Land Limited is a Singapore-based company that is engaged in property development, property investment and investment holding. The Company has property investments and developments in Singapore, Australia, China, United Kingdom and Germany. The Company operates through two segments: Property investment and Property development. The Property investment segment includes investment in properties. The Property development segment is engaged in the development and trading of properties.

(e) OUE Limited

OUE Limited is a Singapore-based regional investment holding company. The principal activities of the company include full service real estate development, investment & management across the commercial, hospitality, retail, residential, and healthcare sectors. The Company operates in Singapore, China, Indonesia, and Japan

(f) Bukit Sembawang Estates Ltd

Bukit Sembawang Estates Limited is an investment holding company. The company is focused on the investment holding, property development and operating of serviced apartments. It operates through three segments: Property development, which includes development of residential properties for sale; Investment holding, which includes holding and management of office buildings and investments, and Hospitality, which operates serviced apartment units.

The results of our peer comparison analysis are summarized in **Exhibit 78**.

Exhibit 78: Peer Comparison

Company	Stock code	Price as at 19 Aug 2022	Market cap (million)	EPS (1) (cents)	P/E (x)	DPS (1) (cents)	Dividend yield (%)	NAV per share	P/B (x)
Hong Fok Corporation Ltd (2)	H30	1.110	913.99	6.46	17.18	1.00	0.90	3.10	0.36
Peer companies:									
Tuan Sing Holdings Ltd (3)	T24	0.365	444.59	(0.60)	NM	0.70	1.92	1.03	0.36
Wing Tai Holdings Ltd (4)	W05	1.670	1,284.87	3.61	46.26	5.00	2.99	4.18	0.40
Guocoland Ltd (4)	F17	1.660	1,964.40	17.55	9.46	6.00	3.61	3.62	0.46
Ho Bee Land Ltd (2)	H13	2.820	1,872.53	56.45	5.00	10.00	3.55	5.97	0.47
OUE Ltd (2)	LJ3	1.340	1,163.37	16.01	8.37	1.00	0.75	4.39	0.31
Bukit Sembawang Estates Ltd (5)	B61	4.820	1,247.95	32.03	15.05	16.00	3.32	5.72	0.84
Peer average	-	-	-	-	**16.83**	-	**2.69**	-	**0.47**

Figures have been rounded

(1) Trailing 12-month data

(2) NAV as at 30 June 2022

(3) Latest price as at 18 Aug 2022, NAV as at 30 June 2022

(4) NAV as at 31 Dec 2022

(5) NAV as at 31 March 2022

Source: Respective company data, Yahoo Finance, FPA Financial

(a) P/E Multiple

Based on the results in **Exhibit 78** above, we note that Hong Fok's P/E multiple of 17.18x is higher than the peer average P/E multiple of 16.83x, which might suggest that it is slightly overvalued at the current share price of S$1.110. Adopting a relative valuation approach, we estimate a target price of S$1.087 as follows:

- Estimated target price = [peer average P/E] x [Hong Fok's EPS] = 16.83 x S$0.06 = S$1.087

The estimated target price of S$1.087 would imply a downside potential of 2.05% from the current price of S$1.110.

(b) P/B Multiple

Based on the results in **Exhibit 78** above, we note that Hong Fok's P/B multiple of 0.36x is lower than the peer average P/B multiple of 0.47x, which may suggest that it is undervalued at the current share price of S$1.110. Adopting a relative valuation approach, we estimate a target price of S$1.464 as follows:

- Estimated target price = [peer average P/B] x [Hong Fok's NAV per share] = 0.47 x S$3.10 = S$1.464

The estimated target price of S$1.464 would imply an upside potential of 31.93% from the current price of S$1.110.

(c) Estimated target price

Considering the above, Hong Fok is currently undervalued compared to its peers in terms of and P/B. However, Hong Fok is less attractive in terms P/E. Adopting a relative valuation approach, we estimate a target price of S$1.087, S$1.464 based on the peer average P/E and P/B comparison analysis respectively. By taking the average of our estimated target price, we derived a target price of S$1.276 as follows:

- Estimated target price = [(Estimated target price from P/E analysis + Estimated target price from P/B analysis) / 2] = [(S$1.087 + S$1.464) / 2] = S$1.276

The estimated target price of S$1.276 would imply an upside potential of 14.93% from the current price of S$1.110.

