

**Issuer:** AnnAik Limited

**Security:** AnnAik Limited

**Meeting details:**

Date: 30 April 2018

Time: 11.00 a.m.

Venue: 52 Tuas Avenue 9, Singapore 639193

**Company Description**

AnnAik Limited, an investment holding company, manufactures and distributes stainless steel piping products. It operates in four segments: Distribution of Stainless Steel Piping Products; Manufacturing of Steel Flanges; Engineering Construction of Piping Process System; and Environmental Business. The company offers butt-weld, screwed, and high pressure forged steel fittings; stainless steel forged flanges; welding stainless steel pipes; and ball, flange-end ball, gate, globe, and swing check valves. It also is involved in designing, contracting, and managing engineering projects; the development of environmental technologies, as well as environmental engineering activities; wholesale of metals and metal ores; and provision of import and export agency services. In addition, the company constructs, owns, operates, and manages wastewater treatment plants; constructs and supplies rural wastewater treatment equipment; and provides consulting services in water resource management, including design, fabrication, installation, testing, and commissioning of mechanical system in process plants to governmental and commercial operators. It operates in Singapore, Malaysia, the People's Republic of China, India, Russia, Indonesia, Vietnam, the United States, Australia, the Netherlands, Japan, and Thailand. AnnAik Limited was incorporated in 1977 and is based in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=A52](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=A52))

1. As noted in the Operations Review, the distribution business remained adversely impacted by the depressed steel market and weak oil and gas, shipbuilding and marine sectors in Singapore and the region. In Note 39 (page 117 – Segment information), it was shown that the segment loss was \$(3.4) million, an improvement from the loss of \$(6.3) million.

- (i) How is management going to further cut cost and improve efficiency?
- (ii) Can the company help shareholders understand the value proposition of the group that helps it to stand out from its competitors?
- (iii) As at 31 December 2017, the Group's inventory balance amounted to \$20,273,000, representing 49% of the total current assets of the consolidated balance sheet. During the financial year, the Group has made allowance for slow-moving and obsolete inventories amounting to \$301,000. **Can management help shareholders understand how it had identified slow moving items?**

2. On 29 March 2018, the company announced that the Independent Auditors of the group has issued a qualified opinion in the independent auditors' report in respect of the Group's audited financial statements for the financial year ended 31 December 2017.

The basis for Qualified Opinion is as follows:

*As disclosed in Note 15, the Group lost joint control but maintained significant influence over Shanghai Onway Development Co Ltd, which is accounted for as an associated company as at 31 December 2017. The Group had recognised a gain of \$4,584,000 during the year arising from the dilution of interest and this was computed using the unaudited financial statements of the associated company as at 1 July 2017. The share of profits recognised for the year ended 31 December 2017 based on the unaudited financial statements of the associated company amounted to \$399,000. The carrying value of the associated company as at 31 December 2017 amounts to \$8,878,000.*

The independent auditors have stated that they were:

- unable to determine the appropriateness of the gain on dilution, share of profits recognised for the year and the carrying value of the associated company as at 31 December 2017
- unable to obtain the necessary information and explanations from the auditors of the associated company to determine the appropriateness and reliability of the financial statements used to compute the gain on dilution and the share of the results for the year
- unable to perform alternative procedures to obtain information and explanations we considered necessary

- (i) **Can the audit committee (AC) disclose their collective effort in overseeing the cooperation given by the group's officers (especially by the officers of Shanghai Onway) to the external auditors?**
- (ii) **Can management further justify the basis of its accounting treatment of the former joint-venture, Shanghai Onway, as an associate?**
- (iii) **Was sufficient audit evidence provided to the external auditors to help them in the external audit?**
- (iv) **In the Directors' Statement, the directors have declared that, in their opinion:**

*“the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date”*

**Given that the independent auditors have issued a qualified opinion on the treatment on the Shanghai Onway Development Co Ltd, can the directors further justify the basis for their opinion?**

3. The board comprises 6 directors of whom the chairman is an executive director, 2 are executive directors and 3 are independent directors (IDs).

Of the 3 IDs, Mr Lee Bon Leong and Mr Ang Mong Seng have served on the board for more than nine years from the date of their first appointments. As the two directors were both first appointed on 31 July 2003, they have each served on the board for 14 years and 9 months.

The nominating committee comprises Mr. Lee Bon Leong (as chairman), Mr. Lim Geok Peng, Mr. Ang Mong Seng and Mr. Ow Chin Seng.

- (i) Given that the two directors (who are subject to particularly rigorous review of their independence) are the chairman and a member of the NC, can the NC state how effective it was in discharging its duties?**
- (ii) Can the NC confirm that no director was involved in the review of his own independence?**

Notwithstanding that the NC and the board are of the view that the two above-mentioned long tenured directors remain independent, Guideline 2.4 of the 2012 Code of Corporate Governance calls for the board to “also take into account the need for progressive refreshing of the Board”.

- (iii) Following the appointment of Mr. Lim Geok Peng on 11 July 2017 as independent director, what are the company’s other near-term plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?**