

Issuer: Advance SCT Limited

Security: Advance SCT Limited

Meeting details:

Date: 6 April 2018

Time: 10.00 a.m.

Venue: 65 Tech Park Crescent, Singapore 637787

Company Description

Advance SCT Limited, an investment holding company, primarily produces and supplies copper-based products to electronic and power industries in Singapore and the People's Republic of China. It is involved in the manufacture of copper cooling systems and CuproBrazed radiators; wholesale trade of copper cathodes; and manufacture and repair of heating boilers, as well as other radiators and correctors. The company also acts as dealer of ferrous and nonferrous metals, electrical and electronics, and insulated cable scraps. Advance SCT Limited was founded in 1995 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5FH)

1. The company resumed trading on 1 March 2018 after the trading of shares has been suspended more than 2 years ago on 12 January 2016.

With the completion of the Debt Capitalisation Exercise of S\$11,187,172 and the successful issuance and conversion of the S\$2,000,000 redeemable convertible loan, the group's capital deficit position of \$(12.8) million improved to a net equity position of \$397,000.

As at 12 March 2018, the number of issued and paid-up shares is 41,316,907,761. Mr. Zhang Baoan, with 8.39 billion shares or 20.31%, is the new controlling shareholder of the company.

In the Chairman's Message, little was mentioned of the future direction of the company and of the group.

- (i) **Can the board update shareholders if the new controlling shareholder has initiated discussion with the board on the future direction of the group?**
- (ii) **What is the profile of Mr Zhang Baoan?**
- (iii) **Pending any board personnel changes and changes to the company, what are the board's priorities for the company in FY2018?**

In addition, Baycrest International Inc, who subscribed for \$2 million of the company's redeemable convertible bond and had converted into 4 billion shares, now have a 9.68% interest in the company. **Is the board aware of any discussion between Baycrest and the company?**

2. The following extract from the annual report shows the financial position of the group:

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	Group		Company	
		2017 S\$'000	2016 S\$'000	2017 S\$'000	2016 S\$'000
ASSETS					
Non-Current Assets					
Plant and equipment	11	-	-	-	-
Goodwill	12	-	-	-	-
Investment in subsidiaries	13	-	-	2	2
Financial receivables	14	-	-	-	-
		<u>-</u>	<u>-</u>	<u>2</u>	<u>2</u>
Current Assets					
Prepayments		5	5	4	4
Trade and other receivables	15	7,761	2,911	6	39
Cash and cash equivalents	16	490	68	32	37
		<u>8,256</u>	<u>2,984</u>	<u>42</u>	<u>80</u>
Total Assets		<u>8,256</u>	<u>2,984</u>	<u>44</u>	<u>82</u>

(Source: Company annual report)

The company's wholly owned subsidiary, Asiapac Recycling Pte Ltd, is in the business of dealing in copper-related products. As seen in the Statements of Financial Position (as at 31 December 2017), the group had no non-current assets. 94% of its current assets was in the form of trade and other receivables, while 6% was in cash and cash equivalent.

Yet, the group generated \$79.7 million in revenue and recognised a net profit for the year of \$1.51 million.

- (i) **What is the current business model of the group? How big is the current management team and what is the total staff strength of the group?**
- (ii) **What are the key drivers that led to the good performance of Asiapac in the last financial year?**
- (iii) **With no fixed assets and no inventory, how much longer can the group operate under such conditions? How scalable is the current business/business model?**
- (iv) **How does the group source for its copper cathodes? How many suppliers does it have?**
- (v) **The group has a major customer who accounted for half of the group's revenue. Can the group provide shareholders with a breakdown/overview of the other customers?**

3. As disclosed in Note 2(a) (page 44 – Significant accounting policies), management has taken the view that the preparation of the financial statements on a going concern basis is appropriate.

Even with the Debt Capitalisation Exercise and the RCB Issuance and conversion, total equity amounts to just \$397,000.

In Note 18 (page 77 – Borrowings), it is shown that the group has a loan from a third party amounting to \$1.241 million that is interest-free, secured and payable on demand.

- (i) **Can shareholders understand why a third party would be willing to loan the group \$1.241 million, interest-free?**
- (ii) The group still has an outstanding loan of \$1.5 million from Fort Canning (Asia) Pte Ltd, a related party with a new repayment date of 15 August 2019. **How does the group intend to pay off the loan?**

Given that the total number of issued and paid-up shares is 41,316,907,761, the minimum market capitalisation of the company will be \$41.3 million.

- (iii) **Can the board explain what are the options available to the company to raise additional funds to strengthen its balance sheet and to fund the businesses and/or investments?**
- (iv) **Is the board considering a share consolidation at this point/together with any fund raising efforts?**