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

Issuer: HRnetGroup Limited

Stock code: CHZ

Meeting details:
Date: 6 May 2020
Time: 10.00 a.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.

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Q1. In response to the COVID-19 pandemic, governments all over the world have implemented various measures including social distancing and the closing of work premises to reduce the transmission of the virus. Since the company's full year result that was announced on 27 February 2020, management has not provided shareholders with any updates to its business operations.

(i) **Would the company be providing shareholders with timely updates on the business environment, its operations and an assessment of any material financial impact as required by the Listing rules?**

For the financial year ended 31 December 2019, the group's Flexible Staffing ("FS") business generated $324.1 million in revenue and $48.3 million in segment profit. In the section titled "Key financial highlights" (page 18 of the annual report), it was stated that the FS revenue is generally more resilient than revenue from Professional Recruitment ("PR").

(ii) **Is the FS segment particularly affected by the measures implemented by governments?**

In recent years, the group has benefitted from various schemes such as the Special Employment Credit ("SEC") and the Wage Credit Scheme ("WCS"). The government has announced various support packages, such as the Jobs Support Scheme ("JSS"), to assist workers and companies in this time of economic uncertainty.

(iii) **How is the group helping its clients during this challenging period with respect to the government support schemes?**

Q2. As noted in the "Letter to shareholder" (page 14), the group has made an opportunistic investment in UK AIM-listed Staffline Group plc. As disclosed in Note 9 (page 115 – Other financial assets), the company does not have significant influence over Staffline as it does not have a board representation despite its 29.95% stake.

The company has no access to the detailed financial information of Staffline other than their published financial statements.

There has been no further update on the appointment of Ms Adeline Sim as a non-executive director since Staffline announced their intent to do so on 16 September 2019.

In fact, Staffline appointed Mr Albert Ellis as non-executive director on 17 March 2020. Mr Ellis held the position of Group Chief Executive Officer at Harvey Nash for 14 years. The company also announced the resignation of the non-executive director, Dawn Ward, and the resignation of the non-executive chairman, Tracy Lewis, on 23 April 2020 and 24 April 2020 respectively.

Staffline's CEO has also tendered his resignation on 19 February 2020, amongst other changes in the C-suite of Staffline.

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When the company obtained the 25.02% stake in Staffline in August 2019 for $46.1 million, it recognised Staffline as an associate. It then added a 4.93% stake in September 2019 for $9.4 million. The estimated cost of Staffline is $55.5 million. However, the company has since recognised Staffline as an equity investment designated at fair value through other comprehensive income.

(i) **Can the audit committee help shareholders understand if it is prudent for the company to invest an estimated $55.5 million when it does not appear that the company has access to detailed financial information to carry out due diligence nor had it been able to appoint a non-executive director to the board of Staffline?**

(ii) **How is the board managing the relationship with Staffline so that it does not consider this as a hostile approach?**

(iii) **Is there a timeline for Ms Adeline Sim to be appointed to the board of Staffline?**

(iv) **How much more has the board earmarked to invest/support Staffline?**

The 29.95% stake is carried on the books as "Investments in equity instruments designated at fair value through other comprehensive income (FVTOCI)". Together with the investment in Bamboos, the group has spent $63.4 million and recognised a net fair value loss of $(25.24) million as at 31 December 2019.

The loss of $(25.24) million does not affect the group's P&L which was $55.78 million in 2019.

Staffline closed at 87p on 31 December 2019. At the closing price of 28.89p on 24 April 2020, the group's holding is estimated to be worth $10.50 million, down from $31.79 million as at 31 December 2019 and down $45 million from the estimated cost of investment. Since the end of the financial year, the company could potentially recognise further net fair value loss of $21.3 million due to the decline in the share price of Staffline.

(v) **Given that management should be fully occupied with operational issues in its core markets during this pandemic, does the group have the bandwidth to safeguard its non-controlling investments without stretching itself too thinly?**

(vi) **Can the board help shareholders understand its plans for Staffline and Bamboos?**

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Q3. On 17 April 2020, the company announced a company share buy-back of 200,400 shares at a price of $0.485 per share which was two-thirds of the day's total volume of shares traded.

On 26 November 2018, SGX Regco, in its Regulator's Column, had highlighted the risks in companies doing share buy-back.

In particular, companies must not pay more than 105% of the average closing market price of the security over the last 5 consecutive active trading days. In addition, SGX guided that companies should aim to buy back shares at relatively low prices and not be seen to buy at increasing higher prices which could be interpreted as influencing the closing prices.

Also, the regulator stated that purchases that exceeded 30% of the daily on-market traded volume were excessive. Doing so may interfere with the normal trading of shares and result in the artificial inflation of the trading volume and price of the security.

The Regulator's Column on share buy-backs can be found here:
https://www.sgx.com/media-centre/20181126-what-companies-should-observe-when-conducting-share-buy-backs

(i) **Would the board, particularly the independent directors, help shareholders understand their level of oversight and the guidance given to the company on share buy-backs?**

(ii) **Would the board be reviewing the company's share buy-back practices (both in price and volume) to ensure that they are more in line with SGX rules?** This would ensure that the company buys back shares in a responsible manner that does not artificially interfere with the price and volume of the security, as noted in the Regulator's Column.

On 18 April 2020, the company announced an "clarification" and disclosed that the buy-back order carried out on 17 April "had been placed erroneously due to an inadvertent error in the calculation of the maximum price permissible for on-market share buy-backs by the Company".

Based on our calculations, the maximum price was $0.4775 per share. The company bought back shares at $0.485 per share.

(iii) **Would the board, especially the directors with legal background, help shareholders understand if there had been any breaches of relevant Acts and rules given that the shares were bought back at above the maximum price?**

The company then added that the share buy-back was then rebooked as an order by SIMCO Global Ltd, which is the holding company controlled by the Sim family.

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(iv) **As a listed company, can the independent directors provide added assurance that the company is managed professionally and not used interchangeably with the private holding company?**

^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.

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

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^ 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)