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**Issuer:** Asiatic Group (Holdings) Limited

**Security:** Asiatic Group (Holdings) Limited

**Meeting details:**

Date: 26 July 2018

Time: 11.00 a.m.

Venue: Republic of Singapore Yacht Club, 52 West Coast Ferry Road, Singapore 126887

**Company Description**

Asiatic Group (Holdings) Limited, an investment holding company, provides engineering management services in Singapore, Cambodia, and internationally. The company operates in two segments, Fire Fighting and Protection, and Power Related. It operates as an engineering, procurement, and construction, as well as operation and maintenance contractor that provides planning and development services; and participates as an equity investor in niche power plant projects. The company also distributes controlled power systems, which supports the power requirements of industries to protect data and processes in their operations. In addition, it designs, supplies, installs, and maintains firefighting and protection systems, such as fire hydrants, fire extinguishers, hoses, and couplings to combat marine, offshore, industrial, and household fires for households, factories, office buildings, shopping malls, retail outlets, cruise liners, property developments, marine and offshore industries, and civil defense entities under the KILLFIRE brand. Asiatic Group (Holdings) Limited was incorporated in 2002 and is based in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=5CR](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5CR))

1. Would the board/management provide better clarity on the following financial and operational matters? Specifically:

- (i) **Cambodian power plants: Who is leading the negotiation for the extension of the power purchase agreement (PPA) for the Phnom Penh Power Plant (PP Power Plant) and the Sihanoukville Power Plant (SHV Power Plant)? Even though the group has received a 6 months extension to the PPA, what are the terms of the extension? Can management help shareholders understand if it was prudent to make the capital investments in 2005 with just a 12-year PPA in place? What is the expected useful life of the PP Power Plant and SHV Power Plant? Can management disclose what has been the return on investment of the two power plants since the beginning? What is the carrying value of the 2 power plants given that there is no visibility on earnings/income should the PPA expire after the extension?**
- (ii) **Cambodian power plant (Phnom Penh Special Economic Zone Power Plant): Given that the PPSEZ is a captive plant and will operate for 50 years, how are rates determined? What is the utilisation of the PPSEZ Power Plant that has three 6.5 MW generator sets?**
- (iii) **Solar farms: In the August 2016, the group signed a memorandum of understanding with Bamboo Capital JSC to jointly establish a concession company in Vietnam which will to develop, operate and manage various potential solar farms in Vietnam. Can management confirm that this has been put on hold indefinitely?**
- (iv) **Trade receivables: As seen in Note 15 (page 72 – Trade receivables), the group has trade receivables past due but not impaired of \$3.4 million as at 31 March 2018 (2017: \$2.04 million). What is the breakdown of the trade receivables past due but not impaired by country? In addition, can management also provide a breakdown to show the overdue debt from the fire protection solutions segment, PP Power Plant, SHV Power Plant and PPSEZ Power Plant individually?**

2. The Maju Intan Biomass Power Plant in Teluk Intan Perak, Malaysia is a 12.5 MW Build, Own and Operate Biomass Power Plant that utilises Empty Fruit Bunches from palm as stockfeed.

The carrying value of the Maju Intan Biomass Project is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 36). 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 period.

As noted in the KAM, the group's interests in the project include the cost of investment in associate, Maju Intan Biomass Energy Sdn Bhd ("MJE"), convertible bonds and amount due from MJE amounting to \$5.05 million, \$4.48 million and \$17.27 million respectively.

As the plant continues to report losses, it was considered an indicator of impairment. The impairment assessment involved significant judgement by management regarding the operational effectiveness of MJE's power plant and economic conditions, which in turn affect the forecasted electricity generation volume and revenue used in the impairment assessment.

