



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: Qian Hu Corporation Limited

Security: Qian Hu Corporation Limited

Meeting details:

Date: 28 March 2019

Time: 11.00 a.m.

Venue: 71 Jalan Lekar, Singapore 698950

Company Description

Qian Hu Corporation Limited, together with its subsidiaries, operates as an integrated ornamental fish service provider primarily in Singapore and rest of Asia, Europe, and internationally. It operates through Fish, Accessories, and Plastics segments. The company engages in the farming, breeding, distribution, and trading of ornamental and edible fishes; and breeding and farming of prawns. It exports approximately 1,000 species and varieties of ornamental fishes to approximately 80 cities and countries; and distributes to local retailers and exporters under the Qian Hu brand. The company's edible fish products include humpback groupers, and coral trout and hybrid giant groupers. It also manufactures and distributes approximately 3,000 types of aquarium and pet accessories to manufacturers and retailers, as well as exports accessories products to approximately 40 countries under the Ocean Free, OF, Classica, Aqua Zonic, Delikate, BARK, and Aristo-cats YI HU brands. In addition, the company operates approximately 10 retail chain stores under the name Qian Hu -- The Pet Family in China, Malaysia, and Thailand. Further, it manufactures and distributes plastic bags for the ornamental fish, food, and electronics industries. The company also operates an online store. Qian Hu Corporation Limited was incorporated in 1998 and is based in Singapore.

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

1. As noted in the annual report, the chairman reported that early indications point to the success of the Grouper fingerlings operations (the group's first aquaculture farm) and the import and export of edible fish and other seafood products (second aquaculture farm).

With the second farm, the group has expanded the aquaculture operations to over 10,000 m² in land area.

According to the Singapore Financial Reporting Standards (International) - SFRS(I)8 Operating Segments, an operating segment is a component of the entity that (a) engages in business activities, (b) whose operating results are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance and (c) for which discrete financial information is available.

SFRS(I) 8 also states the quantitative thresholds of 10% of revenue, profit or loss, or assets for the reporting of information about an operating segment separately.

With the new edible fish business being based in China, the two subsidiaries have their own management team with a reporting structure that is likely to be distinct from the ornamental fish business which is based in Singapore. As shown on page 15 (Group structure), the subsidiary companies are Qian Hu Aquaculture (Hainan) Co., Ltd (100% owned) and Tian Tian Fisheries (Hainan) Co., Ltd (60% owned).

- (i) Would the audit committee (AC) confirm that the edible fish business has not met the quantitative thresholds to be recognised as a reportable segment in SFRS(I) 8?**
- (ii) Using the principles-based definition of an operating segment in SFRS(I) 8, would the new aquaculture business be considered a reportable segment?**
- (iii) In any case, would management consider reporting the operational and financial figures of the edible fish business on a standalone basis to help shareholders understand the progress made in the new business?** According to the minutes of the Nineteenth Annual General Meeting of the company that was held on 28 March 2018, the chairman had told shareholders that the group would present the financial performance of the aquaculture business as a separate business segment by the end of FY 2018.
- (iv) As the operations were recently started in 2017, it is foreseeable that the new segment might be loss-making as the group is still trying to scale up and optimise its operations. Can management disclose if the two farms have been able to achieve breakeven?**

2. Would the board/management provide shareholders with better clarify on the following operational, financial and governance matters? Specifically:

- (i) Albino Silver Arowana: Can management help shareholders understand how sustainable is the demand and profitability of this "innovation"?** The market for Golden and Red Arowana has crashed as demand has not kept up

with the influx of supply from breeders. **What is to prevent other breeders from flooding the market with more supply, especially since the company has acknowledged that the silver arowana is more productive?**

- (ii) **Manpower in China:** Given the increase in activities in the two aquaculture farms in China, the total number of employees actually dropped from 110 as at 31 December 2017 to 78 as at the end of the financial year, a drop of nearly 30%. **Would management help shareholders understand the reason(s) for the drop in headcount in China?**
- (iii) **Profitability:** Has the board considered it opportune to re-evaluate the group's business strategies and value proposition given that the return on shareholders' equity and the return on total assets have ranged from 0-0.8% and 0-0.5% respectively in the past 5 years. The board has disclosed that it monitors the return on capital in its capital management framework (page 151). **Has the board been satisfied with the returns achieved in the past 5 years/10 years? For new projects/investments, what is the minimum hurdle rate? Does the board monitor the performance of the group's major investment decisions over time (from inception to maturity)?**
- (iv) **Guarantee fee:** As disclosed in Note 25 (page 165 – Significant related party transactions), the company is charged a guarantee fee of 0.5% per annum with effect from January 2012 for the guarantee from a major shareholder of the company. As mentioned in Note 10, trade and other receivables amounting to approximately \$7.3 million (2017: \$7.3 million) due from Guangzhou Qian Hu Aquarium and Pets Accessories Manufacturing Co., Ltd (GZQH) are guaranteed by a major shareholder of the company and a director of the company. **Would the company/audit committee help shareholders understand why a guarantee fee of 0.5% is charged to the company? Would it create a misalignment of interest as the longer the receivable remains outstanding, the major shareholder/a director of the company would continue to receive the guarantee fees?**

In addition, during the financial year, the company further revised the repayment agreement with GZQH of which \$1.0 million of the receivables is due on 31 December 2019 and the remaining amount of \$9.0 million is due on 31 January 2020. **Given that the company has new and ongoing business dealings with GZQH, would it be more appropriate for the company to request for prompt payment of the overdue amounts that have been outstanding since 2012?**

Can the company disclose who led the negotiation with GZQH on the revised repayment agreement? Did the audit committee and/or the independent directors approve or pre-approve the revised agreement?

