Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Hor Kew Corporation Limited

Stock code: BBP

Meeting details:
Date: 29 June 2020
Time: 9.00 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. As noted in the message to shareholders, the chairman acknowledged that the group had incurred substantial losses in the past two financial years due mainly to depressed tender prices for the precast sector coupled with high raw material prices.

As a response, the group has stepped up on cost savings measures, improved its procurement practices and streamlined its production processes.

For the financial year ended 31 December 2019, the group made a profit after tax of $0.9 million.

Some of the new products and innovation from the group includes:
- pocket door system
- metal sliding doors, timber doors in industrial buildings
- unplasticized polyvinyl chroide (uPVC) door and frame, uPVC sliding doors
- double-tiered bicycle rack and letter box

(i) **What is the track record of the group at commercialising its R&D? Does it hold intellectual properties/patents for its designs? Would these new products "move the needle"?**

(ii) **Can the chairman quantify the positive financial impact expected of the new business strategies that were mentioned in his message? Can these be scaled up to become meaningful contributors of revenue and profit?**

(iii) **For the benefit of new and long-standing shareholders, can the company provide shareholders with better clarity on its expertise and competitive advantage in the prefabrication segment?** This has been the main source of revenue in recent years.

(iv) The group is eyeing more projects in the commercial and industrial space in order to obtain better margins. **Can management help shareholders understand how it intends to compete against other construction companies who are already in the commercial and industrial space, have more experience and good track record in the space?**

Q2. The "Provision for onerous contracts" is a key audit matter (KAM) highlighted by the independent auditor in their Report on the audit of the financial statements (page 31).

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.

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As noted in the KAM, the group entered into contracts with customers to deliver precast concrete and prefabricated metal components. Due to rising cost of materials, the unavoidable aggregate costs to fulfil certain contracts are higher than the economic benefits expected to be received. As at 31 December 2019, the provision for onerous contracts of the group amounted to $1,533,000 (2018: $6,017,000) as disclosed in Note 27 to the financial statements.

With its origin tracing back to 1979, the group has a track record of more than 40 years in the construction industry.

(i) **Can management help shareholders understand its budgeting and approval process? What were the assumptions that led the group to enter into onerous contracts that would cost the group at least $7.5 million?**

(ii) **Does the group have a robust set of internal controls and risk management framework, especially for its major tenders and projects? Does the board pre-approve the major projects and tenders?**

(iii) **Are there ways to lock in the cost of raw material once a contract is entered into?**

(iv) **What improvements have been made to the group's tendering/pricing framework?**

Q3. In the Corporate Governance report, the board stated that the group is committed to maintaining a high standard of corporate governance which is essential to the long-term sustainability of the group's business and performance (page 16).

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.

The board has stated its opinion that, given the size of the board, it is not necessary or cost-effective [emphasis added] to have independent directors make up a majority of the board as there is strong independent element on 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, provide 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 or cost-effective" due to the group's current size.

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(i) **To comply with the Code and Rule 710, would the board further justify and help shareholders understand how the current practices 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) **As the company has given its commitment to maintaining a high standard of corporate governance, would the board be reviewing its composition to see how it could better comply with the Code of Corporate Governance?**

In addition, all three independent directors, namely Dr Low Seow Chay, Mr Lee Sen Choon and Mr William Chew Yew Meng have served on the board for more than 9 years.

Dr Low Seow Chay and Mr lliam Chew Yew Meng were first appointed to the board on 3 April 2000. Each of the directors have served on the board for more than 20 years.

Mr Lee Sen Choon was first appointed to the board on 1 January 2003 and is seeking his re-election at the annual general meeting. Mr Lee Sen Choon has served on the board for more than 17 years.

All three long tenured independent directors are also members of the nominating committee (NC), with Mr Chew as the chairman of the NC. However, it was the board (and not the NC) that subjected the three directors to a particularly rigorous review.

(iii) **Was the NC effective at discharging its responsibilities, especially the determination of the independence of directors on an annual basis?** As noted above, all three NC members were subject to a particularly rigorous review that was carried out by the board (that consisted of all three non-independent directors).

(iv) **Even though the directors were deemed independent, what are the plans to rejuvenate the board?** Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders. This will come into effect in 2022.

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^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)