



Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: AP Oil International Limited

Stock code: 5AU

Meeting details:

Date: 29 June 2020

Time: 2.30 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. Would the board/management provide shareholders with better clarity on the following operational matters? Specifically:

- (i) **Manufacturing: Would management help shareholders understand the breakdown of revenue by product and by industry?**
- (ii) **30 Gul Crescent office:** The group has maintained production at 30 Gul Crescent and will be installing new equipment at the site to support new customers. **What is the combined capacity of the group's manufacturing facilities? Will the manufacturing site at 30 Gul Crescent be kept to support the group's growth?**
- (iii) **Franchising:** There was a significant drop in revenue from the franchising segment, from \$9.3 million in 2018 to \$3.9 million in 2019. **What were the reasons for the drop in franchising revenue? How is management building up its franchisee base so that the group receives a steady and growing franchising revenue over time?**

Q2. As noted in the key audit matter, the company has an outstanding investment in Chongqing Zongshen Financial Leasing Company Limited with a carrying value of \$4.91 million as at 31 December 2019.

In 2017, the company had entered into an agreement with certain other parties to establish Chongqing Zongshen Financial Leasing Company Limited in the People's Republic of China for the purpose of undertaking a financial leasing business. Pursuant to this agreement, the company subscribed for 12.5% of the equity interests in the investee for approximately \$5.2 million. As part of this arrangement, the company was also granted an option whereby the company has the right to sell to its equity interests in the investee to the Chinese partner. The exercise price shall be based on the higher of the company's original capital contribution and the agreed market value at the time of exercise.

- (i) **Can management help shareholders understand the progress made by the investee in the leasing business in China?**
- (ii) **What is management's oversight and influence on the investee?**
- (iii) **Were the terms and pricing of the option denominated in RMB?**
- (iv) **What are the long term prospects of the financial leasing business? Are there plans to monetise the investment in the near term? Does management have visibility on the financial position of Chongqing Zongshen Powermachinery Company Limited which granted the group the put option?**

Q3. In the Corporate Governance report, the board stated that it sets high standards of corporate governance and the board and its management are committed to ensure that effective self-regulatory corporate practices exist to protect the interests of its shareholders and maximise long-term shareholder value (page 18).

Provision 2.2 of the Code of Corporate Governance 2018 states that independent directors make up a majority of the board where the chairman is not independent.

Provision 2.3 provides that non-executive directors make up a majority of the board.

The board has stated its opinion that, based on the group's current size and operations, it is **not necessary** [emphasis added] to have independent directors make up a majority of the board.

Pursuant to Rule 710 of the SGX Listing Manual, where there are variations from the Provisions of the CG Code, the issuer must explicitly state the provision from which it has varied, give the reasons for variation, and explain how the practices it had adopted are consistent with the intent of the relevant principle.

The board has just stated that it is "not necessary" due to the group's current size and operations. In addition, the board did not explicitly address the deviation from Provision 2.3.

- (i) **To comply with the Code and Rule 710, would the board further justify and help shareholders understand how the current practices (in relation to Provisions 2.2 and 2.3) are consistent with the intent of Principle 2, which requires the board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.**
- (ii) **Would the board/nominating committee elaborate further on the plans (including the pace) to refresh the membership of the board to comply with the new 2018 Code in good time?** Reconstituting the board early to comply with the new 2018 Code would avoid undue disruption and help to maintain institutional knowledge and continuity in the board.

[^] Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

[^] Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (<https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings>)



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Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

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