Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Huationg Global Limited

Stock code: 41B

Meeting details:
Date: 19 June 2020
Time: 2.00 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.

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Q1. As noted in the chairman's statement, the group secured a number of large public infrastructure projects in the last quarter of 2019. The notable projects are:

- Temporary Infrastructure Works and Services to support Changi East Development
- Earthworks contracts for sections of the North-South Corridor
- Earthworks at Lim Chu Kang Area and Polder Construction at Pulau Tekong
- Infrastructure Works at Tuas Western Coast, Cleantech Loop and Tampines North
- Advance Works for Integrated Train Testing Centre
- Operating Agent for Aggregate Landing Site at Changi East

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

(i) **What is the group's competitive advantage in the area of civil engineering, especially earthworks that helped it secured the contracts? How much consideration is given to non-financial factors when tendering for contracts? In other words, would the group be able to win a project despite not being the lowest price bidder based on its operational strength and track record?**

(ii) **Given that the group had projects that were expected to commence in 2020, how would the COVID-19 outbreak and the measures implemented by the government impact the group?** The company's last update was on 8 April 2020.

(iii) **How does the group house its workers?**

(iv) Despite the 25% drop in revenue, salaries, wages and other benefits increased by 8% to $18.8 million (page 107). **Would management help shareholders understand the reasons for the increase? How is it actively managing its costs to ensure that it remains competitive?**

(v) With net debt of $172 million and total equity of $74 million, the group's net debt to equity ratio is approximately 2.34x. **Does the group have sufficient working capital to support its new projects?**

Q2. On 28 May 2020, the company announced that there are material variances between the unaudited results (first announced by the company on 28 February 2020) and the audited financial statements for FY2019 after the finalisation of audit.

The announcement of material variances came three months after the company announced its unaudited results.

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

As disclosed, the reasons for the material variances included:

- Additional recognition of revenue
- Overprovision of cost of sale for material used
- Underprovision of administrative expenses & loss allowance on trade receivables
- Additional provision of deferred tax previously omitted
- Reclassification of assets under finance lease to right-of-use assets on initial adoption of SFRS(I) 16
- Reclassification for the accrued billings to customers for work done up to 31 December 2019 from contract assets

The material variances were as large as $63.6 million.

For the financial years ended 31 December 2018 and 31 December 2016, the company had also reported material variances after the finalisation of audit.

In the past 4 years, the company has had to report discrepancies between the unaudited and audited accounts 3 times.

(i) **How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**

(ii) **Has the audit committee (AC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

(iii) **Is the company (and its officers) familiar with Singapore Financial Reporting Standards (International)?** The reasons for the material discrepancies included simple overprovision and underprovision of revenue, cost of sale and expenses.

(iv) **Would the members of the AC help shareholders understand their personal recent and relevant accounting or related financial management expertise or experience that would make them appropriately qualified to discharge their responsibilities?**

(v) **Specifically, what was the level of involvement by the AC chairman and each of the AC members in the preparation of the financial statements? Has the AC been effective in the discharge of its responsibilities?**

(vi) **Can the AC update shareholders on the improvement made/to be made to the group's financial reporting systems and processes?**

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

(vii) **What guidance has the sponsor given to the company in the area of financial and reporting matters and the effectiveness and adequacy of the internal control and procedures (including accounting and financial controls and procedures)?**

Q3. Would the board elaborate further on the following corporate governance issues? Specifically:

(i) **Executive directors:** The attendance of directors at board and board committee meetings is shown in the table below:

	Board	AC	NC	RC
Number of meetings held	**3**	**5**	**1**	**1**
Name of Director	**Number of Meetings Attended**			
Mr Ng Hai Liong	3	5*	1*	1*
Mr Ng Kian Ann Patrick	3	5*	1	1*
Mr Ng Kian Yeow, Vincent	3	5*	1*	1*
Mr Yuen Sou Wai	3	5	1	1
Mr Yen Se-Hua Stewart	3	5	1	1
Mr Wee Heng Yi, Adrian	2	4	1	1

(Source: company annual report)

Can the board help shareholders understand if it is the usual practice for non-board committee members (i.e. the executive directors) to attend board committee meetings?

Were there specific agenda items or reasons to invite the executive directors to all the board committee meetings?

What is the dynamic of the board committee meetings when the board committee members may be reviewing and discussing matters that are related to or affect the executive directors? Such board committee meetings would have included agenda items on interested party transactions, performance assessment and remuneration of the executive directors and on the audit/financial reporting/internal controls of the group.

Do the invited directors also actively participate in the discussions during the board committee meetings? If so, how are board committee meetings different from the board meeting? Is there sufficiently strong independent element at such board committee meetings given that the Code specifically discourages the membership of executive directors?

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

When an independent director does not attend the board meeting (for instance, Mr Wee Heng Yi, Adrian was absent at one of the audit committee meeting), does it also mean that the independent directors make up less than half at these board committee meetings?

(ii) **Announcement of cessation:** On 1 April 2020, the company announced the cessation of Mr Khin Maung Tun @ Lim Ming Hwee as an executive officer of the group. In the company's announcement, it was stated that Mr Khin Maung Tun @ Lim Ming Hwee would be considering other career opportunities and had served his notice period of 2 months from 1 February 2020. The sponsor has interviewed Mr Khin Maung Tun @ Lim Ming Hwee.

At the Sponsors Dialogue organised by SGX Regco on 12 November 2019, the regulators stressed the importance of timeliness of announcements on cessation of key persons. Under Catalist Listing Rule 704(6), an issuer must immediately announce the appointment or cessation of service of key persons such as director, chief executive, officer, chief financial officer, chief operating officer, general manager or other executive officer of equivalent authority, company secretary, registrar or auditors of the issuer.

Issuers should make the cessation announcement of key persons as soon as there is agreement/certainty between the issuer and the resignee on his/her cessation. SGX Regco stated that it is not reasonable to assume that this event is only triggered when the key person has departed.

Can the company help shareholders understand the reasons for the belated announcement of the cessation of Mr Khin Maung Tun @ Lim Ming Hwee? As disclosed, Mr Khin Maung Tun @ Lim Ming Hwee started serving his notice period from 1 February 2020. The announcement was made on 1 April 2020.

Can the directors, especially the independent directors, help shareholders understand their level of oversight of the company's regulatory matters and compliance to the Catalist rules?

When did the sponsor carry out the interview with Mr Khin Maung Tun @ Lim Ming Hwee?

(iii) **Provision 2.3:** Provision 2.3 of the Code of Corporate Governance 2018 requires non-executive directors to make up a majority of the board.

The company has stated that it is "*currently re-assessing the Board composition to comply with Provision 2.3 of the 2018 Code and will endeavour to comply with Provision 2.3 for the financial year ending 31 December 2020*" (page 23).

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

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, explain the reason for variation, and explain how the practices it had adopted are consistent with the intent of the relevant principle.

Does the company have any justification for the deviation from Provision 2.3?

Would the independent directors help shareholders understand if the current practices are consistent with the intent of the relevant principle? Did the company obtain a waiver to allow it to comply with Provision 2.3 only at a later date? Can the sponsor help shareholders understand if it has approved the company's current practice?

^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

Join our mailing list here to receive latest news and upcoming events.

CONNECT WITH US

^ 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)