(II) Potential Hong Fok Privatisation

Hong Fok's Joint Chief Executive Officers & family ("the Cheong family") are deemed to hold 63.65% stake in Hong Fok, comprising of direct interest of 275,636,930 units and deemed interest of 248,468,589 units. Of note would be the share purchases by Joint Chief Executive Officer Mr. Cheong Pin Chuan via the open market, increasing the family's stake in Hong Fok by 1.66 percentage points.

We note the trend in the past 2 years of company privatisations on the Singapore Exchange (SGX). Hong Fok is currently trading at S$1.11 as at 19 August 2022, which represents a 64% discount to NAV per share of S$3.10 as at 30 June 2022. Given the trend of privatisation offers for companies listed on SGX, coupled with the fact that Hong Fok is currently trading at 64% discount to NAV, we identify the possibility of a privatisation offer for Hong Fok by the Cheong family.

To estimate the potential takeover cost for Hong Fok, we reviewed privatisation offers for SGX-listed companies in 2021 and 2022. Reviewing 18 privatisation offers between 2021 and 2022, we shortlisted 8 privatisation offers which we deemed to be similar to Hong Fok. The average price premium of the 8 privatisation offers was 39.8% as shown in **Exhibit 79**.

Exhibit 79: Privatisation offers for SGX-listed Companies

Target	Acquirer	Currency	Last transaction (1)		Offer price per share	Price premium (2)
			Date	Price		
GL Limited	Guoco Group Limited	SGD	14-Jan-21	0.560	0.800	42.9%
World Class Global Limited	Aspial Corporation Limited	SGD	11-Mar-21	0.099	0.210	112.1%
Fragrance Group Limited	JK Global Treasures Pte Ltd	SGD	8-Jul-21	0.118	0.138	16.9%
SPH	Cuscaden Peak Pte Ltd	SGD	2-Aug-21	1.500	2.360	57.3%
Roxy-Pacific Holdings Limited	TKL & Family Pte Ltd	SGD	14-Sep-21	0.405	0.485	19.8%
SingHaiyi Group	Haiyi Treasure Pte. Ltd	SGD	8-Nov-21	0.108	0.117	8.3%
Frasers Hospitality Trust	Frasers Property	SGD	7-Apr-22	0.570	0.700	22.8%
Hwa Hong Corporation Limited	Sanjuro United Pte. Ltd.	SGD	17-May-22	0.290	0.400	37.9%
Average						**39.8%**

(1) Refers to last transaction prior to takeover announcement

(2) Refers to premium of offer price over last traded share price prior to takeover announcement

Source: Respective companies' announcements

In the case of Hong Fok, as noted on page 3, approximately 29.81% of the issued ordinary shares of Hong Fok are held by the public, which translates to S$272.5 million in market capitalisation at the current share price of S$1.11 = [29.81% x current market capitalisation of S$913.99 million].

While we are unaware of any proposed privatisation plan, should privatisation to occur, we projected 3 scenarios for the estimated acquisition cost with a price premium of 8.3%, 39.8% and 57.3% for scenario 1, 2 and 3 respectively. The total acquisition cost for scenario 1, 2 and 3 would be S$295.2 million, S$380.8 million and S$428.7 million respectively as shown in **Exhibit 80**.

As mentioned on page 17, the Cheong family, on 19 April 2022, put up their mansion situated at Oxley Rise for sale. While talks are reportedly still ongoing, CBRE has estimated that the property could receive offers in excess of S$300 million. We note that a sum of S$300 million is close to scenario 1 of our estimated privatisation cost.

However, our base scenario would be scenario 2. With a 39.8% average privatisation price premium, the estimated acquisition cost to privatise Hong Fok would be approximately S$1.551 per share, equating to a total cost of S$380.8 million = [139.8% x S$272.5 million] as shown in **Exhibit 80**.

