

Issuer: SP Corporation Limited

Security: SP Corporation Limited

Meeting details:

Date: 17 April 2018

Time: 11.30 a.m.

Venue: MND Function Room, Annexe A, 9 Maxwell Road, MND Complex, Singapore 069112

Company Description

SP Corporation Limited engages in the commodities trading business. It trades in 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. SP Corporation Limited has operations in Singapore, China, Hong Kong, Indonesia, Malaysia, 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)

1. With the disposal of the tyre distribution business, the group’s remaining core business of commodities trading will determine the performance of the group. While the revenue from the commodities trading segment has increased by 11% to \$121 million, profit before tax dropped by 57% to just \$1.06 million, of which interest income contributed \$1.11 million to the profit before tax. This would suggest that the core business of commodities trading was slightly negative.

- (i) **Can management elaborate further on the cost management and productivity improvement efforts to improve profitability of the group?**
- (ii) **Please help shareholders understand the value-add of the group in the commodities trading business. How does the group differentiate itself from other commodities traders? What competitive advantage does the group have?**

SHAREHOLDERS’ RETURNS AND FINANCIAL RATIOS

	2017	2016	2015	2014	2013
Earnings per share (cents)*	1.27	5.13	4.18	6.07	6.85
Net assets per share (dollar)*	1.45	1.51	1.43	1.36	1.27
Return on shareholders’ funds (%)	0.9%	3.5%	3.0%	4.6%	5.6%
Return on total assets (%)	0.6%	2.3%	2.0%	3.0%	3.4%

(Source: Company annual report)

- (iii) The table above is extracted from the company’s annual report (page 17) showing the shareholders’ returns and financial ratios since FY2013. The return on total assets has not exceeded 3.5% and the return on shareholders’ funds has been lower than 5.6% since FY2013. There is a clear downward trend in terms of earnings, return on shareholders’ funds and return on total assets. **Can the board tell shareholders what are the performance targets it has set for management? Has management met the KPIs set by the board?**
- (iv) **Should the board carry out a strategic review and evaluate the long term viability of the commodities trading business and reassess the strength of the management team before the group makes any new investments?**

In addition, in Note 25 (page 88 - Related Party and Related Company Transactions), it was disclosed that “[t]he Group supplies 100% (2016: 100%) of its rubber products within its Commodities Trading segment to two customers who are related parties, but were previously classified as third party customers”. **Can the audit committee clarify if the two customers were wrongly classified as third party customers or was this change due to other external circumstances? If the former, can management and the audit committee help shareholders understand if there is a need to review past transactions to identify other such cases? What are the changes to the processes, systems and internal controls to prevent such oversight from happening again?**

2. On page 28, the company has disclosed the nominating committee (NC) “undertakes a process to assess the effectiveness of the Board and its Board Committees”. The NC’s discussion of Guideline 5.2 (Board performance criteria) is reproduced below:

Guideline 5.2

Board Performance Criteria

Each financial year, the NC undertakes a process to assess the effectiveness of the Board and its Board Committees.

The NC has established objective criteria to evaluate the Board’s performance which includes benchmarking of the Company’s share price performance over a five-year period vis-à-vis the relevant indices and industry peers. Other performance criteria employed to assess the Board’s performance are financial indicators such as Return on Assets and Return on Equity of the Group over a five-year period. More relevant and meaningful criteria would also be used when applicable.

For FY2017, the NC duly observed the aforesaid process and criteria and was satisfied with the results of the review.

