

Issuer: ZICO Holdings Inc.

Security: ZICO Holdings Inc.

Meeting details:

Date: 20 April 2018

Time: 10.00 a.m.

Venue: Conference Room, Level 3, 8 Robinson Road, ASO Building, Singapore 048544

Company Description

ZICO Holdings Inc., an investment holding company, provides multidisciplinary professional services in Malaysia, Singapore, Indonesia, Hong Kong, Thailand, the United Kingdom, the United States, and the United Arab Emirates. The company operates through three segments: Advisory and Transactional Services, Management and Support Services, and Licensing Services. The Advisory and Transactional Services segment offers legal, trust, incorporation and corporate secretarial, wealth planning, investor, corporate finance advisory, online professional, and insourcing and consultancy services, as well as Sariah advisory services. The Management and Support Services segment offers regional management services, such as strategic advisory, market intelligence, business relations, public sector relations, and risk management; and business support services, including accounting, finance and budgeting, information technology, human resource, business development and corporate communications, and knowledge management and training. The Licensing Services segment licenses the ZICO, ZICOLaw, and ZICOLaw Trusted Business Advisor trademarks. The company also provides trustee, fiduciary, and custody services; and immigration related support, share registration, outsourcing, tax administration, and payroll services, as well as owns intellectual property rights. It serves governments and government-linked companies, law firms, private and public listed companies, multinational corporations, and high net worth individuals. The company was formerly known as ZICOLaw Holdings Inc. and changed its name to ZICO Holdings Inc. in April 2014. ZICO Holdings Inc. was incorporated in 2010 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=40W)

1. In both the Chairman's Message (page 10 of the annual report) and the Managing Director's Message (page 12), it was highlighted that the company has been listed for three years since its IPO in November 2014.

The financial and non-financial highlights included:

- Overall revenue rose by 23% to RM81.9 million
- 36% rise in net profit to RM6.9 million
- ZICO Capital Pte. Ltd., Singapore ("ZICAP SG") being granted a Capital Markets Services ("CMS") license by the Monetary Authority of Singapore ("MAS")
- ZICO Asset Management Pte. Ltd. being registered as a fund management company with the MAS in February 2017
- ZICO Capital Sdn. Bhd. ("ZICAP MY") receiving a CMS license from the Securities Commission of Malaysia on 9 November 2017

(i) As the group deepens and strengthens its presence in the ASEAN countries, can the board elaborate further on, and quantify, the network effort of the group and the potential opportunities to cross-sell services?

Even though net profit attributable to shareholders rose 36% in FY2017, the profitability of the group has slipped since its listing. In FY2014, profit attributable to owners of the company was RM10.7 million. Since then, the group recognised profits of RM6.6 million in 2015, RM4.3 million in 2016 and RM5.7 million in 2017.

(ii) Can the board help shareholders understand what led to the severe slide in the profitability of the group since the listing?

(iii) Is the group's cost structure after its listing sustainable?

(iv) What are the management's strategies in 2018 to increase the profitability of the group?

As a professional services firm, the group reported return on asset of 3.0% to 4.8% and return on equity of 5.2% to 8.1% in the past three years.

(v) Has the board set guidance to management on the targeted returns in the mid-long term?

2. In Note 33 (page 112 – Financial risk management: Credit risk), the age analysis of trade receivables past due but not impaired is shown:

As at the end of the reporting period, the age analysis of trade receivables past due but not impaired is as follows:

	2017 RM'000	2016 RM'000
<u>Past due but not impaired</u>		
Past due less than 1 month	7,698	4,567
Past due 1 to 2 months	6,954	5,640
Past due 2 to 3 months	4,988	3,199
Past due 3 to 4 months	577	6,556
Past due over 4 months	<u>31,774</u>	<u>8,147</u>

The age analysis of trade receivables past due but not impaired as at 31 December 2017 includes RM9,737,265 (2016: RM16,000,000) which forms part of the 3-year repayment plan, that have been agreed with the debtors towards the end of 2015. With this repayment plan, the trade receivables as at 31 December 2017 pertaining to these debtors have been excluded from the age analysis.