Exhibit 80: Estimated Total Cost for the Potential Hong Fok Privatisation

Scenario	Current share price (S$)	Price premium	Estimated offer price per share (S$)	Estimated total cost (S$ million)
1	1.110	8.3%	1.203	295.2
2	1.110	39.8%	1.551	380.8
3	1.110	57.3%	1.746	428.7

Source: FPA Financial

(III) Valuation Summary

The results from our peer comparison analysis suggest that Hong Fok is currently undervalued compared to its peers in terms of its P/B multiple. However, Hong Fok's P/E multiple is relatively less attractive than its peers. Adopting a relative valuation approach, we estimate a target price of S$1.464 and S$1.087 based on its P/B and P/E analysis respectively.

Meanwhile, our base case is that Hong Fok will continue to be listed publicly. However, as Hong Fok's Joint Chief Executive Officers & family are deemed to hold 63.65% stake in the company and that Hong Fok is trading at almost 64% discount to NAV, there is a possibility for Hong Fok to be taken private. If Hong Fok were to be privatised, based on our base scenario we estimate a privatisation offer price of S$1.551 per share based on the average price premium of 39.8% across the 8 privatisation offers for SGX-listed companies

Considering the above, by taking the average of our estimated target price of S$1.464 and S$1.087 based on the P/B and P/E analysis respectively, we derived an estimated target price of S$1.276 = [(S$1.464 + S$1.087) / 2]. Accordingly, our estimated target price of S$1.276 implies a potential upside of 14.93% from the current price of S$1.110.

SWOT AND COMPETITIVE ANALYSIS

In this section, we undertake a SWOT analysis in **Exhibit 81** to evaluate the various components of the analysis thus far.

Exhibit 81: SWOT analysis

SWOT analysis	
Strengths • Stable property portfolio	Weaknesses • Limited portfolio diversification • Limited pipeline for growth
Opportunities • Tourism recovery in Singapore	Threats • Covid-19 resurgence • Regulatory challenges

(I) Strengths

Hong Fok's portfolio of investment and development properties is concentrated in prime districts in Singapore and underpins the firm's balance sheet. Asset valuations of Hong Fok's properties have generally been increasing, with the exception of a downward adjustment in FY2020 due to the effects of the COVID-19 pandemic. Hong Fok's appreciating property portfolio has resulted in consistent fair value gains and increases in the firm's NAV over the last few years.

(II) Weaknesses

As mentioned on page 5, Hong Fok reported revenue of S$55.6 million for 1H2022. Hong Fok has exposure to Singapore and Hong Kong, but Singapore contributes approximately 93.7% of Hong Fok's total revenue in 1H2022. Furthermore, in terms of asset value, Singapore houses 83.3% of Hong Fok's investment property portfolio. As a result, Hong Fok is vulnerable to any potential risks related to Singapore's economic and social conditions. The lack of diversification may stifle Hong Fok's growth prospects, reduce its competitiveness and harm its financial performance.

As mentioned on page 21, sales of Hong Fok's Concourse Skyline development property contributes a significant portion of Hong Fok's revenue, and underpinned the firm's revenue in 1H2022. However, as at 30 Jun 2022, Concourse Skyline has been approximately 83% sold, and we estimate Hong Fok continuing to hold 59 units. With no other development properties in the pipeline, Hong Fok is vulnerable to losing this source of revenue following the sale of all the units.

(III) Opportunities

As noted on page 11, the tourism industry in Singapore is expected to recover as Singapore reopens its border to foreign visitors. This could possibly underpin improved performance in YOTEL Singapore, a significant source of revenue and growth for Hong Fok. Also highlighted on page 11 is that average room rates for Mid-tier hotels such as YOTEL Singapore have already exceeded pre-pandemic levels. Should Singapore be able to fully recover from the pandemic and attract tourists, it could result in an increase in occupancy in YOTEL, which would drastically boost its performance.

