

**Issuer:** Yongnam Holdings Limited

**Security:** Yongnam Holdings Limited

**Meeting details:**

Date: 26 April 2017

Time: 10:00H

Venue: 51 Tuas South Street 5, Singapore 637644

**Company Description**

Yongnam Holdings Limited, an investment holding company, provides engineering and construction services in Singapore, Hong Kong, Malaysia, India, and internationally. The company's Structural Steelworks division provides engineering coordination, detailing, and fabrication and erection of structural steel services. This division is also involved in the design, fabrication, supply, and erection of steel structural frames for long span aircraft hangars, high rise buildings, and commercial and industrial buildings, as well as for infrastructure related developments. Its Specialist Civil Engineering division offers modular strutting system for load carrying and providing clear spans; laced universal beams of various cross-sections in modular lengths; single and double waler beams in various lengths, intermediate supporting beams, king posts, bracing, and waler support brackets; and a range of strut to waler joints to cover the used angles. The company's Mechanical Engineering division engages in the installation of mechanical equipment and plant; and supply, fabrication, and installation of mechanical components, as well as plant maintenance activities. Yongnam Holdings Limited also acts as an engineering contractor. The company was founded in 1971 and is based in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=AXB](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=AXB))

**Q1.** In the Chief Executive Officer’s Message (page 2 of the annual report), the Chief Executive Officer (CEO) has cautioned that the business environment will continue to be highly challenging as existing projects are completed and that the group’s overheads may not be fully absorbed in the current year.

One indication of the continued headwind in 2017 is that the order book of \$274 million (as at 31 December 2016) is the lowest in the last five years (\$400.6 million in 2012, \$340 million in 2013, \$405 million in 2014 and \$375 million in 2015).

- a) The group is focusing on a rationalisation of the organisation structure and headcount (page 3). **Would the group likely incur additional restructuring costs? When will the rationalisation exercise be completed? What is the affected headcount?**
- b) **Has management carried out a strategic review of the group’s capability and performance following three years of losses that saw the group register accumulated losses of more than \$40 million?**
- c) **How is management actively managing the risk of project cost-overruns?**

**Q2.** On 1 June 2016, the company proposed to undertake a renounceable partially-underwritten rights issue (“Rights Issue”) of up to 161,026,441 new ordinary shares in the capital of the Company at an issue price of S\$0.21 for each Rights Share to raise a maximum estimated net proceeds of \$33.1 million.

In the circular, the company had said that it had intended to use the net proceeds from the Rights Issue for general working capital purposes so as to strengthen the group’s financial position by enlarging the Group’s capital base and enhancing its financial flexibility.

Excluding the undertaking shareholders, valid acceptances were at the 25% level.

The current gearing ratio is 33% (page 92 – Capital management) and the group’s cash and cash equivalents as at 31 December 2016 was \$15.9 million. As at 31 December 2016, the group’s financial liabilities with maturity of less than one year was at \$149.6 million. The group has a current ratio of 1.3 at the end of the financial year.

- a) **Is the board comfortable with the current financial position? Can the board give shareholders their assessment of the group’s financial position?**
- b) **Does the group have any bank covenants in relation to its bank facilities and borrowings?**
- c) **Has the group evaluated what are the other possible avenues to raise capital should the company want to do so?**

**Q3.** The four independent directors, namely Mr. Lim Ghim Siew, Henry, Mr. Goon Kok Loon, Professor Liew Jat Yuen, Richard and Mr. Tan Eng Kiat, Dominic, were appointed to the board on 15 October 2002, 15 July 2003, 23 January 2006 and 3 March 2008 respectively and have served beyond nine years from the date of their first appointment.

Notwithstanding the board’s determination that the directors concerned remained independent of character and judgement, Guideline 2.4 of the Code of Corporate Governance 2012 (Code) issued by the Monetary Authority of Singapore calls for the board to “also take into account the need for progressive refreshing of the Board”.

- a) **To ensure continuity and stability of the board, what are the company’s near-term plans to initiate the progressing refreshing of the board, as required by Guideline 2.4 of the Code?**

**b) What is the search and nomination process for new board directors, especially independent directors?**

On page 20 (Principle 5: Board performance), the nominating committee disclosed that it has “in place a framework for annual Board and Board Committees performance evaluations to assess the effectiveness of the Board and its Board Committees and to facilitate discussion to enable the Board to discharge its duties more effectively”.

**c) Can the NC confirm that the company only has a formal assessment process to evaluate the effectiveness of the board and its board committees but not on the contributions by each director to the effectiveness of the board?**

**d) Would the board and the NC reconsider the company's deviation from the Code which, in Principle 5: Board Performance, specifically requires a formal annual assessment of the contribution by each director to the effectiveness of the Board?**