

Issuer: Asia-Pacific Strategic Investments Limited

Security: Asia-Pacific Strategic Investments Limited

Meeting details:

Date: 30 October 2017

Time: 11.00 a.m.

Venue: Antica I, Level 2, Orchard Parade Hotel, 1 Tanglin Road, Singapore 247905

Company Description

Asia-Pacific Strategic Investments Limited, an investment holding company, provides real estate agency services primarily in Singapore. The company operates through three segments: Investment, Sub-Franchise, and Real Estate Agency. It engages in the corporate and residential leasing; sale of commercial and industrial properties; sale and resale of residential properties; and provision of real estate franchise services in Hong Kong. The company was incorporated in 2006 and is headquartered in Singapore. (Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5RA)

Q1. In January 2016, the group had announced that it had entered into a conditional sale and purchase agreement (S&P Agreement) for the proposed acquisition of 100% of 中房联合置业集团有限公司 or CREU for RMB150 million. This included the Weifang Project in Shandong Province, the Dalian Project in Liaoning Province and the Huzhou Project in Zhejiang Province.

Since the first S&P Agreement, and on 10 July 2017, the group has entered into a new conditional sale and purchase agreement for the proposed acquisition of 72% of 湖州荻溪耕读生态农业发展有限公司 and 湖州荻溪渔隐文化产业有限公司 (“Target Companies”) for RMB57.6 million for just the Huzhou project.

- a) Can the company explain what has caused the delay with regard to the January 2016 conditional sale and purchase agreement? Which of the Conditions Precedent for the CREU acquisition have not been fulfilled?
- b) Having obtained shareholders’ approval on 12 October 2017 for the proposed acquisitions of the Target Companies, when does the group expect the acquisition to be completed?
- c) As the group has no prior track record and operating experience in the new business of real estate development in China, how does the board oversee and mitigate the execution risks?

Q2. In Note 27 (page 113 – Segment information), it is shown that the group’s real estate agency business reported revenue from external parties of \$16.26 million in 2017 and a gross profit of \$959,000. In 2016, the figures were \$8.25 million and \$572,000 respectively.

The real estate agency segment reported a loss of \$(1.34) million in 2017 and \$(0.53) million in 2016.

The group incurred commission expenses of \$15.30 million in 2017 and \$7.68 million in 2016. Thus commission expenses accounted for more than 94% and 93% of commission income, as seen in the table below.

	2016 S\$’000	2017 S\$’000
Commission income	8,252	16,256
Commission expenses	7,680	15,297
Gross profit	572	959
Gross profit margin		
Commission expenses as a percentage of commission income	93.1%	94.1%
Total loss for the financial year - Real estate agency	(531)	(1,336)

(Source: Company annual report)

Even though it was mentioned in the Chairman’s Statement (page 5) that the agency business “has continued to stride forward” as evidenced by the increase in commission income, the group has reported a larger segment loss as the gross profit margins were just 6-7% in 2016-2017.

- a) Can management help shareholders understand how the incentive/commission programme for agents are structured? What are management’s plans to increase the gross profit margin from the current 6-7%?
- b) Can management provide some clarity on the market share of the group’s real estate agency business?

Q3. As disclosed in the Corporate Governance report (page 14), all three independent directors, namely Dr Lam, Lee G., Mr Chew Soo Lin and Mr Yap Siean Sin, have served on the Board for more than nine years. Each of Dr Lam, Mr Chew and Mr Yap was appointed to the board on 5 June 2007 and has each served on the board for more than 10 years.

The Nominating Committee (NC) comprises of Dr Lam Lee G. (as Chairman), Mr Chew Soo Lin and Dato' Dr Choo Yeow Ming.

Notwithstanding that "NC and the Board have determined that Dr Lam, Lee G., Mr Chew Soo Lin and Mr Yap Siean Sin's tenures in office have not affected their independence or ability to bring about independent and considered judgement in the discharge of their duties as members of the Board", Guideline 2.4 of the 2012 Code of Corporate Governance (CG Code) issued by the Monetary Authority of Singapore calls for the board to "also take into account the need for progressive refreshing of the Board".

a) Can the NC disclose the deliberations it has on "the need for progressive refreshing of the Board" (page 20)?

Guideline 2.4 of the CG Code also requires that the independence of any director who has served on the Board beyond nine years from the date of his first appointment to be subjected to particularly rigorous review.

- b) Can the company disclose if it has done so? How was the particularly rigorous review of the independence of directors carried out?**
- c) As NC members are subjected to the particularly rigorous review of their independence, can the NC and the company confirm that none of the directors took part in the review of his own independence?**