(IV) Threats

The COVID-19 pandemic has affected countries globally, and resulted in border closures, production stoppages, workplace closures, movement controls and other measures imposed by the various governments. Hong Fok's operations are in Singapore and Hong Kong SAR, both of which have been affected by the spread of COVID-19 in 2021. The Covid-19 pandemic has resulted in significant economic uncertainty in the current and future economic environment and there is heightened uncertainty inherent in estimating the impact of the pandemic to future selling prices of the development properties. Overall, virus uncertainty remains as many parts of the world are currently dealing with the B.A.5 variant, and there is also the risk of spread of new Covid-19 variants. The main concern is the reimplementation of prolonged lockdown measures and restrictions, which could have a negative impact on sentiments and prices, and in thus the financial performance of Hong Fok.

The Singapore government's implementations of cooling measures to the property market in December 2021 had led to a slowdown in private home price growth in 1Q2022. Singapore's Ministry of Finance had also announced that any transfer of residential property into a living trust will be subject to an additional buyer's stamp duty (ABSD) of 35 per cent starting 9 May 2022. As mentioned on page 23, Hong Fok has been negatively affected by the introduction of cooling measures in the past, which led to a decrease in revenue in FY2019. Hence, these cooling measures may weigh on sentiments and market confidence which could lower the demand for private homes, negatively affecting Hong Fok's revenue.

INVESTMENT RECOMMENDATION

Based on the reported NAV per share of S$3.10 as at 30 June 2022, Hong Fok is currently trading at a P/B of 0.36x, representing a discount of approximately 64% to NAV. While we note that while the other comparable real estate companies are also trading at a discount to NAV, our peer comparison results suggest that Hong Fok is trading at a steeper discount. Hong Fok's current P/B of 0.36x is lower compared to the peer average P/B of 0.47x. Adopting a relative valuation approach, we estimate a target price of S$1.464 if Hong Fok were to trade at the peer average P/B of 0.47x.

However, based on Hong Fok's earnings per share of 6.46 cents as at 30 June 2022, it currently has a P/E multiple of 17.18. Our peer comparison analysis results show that Hong Fok's P/E of 17.18 is higher than the peer average P/E of 16.83. Adopting a relative valuation approach, we estimate a target price of S$1.087 if Hong Fok were to trade at the peer average P/E of 16.83.

Taken together, by calculating the average of our estimated target price based on the P/B and P/E analysis, we derived a target price of S$1.276 = [(S$1.464 + S$1.087) / 2].

In addition, while we note that there is no indication of a privatisation of Hong Fok, our base scenario estimates a privatisation offer of S$1.551 per share, representing a price premium of 39.8%.

In terms of financials, we note that Hong Fok has maintained a strong concentrated portfolio of prime real estate over the years and has managed to consistently grow its NAV for shareholders. Considering the property market is regaining momentum, we are expecting a strong financial performance for Hong Fok for FY2022 and FY2023. This could provide some upside potential for Hong Fok.

Considering the above, we believe a neutral recommendation is warranted on Hong Fok. Our target price of S$1.276 would represent a 14.93% upside from the current price of S$1.110. However, there are still risks to our target price which we will highlight in the next section.