- (i) **As the group only has 30% of the ownership of MJE, can management disclose the other shareholders who hold the balance 70%? What is the role of the other shareholders?**
- (ii) **Have the 70% shareholders contributed their proportionate share in the fund raising exercises of MJE?**
- (iii) **How much influence, oversight and control does the group have over MJE?**
- (iv) **Specifically, on the operations of MJE:**
  - a. **Who is in charge of the day-to-day operations of MJE?**
  - b. **With an additional upgrading work at the plant, what is the current capacity?**
  - c. **What is the planned/expected capital expenditure in FY2019?**
- (v) **The non-convertible bonds were issued at 10% per annum in 2014 and the interest rate of the outstanding amount was recently reduced to 8% per annum. Did management project the power plant to generate more than 10% returns?**
- (vi) **The calculation of the value-in-use for MJE includes the assumption of a discount rate of 9.0%. Would management show how a discount rate of 9.0% was obtained? The company further state that if the discount rate of 9.5% was used, the VIU will decrease by \$1,920,000. Given that the VIU is sensitive to small changes in the discount rate, how did the audit committee decide on the use of 9.0% as the discount rate? What discount rate would make the VIU equal to the carrying value?**

3. In the Corporate Governance Report (page 24), the company has provided the level and breakdown of the remuneration of the directors (as shown below):

### Disclosure on Remuneration

The total remuneration and breakdown (in percentage terms) of the remuneration of Directors of the Company for FY2018 is set out below:

Name of Director	Total Remuneration (\$)	Base/Fixed Salary	Directors' Fee	Bonus	Other Benefits	Total
Tan Boon Kheng <sup>(1)(2)</sup>	384,000	93%	-	7% <sup>(4)</sup>	-	100%
Tan Boon Yew <sup>(1)</sup>	274,000	93%	-	7% <sup>(4)</sup>	-	100%
Tan Boon Siang <sup>(1)</sup>	277,000	93%	-	7% <sup>(4)</sup>	-	100%
Tay Kah Chye	30,000	-	100%	-	-	100%
Lee Fang Wen	25,000	-	100%	-	-	100%
Seah Hai Yang	30,000	-	100%	-	-	100%

(Source: Company annual report)

The total remuneration of the executive directors (with the percentage of bonus) in the past three years is shown below:

Director	FY2015 (\$)	FY2016 (\$)	FY2017 (\$)	FY2018 (\$)
Tan Boon Kheng	417,000 (18%)	380,000 (7%)	384,000 (7%)	384,000 (7%)
Tan Boon Yew	294,000 (17%)	270,000 (7%)	274,000 (7%)	274,000 (7%)
Tan Boon Siang	299,000 (17%)	270,000 (7%)	277,000 (7%)	277,000 (7%)

Over the past 3 years, each of the executive directors received between \$818,000 to \$1,148,000. This was based on the base/fixed salary of the directors and the 1 month annual wage supplement received by the director each year.

The profits attributable to owners of the company were \$265,000 in 2016, \$87,000 in 2017 and \$923,000, or **\$1,275,000** in the past three years.

The total remuneration paid to the three executive directors was **\$2,790,000**.

From 1 April 2015 to 31 March 2018, the market capitalisation of the company has decreased from approximately \$40 million to approximately \$16 million.

Guideline 8.1 of the 2012 Code of Corporate Governance calls for the structuring of a significant and appropriate proportion of the remuneration of executive directors and key management to commensurate with corporate and individual performances.

- (i) **Would the remuneration committee (RC) help shareholders better understand how Guideline 8.1 has been met?**

The cumulative net profit attributable to owners of the company since FY2015 is \$1.275 million while each of the executive director received total compensation of between \$818,000 to \$1,148,000. Over the past three years, the directors were all given a “standard” annual wage supplement that accounted for 7% of their annual remuneration.

- (ii) Can the RC explain and quantify how it has evaluated the performance of the executive directors and the performance of the group and also explain how the remuneration commensurate with their performance and that of the company?**
  
- (iii) Would the RC consider how it could finetune the compensation structure of the group to ensure better alignment with minority shareholders?**

A copy of the questions for the Annual Report for the financial year ended 31 March 2017 could be found here:

[https://sias.org.sg/index.php?option=com\\_qaannualreports&view=qareports&filter\\_company=](https://sias.org.sg/index.php?option=com_qaannualreports&view=qareports&filter_company=)

The company's response could be found here: -----