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Issuer: ACROMEK Limited

Stock code: 43F

Meeting details:

Date: 27 January 2021

Time: 3.00 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

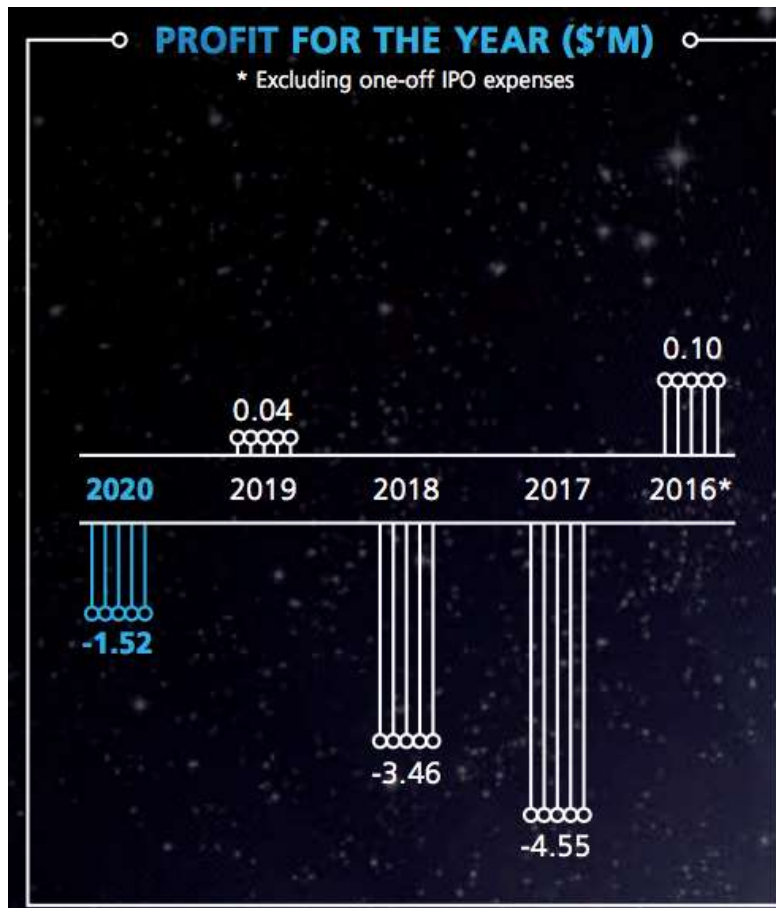
Q1. In the message to shareholders, the chairman highlighted the group's push into the renewable energy segment. The construction of the waste-to-energy plant at Chew's Agriculture farm is in progress and is expected to commence operations in 2021, having started the construction as early as 2019. Together with the joint venture partner (Nutara Investment Pte Ltd), the group will invest approximately \$10 million into the waste-to-energy plant.

The group has also signed an MOU with another potential customer who is in the landscaping business to explore the possibility of building a waste-to-energy plant using wood chip as feedstock.

As at 30 September 2020, net asset value attributable to shareholders slipped to \$6.0 million. Borrowings have increased from \$1.94 million to \$7.86 million at the end of FY2020. During the year, the group took out three new loans under the Enterprise Financing Scheme which was enhanced during the COVID-19 pandemic to provide greater financing support to SMEs.

- (i) **Has the board/management evaluated if the group's financial position is able to support the group's strategic push in the renewable energy segment?** The waste-to-energy plants are capital-intensive and have relatively long gestation period.
- (ii) **What was the return on investment/hurdle rate used in the board's approval process for the investment into the waste-to-energy plant?**
- (iii) **As part of the group's long-term strategy, what is the envisaged/targeted contribution to the top- and bottom-lines from this new operating segment?**
- (iv) **What progress has been made by the group to secure sustainability-linked loans or "Green loans"?**
- (v) **In particular, for the waste-to-energy plant at Chew's Agriculture farm, what is the expected role/contribution of its joint venture partner (Nutara) other than being a co-investor? Does Nutara have a track record in constructing and managing renewable energy/waste-to-energy plants?**

Since the company was listed in 2016, it has reported three years of losses that ranged from \$(1.52) million to \$(4.55) million in the past 4 financial years. Shareholders' equity has shrunk from \$10.8 million as at 30 September 2016 to \$5.99 million even as the company raised an additional \$3.7 million in FY2018. The track record of the group is shown in the financial highlights (page 22) and reproduced below.



(Source: company annual report)

- (vi) **What are the operational and financial milestones management needs to achieve to return the group to profitability?**

Q2. Would the board/management provide shareholders with greater clarity on the group's core engineering, procurement, and construction ("EPC") and maintenance segments?

- (i) **Profit margin:** While the COVID-19 pandemic has served as a catalyst to drive more investment into healthcare infrastructure, it has disrupted the supply chain and raised manpower costs. **What changes has the group made in its tendering process to factor in higher manpower costs and possibly longer delivery deadlines (as a result of manpower shortages and lower productivity due to safe distancing measures)?**

- (ii) **Opportunities:** What are some of the major EPC opportunities in Singapore in the next 18-24 months? What is the group's competitive advantage that would allow it to win EPC contracts?
- (iii) **Indonesia:** Can management elaborate further on the group's scale, business model, prospects and opportunities in Indonesia?
- (iv) **Maintenance:** How does the group acquire new customers in the maintenance segment?
- (v) **Investment property:** An investment property at 1 West Coast Drive was acquired by the group when it acquired Golden Harvest Engineering. It seems that the group has not been able to rent out the unit at NEWest since FY2017 (Note 13 – Investment property; page 105). **Can management clarify its plans for the investment property? What is the meaning of the expiry date of "September 2034" for its investment property (page 3 of the annual report)?**

Q3. As disclosed in Note 1 (page 65 – General) and Note 20 (page 113 – Bank loans), the group breached a financial covenant relating to a subsidiary's leverage ratio on a bank loan amounting to \$2,500,000 during the year. It further stated that the group has yet to apply for a waiver for the breach on this affected loan.

The breach relates to the group's unsecured loan (Loan D) that was drawn under the Enterprise Financing Scheme. The loan matures 5 years from the date of draw down and has an interest servicing period for the first 12 months from draw down date.

- (i) **Would management help shareholders understand the reasons for the breach? How did the subsidiary breach its financial covenant so soon after the draw down?**
- (ii) **What is causing the delay to apply for the waiver or to meet the financial covenants?**
- (iii) **Would the breach of the financial covenant lead to other penalties such as higher interest rate or cross default?**

[^]Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the

[^] Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (<https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings>)

companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer’s website, through “live” webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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