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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: SIIC Environment Holdings Ltd.

Security: SIIC Environment Holdings Ltd.

Meeting details:

Date: 28 June 2018

Time: 10.00 a.m.

Venue: Pan Pacific Singapore, Ocean 3, Level 2, 7 Raffles Boulevard, Marina Square, Singapore 039595

Company Description

SIIC Environment Holdings Ltd., an investment holding company, engages in water treatment, water supply, solid waste treatment, and other environment-related businesses primarily in the People's Republic of China. It operates through four segments: Construction, Water and Sludge Treatment, Water Supply, and Waste Incineration. The Construction segment is involved in the design, assembly, construction, installation, and commissioning of water supply or waste water treatment systems/plants for industrials and municipals. The Water and Sludge Treatment segment engages in the construction, management, and operation of water and sludge related infrastructure under service concession arrangements; and management and operation of water and sludge related infrastructure under non-service concession arrangements, as well as financial income under service concession arrangements. The Water Supply segment constructs, manages, and operates water supply related infrastructure under service concession arrangements. The Waste Incineration segment constructs, manages, and operates waste incineration related infrastructure under service concession arrangements. The company has a scalable project portfolio of 120 wastewater treatment projects, 6 reclaimed water treatment projects, 19 water supply projects, 2 waste incineration projects, and 9 sludge treatment projects. It also provides management and consultancy, project design and consultancy, and water meters installation services. The company was formerly known as Asia Water Technology Ltd. and changed its name to SIIC Environment Holdings Ltd. in November 2012. The company was incorporated in 2002 and is headquartered in Singapore. SIIC Environment Holdings Ltd. is a subsidiary of S.I. Infrastructure Holdings Limited.

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

1. As noted in the Corporate Profile (page 3 of the annual report), the group has increased its portfolio to 180 water treatment and supply projects and 5 waste incineration projects across 19 municipalities and provinces in China. Based on the company's 2013 annual report, the group's portfolio consisted of just 40 water treatment and supply projects and 3 waste-to-power projects across 14 municipality and provinces.

The group's water treatment capacity has been increased to 11.3 million tons/day, making the group one of the largest and leading providers of wastewater treatment and related services in China (page 7).

- (i) Can management state its growth targets and milestones for the next 3-5 years?**
- (ii) The net debt/equity attributable to owners of the company ranged from 1.3x to 1.5x in the past two years. In 2013, the net debt/equity attributable to owners of the company was 0.22x. **Has the board set a limit to how much leverage could be used to grow the business?**

The group is also said to be exploring new markets such as industrial wastewater treatment, seawater desalination, sludge treatment and handling, soil treatment, renewable energy, water technology and pollution control.

- (iii) Does the group currently possess the technical competence to expand into these new markets? Will the group achieve the growth organically or through acquisitions?**

2. In Note 13 (pages 171 to 174 – Trade and other receivables), it was disclosed that the group has trade receivables amounting to RMB813,968,000 (2016: RMB350,563,000) that are past due at the end of the reporting period but not impaired. For reference, the group has total trade and other receivables of RMB1.8 billion as at 31 December 2017, up from RMB1.6 billion a year ago.

It was disclosed that trade receivables are non-interest bearing with credit periods generally ranging from 0 to 180 days. The group reported trade receivables that are outstanding for over 365 days amounted to RMB405.5 million (page 171) while recognising just RMB281.7 million as trade receivables past due by over 365 days but not impaired.

- (i) Can management clarify if certain customers are given credit periods of more than 180 days, and in some cases, exceeding a year? Would management elaborate further on the credit periods that are longer than 180 days?**

From Note 13(iv) (page 172), the aging analysis of trade receivables that are past due but not impaired is shown:

		Group 本集團	
		2017 2017年 RMB'000 人民幣千元	2016 2016年 RMB'000 人民幣千元
Within 30 days	30日內	210,362	23,849
Within 31 to 60 days	31至60日內	24,123	27,041
Within 61 to 90 days	61至90日內	55,127	31,498
Within 91 to 180 days	91至180日內	102,504	65,011
Within 181 to 365 days	181至365日內	140,129	76,776
Over 365 days	超過365日	281,723	126,388
		813,968	350,563

(Source: Company annual report)

- (i) **Can management help shareholders understand the reasons for the significant increase in trade receivables past due but not impaired?** The amount has more than doubled from RMB350 million to RM814 million as at 31 December 2017.
- (ii) **Specifically, on the amounts past due by more than 181 days (and over 365 days), what is the basis of management's opinion that *"the amounts will be fully recoverable as there has not been a significant change in credit quality of the debtors"*?**
- (iii) **What are management's efforts and plans to collect the long outstanding debts?**
- (iv) **What is the Audit committee's level of oversight on the group's credit risk? Is there a concentration of credit risk?**

3. Guideline 2.2 of the 2012 Code of Corporate Governance states that independent directors should make up at least half of the Board where, inter alia, the chairman of the board is not an independent director.

In the Corporate Governance Report (page 72), it was disclosed that the Non-Executive Chairman, Mr. Zhou Jun, is not considered an Independent Director.

As such, the company should have independent directors make up at least half of the board.

The company has disclosed the following on page 72:

Presently, the Company has three (3) Independent Non-Executive Directors on the Board, which make up at least one-third of the Board. The NC has reviewed the size and composition of the Board. The Non-Executive Chairman, Mr. Zhou Jun is not considered as an Independent Non-Executive Director. The NC is satisfied that after taking into account the scope and nature of operations of the Group in the year under review, the current Board size is appropriate and effective. It is not necessary to have Independent Non-Executive Directors make up at least half of the Board at present. Nonetheless, the Company is constantly on the lookout for suitable candidates to join the Board as Independent Non-Executive Directors as part of its review process.

(Source: Company annual report)

The company has stated that *“[i]t is not necessary to have independent non-executive directors make up at least half of the board at present”*.

- (i) Would the nominating committee (NC) and the board confirm that Guideline 2.2 applies to the company and that the independent directors should make up at least half of the board?**
- (ii) Would the NC and the board like to clarify what it means by *“not necessary to have independent non-executive directors make up at least half of the board at present”*?**
- (iii) Would the NC elaborate further and explain the company’s deviation from the Code, in particular, Guideline 2.2? Would the NC re-consider the deviation and to reconstitute the board such that independent directors make up at least half of the board should the chairman remain non-independent?**