

Issuer: Transcorp Holdings Limited

Security: Transcorp Holdings Limited

Meeting details:

Date: 27 February 2018

Time: 10.00 a.m.

Venue: Poolside Events Room, Level 1, Singapore Polytechnic Graduates' Guild, 1010 Dover Road, Singapore 139658

Company Description

Transcorp Holdings Limited, an investment holding company, engages in the wholesale and import of motor vehicles in Singapore. It is also involved in the rental and leasing of private cars without operator. The company was formerly known as Transview Holdings Limited and changed its name to Transcorp Holdings Limited in March 2014. Transcorp Holdings Limited was founded in 1984 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=T19)

1. The acquisition of approximately 88.5% of Regal Motors Pte. Ltd. (“RMPL”) was completed on 25 January 2016 for a consideration of \$14,363,814. The acquisition, as announced on 21 December 2015, was for a consideration of up to \$20 million. The consideration included \$4.5 million of cash paid, a sum of \$1.5 million payable in January 2021, \$8.6 million settled by the issuance of 60.1 million shares and contingency payments of up to \$6 million.

Arising from the acquisition, the group recorded goodwill of S\$6,388,610 but the goodwill was fully impaired at the end of the financial year ended 31 October 2016, within 10 months from the acquisition. In addition, following an impairment test, the company recognised an impairment loss of S\$6,746,893 to write down its investment in Regal Motors in FY2016 and a further impairment loss of \$1,748,885 was recognised in FY2017.

- (i) **Can the board explain its roles and its involvement in the acquisition of RMPL that resulted in an impairment loss of \$6.4 million of goodwill within 10 months of the acquisition, and about \$8.5 million of impairment on the subsidiary within 2 years of the acquisition?**
- (ii) **Please let shareholders know the level of commercial due diligence that was carried out by the company before the acquisition.**
- (iii) **Can management help shareholders understand the unforeseen and unexpected changes in the operating/economic conditions since January 2016 that led to the losses/impairment?**
- (iv) In addition, on 13 February 2018, the company announced that it has subscribed for 550,300 ordinary shares at S\$1.00 per share in Regal Motors Pte. Ltd. and the company’s ownership increased from 88.5% to 89.5%. **Given that the Regal Motors has been loss making, and that the company has written down its carrying value, can the board explain if it had approved the share subscription? Was a valuation done? Can the board explain why the share subscription was carried out at an implied valuation of \$55 million for the loss making subsidiary?**
- (v) The net realisable value of inventories is a one of the key audit matters highlighted by the Independent Auditor. 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 financial year. As shown in Note 6 (page 59 –Other operating expenses), the group recognised a write down of inventories amounting to \$1.07 million. This is significant considering that the group recognised revenue of just \$6.1 million and the cost of sale amounted to \$6.5 million. **Can the company provide a breakdown of the write down in inventories and help shareholders understand the improvements made to mitigate/reduce such inventory risks?**
- (vi) The company has incorporated a new wholly-owned subsidiary, Stallion Auto Pte. Ltd., on 25 October 2017 for the wholesale of motor vehicles. **How would Stallion Auto be different from the group’s existing operations? How is the group going to fund this?**

Separately, on page 68 (Note 14 – Trade and other receivables), the group has recognised a refundable deposit of \$6.0 million as at 31 October 2017. The relevant section from Note 14 is reproduced below, for reference:

Refundable deposit relates to deposit placed with Dongshan Dibao Property Co., Ltd (“Project Company”) incorporated in the People’s Republic of China for a property development project. Under the Memorandum of Understanding (“MOU”) dated 31 October 2017, the Company shall be granted the exclusive right but not the obligation to participate in the Project, up to an interest of 51% in the Project, whether by way of subscribing of new shares in the Project Company, entering into a funding and management contract with the Project Company, or via a combination of any of the aforesaid structures. The Company has paid the Project Company a sum of \$6,003,000 as good faith deposit upon signing of MOU.

(Source: Company annual report)

Can the independent directors clarify if it had approved the payment of the “good faith deposit” to Dongshan Dibao Property Co., Ltd? If so, can the independent directors elaborate further on the reason(s), and provide the commercial justification to do so? What kind of due diligence has been conducted on Dongshan Dibao Property Co., Ltd? Can the company confirm that the MOU was signed on 31 October 2017 and the “good faith deposit” of more than \$6 million was paid on the same day?

2. On page 30 of the annual report, the company has listed the following Interested Persons Transactions (IPTs).

(Source: Company annual report)

The IPTs transacted in FY2017 by the Group were as follows:

Name of Interested Person	Aggregate value of all IPTs during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders’ mandate pursuant to Rule 920) S\$	Aggregate value of all IPTs conducted under shareholder’s mandate pursuant to Rule 920 (excluding transactions less than S\$100,000) S\$
Chu Wan Zhen ⁽¹⁾ – Consultancy services: Explore, evaluate and recommend potential project investment and M&A target for Company.	240,000	-
Cheng MingMing ⁽²⁾ – Consultancy services: Explore, evaluate and recommend new car businesses from countries like China, Hong Kong & Vietnam etc.	216,000	-

Notes:

- (1) SG Royal Group Pte Ltd, a controlling shareholder, holding 29.50% of the issued and paid-up shares of the Company. Madam Chu Wan Zhen owns 100% of the issued shares of SG Royal Group Pte Ltd.
- (2) A controlling shareholder holding 27.03% of the issued and paid-up shares of the Company.

(i) Can the company help shareholders understand the specific terms of reference for Ms Chu Wan Zhen’s consultancy services? In addition, can the independent directors (IDs) help shareholders understand how Ms Chu Wan Zhen was selected and why the IDs have deemed Ms Chu qualified for the provision of such consultancy services to the company? Shareholders would also like to request the company to provide an overview of Ms Chu’s professional and working experience that would be relevant to the group’s operations. Kindly also explain if the consultancy services have specific milestones, deliverables and deadlines and, if so, please disclose the details.

- (ii) **Similarly, please provide the same level of details for Cheng MingMing relating to the provision of consultancy services of \$216,000.**
- (iii) **Can the audit committee provide better clarity on the processes to review the IPTs? What were the considerations and justifications that the IPTs are carried out on normal commercial terms and are not prejudicial to the interests of the company and its minority shareholders?**

As noted on page 22, Mr Goh Hong Shih and Mr Goh Teck Wah (each the son of the executive chairman Mr Goh Chin Soon) are Business Development Managers of the Company with the responsibilities of sourcing for “relevant business opportunities for growth” and “focus on overseas projects” respectively. Mr Goh Hong Shih and Mr Goh Teck Wah each received remuneration of \$100,000-\$150,000 in the year.

- (iv) **Can the board help shareholders understand if the responsibilities of Mr Goh Hong Shih and Mr Goh Teck Wah significantly overlap with those of Ms Chu Wan Zhen and Cheng MingMing?**

3. On 31 August 2017, the company announced that it had changed its sponsor from Stamford Corporate Services Pte. Ltd. to Asian Corporate Advisors Pte. Ltd. with effect from 1 September 2017.

- (i) **Can the company and the board help shareholders understand the reason(s) for the change of the sponsor?**
- (ii) **How did the company search, shortlist and evaluate the new sponsor?**
- (iii) **Does the sponsor or its affiliate have any prior relationship with the company, its related corporations, its 10% shareholders or any of its officers (including directors)?**