

UOB-KAY HIAN HOLDINGS LIMITED
(Incorporated In The Republic Of Singapore)
Company Registration No. 200004464C

Response to Questions from Securities Investors Association (Singapore) (“SIAS”) on Annual Report 2019

With regard to SIAS’s questions in relation to the Company’s Annual Report 2019, the Company would like to respond as follows:

SIAS question 1

As noted in the chairman’s statement, under the 2019 operating performance review, the group’s operating revenue slipped by 0.6% to \$372.7 million while profit after tax declined by 8.6 % to S\$69.3 million (page 8 of the annual report). The disproportionately large drop in the group’s bottom line was due to the significant drop in profitability of one of the operating units.

As shown in Note 35 (pages 105 & 106 – Segment information), segment results from Thailand dropped from \$8.39 million in FY2018 to \$1.34 million in FY2019.

- (i) Can management help shareholders understand the reasons for the dip in performance in the Thai market?**

Company’s reply

In the Chairman’s Statement on page 8 of our AR2019, it was stated that the 2019 GDP growth of Thailand moderated significantly from 4.1% in 2018 to 2.4% in 2019, which negatively affected agency trading volumes and hence profitability of brokerage firms in Thailand.

In our case total revenue for the Thai subsidiary remained flat in 2019 versus 2018 in spite of the acquisition of the sales and marketing officers of a broking business towards the end of 2018.

The segment information did not reflect the operating costs associated with this group of sales and marketing officers where a significant portion was fixed therefore impacted negatively on the operating efficiency of our Thailand operations in 2019.

It should be noted that the profit of the Thai subsidiary in 2018 included a write back a provision for a litigation claim of Baht 45.5 million which amplified the profit variance between the two years.

- (ii) Are there structural changes in the Thai market that are affecting the profitability?** The group has recognised impairment of goodwill related to the Thailand CGU amounting to \$1.2 million in FY2019, \$1.0 million in FY2018 and \$0.3 million in FY2017. The profit margin used in the cash flow forecasts for the Thailand CGU has dropped from 38.29% in 2016 to 22.16% in 2019.

Company’s reply

It has been a policy of the company to continually assess and impair acquired goodwill and we generally do not carry significant purchased goodwill in our books despite having made a number of acquisitions over the years.

UOB-Kay Hian Holdings Limited

Response to SIAS

Page 2

We assess the carrying value of our purchased goodwill annually and have impaired purchase goodwill for a number of reasons including and not limited to sales and marketing agents who were previously recruited as part of those acquisitions and who had subsequently left us, and the giving up of certain licences acquired which had subsequently become surplus to our requirement.

As mentioned in our note 12 the benefits of a larger acquired client base, future market developments and revenue growth had not meet the recognition criteria for identifiable intangible assets and had not hence been recognised.

So the fact that we impair goodwill does not necessarily mean that our overall business is in decline. Despite the highly competitive environment, through our M&A we have succeeded in broadening and deepening the geography, depth and range of services we offer.

In the process we believe we have developed an extremely strong brand in the region.

In addition, the group scaled up its agency business in the financial year through the acquisition of part of DBS Vickers' remisier business. The group now has 820 retail and institutional sales personnel, up from 774 a year ago.

(iii) Given the shift of customers to online trading platforms (including smartphone trading applications), how does the increase in retail and institutional personnel contribute to revenue and profitability?

Company's reply

There is a common misconception that the Trading Representatives (TRs) and online trading share a dichotomous relationship when in fact they are complementary.

Online trading is one of several channels deployed by our TRs to conduct their business and probably the most commonly used channels.

It allows our TRs to scale up their business volume allowing their clients the freedom trade anytime and anywhere with our TRs facilitating with our value added trading ideas.

Trade execution is not the only service provided by our TRs today. Our TRs are able to deliver research ideas and provide other value added execution related advisory services to their clients – services which these clients had come to appreciate.