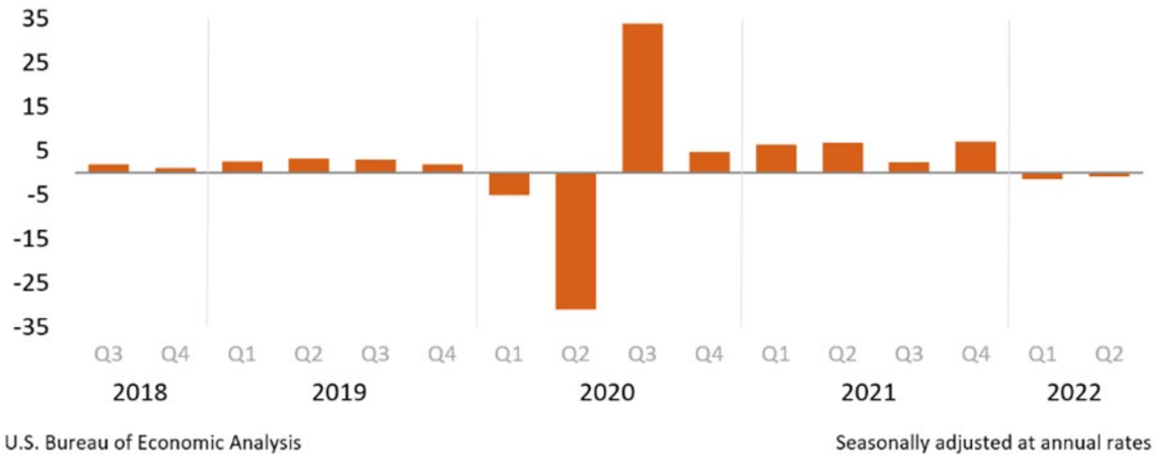
RISKS TO THE TARGET PRICE

In this section, we highlight below risk factors that may limit the potential upside to Hong Fok's target price.

(I) Weak Economic Recovery in Singapore

Despite the loosening of safe management measures and the relaxation of international travel restrictions, the Singapore economy is experiencing slowdown as mentioned in page 6, where the economy had flat growth of 0.0% from 1Q2022 to 2Q2022 on a seasonally adjusted basis. According to an advance estimate by the Bureau of Economic Analysis (BEA) in the US, real Gross Domestic Product (GDP) in the US decreased by 0.9% yoy in 2Q2022 as shown in **Exhibit 82**, following a 1.6% decline in 1Q2022, thus signalling a potential recession in the US.

Exhibit 82: Change in US Quarterly GDP (%, yoy)



Source: U.S. Bureau of Economic Analysis

A slowing global economy could have cascading effects on economic growth in Singapore. Continued contraction in other major economics could derail Singapore's economic recovery and thus negatively impact Hong Fok's financial performance.

(II) Rising Interest Rates

With interest rates globally on the rise in 2022, it has resulted in a corresponding rise in mortgage rates in Singapore. This could negatively impact buyers' sentiment and stifle sales of Concourse Skyline units, one of Hong Fok's key sources of revenue. Coupled with property cooling measures implemented by the Singapore government in December 2021, persistently high interest rates could thus severely hamper Hong Fok's growth

(III) Currency Risk

We note that Hong Fok is exposed to foreign exchange risk arising from currency exposure to HKD. A significant strengthening of the Singapore Dollar (SGD), which is Hong Fok's functional currency, against the Hong Kong Dollar (HKD) could have a negative impact on both Hong Fok's revenue as well as asset valuations arising from currency exchange losses. That said, as highlighted on page 24 that 93.2% of Hong Fok's borrowings are denominated in SGD, which could substantially mitigate Hong Fok's exposure to exchange rate risks.

CORPORATE GOVERNANCE

(I) Remuneration

Hong Fok's remuneration framework for executive Directors (including the Joint CEOs) 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, which is based on the criteria of the respective key performance indicators allocated to the individual. The key performance indicators include the Company's profitability and other financial and operational indicators as determined by the Board. Staff appraisals are conducted once a year. The executive Directors do not receive Directors' fees. 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. The corporate and individual performance-related elements of remuneration are designed to align the interests of executive Directors and key management personnel with those of shareholders and other stakeholders and to promote the long-term success of the Company. The structure of the fees paid or payable to non-executive independent Directors of Hong Fok for FY2021 is summarised in **Exhibit 83.**

Exhibit 83: Disclosure of Fee Structure of non-executive Independent Directors (FY2021)

Type of Appointment	Fee Per Annum ($)
Board Chairman	42,000
Board of Directors	
Basic retainer	45,000
Lead Independent Director	10,000
Audit and Risk Management Committee	
Chairman	30,000
Member	15,000
Nominating Committee	
Chairman	24,000
Member	12,000
Remuneration Committee	
Chairman	25,000
Member	12,500

Source: Hong Fok

In reviewing the remuneration of non-executive independent Directors, the Remuneration Committee and HR Guru Pte Ltd (HR Guru), Hong Fok's remuneration consultant, have taken into consideration the knowledge and expertise of each individual non-executive independent Director, the responsibilities vested upon them and the effort and time commitment required from the non-executive independent Directors given the complexities of the business and the business structure. This is to ensure that the remuneration of non-executive independent Directors is appropriate to the level of contribution, taking into account factors such as effort, time spent, and responsibilities.

