Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: BRC Asia Limited

Security: BRC Asia Limited

Meeting details:
Date: 30 January 2019
Time: 10.00 a.m.
Venue: 5 Sixth Lok Yang Road, Singapore 628103

Company Description

BRC Asia Limited, together with its subsidiaries, engages in the prefabrication of steel reinforcement for use in concrete in Singapore, Malaysia, and the People's Republic of China. It operates through three segments: Fabrication and Manufacturing, Renting of Construction Equipment, and Others. The company offers reinforcement bars; wires or mild steel round bars for construction and industrial applications; mesh products; cages; and weldfences, as well as prefabrication, and rebar cut and bend services. It is also involved in the trading of steel reinforcing bars; manufacture and sale of wire mesh fences; rental of construction equipment; and operation and management of airport, hotel, and resort. The company was incorporated in 1938 and is based in Singapore. BRC Asia Limited operates as a subsidiary of Esteel Enterprise Pte. Ltd.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BEC)

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1. As noted in the chairman's message (page 2 of the annual report), the group completed the acquisition of Lee Metal Group in July 2018. The enlarged group has stronger capabilities in prefabricated steel reinforcement, a larger production capacity and a wider customer network.

(i) **Will the integration of Lee Metal be completed in FY2019?**

(ii) **What are the tangible synergies achieved following the acquisition of Lee Metal Group? Can management quantify some of these benefits?**

(iii) **In particular, what are the cost savings targeted/achieved by management following the successful integration of Lee Metal?**

(iv) **What is the market share of the enlarged group in Singapore? Does the group have stronger pricing power?**

(v) **Would the board provide shareholders with better clarity on the group's long-term strategy "*to look beyond Singapore for its future growth*"?**

(vi) **Specifically, what are the plans for the PRC market?** The group currently has a 50% joint venture in Anhui to market and manufacture steel welded wire mesh and other forms of wire and reinforcing steel products for use in the construction industry in the PRC. While revenue at the Anhui joint venture company doubled in FY2018, profit after tax fell by more than half to $1.55 million.

2. As disclosed in Note 37 (page 117 – Capital management), the group monitors capital using a gearing ratio which is net debt divided by capital plus net debt.

From FY2015 to FY2017, the gearing ratio ranged from 16% to 19%.

In the financial year, loans and borrowings increased by $275 million mainly to fund the acquisition of Lee Metal. Net debt increased from $39.2 million to $320.1 million. The gearing ratio as at 30 September 2018 increased significantly to 57% (page 117).

(i) **Has the board re-evaluated the optimal capital structure to support the group's operations?**

(ii) **Is there an internal limit on the gearing ratio?**

(iii) In addition, the group has received a loan of $23.1 million from the immediate holding company which bears interest at a fixed rate of 4.5% per annum. **Can the board explain how the interest rate for the loan was determined? Would this be considered an interested person transaction?**

(iv) The company does not have a dividend policy. The board did not recommend any dividend for the financial year ended 30 September 2017 in order "*to ensure that there are adequate resources for the company's future use*". It recommended a final dividend of 1 cent per share for FY2018 "*as a token of appreciation*". Prior to 2017, the company had a good track record of paying dividends to shareholders. **Would the board review how the group could better balance investing for growth and the need to provide returns (through dividends) to shareholder? Has the acquisition of Lee Metal affected the company's ability to pay dividends? Would the board consider formalising its dividend policy?**

3. The remuneration of the executive directors is shown in the Corporate Governance Report on page 23 and reproduced below:

Name of Director	Salary %	Bonus %	Fees [1] %	Benefits-in-kind [2] %	Total %
Above S$250,000					
Mr. Seah Kiin Peng	50	40	-	10	100
Mr. Xu Jiguo	40	44	-	16	100
Mr. Zhang Xingwang	42	46	-	12	100

(Source: Company annual report)

The company has stated that it will not disclose details of directors' remuneration in nearest thousand dollars, and in bands of S$250,000 as well as the upper limit to the band. Such disclosure may be prejudicial to its business interests given the competitive environment the company is operating in.

In Note 32(b) (page 103 – Related party transactions: Compensation of key management personnel), the company has stated that the total compensation to directors of the company amounted to $1,358,000 (2017: $1,470,000). As the non-executive directors received $307,500 in directors' fees, the estimated remuneration for the three executive directors is $1.05 million.

The company has chosen to disclose the remuneration of the executive directors as "Above S$250,000".

(i) **Would the remuneration committee and the board justify how the disclosure of remuneration as recommended by the Code of Corporate Governance "may be prejudicial to its business interests"?**

(ii) **Given that the companies disclose the total remuneration of directors as required by the accounting rules, would the board consider disclosing the remuneration of individual director in nearest thousand dollars (or at least in bands of S$250,000 together with the upper limit to the band)?**

A copy of the questions for the Annual Report for the financial year ended 30 September 2017 and 30 September 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=BRC%20Asia%20Ltd

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