Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Yongnam Holdings Limited

Stock code: AXB

Meeting details:
Date: 29 June 2020
Time: 10.00 a.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.

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Q1. As noted in the message to shareholders, the chief executive officer highlighted that revenue improved by 21.6% to $196.3 million but the unabsorbed overheads resulting from a low level of business activities led to a gross loss of $14.8 million. Gross loss in FY2018 was $45.9 million.

In view of the challenging environment, the group embarked on restructuring and cost management in FY2019.

As shown in the financial highlight (page 13), the company has made losses in each of the last 6 years, since 2014.

FINANCIAL HIGHLIGHTS

	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000	2014 $'000
PROFIT AND LOSS ACCOUNT						
Revenue	196,273	161,449	306,679	321,378	269,618	212,083
Loss before taxation	(59,564)	(66,053)	(24,676)	(38,133)	(4,138)	(19,009)
Loss after taxation	(54,703)	(54,209)	(21,403)	(32,793)	(2,695)	(8,491)
Loss Per Share (Basic) (Cents)	(10.29)	(9.76)	(3.50)	(7.99)	(1.05)	(2.68)

(Source: company annual report)

Total losses over the 6 years add up to more than $(174) million. From 2010 to 2019, over a 10 year period, the company lost more than $(7) million, even though profit was as high as $63 million in 2011.

(i) **Would the board, especially the independent directors, consider it opportune to carry out a comprehensive strategic review of the group's operations to assess the core competencies of the group, its management team and its financial strength and to finetune its strategies so as to create long-term sustainable value for all shareholders?**

(ii) **Has the group responded to changing market conditions in a timely manner?** After 5 years of losses, the group embarked on restructuring and cost management in FY2019 that cost the group $17.4 million.

The group's four independent directors were appointed to the board in 2002, 2003, 2006 and 2008. The board's key responsibilities include providing leadership and guidance to the management on corporate strategy and business directions. In particular, the principal duties of the board are to set the strategic directions and the long-term goals of the group, review and approve corporate plans, annual budgets, investment proposals, review and monitor management performance towards achieving organisational goals.

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(iii) **Would the independent directors help shareholders understand their contributions and their effectiveness in providing entrepreneurial leadership and in safeguarding the interests of the company and of the minority shareholders?**

Q2. As disclosed in Note 2 (page 58 – Going concern assumption), as at 31 December 2019, the group is in a net current liability position of $62.9 million. Subsequent to balance sheet date, the group has secured refinancing of its transferrable term loan of $75 million which is due by 31 December 2020. The refinanced loan is repayable over the next 13 months with the final repayment being due on 31 January 2022.

As at 31 December 2019, the group has cash and cash equivalents of $9.1 million.

In Note 31 (page 117 – Capital management), it is shown that the group's net debt amounted to $169.9 million while net tangible assets add up to $190.8 million. The gearing ratio was 89% as at 31 December 2019. The group has set a limit of 130% for its gearing ratio.

(i) **Given the COVID-19 outbreak and the circuit breaker measures in Singapore, how are the group's operations affected? How are the group's cash flows affected as construction work has been suspended to stop the spread of COVID-19?**

(ii) **Would management be providing shareholders with timely updates of material development related to its projects and in the group's overall operations as part of the company's continuous disclosure obligations?**

In June 2019, the group issued convertible bonds at a nominal value of $12.5 million due 4 June 2021. The conversion price of the bond is $0.179 per share. In the event that the conversion does not take place, the group would have to redeem the bond.

(iii) **Can the board help shareholders understand the deliberations it has had on the optimal capital structure to support the group's business, given the large losses in recent years? Would the mismatch of short term financing to its long term assets create more uncertainty when the bonds/loans are due for redemption/payment?**

(iv) **What guidance has the board given to management to improve its working capital and to generate positive cash flow from its operations?**

(v) **Can management map out its plans to return the group to profitability in the next 18-24 months, if not sooner?**

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Q3. The attendance of directors at board and board committee meetings is shown in the table below (page 15):

The attendance of the Directors at meetings of the Board and Board committees, as well as the frequency of such meetings during FY2019 is tabulated below:

	Board	Audit Committee	Nominating Committee	Remuneration Committee
No. of meetings held	4	4	1	1
No. of meetings attended by respective directors				
Executive Directors:				
1. Seow Soon Yong (Chief Executive Officer)	4	–	–	–
2. Siau Sun King	4	–	–	–
3. Seow Soon Hee *(retiring at the forthcoming AGM to be held on 29 June 2020)*	4	–	–	–
4. Chia Sin Cheng	4	–	–	–
Independent Directors:				
5. Goon Kok Loon	4	4	1	1
6. Lim Ghim Siew, Henry	2	2	–	1
7. Liew Jat Yuen, Richard	4	4	1	–
8. Tan Eng Kiat, Dominic	4	–	1	1

(Source: company annual report)

As can be seen from the table, Mr Lim Ghim Siew, Henry attended two out of four board meetings and two out of the four audit committee meetings. As a result, it would appear that two of the audit committee meetings were between just two directors.

(i) **Would the company help shareholders understand if there were any extenuating circumstances that led the director to miss half of the board meetings and half of the audit committee meetings in 2019?**

The constitution of the company provides for the board to convene meetings via telephone conferencing and electronic means in the event when directors were unable to attend meetings in person.

(ii) **Did Mr Lim Ghim Siew, Henry participate in the board and board committee meetings via telephone conference/electronic means? If not, why not?**

(iii) **How can the company secretary and the directors better schedule the board and board committee meetings so that all directors attend the meetings?**

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In addition, as noted above, all four independent directors, namely Mr Goon Kok Loon, Professor Liew Jat Yuen, Richard, Mr Dominic Tan Eng Kiat and Mr Lim Ghim Siew, Henry, have served on the board for 12-18 years. It was stated that (page 17):

> *A **peer review** on the independence of each of the Independent Directors was conducted at the Meeting of NC. Having observed and evaluated each Independent Director through the various factors and personal conduct, the **NC affirmed each other's independence**, despite serving more than nine (9) years on the Board* [emphasis added].

The nominating committee (NC) comprises Mr Tan Eng Kiat, Dominic (chairman), Professor Liew Jat Yuen, Richard and Mr Goon Kok Loon.

The independence of all three members of the NC, together with Mr Lim Ghim Siew, Henry, were the subject of the NC's review.

(iv) As disclosed, the review of the director's independence was carried out by the NC through a peer review where the members of the NC reaffirmed one another's independence. **Given the peer review system, did any of the NC members participate in his own peer review as part of a combined 3-person peer review?**

(v) **If not, was the peer review done in a round-robin manner where two of the three NC members will take turns to "peer review" the third and this was done for all 3 NC members, and then for Mr Lim Ghim Siew, Henry?**

(vi) **Can the NC help shareholders understand its effectiveness at discharging its duties as all three members of the NC were subject to the review of their own independence?**

(vii) **Is the peer review of director's independence a good corporate governance practice and is it in line with the listing rules and corporate governance code?**

(viii) **Even though the NC members have affirmed the independence of all the long tenured director, can the board elaborate further on the progressive renewal of the board?**

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^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

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^ 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)