In the recent volatile spell in global markets we experienced an extremely strong spike in trading volumes which has been very positive to our business.

Online trading had proven to be a boon to our TRs in facilitating our clients' trades on both SGX as well as overseas markets especially the US markets.

Online trading has not only broadened the geography of our market place but also lengthened our trading hours by catering to Asian, European and US market hours.

With online trading, the trading by our clients through our TRs have been relatively unaffected by the COVID-19 related movement control measures introduced in the various countries in which we operate.

(iv) Has management reviewed if the group's risk management policies are robust enough to withstand the increased market volatility?

Company's reply

We apply robust and proactive risk management policies across our Group companies to respond to changing market conditions.

Our credit exposures are closely monitored by our well staffed Credit Control and Risk Monitoring departments. Responding to the recent spike in market volatility we have imposed pre-emptively and across the group, trading restrictions on leveraged ETFs as example of the robust credit policies in place.

Our Group's past track record of near zero losses is testament to our strong risk management controls.

SIAS question 2

During the financial year, the group acquired \$2.277 million in intangible assets (page 47 – Consolidated statement of cash flow). This relates to acquired customer portfolio database which will be amortised on a straight-line basis over the estimated useful lives of 2 years (page 62 – Significant accounting policies: Intangible assets).

(i) Can management clarify if this relates to the acquisition of DBS Vickers' remisier business?

Company's reply

We have to abide by certain non disclosure undertakings pertaining to the acquired customer portfolio.

We have incurred certain cost in the process of the acquisition and management had considered it to be prudent to amortise such expenses over a period of 2 years from the acquisition.

SIAS question 3

On 15 April 2020, the company announced that its subsidiary, UOB Kay Hian Private Limited ("UOBKH"), was granted waivers by the SGX-ST from compliance with Catalist Rule 204(7)(b) which requires UOBKH to have at least two registered professionals with a minimum of 5 years' experience each in corporate finance advisory work or related advisory work; and one of these registered professionals to have advised on at least 3 listings in the 5 years prior to the application.

UOBKH was appointed a Full Sponsor on Catalist with effect from 7 April 2014. As a Full Sponsor, UOBKH will be authorised to sponsor IPOs on Catalist and oversee the company's compliance with SGX listing rules.

UOBKH is the sponsor for 11 companies that are listed on Catalist. The largest sponsor on Catalist has a portfolio of over 50 sponsored companies.

(i) How does UOBKH differentiate itself from other sponsors? There are 16 active full sponsors and 4 continuing sponsors authorised by SGX-ST.

Company's reply

UOBKH is in a unique position where we provide distribution and underwriting services to other independent sponsors who lack such capabilities. SGX is also a unique exchange where quite a number of overseas businesses often seek to IPO on SGX making the addressable market quite varied and rather large.

As Singapore largest local broker with a long track record of sponsoring IPOs, we believe a prospective IPO issuer would naturally consider UOBKH as a possible sponsor when it comes to a listing on the SGX.

Whilst there may be 16 sponsors and 4 continuing sponsors approved by the SGX, not all are active when it comes to managing IPOs.

It is really down to a few players to choose from and for the reason above, UOBKH is a strong candidate for the sponsor's mandate given our strong execution track record in providing an end to end IPO solution.

(ii) What is the strategic value of the sponsor business? Is the group committed to scaling up and growing the business in a profitable and sustainable manner?

Company's reply

Across the region from Hong Kong to Indonesia we operate a high value add and profitable Investment Banking (IB)/Sponsor business.

It has become an extremely important business unit within our Group, serving buy side institutional, family offices, high net worth and retail clients on the one hand and corporate issuers.

A bespoke IB business is run very differently from the traditional retail and institutional sales business hence the manner in which we add scale in a sustainable way is most important.

We attach much value to our IB business as an important piece of our overall business offering to our wide spectrum of clients.

By Order of the Board

Esmond Choo Liong Gee
Senior Executive Director

24 April 2020