



Securities Investors Association (Singapore)

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Issuer: Hotung Investment Holdings Limited

Security: Hotung Investment Holdings Limited

Meeting details:

Date: 24 April 2019

Time: 9.30 a.m.

Venue: THE CHEVRONS, Hibiscus Room, Level 1, 48 Boon Lay Way, Singapore 609961

Company Description

Hotung Investment Holdings Limited is venture capital investment management group. The Company has two business segments, namely, Venture Capital and Fund Management. The Group's fund management business manages third party funds as well as the funds generated from its venture capital business.

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

1. As noted in the chairman’s statement, the group has been investing in semiconductor, specialty materials, precision machinery, and education sectors in 2018. Going forward, the group has new focus areas, such as healthcare and life science sectors, clean-energy and advanced agriculture.

- (i) Would the board help shareholders understand if the investment teams have the necessary expertise and experience to invest profitably over the long run in the new areas?**
- (ii) For the benefit of new and long standing shareholders, can management help shareholders understand the size and expertise of its investment teams/manager?**
- (iii) Please also help shareholders understand the investment process.**
- (iv) In the “Investment manager report” (page 16 to 23), would the investment manager consider showcasing the divestment/sale pipeline?**

2. The “Valuation of unquoted investments” is a key audit matter (KAM) highlighted by the independent auditor in their Report on the audit of the financial statements (page 46). 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.

As noted in the KAM, as at 31 December 2018, the group’s portfolio of investments comprised:

- quoted investments of NT\$562 million
- unquoted investments of NT\$4,647 million, consisting:
 - o NT\$1,869 million classified as Level 2 financial instruments which were mainly valued using market observable prices or inputs
 - o NT\$2,778 million classified as Level 3 financial instruments (mostly unquoted equity securities and fund investments) which were valued based on methodologies that applied unobservable inputs

The movement in the fair value hierarchy is shown in the table below:

4. Use of estimates and judgements (cont'd)

(ii) *Key sources of estimation uncertainty (cont'd)*

Fair value hierarchy (cont'd)

The following table shows the reconciliation from the opening balance to the closing balance for fair value measurement in Level 3 of the fair value hierarchy:

	Financial assets at FVTPL
	NT\$'000
2018	
At beginning of year	449,115
Reclassified due to initial adoption of IFRS 9	2,132,542
Total loss recognised in profit or loss	
- net loss on investments at fair value through profit or loss	(136,368)
Disposals	(236,810)
Purchases	147,854
Transfers to Level 3	
- from Level 1 ^(d)	48,233
- from Level 2 ^(a)	731,367
- from cost less impairment ^(a)	74,463
Transfers out of Level 3	
- to Level 2 ^(c)	(433,025)
At end of year	<u>2,777,371</u>
Total unrealised loss for the year included in profit or loss for investments held as at 31 December	<u>(136,368)</u>

(Source: Company annual report)

Note (a) further states that certain investments were transferred from cost less impairment and Level 2 to Level 3 because measurement of fair value was based on valuation techniques using significant unobservable inputs.

- (i) Can the audit committee (AC) help shareholders understand what were the criteria/triggers to revalue its investments from “cost less impairment” and Level 2 fair value to Level 3 fair value?**
- (ii) What guidance has the AC given to management to ensure the Level 3 fair value valuations are prudent and do not rely heavily on aggressive assumptions?**
- (iii) Similarly, can the board/management help shareholders understand the situations/events that would lead to a transfer of an investment from Level 3 to Level 2?**

3. On pages 39 to 40, the company has prepared its “Sustainability report” that included the board statement on sustainability, a list of the group’s investments that supports the group’s sustainability drive and some of the governance practices by the group.

Under Chapter 7 of the Listing Manual on Continuing Listing Obligations, Rule 711B states that the sustainability report must describe the issuer’s sustainability practices with reference to the following primary components: (a) material environmental, social and

governance factors; (b) policies, practices and performance; (c) targets; (d) sustainability reporting framework; and (e) board statement.

- (i) **Can the board confirm that it is aware of the requirements of the sustainability reporting?** The board can refer to the Exchange's Practice Note 7.6 for the Sustainability Reporting Guide.
(http://rulebook.sgx.com/net_file_store/new_rulebooks/s/g/SGX_Mainboard_Practice_Note_7.6_July_20_2016.pdf)
- (ii) In particular, the board can identify and rank the material ESG factors, taking into consideration their relevance to the business, strategy, business model and key stakeholders. For each material ESG factor, the board/sustainability subcommittee should set out a target for the forthcoming year and design appropriate performance measurement/indicators to track the progress made over the years.

Has the company carried out a review and identified the material factors that are most critical to the continuity of the group's businesses? If so, can the board share its material factors before publishing its full sustainability report?

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Hotung%20Investment%20Holdings%20Ltd&cid=6555,4227>

The company's response could be found here: -----