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: SP Corporation Limited

Stock code: AWE

Meeting details:
Date: 21 April 2022
Time: 11.30 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. Revenue for the group increased significantly to $50.3 million due to "higher coal prices and an increase in coal sales volume". However, gross profit was $1.0 million for the year as compared to $0.9 million in FY2020.

The group recognised a relatively small 14% increase in gross profit even as revenue growth increased significantly by 71%. This was due to the predominantly fixed rate margin for coal trading based on the quantity delivered.

(i) **Can management elaborate further on the business model of the group, especially in its coal trading?**

(ii) **Is the group's margin for coal trading fixed at a certain dollar amount per metric ton and not fixed at a certain percentage of the price of coal?**

(iii) **If so, does it mean that the group does not benefit from higher coal prices (despite having to commit more in terms of working capital)? How common is the arrangement for fixed rate margin in the industry?**

In December 2021, the group's long-term coal allocation agreement was terminated. The company's Commodities Trading Unit is now in the process of seeking out new coal supplies.

(iv) **Given that PT. INDEXIM Coalindo had informed the group that it was not considering renewing the coal supply agreement upon its expiry, what did management do to obtain new supplies prior to 31 December 2021?**

(v) **How close is the group to securing new coal supplies?**

(vi) **Is there a risk that the company will be considered a cash company since coal trading contributed 100% of the group's revenue in FY2021?**

(vii) On 11 February 2020, the company announced the appointment of Mr William Nursalim alias William Liem as the interim executive director whilst it "*works on the necessary transition arrangement and succession plan*". **Can the company also update shareholders on the search for an executive director/CEO? What role did the nominating committee play in the search process?**

Q2. The group reported a loss of $(1.26) million in FY2021. As noted in the chairman's statement, the loss was mainly "*due to lower interest income and a provision for doubtful debts in respect of interest on overdue trade receivables*" (page 2).

While it is true that the group recognised just $299,000 in interest income (FY2020: $2,471,000), the lower income did not lead to the loss. The loss could be primarily attributed to the $(1.474) million in impairment loss recognised in FY2021.

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The independent auditor has also highlighted the group's aged trade receivables as a key audit matter (page 66). 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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2021

	Note	Group 2021 $'000	Group 2020 $'000
Revenue	17	**50,269**	29,432
Cost of sales		**(49,232)**	(28,522)
Gross profit		**1,037**	910
Other operating income	18	**424**	413
Administrative expenses		**(1,645)**	(1,929)
Other operating expenses	19	**–**	(223)
Impairment loss		**(1,474)**	–
Interest income	20	**299**	2,471
Interest expense	21	**(9)**	(69)
(Loss) Profit before tax		**(1,368)**	1,573
Income tax credit (expense)	22	**110**	(178)
(Loss) Profit for the financial year, representing (loss) profit attributable to owners of the Company	23	**(1,258)**	1,395

(Source: company annual report)

(i) **Did the directors, especially the audit committee (AC) members, consider it necessary to provide additional details in the notes in the financial statements to help shareholders better understand the reasons for the significant impairment loss?**

From Note 9 (page 101 – Trade receivables), it can be seen that most of the trade receivables are with related parties.

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9 TRADE RECEIVABLES

	Group		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Third parties - current	**59**	6,067	–	–
Related parties - current	**8,060**	12,188	–	–
Related parties - non-current	**–**	2,915	–	–
	8,119	21,170	–	–
Less: Loss allowance	**(1,493)**	–	–	–
	6,626	21,170	–	–

(Source: company annual report)

The company further disclosed the following on pages 102:

> *Trade receivables from related parties*
> *Included in the trade receivables from related parties was an amount of $5,617,000 (2020: $8,669,000) due from a related party, of which $5,206,000 (2020: $7,967,000) was secured by two parcels of industrial land and building of the related party in Indonesia valued at approximately $18,714,000 (2020: $18,400,000) as at the end of the reporting period….*
>
> *The remaining secured trade receivables amounting to $4,649,000 was expected to be repaid under the repayment agreement within one year from 31 December 2020 and had been classified as current as at that date. As at 31 December 2020, the remaining $403,000 of secured trade receivables which was not covered under the repayment agreement and the unsecured trade receivables amounting to $702,000 were expected to be repaid by this related party within one year from 31 December 2020 and had been classified as current as at that date…. As at 31 December 2021, $5,617,000 remained outstanding from this related party.*
>
> *Management has performed an impairment assessment and a loss allowance of $411,000 (2020: $Nil), representing the balance arising from interest on overdue trade receivables, has been provided for as at 31 December 2021.*

(ii) **Please disclose the related party with long overdue trade receivables.**

(iii) **What were the underlying transactions that led to these long overdue trade receivables?**

(iv) On page 103, the company only stated that these trade receivables are past due for more than 12 months. Looking at past annual reports, it would appear that the trade receivables were past due since 2018, possibly making these receivables past due for more than 3 years. **Please disclose how long past due these outstanding trade receivables are.**

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(v) **Are the company and its subsidiaries still dealing with this particular related party? If so, why?**

It is clearly stated that the trade receivables are secured by assets of the counterparty valued at $18.7 million. Yet, the company recognised a loss allowance of $411,000. In addition, as noted at the bottom of page 102, the company "rolled over" the receivables and has accepted a new letter of financial support from the controlling party of the related party. The remaining balance is expected to be repaid one year from 31 December 2021 and has been classified as current.