Given the above information, a breakdown of the Directors' remuneration paid to each Director for FY2020 and FY2021 is shown in **Exhibit 84, Exhibit 85, Exhibit 86, and Exhibit 87** on the next page.

Exhibit 84: Disclosure of Remuneration of non-executive Independent Directors (FY2020)

Name of Non-executive Independent Director	Salary $	Fees $	Bonus $	Other Benefits[57] $
Mr Chan Pengee, Adrian	–	135,500	–	–
Mr Chow Yew Hon	–	104,000	–	–
Mr Lim Jun Xiong Steven	–	96,500	–	–

Source: Hong Fok

Exhibit 85: Disclosure of Remuneration of non-executive Independent Directors (FY2021)

Name of Non-executive Independent Director	Salary $	Fees $	Bonus $	Other Benefits[57] %
Mr Chan Pengee, Adrian	–	138,500	–	–
Mr Chow Yew Hon[(1)]	–	107,000	–	–
Mr Lim Jun Xiong Steven	–	99,500	–	–

[(1)] Stepped down with effect from 31 March 2022.

Source: Hong Fok

Exhibit 86: Disclosure of Remuneration of Directors (FY2020)

Remuneration Band Name of Executive Director	Salary %	Fees %	Bonus %	Other Benefits[59] %	Total %
$3,000,000 to $3,249,999					
Ms Cheong Hooi Kheng[(1)]	44	–	52	4	100
$3,250,000 to $4,249,999					
–	–	–	–	–	–
$4,250,000 to $4,499,999					
Mr Cheong Pin Chuan[(1)]	34	–	52	14	100
Mr Cheong Sim Eng[(1)]	49	–	46	5	100

[(1)] 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.

Source: Hong Fok

Exhibit 87: Disclosure of Remuneration of Directors (FY2021)

Remuneration Band Name of Executive Director	Salary %	Fees %	Bonus %	Other Benefits[59] %	Total %
$2,250,000 to $2,449,999					
Ms Cheong Hooi Kheng[(1)]	57	–	38	5	100
$2,500,000 to $3,249,999					
–	–	–	–	–	–
$3,250,000 to $3,499,999					
Mr Cheong Pin Chuan[(1)]	44	–	39	17	100
$3,500,000 to $3,749,999					
Mr Cheong Sim Eng[(1)]	62	–	31	7	100

[(1)] 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.

Source: Hong Fok

The names, amounts (in bands no wider than $250,000) and the breakdown of the remuneration of the top eight key management personnel who are not Directors or the CEO for FY2020 and FY2021 are shown in **Exhibit 88** and **Exhibit 89**. The total remuneration paid to the eight key management personnel for FY2020 and FY2021 amounted to S$4.0 million and $4.0 million respectively.

Exhibit 88: Disclosure of Remuneration of Key Management Personnel (FY2020)

Remuneration Band Name and Designation of Executive	Salary %	Fees %	Bonus %	Other Benefits[61] %	Total %
Below $250,000					
Mr Ng Sai Kian: Vice President (Property Management)	80	–	14	6	100
$250,000 to $499,999					
Mr Tsui Yeung Kun: Director – Business Development of Hong Fok Land International Limited ("HFLIL")[62]	52	–	8	40	100
Mr Lok Nam Moon: Vice President (Projects)	80	–	14	6	100
Ms Koh Chay Tiang: Vice President (Accounts and Finance)/Company Secretary	83	–	16	1	100
Mr Jimmy Yeo: Vice President (Marketing)	76	–	15	9	100
$500,000 to $749,999					
Mr Cheong Tze Hian, Howard: Director – Project Development of HFLIL[62]	46	–	4	50	100
Mr Cheong Tze Hong, Marc: Director – Finance Division of HFLIL[62]	50	–	4	46	100
$750,000 to $999,999					
–	–	–	–	–	–
$1,000,000 to $1,249,999					
Ms Cheong Puay Kheng: Vice President (Administration and Personnel) and Senior Manager of HFLIL[62]	84	–	12	4	100

Source: Hong Fok

Exhibit 89: Disclosure of Remuneration of Key Management Personnel (FY2021)

