

Issuer: Qian Hu Corporation Limited

Security: Qian Hu Corporation Limited

Meeting details:

Date: 28 March 2018

Time: 11.00 a.m.

Venue: No. 71 Jalan Lekar, Singapore 698950

Company Description

Qian Hu Corporation Limited, together with its subsidiaries, operates as an integrated ornamental fish service provider primarily in Singapore, Asia, Europe, and internationally. It operates through Fish, Accessories, and Plastics segments. The Fish segment engages in fish farming, breeding, distribution, and trading of ornamental fishes. This segment exports approximately 1,000 species and varieties of ornamental fishes to approximately 80 cities and countries; and distributes to local retailers and exporters under the Qian Hu brand. The Accessories segment manufactures and distributes aquarium and pet accessories. This segment distributes approximately 3,000 types of aquarium and pet accessories to manufacturers and retailers, as well as exports to approximately 40 countries under the Ocean Free, OF, Classica, Aqua Zonic, Delikate, BARK, and Aristo-cats YI HU brands. It also operates approximately 10 retail chain stores under the name Qian Hu -- The Pet Family in China, Malaysia, and Thailand. The Plastics segment manufactures and supplies plastic bags to the ornamental fish, food, and electronics industries. The company also farms fingerlings of grouper variants, including humpback groupers, coral trout, and hybrid giant groupers, as well as breeds and farms prawns. Qian Hu Corporation Limited was incorporated in 1998 and is based in Singapore.

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

1. As noted in the Letter from the Chairman (page 8 of the annual report), the group’s progress in the aquaculture business picked up significantly in 2017. It was also mentioned that the group aims to “build out this [aquaculture] business to be many times bigger than our existing businesses”.

- (i) **How is the group going to fund this new expansion into the aquaculture business?** For instance, the group has already invested substantial capital into fixed assets by setting up two new farms of 4,000 m² each in China, and these investments have relatively long gestation periods.
- (ii) **As the group extends its value chain to include larval, nursery and grow-out culture, would it significantly alter the risk profile of the group?**
- (iii) **What are the projected returns from these new aquaculture businesses?**
- (iv) **As seen in the table below, the group’s return on shareholders’ funds and return on total assets have ranged from 0% to 0.8% and 0% to 0.5% respectively in the last five years (page 28). Specifically for the new aquaculture ventures, how does management intend to create and capture value for all shareholders?**

	2017	2016	2015	2014	2013
For the year (\$'000)					
Revenue	87,824	80,470	77,970	83,526	83,462
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	3,092	2,208	2,508	2,922	3,431
Loss on disposal of an associate	(46)	-	-	(134)	-
Profit (Loss) before tax	761	(10)	549	1,098	954
Net Profit attributable to owners of the Company	329	68	19	392	302
Operating Cashflow	6,725	3,076	1,538	3,948	3,675
Capital Expenditure	2,575	2,296	1,867	2,061	1,969
At year end (\$'000)					
Total Assets	81,634	77,663	75,817	76,688	75,887
Total Liabilities	29,999	27,169	25,509	25,635	24,892
Shareholders' Funds	48,918	48,545	48,673	49,548	49,509
Net Current Assets	18,973	22,194	33,786	33,390	32,358
Cash and Cash Equivalents	11,124	8,723	7,772	8,557	6,712
Key financial ratios					
Revenue growth (%)	9.1%	3.2%	(6.7%)	0.1%	(1.2%)
Net Profit growth (%)	383.8%	257.9%	(95.2%)	29.8%	103.3%
Net Profit margin (%)	0.6%	0.4%	0.3%	1.0%	0.7%
Debt-to-equity ratio (times)	0.58	0.54	0.51	0.50	0.49
Return on Shareholders' Funds (%)	0.7%	0.1%	0.0%	0.8%	0.6%
Return on Total Assets (%)	0.4%	0.1%	0.0%	0.5%	0.4%

(Source: Company annual report)

(v) **Has management considered adopting an asset-light strategy where the group manages farms for third parties instead of setting up farms?**

2. Could management and/or the board provide better clarity on the following matters that relate to the group’s financial position:

(i) **Acquisition of trademarks and formulation rights:** As shown in Note 7 (page 172 – Intangible assets), there were additions to trademarks and formulation

rights of \$500,000 in FY2016 and \$2,500,000 in FY2017. **Can management identify the trademarks and the formulation rights that were acquired and provide a breakdown of the individual value? Please also help shareholders understand if these are regarded as intangibles with indefinite lives or as intangibles with definite lives.**

- (ii) **Valuation of brooder stocks:** The group has \$9.4 million of brooder stock. Brooder stocks are parent stocks of dragon fish, held for the breeding of dragon fish. This accounts for 11.5% of the group’s total assets. The valuation of brooder stock is a key audit matter in the Independent Auditors’ Report (page 135). Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period. As disclosed in Note 3 (page 155 – Brooder stocks), the brooder stocks are depreciated on a straight line basis over their estimated useful lives of 50 years. **Can the company tell shareholders the age of the oldest productive brooder stock? How did the company estimate the average lifespan of a dragon fish in**

captivity? Can the audit committee help shareholders understand why they have used a useful life of 50 years for its brooder stocks?

