



Securities Investors Association (Singapore)

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Meeting details:

Date: 30 May 2018

Time: 9.00 a.m.

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

1. As noted in the Chairman's Message, the group went through a major transformation in FY2017 as the former core business of manufacturing and supply of high precision cold forged loudspeaker parts was divested and three new subsidiaries were acquired. Following the diversification, the group's current core businesses are (a) Leasing and service income; (b) Manufacturing of articles of concrete, cement and plaster; and (c) Supply and manufacturing of ready-mix concrete products.

In addition, the company is seeking shareholders' approval to further diversify its core businesses to include Waste Management and Recycling Business.

- (i) Would the board and/or management help shareholders understand the group's strategy in the diversification efforts? Are there synergies between the different core businesses? How did the group decide to diversify into Waste Management and Recycling Business after it has just gone into the businesses of leasing, ready-mix concrete and precast concrete products?**
- (ii) Who is leading the deal sourcing and deal structuring for any further diversification efforts?**
- (iii) What are the experience and the track record of the team carrying out the deal sourcing and deal structuring?**
- (iv) What guidance has the board given to the company in terms of its due diligence and valuation framework so as to avoid being overly aggressive in the group's acquisitions?**

2. As disclosed in Note 36 (page 124 – Significant subsequent events: Worksite accident and MOM Charge), the company announced that its wholly owned subsidiary, Engineering Manufacturing Services (S) Pte Ltd ("EMS"), has been charged with an offence by the Ministry of Manpower (MOM) under section 20 of the Workplace Safety and Health Act (Cap. 345A) read with section 14(1)(c) of the Act (the "MOM Charge"), for failure to take sufficient preventive measures as were necessary to ensure the safety of the workers of the contractor in carrying out painting works at a factory located in EMS' leasehold property premises at 60 Benoi Road, Singapore 629906.

- (i) How are the board and the senior management addressing the issue of workplace safety so that shareholders and other stakeholders know that the group is committed to achieving the highest safety standards?**
- (ii) Can management update shareholders on how the group's safety awareness and training has been improved since the worksite accident?**

3. The "Bargain purchase from acquisition of Engineering Manufacturing Services (S) Pte Ltd ("EMS") Group" is a key audit matter (KAM) highlighted by the Independent Auditors in their Report on the Audit of the Financial Statements (page 57). Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

As mentioned in the KAM, the Group completed the acquisition of 100% equity interest in EMS Group for a total consideration of S\$25,000,000 as disclosed in Note 17 to the financial statements.

The most significant assets of EMS Group acquired were leasehold properties and the identifiable intangible assets for customer contracts. As a result of the acquisition accounting, the Group recognised a bargain purchase from acquisition of S\$35,505,457 under “other income” line item in the Group’s consolidated statement of comprehensive income.

In particular, the goodwill allocated to the two subsidiaries amounting to \$2.2 million is based on the following value-in-use calculations (page 96):

	Group	
	2017 S\$	2016 S\$
Construction activities		
- Toko Construction Pte Ltd	–	685,258
Manufacturing of articles of concrete, cement and plaster segment		
- W&P Precast Pte Ltd (“WPP”)	1,108,095	–
Supply and manufacturing of ready-mix concrete products segment		
- W&P Corporation Pte Ltd (“WPC”)	1,124,530	–
	<u>2,232,625</u>	<u>685,258</u>

	WPP		WPC	
	2017 %	2016 %	2017 %	2016 %
Gross margin	26.0 - 28.2	–	20.0	–
Growth rate:				
Year 1	25.0	–	25.0	–
Year 2 - 5	3.0	–	3.0	–
Perpetual growth rate	0.0	–	0.0	–
Discount rate	15.88	–	15.88	–

(Source: Company annual report)

- (i) **Would the audit committee help shareholders understand why the growth rate for the first year was assumed to be 25% while the growth rates for years 2-5 are only 3%?**

In addition, the carrying amount of the leasehold properties increased by \$63.0 million as shown in Note 12 (page 92 – Property, plant and equipment). This should be attributed to the newly acquired property at 60 Benoi Road.

- (ii) **Has the company carried out an independent valuation of the above-mentioned property? If so, can the company share the key assumptions and/or the independent valuation report?**