Remuneration Band Name and Designation of Executive	Salary %	Fees %	Bonus %	Other Benefits[61] %	Total %
Below $250,000					
Mr Ng Sai Kian: Vice President (Property Management)	82	–	14	4	100
$250,000 to $499,999					
Ms Koh Chay Tiang: Vice President (Accounts and Finance)/Company Secretary	83	–	16	1	100
Mr Lok Nam Moon: Vice President (Projects)	83	–	9	8	100
Mr Jimmy Yeo: Vice President (Marketing)	76	–	15	9	100
$500,000 to $749,999					
Mr Cheong Tze Hian, Howard: Director – Project Development of Hong Fok Land International Limited ("HFLIL")[62]	47	–	4	49	100
Mr Cheong Tze Hong, Marc: Director – Finance Division of HFLIL[62]	48	–	4	48	100
Mr Tsui Yeung Kun: Director – Business Development of HFLIL[62]	71	–	8	21	100
$750,000 to $999,999					
–	–	–	–	–	–
$1,000,000 to $1,249,999					
Ms Cheong Puay Kheng: Vice President (Administration and Personnel) and Senior Manager of HFLIL[62]	84	–	12	4	100

Source: Hong Fok

SUSTAINABILITY INFORMATION

Sustainability Governance

The Sustainability Steering Committee ("SSC") is responsible for reviewing and making recommendations to the board of directors of the Company (the "Board") on sustainability matters including policies, practices, targets and performance. The SSC is supported by the Sustainability Task Force ("STF") that consists of executives of the Group who work with personnel of the relevant business units. The Board is responsible for identifying various business risks, implementing strategies and sustainability frameworks, tracking the performance of the material ESG factors, reviewing targets and approving the sustainability report.

Stakeholder Engagement

Hong Fok values inputs from all their stakeholders and use a variety of channels to engage with stakeholders and receive their feedback. Hong Fok identifies stakeholders as groups that have an impact or have the potential to be impacted by Hong Fok's business, as well as external organisations that have expertise in aspects that Hong Fok considers material. The inputs that Hong Fok receive from stakeholders form the cornerstone of Hong Fok's sustainability goals.

The input from stakeholders allows Hong Fok to create appropriate policies and practices that govern responsible business conduct, and provide Hong Fok with the opportunities to understand the views and expectations from stakeholders. Defined communication channels ensure focused engagement through the year. The Summary of its key stakeholders, the different engagement methods, areas of concern, and Hong Fok's responses is shown in **Exhibit 90.**

Exhibit 90: Hong Fok's Stakeholder Engagement

Key Stakeholders	Engagement Methods	Areas of Concern	Our Response	Section Reference
Investors	Updates of financial results and announcements, business developments, press releases, and other relevant disclosures via SGXNet and our website Annual General Meeting	• Corporate governance • Climate resilience of investment properties • Business and financial performance • Compliance and anti-corruption	• Provide timely disclosures • Provide useful information and responses to investor queries • Establish robust governance practices • Achieve and maintain green mark certification and improve energy efficiency	• Annual Report • Company announcements on SGXNet • Focus 1: Governance and Ethics • Focus 2: Environmental Responsibility
Tenants	Feedback surveys on various issues Established channels of communication for tenant and property-related issues	• Quality of properties • Facilities available • Value for money • Health and Safety aspects	• Maintain building quality • Respond promptly to tenant feedback • Find ways to deliver value to tenants through regular communication	• Focus 3: Product Quality and Customer Health and Safety
Employees	Training and development programmes Career development performance appraisals	• Continuous learning • Work-life balance • Competitive compensation • Occupational Health and Safety	• Provide fair employee remuneration and benefits • Provide meaningful feedback to each employee through well-structured and open performance appraisals	• Focus 6: Talent Retention • Focus 4: Occupational Health and Safety
Government and Regulators	Meeting and dialogue sessions Membership in industry associations such as the Real Estate Developers' Association of Singapore and the Orchard Road Business Association	• Compliance • Business ethics • Industry participation	• Ensure full compliance with all applicable local laws and regulations including COVID-19 safety regulations	• Focus 1: Governance and Ethics
Sub-contractors and other service providers	Regular dialogue sessions with service providers, property managers and sub-contractors	• Site health and safety • Competitive fees	• Engage and evaluate suppliers regularly and provide meaningful feedback	• Focus 4: Occupational Health and Safety • Focus 5: Supply Chain