(Source: Company annual report)

- (i) **Would management help shareholders understand the reasons for the disproportionately large increase in trade receivables past due but not impaired?**
- (ii) **Of the trade receivables past due over 4 months amounting to RM31.8 million, please provide the upper limit to the aging analysis and a breakdown by the number of debtors, the individual overdue amounts and the financial status of any debtors with exceedingly long overdue amounts.**
- (iii) **Currently, a single third party accounts for 37.1% of the total trade and other receivables as at 31 December 2017 (2016: 69.7%). Can the audit committee (AC) help shareholders understand if this is in line with the group's credit risk policy? Please elaborate on the group's credit risk framework to ensure that the group does not have any significant credit exposure to any single counterparty or any group of counterparties having similar characteristics?**
- (iv) **The directors have also stated that they are of the opinion that the amounts are fully recoverable. What is the basis for the opinion of the directors?**

3. The remuneration of Mr. Chew Seng Kok, Managing Director, is disclosed as "Above S\$500,000" in the Corporate Governance Report under Principle 9: Disclosure on remuneration.

For financial year 2017

The breakdown for the remuneration of the Directors in FY2017 was as follows:

Name	Salary (%) ⁽¹⁾	AWS (%) ⁽¹⁾	Bonus (%)	Directors Fees (%)	Total (%)
Above S\$500,000					
Chew Seng Kok	71	6	18	5	100

(Source: Company annual report)

For financial year 2016

The breakdown for the remuneration of the Directors in FY2016 was as follows:

Name	Salary (%) ⁽¹⁾	AWS (%) ⁽¹⁾	Bonus (%)	Directors Fees (%)	Total (%)
Above S\$500,000					
Chew Seng Kok	77	6	11	6	100

For Financial year 2015

The breakdown for the remuneration of the Directors in FY2015 was as follows:

Name	Salary (%) ⁽¹⁾	AWS (%) ⁽¹⁾	Directors Fees (%)	Total (%)
Below S\$250,000				
Chew Seng Kok	86	7	7	100

- (i) **As the group is a Catalyst-sponsor for other listed companies on the exchange, would it be reasonable to expect the company to disclose the remuneration of its directors to comply with the recommendations of the 2012 Code of Corporate Governance and so as to set a good example for other listed companies?**

As mentioned in Question 1, the profit attributable to owners of the company were RM10.7 million, RM6.6 million, RM4.3 million and RM5.8 million in FY2014-FY2017 respectively. Over the same period, the bonus for the managing director has been 0% (only listed in November 2014), 0% in FY2015, 11% in FY2016 and 18% in FY2017.

- (ii) **Would the remuneration committee (RC) explain the approval and award of incentive bonus to the managing director of 11% of his remuneration for FY2016 when the group recorded the weakest performance results in its recent history?**
- (iii) **Similarly, would the RC also justify and explain the bonus of 18% for the managing director for FY2017? How was the performance of key management assessed?**

In addition, the company had on 21 March 2016 and on 21 April 2017 granted share awards pursuant to the ZICO Holdings Performance Share Plan. Details of the grant are shown in the table below.

2016 PSP	2017 PSP
40,000 shares to Dato' T. Jasudasen	100,000 shares to Dato' T. Jasudasen
300,000 shares to Chew Seng Kok	150,000 shares to Datuk Ng Hock Heng
180,000 shares to Liew Foong Yuen	150,000 shares to Liew Foong Yuen
180,000 shares to Ng Hock Heng	100,000 shares to John Lim Yew Kong
100,000 shares to Stephen Arthur Maloy	100,000 shares to Chew Liong Kim
100,000 shares to Chew Liong Kim	100,000 shares to Stephen Arthur Maloy
100,000 shares to John Lim Yew Kong	

The PSP is administered by the RC comprising Mr Chew Liong Kim, Mr Stephen Arthur Maloy, Mr John Lim Yew Kong and Dato' T. Jasudasan.

- (iv) **Were any of the directors involved in the deliberation of the award of his own shares under the Performance Share Plan?**
- (v) **What was the basis of awarding the PSP shares in FY2016 when the performance of the group was relatively weak?**