- (v) **Value-added statement:** For FY2018, the group generated a value-add of \$19.52 million (page 31) (FY2017: \$18.66 million). Out of the value-add

generated, \$14.97 million (77%) of the value-add was distributed to employees (FY2017: \$14.50 million; 78%).

Total value-added	19,516	18,660
Distribution :		
To employees in salaries and other related costs	14,974	14,499
To government in corporate and other taxes	925	763
To providers of capital :		
- Interest paid on borrowings from financial institutions	513	387
Retained for re-investment and future growth		
- Depreciation and amortisation	2,167	1,895
- Accumulated profits	402	329
- Non-controlling interests	166	220
Non-production cost and income :		
- Bad trade receivables and impairment loss on trade receivables	345	623
- Allowance (Write back of allowance) for inventory obsolescence	24	(56)
Total distribution	19,516	18,660

(Source: Company annual report)

Can the board, especially the remuneration committee, help shareholders understand if the high percentage of value-add (77%-78%) going to employees is sustainable and healthy? The amount of value-add retained in the business was just 2% (or \$402,000) and the total amount of dividends paid to owners of the company was just \$227,000 (not in the table above). This question is a follow-up to the question last year on the alignment of remuneration packages of the executive directors and key management personnel with the financial performance of the group.

- (vi) **Long tenured directors:** The company last appointed an independent director, Dr Ling Kai Huat, on 1 August 2015. Of the four independent directors on the board, Mr Chang Weng Leong and Mr Tan Tow Ee were appointed on 18 October 2000 and 1 May 2002 respectively. Mr Chang and Mr Tan have each served on the board for 18 years and 16 years respectively. The fourth independent director, Ms Sharon Yeoh Kar Choo, has served on the board for more than 7 years.

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (“2018 CG Code”). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. 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. **Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in any future director appointments, especially as the group is branching out into aquaculture in China as a new business strategy? Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board? What are the company’s near term plans to refresh the**

membership of the board to comply with the new 2018 Code in good time?

Reconstituting the board in good time to comply with the new 2018 Code would avoid undue disruption and help to maintain institutional knowledge and continuity in the board.

3. The group was an early adopter to the exchange's sustainability reporting requirements and produced its inaugural sustainability report in FY2017. For the financial year ended 31 December 2018, the group updated its sustainability report which covers its performance with respect to the identified Economic, Social and Governance ("ESG") factors that are material to the group.

The sustainability report, on pages 43 to 100 of the annual report, has been prepared in accordance with the Global Reporting Initiatives ("GRI") Standards: Core Option.

As disclosed in the section titled "Our approach & strategy", the group has formed a dedicated Sustainability Reporting Team which is managed by the Managing director.

- (i) Can the company confirm the actual size of the Sustainability Reporting Team?** The company has stated that it is made up of a representative from each of the operating entities in Singapore, Malaysia, Thailand, Indonesia and China. **Would it be beneficial to the group's sustainability reporting efforts if the team includes more representatives from different levels of the organisation, including middle managers and ground staff from across functions and divisions?** In that case, there will be more voices to help drive the sustainability agenda in the entities.
- (ii) Can the senior management team help shareholders understand how it leads the organisation in raising awareness of the sustainability agenda, i.e. tone from the top?**
- (iii) Since the group started sustainability reporting in FY2017, what lessons has the group gleaned from its sustainability reporting journey? Can management cite any examples where the reporting of its sustainability practices led to better policies, systems and processes that further raised the group's sustainability efforts?**

On page 46, the company listed its focus, commitments and targets on the six focus areas, namely environmental initiatives, supply chain management, labour practices & conducive workplace, stakeholder engagement, corporate governance and economic performance.

For instance, some of the current targets are to "Continue to enhance customer satisfaction level with improved service and quality products", "Drive responsible business practices across the supply chain" and "[Achieve] Revenue and profit growth".

- (iv) Would the board/management be further quantifying some of its targets and setting some long-term targets and even stretch goals, where relevant?** This would provide the organisation with better clarity on its goals and the progress achieved over the years.

- (v) In particular, the group is one of the top exporters in the region for ornamental fish and aims to be the world's number 1 ornamental fish exporter. Thus, environmental preservation including the sustainable use of natural resources and the preservation of the natural habitat and fish stock is critical to the long term viability of the group's ornament fish business. Threats to fish and aquatic biodiversity and overexploitation could decimate natural fish stock and cause irreversible damages. Numerous species are facing major decline in population. **Can the board elaborate further on the pro-active actions taken by the group in the preservation of wild fish stock?**

In the value chain & supply chain analysis, the group has identified more than 487 suppliers in the ornamental fish segment. **Can the company elaborate further on how it selects its suppliers? How rigorous is the group's vetting process for its "Approved Vendor List"? Does the group audit and re-qualify its suppliers from the ornamental fish segment on a regular basis? How does the group ensure that its approved vendors follow the group's sustainability practices?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 and 30 December 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Qian%20Hu%20Corporation%20Ltd&cid=6252,4508,4219>

The company's response could be found here:

2017: https://sias.org.sg/media/qareport/QianHu_AGMMinutes2018.pdf

2016: ---