Issuer: Asiatic Group (Holdings) Limited
Security: Asiatic Group (Holdings) Limited

Meeting details:
Date: 27 July 2017
Time: 10.00 a.m.
Venue: 52 West Coast Ferry Road, Singapore 126887

Company Description
Asiatic Group (Holdings) Limited, an investment holding company, provides engineering management services primarily in Singapore, Cambodia, Vietnam, and Malaysia. The company operates in two segments, Fire Fighting and Protection, and Power Related. Its Energy business provides planning and development services; participates as an equity investor; and operates as an engineering, procurement, and construction, as well as operation and maintenance contractor in power plant projects. The company's Controlled Power Supply business supports the power requirements of industries to protect data and processes in their operations. Its Fire Protection business designs, supplies, installs, and maintains fire protection equipment and systems, such as hose reels, hydrants, alarm systems, and emergency lights, as well as fire extinguishers for households, factories, office buildings, shopping malls, retail outlets, cruise liners, property developments, marine and offshore industries, and civil defense entities under the KILLFIRE brand. The company was incorporated in 2002 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5CR)

Q1. In the Message to Shareholders (pages 2 to 4), the company disclosed that the group "attained a profit after tax of S0.6 million in FY2017, an increase of S$0.2 million compared to FY2016".

In the Consolidated income statement (page 41), profit attributable to owners of the company was $87,000 in 2017, a 67% drop from $265,000 in 2016. Non-controlling interest increased from $150,000 in 2016 to $536,000 in 2017.

The group has a total equity of $64.1 million and total assets of $105.2 million. The group has just exited its investment in Lao Cai Renewable Energy (Vietnam) Joint Stock Company, and managed to recover most of the historical cost of subscription after 5 years.

a) What is the board's guidance to the group in terms of its "Corporate strategic direction, strategies and action plans"?

b) Have the energy projects met management's expectations, especially in terms of the profit projections?

c) How does management evaluate a potential project?

The group has just exited the Lao Cai investment and is poised to jointly establish a concession company with the intention to develop, operate and manage various potential solar farms in Vietnam for the generation and sale of electricity.

d) Has the board conducted a holistic review of the performance of the group's energy projects? Given the group's expertise, cost of capital and balance sheet, what would be the board's guidance to management should they want to embark on a new project (setting up solar farms) in Vietnam?

Q2. The independent auditors have included an emphasis of matter in the Independent Auditor's Report since 2013 that the group has been in a negative working capital position and that the situation that its current liabilities exceeded its current assets indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

This arose as a result of the group opting to finance its power plant projects (long term assets) with short term debt.

a) Can management elaborate further on its decision to finance a long term asset with short term debt?

Based on the disclosure in Note 24 (pages 77 & 78 – Loans and borrowings), a summary of the borrowings and the rates charged is shown in the table below.

Type	Rates	Remarks
Bank overdrafts	5.75% to 9.75% (2016: 5.25% to 5.75%)	Repayable on demand
Term loans from banks	1.89% to 9.50% (2016: 2.61% to 13.50%)	First fixed charge over certain property, plant and equipment
Trust receipts	2.27% to 4.86% (2016: 2.00% to 8.75%)	Secured by fixed deposits
Guaranteed bonds	8%	Matures on 18 March 2019
Non-guaranteed bonds	8%	Matures on 18 March 2019

(Source: Company annual report)

b) What is the group's cost of capital?

c) With the cost of capital, what are the projected/realised returns on the group's projects?

Q3. At the 12.5 MW Build, Own and Operate Biomass Power Plant at Maju Intan, the plant has been struggling to achieve operational efficiency and it had contributed $1.6 million as the group's share of loss incurred by associates in 2017.

Furthermore, as shown in Note 13 (page 70 – Other investments), the group continues to invest more into the biomass plant.

> "In 2017, the Group entered into a bond sale agreement with one of the bondholders, who held the convertible bonds of the other shareholders of Maju Intan Biomass Energy Sdn. Bhd, to acquire 1.2 million of the convertible bonds. The convertible bonds acquired have the same terms as the bonds acquired through the convertible bond agreement in 2010".

a) Why had the group agreed to buy back 1.2 million of the convertible bonds?

In Note 11 (page 70 – Investment in associates), the group's material associate, Maju Intan Biomass Energy Sdn. Bhd., reported losses of $(5.14) million in 2017 and is currently in a net liabilities position of $(3.2) million.

b) Can management elaborate further on the specific challenges at Maju Intan?

c) What expertise is there in the group to help the associate improve its operations?

d) What are the issues that need to be resolved for the associate to achieve profitability?

In addition, the group has also disclosed that:

> "During the year, the share of losses related to Maju Intan Biomass Energy Sdn. Bhd. amounts to $1,541,000, of which $289,000 has been recognised as part of the share of results of associates against cost of investment in the associate. The remaining amounts has been recognised as a liability as the Group has obligation towards such losses".

e) Is there a limit to the group's obligation for losses at Maju Intan Biomass Energy Sdn. Bhd.?