Source: Hong Fok

Materiality Assessment

Hong Fok identifies material topics that provide insight into their stakeholder concerns as well as the internal and external risk factors that impact Hong Fok's business. Hong Fok had previously, in 2017, undertaken a structured process to prioritise the key topics material to the Group and its stakeholders across the economic, environmental and social (ESG) bottom lines. This process was in line with the Global Reporting Initiative (GRI) Standards Materiality Principle. The material ESG factors determined form the basis of Hong Fok's sustainability efforts and reporting. Hong Fok's material factors have impacts along their entire value chain. Hong Fok determines their reporting boundaries based on the impacts where they have active control over.

Hong Fok conducts an annual review over the material ESG factors to assess their alignment and relevance to the Group's business objectives and strategy. During this process, the Group considers any changes in the internal business activities, the external local and global sustainability landscape, as well as the recommendations of the external ESG consultant, RSM Risk Advisory Pte Ltd. Hong Fok has taken the following steps to identify and present the relevant material factors in its reports:

1. Identification: Initial selection of topics based on the risks and opportunities to the sector.
2. Prioritisation: Material factors are prioritised based on their alignment with the concerns of internal and external stakeholders including whether they are aligned with key organisational values, policies, operational management systems, goals and targets.
3. Benchmarking: Comparison against competitors and peers to determine how the industry identifies and prioritises material factors.
4. Review: Review the relevance of previously identified material factors.
5. Validation: Validate the selected material factors and their prioritisation in the Sustainability Report with the Board.

The summary of Hong Fok's focus areas, materiality topics, and impact scope is shown in **Exhibit 91.**

Exhibit 91: Hong Fok's Materiality Assessment

Focus Areas	Material Topics	Where the Impact Occurs
Focus 1: Governance and Ethics	• Anti-corruption • Environmental compliance • Socioeconomic compliance • Customer privacy	Group wide
Focus 2: Environmental Responsibility	• Energy • Emissions • Water and Effluents • Waste	Group wide
Focus 3: Product Quality and Customer Health and Safety	• Customer Health and Safety	Group wide
Focus 4: Occupational Health and Safety	• Occupational Health and Safety	Group wide
Focus 5: Supply Chain	• Supplier Environmental Assessment • Supplier Social Assessment	Group wide
Focus 6: Talent Retention	• Employment • Training and Education • Diversity and Equal Opportunity • Non-discrimination	Group wide

Source: Hong Fok

The United Nations established 17 SDGs that act as a blueprint to address global issues to create a better and more sustainable future for all. Hong Fok contributes to the UN Sustainable Development Goals (SDGs) through Hong Fok's daily operations, strategy development and collaboration with its stakeholders. The attainment of the UN SDGs is a continuing global effort and forms part of Hong Fok's long-term focus on sustainability. **Exhibit 92** highlights Hong Fok's contributions to the attainment of 5 of the 17 UN SDGs.

Exhibit 92: Hong Fok's SDG Contributions

SUSTAINABLE DEVELOPMENT GOALS

UN SDGs	The Group's Contribution	Read More in the Following Sections
5 GENDER EQUALITY	Provide equal opportunities in employment, training and career development regardless of gender	• Focus 6: Talent Retention
6 CLEAN WATER AND SANITATION	Provide safe and clean water to users and implement water and sanitation management to the highest standards	• Focus 2: Environmental Responsibility
8 DECENT WORK AND ECONOMIC GROWTH	Provide work opportunities and a conducive working environment to the community	• Focus 4: Occupational Health and Safety • Focus 6: Talent Retention
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Incorporate environmentally friendly building materials Explore and integrate technological solutions to enhance building efficiency	• Focus 3: Product Quality and Customer Health and Safety • Focus 5: Supply Chain
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Reduce waste generation and continue to maintain our robust recycling initiatives	• Focus 2: Environmental Responsibility

Source: Hong Fok

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