

Issuer: Sincap Group Limited
Security: Sincap Group Limited

Meeting details:

Date: 27 April 2018

Time: 9.30 a.m.

Venue: 60 Benoi Road, #03-02 EMS Building, Boardroom, Singapore 629906

Company Description

Sincap Group Limited, together with its subsidiaries, trades in alumina and thermal coal in the People's Republic of China. The company operates through Gypsum Ore and Powder, Alumina Products, and Coal Products segments. It also mines and sells gypsum, including crystalline and white gypsum products in various grades. The company holds mining rights to a concession area of approximately 3.0 square kilometers in Dawenkou Gypsum District in Shandong province; and exploration rights to further reserves of approximately 2.42 square kilometers in the Xia Jia Ma Zhuang mineralized block. In addition, the company provides logistic management services. Sincap Group Limited was incorporated in 2010 and is headquartered in Singapore.

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

Q1. Excluding the one-time recognition of income from the disposal of the Beijing Raffles group, revenue from the group's continuing business of trade of thermal coal under its 51% subsidiary, Orion Energy Resources Pte Ltd ("Orion"), increased by 40% to hit RMB306.7 million in FY2017. Sales volume increased by 57% from 763,000 MT in FY2016 to 1,196,000 MT in FY2017.

- a) **What were the key drivers that led to the higher revenue and volume of thermal coal in FY2017?**
- b) **How does Orion obtain its thermal coal and who are its major suppliers and customers?**
- c) **What is the competitive advantage of Orion that would allow it compete with other coal producers and coal traders?**
- d) **Can the company explain its role in the management and oversight of Orion?**
- e) **Is the RM5.8 million of receivable written off related to the coal trading business?**
- f) **Regardless, how does the group ensure that it is not exposed to increasing/excessive credit risk as the group scales up its thermal coal trading business?**
- g) **Is Orion financially self-sufficient? Is Orion able to secure funding on its own and not depend on the company for its funding needs?**

Q2. On 21 May 2015, the board announced that, on 14 May 2015, it was made aware of certain irregularities in respect of certain transactions undertaken by its Australian subsidiaries, SCL Murray Pty Ltd. A AUD5.1 million loan was taken up from Reliance Finance and a loan of AUD4.7 million was extended to Richardson 1 Pty Ltd. As on the date of announcement, Mr Damon Ferguson, Mr Chad Ferguson and Mr Anthony Hatt are common directors of both SCL Murray and Richardson.

A settlement agreement was announced on 8 September 2015 and the salient terms include:

- the Richardson 1 directors to make all requisite payments to SCL Murray by 31 October 2015
- the Richardson 1 directors and Mr Lawrence Tan to resign as directors of SCL Murray

The terms were subsequently revised to extend the deadline to 14 November 2015 but as of 22 December 2017, a sum of over AUD4 million still remains outstanding.

- a) **Can the board elaborate further on the relationship between SCL Murray and Richardson 1 Pty Ltd? Were SCL Murray and Richardson 1 partners in any development?**
- b) **What are the company's plans for SCL Murray and the Australian property development segment? Does the company intend to wind up or dispose of SCL Murray given that the company has decided to cease its Australia property development business?**
- c) **A letter of demand was only issued on 5 September 2017, some two years after the irregularities took place. As announced on 22 December 2017, the company has also consulted lawyers on the matter. Can the board clarify its position on the matter? Why has there been such a long delay in enforcing the company's rights?**

In addition, has the board investigated how its wholly own subsidiary could have entered into these unauthorised transactions? What are the improvements made to the group's oversight of its subsidiaries and its internal controls? How does the board ensure that unauthorised transactions do not happen again?

Q3. On 5 December 2016, the company announced a renounceable non-written rights issue of up to 2.6 billion new ordinary shares of the company on the basis of 5 rights shares for every 1 existing ordinary share of the company at an issue price of \$0.01 per rights share.

At the conclusion of the rights issue, the level of valid acceptances and excess applications were 12.13% and 2.46%, meaning the total level of subscription was just 14.59%.

The issue price of \$0.01 per rights share represented a discount of approximately 60% to the last traded price of \$0.025 per share. Given the discount and the 5:1 ratio of the rights issue, this was a highly dilutive rights issue for shareholders.

- a) **Has the board and management reviewed the rights issue exercise and evaluated the reasons for the low level of subscription?**
- b) **What could the company have done better to improve the amount of funds raised?**
- c) **Has the board also considered the interests of minority shareholders who would have been severely diluted if they did not take part in the rights issue exercise? What were the deliberations by the board when it approved the price of the rights shares and the 5:1 ratio?**

In addition, since 30 August 2017, the group has appointed a placement agent to place out a further 450 million new ordinary shares of the company at a price of not less than \$0.18 per placement share. The placement agreement was extended to 31 May 2018.

- d) **Can shareholders understand from management and the board the reasons for the delay/difficulty of the placement?**
- e) **What are the capital needs of the group in the next 2-3 years?**