



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: Sin Ghee Huat Corporation Ltd.

Security: Sin Ghee Huat Corporation Ltd.

Meeting details:

Date: 23 October 2018

Time: 10.00 a.m.

Venue: 32 Penhas Road, #01-01, Singapore 208191

Company Description

Sin Ghee Huat Corporation Ltd. engages in the trading and sale of stainless steel and specialty metal products in Singapore, Indonesia, other ASEAN countries, China, Australia, New Zealand, India, South America, and the Middle East. It provides seamless and welded pipes; butt-welded and forged fittings; flanges; and round, flat, equal angle, U channel, hollow, square, and hexagonal bars, as well as I beams. The company also offers plates; seamless, round, square, and rectangular tubes; and duplex steel products. It serves oil and gas, petrochemical, marine and shipbuilding, construction, food processing, pulp and paper, and pharmaceutical industries. The company was founded in 1939 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=B7K)

1. As noted in the Letter to Shareholders (page 5 of the annual report), the overseas markets outperformed the local market, with revenue from Indonesia increasing by “a hefty 160%” to \$6.49 million. In addition, the group’s exposure (by revenue) to foreign markets increased to 47% in FY2018, from 37% in FY2017.

- (i) Would the company provide shareholders with better clarity on how it secures orders from customers outside of Singapore (not including the Suzhou subsidiary and the New Zealand joint venture)?**
- (ii) What were the key drivers that led to the significant increase in revenue from Indonesia? Was the strength in the overseas demand (in particular Indonesia) broad-based or was it attributed to one or two industries?**
- (iii) Does the group have a coherent strategy to tap into the regional growth markets beyond Singapore?**
- (iv) Has the board/management estimated the group’s market share in Singapore? As the group sensed an “upbeat sentiment”, what adjustments have management made to the group’s positioning and marketing to capture more value for shareholders if/when the recovery gains pace? Has the group evaluated any corporate action to further consolidate and strengthen its market position?**

2. The valuation of inventories is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 35). Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, the group recognised \$41.0 million as inventories as at 30 June 2018. (2017: \$36.9 million). This is an increase of 11% year-on-year and the second highest level of inventories in the past five years (FY2014 to FY2018) even though revenue has fallen 40% from its peak.

- (i) Can management help shareholders understand if this is a deliberate effort to increase its inventories given the recent market trends or is the increase in inventories a response to actual orders received?**
- (ii) Does the group increase its inventories in anticipation of higher inventory costs? If so, what are the safeguards put in place to avoid excessive “speculation”?**

Inventory turnover days have increased from 271 days in FY2014, to 327 days in FY2015, to 358 days in FY2016 to 543 days in FY2017. In FY2018, it took the group 489 days (on average) to turnover its inventories. The group has also recognised a net impairment charge of \$1.12 million to provide for slow moving items.

- (iii) Can management explain in greater detail the specific reason(s) for the \$1.12 million impairment charge the group recognised to write-down the inventories to its net realisable value?**
- (iv) Has management evaluated the cost to hold its inventories (including the opportunity cost of capital)?**
- (v) Can the board/management elaborate on its efforts at optimising its inventories? How can management better manage its working capital to reduce the holding costs and the obsolescence risks?**
- (vi) As a major stockist and a “one-stop” distributor of stainless steel products, how does management ensure that it captures its fair share of value so that the group gets a return that is commensurate with the risks it has taken to enhance shareholder value?**

3. It is noted that Mr Kua Chee Seng and Mr Tan Lye Heng Paul will be retiring as directors of the company at the conclusion of the forthcoming Annual General Meeting. Mr Kua is an executive director while Mr Tan is an independent non-executive director.

In the Corporate Governance Statement, the company has disclosed that it is pacing the retirement of its long serving directors (page 16) to ensure orderly renewal of the Board as well as minimise the loss of relevant experience, skills and knowledge of the group's businesses.

- (i) Would the board help shareholders understand if it is in the process of appointing new directors following the retirement of the two above-mentioned directors?**
- (ii) If so, has the nominating committee (NC) considered appointing the new directors prior to the retirement of the long tenured directors to ensure a smooth and progressive renewal of the board that allows for greater board stability and continuity?** This can also better preserve institutional knowledge of the directors.
- (iii) Specifically, has the company mapped out its board renewal plans for the remaining long tenured directors?** Mr Hoon Tai Meng has served on the board for more than nine years from the date of his first appointment and Mr Goh Chee Wee would have served on the board for more than nine years from the date of his first appointment by 28 October 2018.

A copy of the questions for the Annual Report for the financial year ended 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Sin%20Ghee%20Huat%20Corporation%20Ltd>

The company's response could be found here:



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

https://sias.org.sg/media/qareport/1478156422_SGH---2016-10-20-Responses-to-SIAS-QA.pdf

