



**Securities Investors Association (Singapore)**

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**Issuer:** AEI Corporation Ltd.

**Security:** AEI Corporation Ltd.

**Meeting details:**

Date: 25 April 2019

Time: 9.00 a.m.

Venue: 15 Tuas South Street 13, Singapore 636936

**Company Description**

AEI Corporation Ltd., an investment holding company, manufactures, imports, and exports aluminum extrusion sections, metal materials, and other related products in Singapore, Greater China, Malaysia, and internationally. It operates through Electronics and Precision Engineering, and Construction and Infrastructure Building segments. The Electronics and Precision Engineering segment offers precision aluminum extrusions that form components of products of the high-tech electronics and precision engineering industries. This segment's products are used in electronics and precision engineering components, bio-medical equipment and products, industrial machinery, and clean room equipment and structures, as well as in technology products for the defense and aerospace industries. The Construction and Infrastructure Building segment offers aluminum extruded products for public infrastructure, building construction, interior fixtures, signages, and advertising panels in the construction, civil engineering, and infrastructure building industries. The company also engages in the manufacture of basic ferrous and non-ferrous metals, and engineering components; and wholesale of scrap, junk, and waste products. The company was founded in 1983 and is based in Singapore.

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

1. Following the allotment of shares to New Impetus Strategy Fund (NISF) on 27 April 2018, NISF became a controlling shareholder and the board composition was changed with the appointment of Mr Sun Quan on 30 April 2018 and Mr Wu Pingwei on 16 May 2018.

Mr Sun and Mr Wu were appointed as non-executive chairman and executive director respectively.

For FY2018, revenue amounted to \$9.4 million and the group reported a gross profit of \$89,000. Loss attributable to owners of the company was \$(5.9) million (FY2017: \$(9.5) million).

In the chairman's statement, it was mentioned that the restructuring was completed, and the group is commencing its business transition.

- (i) Please help shareholders understand the extend of the restructuring that was carried out in the year. How have the group's operations been streamlined?**
- (ii) With the new controlling shareholder and based on the changes to the board, can the company help shareholders understand the new strategic direction of the group? What is the group's business model and how does management intend to create long term sustainable value for shareholders?**

Specifically, the company has mentioned its diversification efforts in the areas of global emerging industries, including "digital cluster, hub services, logistics, urban solutions & infrastructure, healthcare, consumer technologies and commercial property".

- (iii) Can management help shareholders understand how it is carrying out its search for new businesses? Is it leveraging professional investment bankers and/or consultants to deal-source for suitable businesses and assets?**
- (iv) What is the role of the independent directors in any deal sourcing, deal structuring, due diligence and evaluation?**
- (v) What guidance has the board given to management to ensure that deals are structured to manage risks appropriately and that the company avoid overpaying for assets?**

2. In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code"). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022.

Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

At the company's annual general meeting scheduled to be held on 25 April 2019, the two independent directors, Dr Vasoo Sushilan and Mr Yeung Koon Sang @ David Yeung, are retiring under Article 104 of the constitution of the company and would be seeking re-election.

Both directors were appointed on 26 December 2003.

In fact, all three independent directors of the company were appointed on 26 December 2003. As such, each of the long tenured independent director has served on the board for more than 15 years.

- (i) Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**
- (ii) Would the board help shareholders recall if it has appointed an independent director to the board following its IPO on 11 February 2004? What is the search and nomination process for directors, especially independent directors?**
- (iii) Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**
- (iv) Please provide shareholders with an overview of the company's near term plans to refresh the membership of the board to comply with the new 2018 Code in good time given that all three independent directors will be impacted by the revised rules on director's independence.**

3. On 8 August 2017, the company announced that it had entered into a conditional subscription agreement with New Impetus Strategy Fund to issue up to 62,500,000 new shares at an issue price of S\$0.80 per Share for an aggregate maximum subscription amount of S\$50,000,000.

This would also result in a change in controlling interest pursuant to Rule 803 of the SGX-ST Listing Manual following completion of the subscription.

More importantly, the net asset value per ordinary share prior to the agreement was \$1.58 per share (as at 30 June 2017, as disclosed in the unaudited 2017 half year financial statement).

The subscription agreement was done at a price approximately 50% below the net asset value.

- (i) What deliberations did the board have over the dilutive effect of the share subscription?**
- (ii) Has the board considered and estimated the real cost of the share subscription to the then-existing shareholders given that the subscription price was approximately 50% below the NAV per share?**

As noted in the announcement dated 8 August 2017, the net tangible asset per share would decrease from S\$1.70 (as at 31 December 2016, audited) to S\$1.05 (immediately following issuance of the maximum number of shares over two tranches (including option shares) and the maximum introducer shares).

- (iii) Has the board estimated the implicit cost of this fund raising versus the expected returns that can be achieved going forward? Did this corporate action create value for shareholders?**