

Issuer: Singapore Shipping Corporation Limited
Security: Singapore Shipping Corporation Limited

Meeting details:

Date: 28 July 2017

Time: 10.00 a.m.

Venue: Singapore Chinese Cultural Centre, Multi-purpose Hall (Level 7), 1 Straits Boulevard, Singapore 018906

Company Description

Singapore Shipping Corporation Limited, an investment holding company, owns and manages ships in Singapore, Japan, and internationally. The company operates in two segments, Ship Owning, and Agency and Logistics Services. It offers ship management services comprising technical management, procurement, crew procurement and management, and ISO and ISM certification and audits, as well as ship inspection and new construction consultancy services. The company also provides shipping agency and terminal services, including vessel, marketing, and documentation support, as well as vessel handling and stevedoring; and specialized services, such as supervision of loading/discharging operations by port captains, vessel pre-planning for stowage, and coordinating with masters and agents for vessel turn-around and dispatch. In addition, it offers logistics and warehousing services, such as international sea/airfreight forwarding, door-to-door delivery, vessel/aircraft chartering, customs clearance and documentation, certificate of origin arrangement, carnet and cross trade shipment, and project management services. Further, the company is involved in packing and re-packing of spare parts, and container stuffing, as well as distribution, warehousing, and storage operations. Singapore Shipping Corporation Limited was incorporated in 1988 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=S19)

Q1. In May 2015, when Mr Ow Yew Heng was appointed the new Chief Executive Officer, Mr Ow disclosed that the “new management team is strongly committed to our mission to double our current fleet size over the next two to three years and scale greater heights.”

In the 2015/2016 Annual Report, the CEO further explained that the group will only pursue opportunities “with a suitable level of returns on investments” that can meet the investment criteria. In the 2016/2017 Annual Report, the same message was repeated as the CEO stressed that the group is “prudently selective” and any investments must “yield suitable level of returns at minimal risk.”

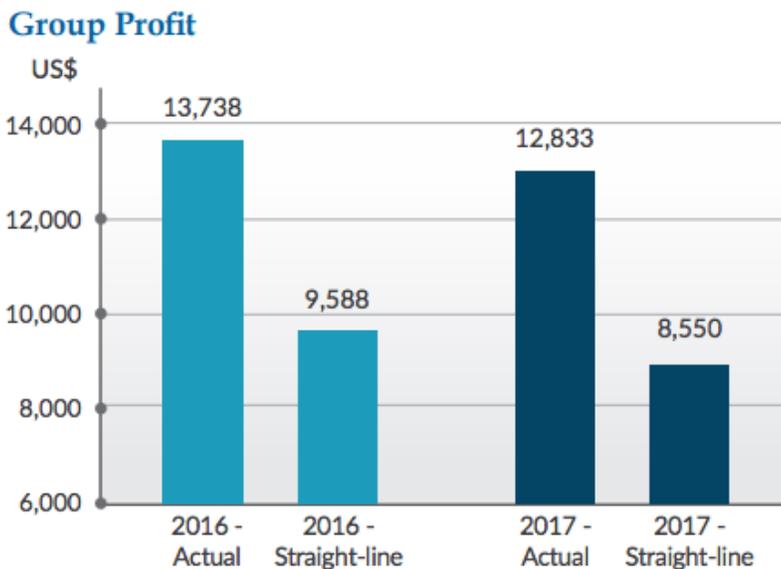
- a) **As providers of capital to the group, shareholders would like to request for a comprehensive overview and update of the latest growth plans of the group so that shareholders are on the same page as management. How viable is the original plan by the CEO to double the fleet given the market condition?**

There was also a mention in the 2015/2016 Annual Report that the group’s focus was to seek out “well-run ship management companies which could value add to the Group’s business”. There was no further update in the commentary in the 2016/2017 Annual Report.

- b) **Shareholders know that plans can change as management respond to market conditions and opportunities. Nevertheless, shareholders would like to understand if management is still actively looking to invest in the agency business?**

Q2. As shown in the diagram below, the group reported a net profit of US\$8.55 million in 2017 after recognising charter hire income on a straight-line basis over the lease term as prescribed by the accounting standards. Once the step-down rates come into effect, the reverse happens – the reported profit (which are recognised on a straight-line basis) will be higher than “actual profit” and the group’s cash flow will be lower than the reported profit.

(Source: Company Annual Report)



As seen in the Consolidated Statement of cash flow (page 56), the deferred income was US\$4.15 million in 2016 and US\$4.283 million in 2017. When the step-down in charter rate happens, the group’s cash flow could drop by more than US\$8 million (estimated based on these data points available).

With the cash-flow from the newly acquired vessels loaded upfront, it is important that the group manages its cash-flow prudently.

- a) Does management consider the early full repayment of bank loan amounting to US\$7.6 million, 2 years ahead of its repayment due date, to be the group’s best use of cash flow at this point?
- b) What is the minimum investment hurdle (in terms of internal rate of return, pay-back period etc) for the group?

Q3. In the Corporate Governance Report, under the section titled “Interested Person Transactions” (page 38), the group had disclosed that there were Interested Person Transactions whose aggregate value exceeded \$100,000 in the financial year. The disclosure in the annual report is reproduced below.

INTERESTED PERSON TRANSACTIONS (“IPTS”)

The Company has established procedures to ensure that IPTs are undertaken on an arm's length basis, on normal commercial terms consistent with the Group's usual business practices and policies and on terms which are generally no more favourable to those extended to unrelated third parties.

The Company maintains a register of all IPTs and details of significant IPTs in FY2017 are set out below:

Name of Interested Person	Aggregate value of all IPTs (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all IPTs conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)
Paid to related parties:		
- Rental expense	US\$615,000	–
- Services received	US\$453,000	–

(Source: Company Annual Report)

Listing Rule 907 of the Listing Manual requires the company to disclose the name of the interested person(s) in the IPT table. Based on a check on the last 5 annual reports, the group has made the same omission/partial omission as required by the Listing Rule 907 to provide the names of the Interested Persons in the IPT table in each of the last 5 annual reports.

- a) **Could the company make the necessary disclosures (required under Listing Rule 907) that had been omitted from the annual reports in the last 5 financial years?**
- b) **Can the Audit and Risk Management Committee (ARMC) explain why it had presented the IPTs in such a manner in the 2016/2017 annual report?**

As noted in the Corporate Governance Report (page 32 & 33: Principle 12: Audit and Risk Management Committee), one of the four main responsibilities of the ARMC is to assist the Board in discharging its statutory and other responsibilities relating to interested person transactions. The functions of the ARMC include:

- “Review and approve processes to regulate interested person transactions to ensure compliance with the requirements of the Listing Manual.” (page 33)
- c) **Would the ARMC confirm that it is familiar with the requirements in the Listing Manual to ensure compliance to the Listing Manual with regard to Interested Person Transactions?**