(vi) **Are there any valid reasons to recognise the impairment with the related party?**

(vii) **What are the efforts by the company to safeguard its interest and to collect the full amount from the related party?**

(viii) **Did the independent board members consider it prudent to extend the payment date of the long overdue trade receivables? Why is the amount considered current despite the company having to impair $411,000?**

On page 103, the company further disclosed another and larger impairment of $1,082,000 with another related party. In summary, the impairment of $1,082,000 relates to interest on overdue trade receivables. The remaining balance is expected to be repaid under the repayment agreement within one year from 31 December 2021 and has been classified as current.

It would appear that the group charged the related party interest on overdue trade receivables and then impair the interests on the overdue amounts. The trade receivables are then rolled over under a new repayment agreement for another year.

(ix) **Similarly, please disclose the identity of the related party. Is the group still trading with this related party? If so, why so?**

(x) **Can the AC help shareholders better understand the basis of the impairment of the trade receivables? Did the AC approve the roll-over of the trade receivables and its classification as current after the impairment?**

(xi) **Given that these are IPTs , what role did the executive director play in the board decisions and the board approvals?**

(xii) **What roles did the independent directors, especially the independent chairman and the AC chairman, play in the review and approval, if any, of the impairment?**

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(xiii) At the AGM, the company is seeking shareholders' approval of the renewal of the shareholders' mandate for interest person transactions (resolution 7). **Did the independent directors consider it prudent for the group to continue with the interest person transactions even after the impairment of trade receivables from related parties? How is it beneficial to the company and its minority shareholders?**

Q3. At the annual general meeting scheduled to be held on 21 April 2022, Mr Peter Sung will be retiring pursuant to article 105 of the company's constitution and will be seeking his re-election.

The profiles of the directors can be seen on pages 4 to 5 of the annual report. Additional information on directors seeking re-election can be found on pages 59 to 60 of the annual report.

The fees paid to the directors can be seen on page 46 of the annual report. Mr Peter Sung will receive director's fees of $85,628 as the non-executive chairman. Mr Peter Sung is an adviser of Nuri Holdings (S) Pte Ltd, the deemed substantial shareholder of the company. The company has stated that the amount of advisory fees paid by Nuri to Mr Sung was "*not significant*".

(i) **Please disclose the exact fees paid by Nuri to Mr Sung.**

The nominating committee (NC) stated that it was satisfied that there was no relationship between Mr Sung and Nuri that could interfere with the exercise of his independent business judgement and his ability to act in the best interests of the company (page 36).

Mr Peter Sung was first appointed as a director on 28 January 2002. Accordingly, Mr Peter Sung would have served on the board for more than 20 years. Mr Peter Sung is currently the non-executive independent chairman of the board and a member of the remuneration committee. In accordance with SGX Listing Rules, Mr Peter Sung obtained shareholders' approval via a two-tier vote for his continued appointment as independent director at the AGM held on 16 April 2021.

(ii) **Has the NC considered how the long tenure of the director, along with an advisory role with the deemed controlling substantial shareholder of the company, could be perceived by minority shareholders?**

(iii) **As the independent chairman, would Mr Peter Sung be holding himself to higher governance standards and lead by example, especially in setting the tone with regard to the tenure of independent directors?**

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As stated in the notice of annual general meeting dated 31 March 20**21**, resolution 10 on the continued appointment of Mr Peter Sung as an independent director, upon approval, shall remain in force until the earlier of: (a) the **retirement** or resignation of the director; or (b) the conclusion of the third AGM following the passing of this resolution.

(iv) **Will the company confirm that Mr Peter Sung is not seeking a two-tier vote by shareholders for his continued appointment as independent director at the AGM to be held on 21 April 2022?**

(v) **Given that no such two-tier vote is sought for Mr Peter Sung at the AGM to be held on 21 April 2022, if re-elected, would the director be deemed non-independent given that he retired under article 105 of the company's constitution at the AGM?**

Regardless of the outcome of the proposed re-election of Mr Peter Sung at the AGM, Mr Tan Boon Gin, on 30 November 2021, chief executive of Singapore Exchange Regulation, gave guidance that companies are expected to use the two-tier rule sparingly to promote renewal and succession planning[1].

(vi) **Did the NC consider if the proposed re-election of Mr Peter Sung will delay the progressive renewal of the board? Please disclose the near-term plans to promote board renewal and succession planning.**

^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.

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

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