Issuer: Huationg Global Limited
Security: Huationg Global Limited

Meeting details:
Date: 25 April 2018
Time: 2.00 p.m.
Venue: Bridge Room, Raffles Marina (Country Club), 10 Tuas West Drive, Singapore 638404

Company Description

Huationg Global Limited, an investment holding company, provides civil engineering services for infrastructure projects primarily in Singapore. It operates in three segments: Civil Engineering Services, Inland Logistics Support, and Sales of Construction Materials. The Civil Engineering Services segment offers earthworks, infrastructure works, external works, demolition and excavation works, drainage works and road diversion, site clearance, reinforcing bar installation, formwork, concrete installation, backfill and compaction, and final handover, as well as stockpile management services. The Inland Logistics Support segment rents construction equipment, including articulated dump trucks, rollers, bulldozers, wheel loaders, telescopic clamshell, breakers, tipper trucks, compactors, excavators, and concrete pumps. The Sales of Construction Materials segment recycles construction waste and aggregates; offers recycled concrete aggregates, such as graded stones, 20mm aggregates, and quarry dust; and manufactures and supplies liquefied soil stabilizers, which are used as non-structural fills for buildings and other structures, and for backfill in utility and road construction, as well as supplies other construction related equipment and consumables. The company is also involved in the general contracting business. The company was founded in 1983 and is headquartered in Singapore. Huationg Global Limited is a subsidiary of Dandelion Capital Pte. Ltd.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=41B)

Q1. As noted in the Chairman's Statement, profit attributable to shareholders gained 94% to $7.9 million as revenue increased to $157.2 million on the back of healthy growth in civil engineering services and sale of construction materials segments (page 4).

Going forward, the group is involved in the following projects:

- temporary infrastructure works and services for Changi East Development
- land preparation works for Changi Airport Terminal 5
- earthworks and surcharge works at Tuas Terminal Phase 1
- road widening and construction of road related facilities along Tampines Avenue 9
- earthworks and road works for certain Thomson-East Coast Line Mass Rapid Transit stations
- construction of roads and bus facilities at Buangkok
- infrastructural development works at Bukit Batok.

a) **To help shareholders better understand the group, would management consider disclosing the value of the group's order book on a regular basis?**

b) **What are some of the other major projects (both public and private) that the group will be tendering for in 2018?**

It was also disclosed that the group would continue to invest in technology and innovation to move up the value chain and enhance its position as one of the leading civil engineering service and solutions providers in the infrastructure sector.

c) **Can management help shareholders understand the kind of investment in technology and innovation the group (as a civil engineering service and solutions provider) has undertaken in recent years?**

Q2. Would the board/management provide better clarity on the following operational/financial matters? Specifically:

a) **Inland logistics support:** Revenue dropped to $9.3 million in FY2017 from $16.3 million a year ago. In FY2015 the segment recognised revenue of $28.1 million. **What are the reasons for the steep drop-off in revenue from the segment? What are the utilisation rates of the construction equipment (which includes dump trucks, rollers, bulldozers, tipper trucks, compactors, excavators and concrete pumps)? How is the group going to reverse the slide and improve the topline of the segment?**

b) **Sale of construction material:** Even though segment revenue increased to $20.7 million from $10.1 million a year ago, segment profit dropped from $1.17 million to $0.4 million in FY2017 (page 109). **What led to the significant drop in profit margin despite increasing the volume sold? Would the group enjoy better economies of scale as the volume of construction material sold goes up? What is management's target for the profit margin in the mid-term?**

Q3. The "recoverability of trade receivables (including retention sums)" is a key audit matter highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 50). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As at 31 December 2017, the carrying amount of the Group's trade receivables from third parties and retention sums from construction contracts, net of allowance for impairment loss of $5.2 million, amounted to $54.7 million, comprising approximately 24% of the Group's total assets.

In FY2017, the group recognised an allowance of trade receivables of $1.2 million in the profit or loss.

a) **What is the breakdown of the impairment loss of $1.2 million that the group recognised in the year? Please provide a breakdown showing the number of debtors, amount owed, aging and the financial condition of the debtors.**

b) What are management's efforts to collect the amount impaired?

In addition, the age analysis of trade receivables past due but not impaired is shown in the table below (page 111 – Note 34.1 Credit risks):

The age analysis of trade receivables past due but not impaired is as follows:

	Group	
	2017 $'000	2016 $'000
Past due for 1 to 30 days	5,639	4,393
Past due for 31 to 60 days	1,706	2,832
Past due for 61 to 90 days	1,100	2,322
Past due for more than 90 days	5,520	2,661

(Source: Company annual report)

The amount past due for more than 90 days has doubled to $5.52 million.

c) Are there extenuating circumstances that lead to trade receivables past due for more than 90 days ballooning to over $5.5 million?

d) What guidance has the audit committee (AC) given to management to ensure that the group does not take on excessive credit risk?

e) How robust is the group's credit evaluation process? How does the AC oversee this?