Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Sin Heng Heavy Machinery Limited

Security: Sin Heng Heavy Machinery Limited

Meeting details:
Date: 23 April 2019
Time: 10.00 a.m.
Venue: Raffles Marina, No. 10 Tuas West Drive, Singapore 638404

Company Description

Sin Heng Heavy Machinery Limited, together with its subsidiaries, operates as a lifting service provider in Singapore, Indonesia, Myanmar, Malaysia, Vietnam, Brunei, Thailand, and internationally. It operates through Equipment Rental and Trading segments. The company rents crawler, all terrain, truck, rough terrain, and self-erecting cranes; and aerial lifts, including boom and scissor lifts, as well as provides turnkey project engineering services. It also trades in new and used cranes and aerial lifts; and sells and distributes spare parts for cranes and aerial lifts. In addition, the company provides facilities and custody services. It serves infrastructure and geotechnic, construction, offshore and marine, and oil and gas industries. The company was founded in 1969 and is headquartered in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BKA)

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1. As noted in the "Joint statement by executive director and CEO", the group's revenue increased by 2.6% to $86.7 million in FY2018, boosted by the trading segment that grew by 17.8% to $45.3 million. In FY2014, the revenue derived from the trading segment is as high as $165.4 million.

The group has dealership rights for the sales and distribution of cranes and parts for Kobelco (specialist in Japanese crawler cranes), Kato (specialist in hydraulic cranes) and Grove (specialist in European all terrain cranes).

(i) What is the group's market share in the trading segment? Has the group maintained or consolidated its position?

(ii) What support has the principals provided to the group during this challenging time?

(iii) Has management looked into the possibility of acquiring other distributorship rights to expand its product range?

(iv) What are the attractive cities/countries that group might expand its business reach and network to?

2. The "Cranes and aerial lifts classified as inventories or property, plant and equipment" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 54). 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 cranes and aerial lifts classified as inventories and property, plant and equipment of the group amounted to $3,761,000 and $95,232,000 respectively.

As the group has both the leasing and trading business, it classifies cranes and aerial lifts (a) purchased for sale to customers as inventories and (b) purchased for leasing to customers as property, plant and equipment (PPE).

Particularly for the cranes and aerial lifts classified as PPE which amounted to $95.2 million, the audit procedures included obtaining management's value-in-use calculations and engaging a valuation specialist for the review of key assumptions and estimates such as utilisation rates and discount rate.

The carrying amounting and impairment loss recognised in the year is shown in the table below:

	Carrying amount $'000	Impairment loss recognised $'000
Cranes	87,883	1,588
Aerial lifts	7,349	232

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(i) **Can management elaborate further on the "indications of impairment" of its cranes and aerial lift?**

(ii) **How did management determine the threshold for impairment testing? How did the audit committee review and evaluate the threshold?**

In estimating the recoverable amounts of these assets, management has calculated the value in use based on key estimates such as utilisation rates and discount rate.

(iii) **What was the utilisation rate used in the value-in-use calculation and what was the actual utilisation rate in FY2018?**

(iv) **Did the audit committee evaluate if the discount rate of 9% is reasonable and justified? On what basis did management determine the discount rate to be 9%?**

3. The board consists of ten members - four executive directors, two non-executive directors and four independent directors.

Of the four independent directors, three of whom, namely Mr. Renny Yeo Ah Kiang, Mr. Yeo Yun Seng, Bernard and Mr. Tan Keh Yan, Peter, were first appointed to the board on 21 December 2009.

Therefore, all three have served on the board for more than nine years. Mr Tan Keh Yan, Peter has indicated his decision not to seek his re-election at the annual general meeting. The remaining independent directors are the two long tenured directors and Mr Soh Sai Kiang who joined the board on 1 August 2012.

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.

(i) **Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**

(ii) While the nominating committee (NC) has stated that it is responsible for identifying and recommending potential candidates for appointment as directors to the board, it did not describe how it would achieve that. **Would the NC elaborate in greater detail the search and nomination process for directors, especially independent directors?**

(iii) All three remaining independent directors, including the independent chairman, will be affected by the revised rules on director's independence when it comes

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into effect in 2022. **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?**

(iv) Has the NC reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?

In addition, the NC has stated that it reviewed the size and composition of the board and is satisfied that, after taking into account the scope and nature of operations, the current board size is appropriate and effective.

Would the NC committee help shareholders understand how it had assessed that the board size of ten is appropriate for the group given its operations? Did it benchmark itself to other listed companies on the SGX? For reference, a large local bank with market capitalisation of $70 billion and presence in over 17 countries has a board with 11 directors whereas the company with presence in 5 ASEAN countries and a market capitalisation of $34 million has 10 directors.

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

https://sias.org.sg/qa-on-annual-reports/?company=Sin%20Heng%20Heavy%20Machinery%20Ltd&cid=6537,4623

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