Issuer: SP Corporation Limited
Security: SP Corporation Limited

Meeting details:
Date: 6 April 2017
Time: 11:00H
Venue: MND Function Room, Annexe A, 9 Maxwell Road, MND Complex, Singapore 069112

Company Description

SP Corporation Limited, an investment holding company, engages in the tyre distribution and commodities trading activities. It trades and markets various products, including coal, rubber, and metals, as well as other commodities and products that are used by manufacturers in the energy, tyre, metal, and automotive industries. The company also markets and distributes consumer products, such as feminine napkins, baby diapers, diaper pants, baby wet wipes, and adult diapers; and provides in-house packaging for supermarkets and airlines. In addition, it markets and distributes tires, as well as engages in retreading of tires. Further, the company operates as an engineering contractor. It operates in Singapore, China, Hong Kong, Indonesia, Malaysia, Germany, other ASEAN countries, Brunei, and internationally. The company was incorporated in 1952 and is headquartered in Singapore. SP Corporation Limited is a subsidiary of Tuan Sing Holdings Limited.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=AWE)

Q1. The Tyre Distribution Unit reported a segmental loss before tax of $(0.9) million in 2016 (Note 4 – Segment information – page 65 of the annual report). The segment results were $(0.9) million in 2015, $(0.1) million in 2014 and $0.2 million in 2013. In the CEO's Operations review (page 3), it was said that the "tyre distribution business is expected to remain challenging in view of intense price competition".

a) **Other than the intense price competition, can shareholders get a better understanding of the challenges in the various markets?**

b) **What is the value proposition of the group's tyre distribution business?**

c) **What are the pro-active measures taken to try to turn the business around?**

Q2. The Commodities Trading Unit achieved revenue of $109 million and reported a segment result of $0.87 million. The segment gross margin has decreased steadily from 1.9% in 2011, to 1.7% in 2012, to 1.6% in 2013, to 1.4% in 2014, to 1.2% in 2015 and to 0.8% in 2016. Total revenue has also dropped from $129 million in 2011 to $109 million in 2016.

a) **What is management's targeted profitability of the commodities trading unit?**

b) **How can the group address the issues of falling revenue and falling margin?**

In 2016, profit before tax for the commodities trading segment was boosted by interest income of $1.8 million. In 2015, $0.95 million of the $1.9 million in segmental profit before tax was attributed to interest income as well. As disclosed in Note 19 (page 74 – Interest income), $1.5 million of the $1.8 million in interest income was derived from related parties in 2016.

c) **Can the board help shareholders understand the nature of the loan to the related parties and how the interest income was derived?**

Q3. The group achieved a total revenue of $125.6 million in 2016, with cost of sales amounting to $120.6 million (page 46 of the annual report – Consolidated statement of profit of loss and other comprehensive income). The gross margin achieved was just below 4% in 2016.

In note 24 (page 77 – Related party and related company transactions), it was disclosed that:

> *The Group is reliant on two related parties for the supply of 100% (2015: 100%) of its coal within its Commodities Trading segment and another two related parties for the supply of 95% (2015: 96%) of its tyres within its Tyre Distribution segment.*

Total purchases of goods were $46.7 million in 2016, and sale of goods and services were a further $14.2 million. The total value of transactions with related companies and related parties amounted to $75.1 million.

a) **Can shareholders understand if the group has explored other sources of coal and tyres (such as third party supplies who might be able to supply the group more competitively)?**

The Terms of Reference of the Audit and Risk committee("*ARC*") includes *"review and recommend for Board approval Interested Person Transactions, as specified under Chapter 9 of the SGX-ST Listing Manual and/or the procedures set out in the general mandate approved by shareholders."*

As set out in Appendix C of the Letter to shareholders (dated 8 March 2017), a "Review Committee" was formed based on the recommendation of the ARC to review any Interested Person Transactions ("IPTs") equal to or exceeding S$100,000 in value but below S$3 million (the *"Financial Threshold"*). The Review Committee comprises senior executives of the Company namely, the

Managing Director, up to two executive Directors, the head of the relevant business units and the Financial Controller/Chief Financial Officer.

For transactions equal to or exceeding the Financial Threshold, any two members of the ARC will review the transactions to ensure that the transactions are "*made on arm's length basis and on terms and conditions no more favourable than those which would be granted to an unrelated third party in similar circumstances, and which are on the SP Group's normal commercial terms or otherwise in accordance (where applicable) with industry norms and that they are not prejudicial to the interests of the Company and its minority Shareholders*".

b) For the financial year ended 31 December 2016, can the ARC tell shareholders the breakdown (by number and by value) of all the IPTs that were approved by the Review Committee and by the ARC respectively?

c) How does the members of the ARC ensure that they are able to determine that the IPTs are "made on arm's length basis and on terms and conditions no more favourable than those which would be granted to an unrelated third party in similar circumstances, and which are on the SP Group's normal commercial terms or otherwise in accordance (where applicable) with industry norms and that they are not prejudicial to the interests of the Company and its minority Shareholders"?

d) Given that a substantial portion of the group's business involves IPTs, would the ARC reconsider the use of the Review Committee, or to lower the financial threshold?