- (iii) **Investment property:** In FY2016, the investment property with cost of \$1.6 million was transferred as a partial settlement of outstanding debts due from a debtor. In FY2017, this investment property generated no rental income. Presumably, the investment property has been vacant. **Can management clarify if the property was valued independently before it was transferred to the company from the purchasers of Kim Kang Aquaculture Sdn Bhd? What are management's plans for the investment property? Can the directors elaborate in greater detail how they have estimated the value of the investment property? Would it be prudent for the audit committee to obtain an independent valuation of the investment property? If not, can the audit committee help shareholders understand its collective experience/expertise in valuing industrial/agriculture land in Malaysia?**

3. Guideline 8.1 of the 2012 Singapore Code of Corporate Governance states that:

A significant and appropriate proportion of executive directors and key management personnel's remuneration should be structured so as to link rewards to corporate and individual performance. Such performance-related remuneration should be aligned with the interests of shareholders and promote the long-term success of the company. It should take account of the risk policies of the company, be symmetric with risk outcomes and be sensitive to the time horizon of risks. There should be appropriate and meaningful measures for the purpose of assessing executive directors and key management personnel's performance.

The total remuneration of the executive directors, key management and certain members of the company are shown in the table below. The figures in parenthesis show the bonus received by the director/employee.

Director/ Employee	FY2013 \$	FY2014 \$	FY2015 \$	FY2016 \$	FY2017 \$	Total since FY2013 \$
Kenny Yap Kim Lee	303,600	303,600	303,850	306,240	306,240	1,523,530
Alvin Yap Ah Seng	273,600	273,600	273,750	276,240	276,240	1,373,430
Andy Yap Ah Siong	273,600	273,600	274,200	276,240	276,240	1,373,880
Lai Chin Yee	298,140 (36,540)	267,600 (36,250)	274,150	276,240	276,240	1,392,370 (72,790)
Jimmy Tan Boon Kim	261,000 (21,000)	267,000 (21,000)	258,000	258,000	256,764	1,300,764
Yap Kim Choon	188,400	188,400	188,400	189,360	189,360	943,920
Lee Kim Hwat	168,256 (17,956)	164,348 (18,048)	167,138 (11,990)	170,608 (13,080)	182,572 (14,044)	852,922 (75,118)
Low Eng Hua	148,560 (6,960)	148,620 (7,020)	141,800	144,240	157,110 (12,870)	740,330 (26,850)
Yap Kok Cheng	-	-	-	126,240	137,355 (11,115)	263,595 (11,115)
Yap Ping Heng	101,700	102,300	102,540	103,920	102,480	512,940
Yap Hock Huat	101,700	102,300	103,200	101,730	102,480	511,410
Yap Kim Chuan	104,000	104,400	105,600	108,240	105,840	528,080

(Source: Company annual reports)

Five-Year Financial Highlights

	2017	2016	2015	2014	2013
For the year (\$'000)					
Revenue	87,824	80,470	77,970	83,526	83,462
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	3,092	2,208	2,508	2,922	3,431
Loss on disposal of an associate	(46)	-	-	(134)	-
Profit (Loss) before tax	761	(10)	549	1,098	954
Net Profit attributable to owners of the Company	329	68	19	392	302
Operating Cashflow	6,725	3,076	1,538	3,948	3,675
Capital Expenditure	2,575	2,296	1,867	2,061	1,969

Over the same period, the market capitalisation of the company has decreased from \$39.05 million as at the end of FY2013 to \$25.0 million as at the end of FY2017.



LIKE US ON FACEBOOK!

(Source: Company annual report)

The Net Profit attributable to owners of the Company were \$302,000 in FY2013, \$392,000 in FY2014, \$19,000 in FY2015, \$68,000 in FY2016 and \$329,000 in FY2017. The cumulative Net Profit attributable to owners of the Company since FY2013 is \$1.11 million.

- (i) **Would the remuneration committee (RC) help shareholders better understand how Guideline 8.1 has been met?**
Guideline 8.1 calls for the structuring of a significant and appropriate proportion of the remuneration of executive directors and key management to commensurate with corporate and individual performances. The cumulative net profit attributable to owners of the company since FY2013 is \$1.11 million while each of the executive director has received total compensation exceeding that amount over the same period (compensation comprises salary only, with no bonus earned except for Ms. Lai who received 5% as bonus over the last 5 years).
- (ii) **Can the RC explain and quantify how it has evaluated the performance of the executive directors and the performance of the group and also explain how the remuneration commensurate with their performance and that of the company?**
- (iii) **Would the RC consider how it could finetune the compensation structure of the group to ensure better alignment with the minority shareholders?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Qian%20Hu%20Coroporation%20Ltd>

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