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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Tat Seng Packaging Group Ltd

Security: Tat Seng Packaging Group Ltd

Meeting details:

Date: 26 April 2019

Time: 2.00 p.m.

Venue: 348 Jalan Boon Lay, Singapore 619529

Company Description

Tat Seng Packaging Group Ltd manufactures and sells corrugated paper products and other packaging products. The Company operates in two segments: Singapore and PRC. Its products include regular slotted carton box, die-cut carton box, offset-printed box, corrugated partition, single face rolls/corrugated boards, pallets, heavy duty corrugated products and other packaging-related or customized products. It supplies other packaging related products, such as tapes, stretch films, foam and edge board protectors. Its customers include multi-national corporations and local manufacturers in food and beverage industry, electronics and electrical industry, pharmaceutical and chemical industry, plastic and metal stamping industry, as well as other exporting related industries. Its subsidiaries include United Packaging Industries Pte. Ltd. and Tianjin Dansun Packaging Co., Ltd, which are engaged in the manufacture and sale of corrugated boards, corrugated cartons and other packaging products.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=T12)

1. Even as the group reported record revenue of \$333.3 million, up 10% year-on-year, gross profit dipped to \$60.5 million (FY2017: \$61.5 million). This despite the company stating that its subsidiaries in China were able to raise its selling price and pass on the partial increase in cost of raw material to the customers.

With higher level of automation, the group increased its production speed and efficiency and lowered the product cost per unit. Overall, profit attributable to owners of the company slipped by 5% to \$19.3 million from \$20.3 million.

The group generated more than 85% of its consolidated revenue from the PRC.

- (i) Would management provide shareholders with an update on the ground sentiments in the PRC? How would the trade tension between China and the USA affect the level of confidence in the economy and thus demand for the group's products from customers?**
- (ii) Can management help shareholders understand the profile of its major customers?** For instance, are the major customers mostly multi-national companies with significant part of their business meant for exports or are the major customers serving the local/domestic demand?
- (iii) In particular, in Note 18 (page 105 – Other expenses), there was an impairment loss of property, plant and equipment amounting to \$737,721 (up from \$195,060). Would management help shareholders understand the reason for the impairment?**

2. Would the board/management provide shareholders with better clarity on the development in Nantong? Specifically:

- (i) What is the capital expenditure for the new Nantong Tat Seng plant in Tongzhou?**

The new factory sits on a land area (74,115 square metres) that is approximately three times larger than the existing factory (26,586 square metres).

- (ii) What is the capacity of the new plant?**
- (iii) How much growth (in terms of volume and revenue) will the new plant be able to support?**
- (iv) What is management's strategy to fill up the capacity? Can management help shareholders understand the main industries in Nantong and its surrounding areas that will be that main targets?**

3. In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code") and under the revised Listing Rules, the requirement for independent directors to comprise one-third of the board come into effect on 1 January

2022. In addition, 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?** While the company has appointed three new directors to the board, Dr John Chen Seow Phun and Mr Lien Kait Long, as independent directors, were appointed on 21 November 2005 and 24 November 2005 respectively. All the directors will be affected by the revised rule when it comes into effect.
- (ii) The nominating committee has further stated that it would evaluate candidates based on suggestions by existing directors or management, or sourced the candidates from external sources. **Would the nominating committee (NC) consider a carrying out formal search through a professional search firm as it might increase the diversity and possibly the quality of its candidate pool?**
- (iii) **Has the NC reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed by new director appointments?**
- (iv) **How does the board/NC ensure that the board, as a group, has an appropriate balance and diversity of skills, experience and knowledge of the company?**
- (v) **What deliberations did the NC have on how the relationships the directors have with the controlling shareholder could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement in the best interests of the company?** All the independent directors, including the three new directors, are also directors on Hanwell except for Lien Kait Long for stepped down from Hanwell in April 2018 (appointed in June 2005).

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

<https://sias.org.sg/qa-on-annual-reports/?company=Tat%20Seng%20Packaging%20Group%20Ltd&cid=6458,4542,4265>

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