

Issuer: Tiong Woon Corporation Holding Ltd

Security: Tiong Woon Corporation Holding Ltd

Meeting details:

Date: 25 October 2017

Time: 9.00 a.m.

Venue: No. 15, Pandan Crescent, Level M1, Singapore 128470

Company Description

Tiong Woon Corporation Holding Ltd, an investment holding company, provides integrated services for the oil and gas, petrochemical, infrastructure, and construction sectors. The company operates through four segments: Heavy Lift and Haulage, Marine Transportation, Engineering Services, and Trading. It offers heavy lift and haulage, marine transportation, and inland transportation services; equipment installation services for trays and structures; project engineering services for heavy lifting and haulage requirements; maintenance and repair services; and wall tie installation, foundation anchor, and jacking up services. The company also leases prime movers, low beds, self-propelled modular trailers, tow trucks, and trailers; supplies various models of tower cranes for sale and rent; and refurbishes, delivers, maintains, jack downs, dismantles, and erects tower cranes. In addition, it provides tug and barge services for sea transportation projects; and trades in crawler, mobile, and tower cranes. Further, the company sells and hires cranes and transport; manages marine and industrial plant projects; sells, services, and leases equipment for the petroleum, construction, shipbuilding, and related industries; and repairs and up-slips/launches of ships. Additionally, it is involved in the provision of process and industrial plant engineering works for the marine, and oil and gas industries; mechanical infrastructure engineering, freight forwarding, and logistics related services; and structural works, as well as in renovation, dredging, and marine related and construction activities. As of June 30, 2016, the company had a fleet of 495 cranes and 291 haulage assets; and 6 tugboats and 11 barges. It operates in Singapore, the Middle East, India, Malaysia, Thailand, Indonesia, and China, as well as in Myanmar, Philippines, Sri Lanka, Vietnam, and Laos. Tiong Woon Corporation Holding Ltd was founded in 1978 and is headquartered in Singapore.

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

Q1. The group's main segment, the Heavy Lift and Haulage segment, saw its revenue drop from \$139.4 million in FY2016 to \$114.8 million in FY2017. Based on the disclosure in Note 35 (page 99 - Segment information), the Heavy Lift and Haulage segment result is \$2.5 million in FY2017, down from \$10.3 million in FY2016 and \$11.8 million in FY2015.

The company has disclosed the utilisation rate, as follows:

- Annual Report 2016: The average utilisation rate for the heavy lift and haulage assets maintained at 65% as compared to 67% in FY2015.
 - Annual Report 2017: The average utilisation rate for its heavy lift assets was 54% in FY2017.
- a) **Can management clarify if the utilisation rate of 54% disclosed in Annual Report 2017 represents the utilisation rate of just the heavy lift assets (without considering the haulage assets)?**
 - b) **For better clarity of the segment performance, can management disclose the utilisation rate of the heavy lift assets and the utilisation rate of the haulage assets separately?**
 - c) **With a utilisation rate of 54%, the segment profit has dropped to \$2.5 million in FY2017. What are management's plans to increase the utilisation rate of the group's assets?**
 - d) **How does the group differentiate itself from other service providers?**

In addition, as disclosed in the Business Review (page 8 of the annual report), the group's engineering services segment "provides marine services, including dredging, rock and shore protection, berth and jetty construction, reclamation, revetment and pipe laying; as well as project services such as engineering design and specifications for haulage, lifting, erection and installation of structures, machinery and equipment".

Revenue from the Engineering Services segment was \$10.3 million in FY2017, \$11.0 million in FY2016 and \$3.0 million in FY2015. Segment results over the same period were \$(6.6) million, \$(10.1) million and \$(1.4) million respectively.

- e) **Can management help shareholders understand the specific challenges in the Engineering Services that caused the group to suffer losses of \$(18.1) million over a 3-year period when the revenue was just \$24.3 million?**
- f) **What are the management's plans to improve the performance of the Engineering Services segment?**
- g) **Were there unforeseeable cost overrun?**
- h) **Has the group been too aggressive in pricing for its services?**

Q2. The impairment assessment of property, plant and equipment (PPE) is one of the two key audit matters in the Independent Auditor's Report (page 47). As at 30 June 2017, the group has PPE amounting to \$380.2 million, which accounts for 85.7% of the group's total assets.

As disclosed in the Independent Auditor's Report, the approach to assessing impairment for these PPE included the following:

- Examined the utilisation reports for these assets, to identify assets with low utilisation rates;
- Obtained external valuation reports for such identified assets;
- Evaluated the competence, capabilities and objectivity of the independent valuer engaged by management and assessed the reasonableness of the methodology adopted; and

- Compared the carrying amount of the assets against the recoverable amount.
- a) Can management and the audit committee disclose how many such assets with low utilisation rates were identified?
- b) Can management and the audit committee explain how the pricing level of the group's services (which utilises the PPE to generate income) is factored into the impairment assessment of the PPE?

Q3. As disclosed in the Corporate Governance Report (page 34), the remuneration of directors for the financial year ended 30 June 2017 is as follows:

Name of Directors	Remuneration Band	Salary	Bonus	Benefits in Kind	Directors' Fees	Total
		%	%	%	%	%
Executive Directors						
Ang Kah Hong	\$250,000 to below \$500,000	88	8	4	–	100
Tan Swee Khim	\$250,000 to below \$500,000	63	5	32	–	100
Ang Kha King	Below \$250,000	74	6	20	–	100
Ang Guan Hwa	Below \$250,000	93	7	–	–	100
Independent Directors						
Wong King Kheng	Below \$250,000	–	–	–	100	100
Luk Ka Lai Carrie (Carrie Cheong)	Below \$250,000	–	–	–	100	100

(Source: Company annual report)

- a) Can the company help shareholders understand why certain executive directors received a large part of their remuneration as "Benefits in Kind"?

In Note 33 (page 98), it was also disclosed that:

Included in the above is total compensation paid to the directors of the Company of \$1,218,000 (2016: \$1,159,000), of which compensation to the executive directors amounted to \$1,123,000 (2016: \$1,064,000).

- b) Can shareholders understand the reason for the 5.5% increase in the compensation of executive directors in FY2017?
- c) Were there performance targets that were met that triggered higher performance-based incentive/bonus?

On page 26, in the Corporate Governance Report, the company has highlights that it "recognises the importance of sound corporate governance in protecting the interests of its shareholders as well as strengthening investors' confidence in its management and financial reporting". It has also stated that the group is committed to "maintaining a high standard of corporate governance, to enhance corporate accountability and transparency".

Guideline 2.2 of the 2012 Code of Corporate Governance (CG Code) states that:

2.2 The independent directors should make up at least half of the Board where:

- (a) the Chairman of the Board (the "Chairman") and the chief executive officer (or equivalent) (the "CEO") is the same person;*
- (b) the Chairman and the CEO are immediate family members;*
- (c) the Chairman is part of the management team; or*

(d) the Chairman is not an independent director.

With the Code in place since 2012, the company has yet to meet the requirements of Guideline 2.2. The reason given is that “a longer transition period has been provided for board composition changes”.

d) To show real commitment to “maintaining a high standard of corporate governance”, would the company refresh its board at the soonest to comply with the requirement for independent directors to make up at least half of the Board?

A copy of the questions for the Annual Report for the financial year ended 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Tiong%20Woon%20Corporation%20Holding%20Ltd>

The company’s response could be found here: -----