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: Ouhua Energy Holdings Limited

Stock code: AJ2

Meeting details:
Date: 28 June 2022
Time: 4.00 p.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. Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

(i) **Growth plans: Can management elaborate further on the progress made in developing the LPG retail chain (including the construction of an urban gas pipeline system), setting up LPG filling stations and diversifying into the production of dimethyl ether (DME)? What is the projected capital expenditure for each of these projects?**

(ii) **LPG storage facilities:** The group now has 100,000 cubic metres in LPG storage facilities. **What is the optimal storage capacity given the group's current business model and the 900,000 tonnes production capacity?**

(iii) **Ground sentiment: Can management help shareholders to better understand the sentiments on the ground in Guangdong Province? How is the group adjusting its operations to adapt to the fluid COVID-19 situation?**

(iv) **Marine freight**: The group recognised marine freight costs of $37.74 million in FY2021 (FY2020: $18.86 million), even though LPG sales volume remained relatively stable at 794,386 tons (FY2020: 802,660 tons). **What is the group's plan to better manage marine freight costs or pass on the freight cost increases?**

(v) **Value creation:** The group achieved net margin of 0.5% in FY2019 and FY2020, and 0.93% in FY2021. Net margins in FY2016 to FY2018 were 1.9%, 1.4% and 0.8% respectively. **Has the board evaluated the cost of capital? With net margin of 0.64% and 1.01% in the past 3 and past 6 years respectively, how has management been able to create long-term value for shareholders?**

(vi) **Dividend policy:** Based on SGX's records[1], the company last paid out a dividend (of USD0.0044 per share) in May 2008, more than 14 years ago. **Has the company formalised its dividend policy and communicated the policy to shareholders (Provision 11.6 of the Code of corporate governance 2018)? What were the deliberations by the board on the declaration of dividends for FY2021?**

[1] https://www.sgx.com/securities/corporate-actions?value=OUHUA%20ENERGY%20HOLDINGS%20LIMITED

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Q2. On 30 December 2021, the company announced the proposed acquisitions of storage facilities of two sets of heating boilers and one set of heat conduction oil tank and pump equipment from Chaozhou Huaxin Energy Co., Ltd, the vendor in the sale and purchase agreement.

The vendor is 81.53% owned by Mr. Liang Guo Zhan who is the executive chairman and controlling shareholder of the company, and hence, deemed an interested person under Chapter 9 of the Listing Manual. Ms. Liang Ya Ling, who is the non-executive director of the company and an immediate family member of Mr. Liang Guo Zhan, holds a total of 17.53% interest (both direct and indirect) in the vendor.

(i) **Can management elaborate further on the benefits of acquiring additional storage facilities?** In the announcement, it was disclosed that the purchase will allow the group to "manage the demands for liquefied petroleum gas under the cold weather in the upcoming peak business season." **How has the group been operating in the past, especially during the winter months/peak business seasons? How transformational is this proposed acquisition?**

(ii) **What is the progress of the proposed acquisition? Has the acquisition been completed?**

(iii) In the announcement, it was also stated that "save for the proposed acquisition, there were no other IPTs between the group and any interested persons from 1 January 2021 to 30 December 2021. **Can the board/independent directors confirm that the group does not have any ongoing/recurring IPTs with interested persons during FY2021?**

(iv) **Given that the proposed acquisition is an IPT, what was the role of the independent directors in the shortlisting and selection of the valuer? Is the valuer independent? If not, do the independent directors in the audit committee (AC) consider it prudent to oversee an independent valuation of the proposed acquisition?**

(v) The company has also stated the following in the announcement dated 30 December 2021:

> **7. AUDIT COMMITTEE'S STATEMENT**
>
> The Audit Committee of the Company, comprising Mr. Gerald Yeo @ Yeo Ah Khe, Mr. Limjoco Ross Yu and Ms. Liang Ya Ling, having considered and reviewed the terms and rationale of the SPA together with the Valuation Report, is of the view that the SPA is concluded upon normal commercial terms and would not be prejudicial to the interests of the Company and its minority shareholders.

It does not appear that Ms. Liang Ya Ling has recused herself from the deliberations on the proposed acquisition even though Ms. Liang Ya Ling owns 17.53% interest in the vendor.

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Can the AC help shareholders understand the deliberations it has had on the proposed acquisition? How robust is the process by the AC in safeguarding the interest of minority shareholders given that the proposed acquisition is an IPT? What was the role played by Ms. Liang Ya Ling in the AC's review of the proposed IPT?

Q3. The board comprises 5 directors, including the executive chairman, an executive director, a non-executive non-independent director and two independent directors.

> **2. BOARD COMPOSITION AND GUIDANCE**
>
> ***Principle 2: The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the Company.***
>
> **Independent Directors and Non-Executive Directors**
>
> (i) As of the date of this Report, the Board comprises five (5) members. Save for the Executive Chairman, Mr. Liang Guo Zhan and the Executive Director, Mr. Zhang Jinming, the rest of the Board are non-executive, and Mr. Gerald Yeo @ Yeo Ah Khe and Mr. Limjoco Ross Yu are independent of the Management:
>
> | | |
> |---|---|
> | Mr. Liang Guo Zhan | Executive Chairman and Chief Executive Officer ("**CEO**") |
> | Mr. Zhang Jinming | Executive Director |
> | Mr. Gerald Yeo @ Yeo Ah Khe | Non-Executive and Lead Independent Director |
> | Mr. Limjoco Ross Yu | Non-Executive and Independent Director |
> | Ms Liang Yaling | Non-Executive Director |

(Source: company annual report)

Provision 2.2 of the Code of corporate governance 2018 requires independent directors to make up a majority of a board where the chairman is not independent.

Listing Rule 710 of the SGX Listing Manual also requires issuers to ***explicitly state***, when deviating from the provisions prescribed in the Code of Corporate Governance 2018, the provision from which it has varied, ***the reason(s) for the variation***, and the explanation(s) on how the practices it had adopted are consistent with the intent of the relevant principle [emphasis added].

The board has simply stated that "the Principle that there be a strong and independent element is adhered to [because] all the board committee meetings are chaired by the independent directors…" (page 20 of the annual report). The requirement to have independent directors chair the board committees is prescribed in the 2018 Code as standalone provisions (Provisions 4.2, 6.2 and 10.2) and should not and cannot be used to justify the deviation from Provision 2.2.

(i) **Can the nominating committee (NC) help shareholders better understand (a) the deliberations it had on and (b) the <u>underlying</u> reasons for the board's deviations from Provisions 2.2 of the Code?**

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On 30 November 2021, Mr Tan Boon Gin, chief executive of Singapore Exchange Regulation (SGX RegCo), gave guidance that companies are expected to use the two-tier rule sparingly to promote renewal and succession planning[2].

(ii) **Will the continued appointment of the long-tenured independent director (Mr. Gerald Yeo @ Yeo Ah Khe) impede/delay the progressive renewal of the board?**

In addition, the long-tenured independent director, Mr. Gerald Yeo @ Yeo Ah Khe, is also the lead independent director.

(iii) **Should Mr. Gerald Yeo @ Yeo Ah Khe be holding himself to higher governance standards and lead by example, especially in setting the tone with regard to the tenure of independent directors?**

(iv) **Would the nominating committee be reviewing the board composition, with a view on how it could refresh the board composition to meet the requirements of the CG Code 2018, in particular, Provision 2.2?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

[2] https://www.businesstimes.com.sg/companies-markets/answer-my-question-before-i-vote-sgx-regco-sets-new-timelines-for-companies-to

^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)

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