(Source: Company annual report)

- (i) **Would the NC elaborate further on the assessment of the board’s performance?** It would help shareholders understand the process better if the NC could quantify and disclose some of these objective criteria that led it to be satisfied with the results.
- (ii) **What are the relevant indices and who are the industry peers used in the evaluation?**
- (iii) Some of the financial indicators, such as return on assets, were shown in Q1 above. The NC had disclosed that it had used the financial indicators to assess the board’s performance. **Did the NC set certain minimum targets? What would constitute “good performance” and what would constitute “satisfactory”, or even “unsatisfactory” performance?**

3. The profile of Mr. Peter Sung as shown in the Director’s Profile (page 4) is reproduced below:

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DIRECTORS' PROFILE



PETER SUNG
CHAIRMAN
INDEPENDENT & NON-EXECUTIVE DIRECTOR

Bachelor of Arts degree with a First Class Honours in Economics, University of Singapore

Date of appointment as Director: 28 January 2002
Date of last re-election as Director: 6 April 2017

BOARD COMMITTEE
Remuneration Committee (Member)

PRESENT DIRECTORSHIP IN OTHER LISTED COMPANIES
Nil

PRESENT PRINCIPAL COMMITMENTS (OTHER THAN DIRECTORSHIPS IN OTHER LISTED COMPANIES)
Calbert Pte. Ltd. (Chairman)

PAST DIRECTORSHIP IN OTHER LISTED COMPANIES HELD OVER THE PRECEDING THREE YEARS
Nil

BACKGROUND AND WORKING EXPERIENCE

- School teacher.
- Worked with Shell, Sime Darby and the Pilecon groups of companies in Singapore and Malaysia in the corporate planning, marketing, sales and personnel functions.
- Singapore’s ambassador to the Philippines.
- Served as Minister of State in Singapore with attachments to the Ministries of Foreign Affairs, Home Affairs and National Development.
- Served as Member of the Singapore Parliament.

RELATIONSHIP WITH OTHER DIRECTORS, THE COMPANY OR ITS 10% SHAREHOLDERS
Nil

(Source: Company annual report)

Guideline 2.3 states that an "independent" director is one who has no relationship with the company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the company.

In the Corporate Governance Report (page 22), the company had disclosed that “Mr Peter Sung is currently an adviser of Nuri Holdings (S) Pte Ltd (“Nuri”), the deemed substantial shareholder of the Company and he is paid advisory fees the amount of which is not significant (i.e. not exceeding \$200,000 per annum).”

- (i) **Would the board reconsider how this information regarding the relationship of Mr Peter Sung with the substantial shareholder is presented to shareholders in the directors’ profile? Would it be factually more accurate to state that there is a relationship (instead of “Nil”) regardless of the assessment of the nominating committee (NC) on how it might or might not interfere with the exercise of his independent business judgement?**

The company had also disclosed that in November 2017, Mr Peter Sung had declared and deemed himself an independent director of the company. The NC had reviewed the declaration of Mr Sung and recommended that the board gives its approval for Mr Sung to be re-designated a Non-Executive and Independent Director of the company. The board, having considered the recommendation of the NC, approved the re-designation of Mr Sung as an independent director with effect from 4 December 2017.

- (ii) **Would the NC elaborate on the reasons that Mr Sung was deemed non-independent prior to his declaration of independence in November 2017? What are the changes in the circumstances that led Mr Sung to declare his independence?**
- (iii) **Did the company announce that Mr Sung was re-designated as an independent director following the board’s decision in December 2017?**
- (iv) **For better transparency of remuneration matters, as Mr Sung is an adviser to Nuri and is paid advisory fees by Nuri, would the board disclose if the advisory fees paid by Nuri to Mr Sung is more or less than his fees as a director of the company?**
- (v) **As an adviser to Nuri, and now as the “independent chairman” of the company, what is the board’s assessment of the risks of self-review and self-interest?**

Guideline 2.4 of the CG Code further recommends that “the independence of any director who has served on the Board beyond nine years from the date of his first appointment should be subject to particularly rigorous review”.

The company has disclosed that Messrs Cheng Hong Kok and Tan Lye Huat were rigorously reviewed of their independence as they had served on the board beyond nine years from the date of their first appointment.

- (vi) **Accordingly, Mr Sung would have served beyond nine years from the date of his first appointment and should be subject to particularly rigorous review. Would the NC agree that Guideline 2.4 of the Code states that the independence of any director who has served on the board beyond nine years should be subject to particularly rigorous review? If so, would the NC agree that Mr Sung would be subject to particularly rigorous review of his independence?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

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

The company’s response could be found here: (Questions were addressed at the AGM)