Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Acromec Limited

Security: Acromec Limited

Meeting details:
Date: 30 January 2019
Time: 10.00 a.m.
Venue: National Service Resort & Country Club, 10 Changi Coast Walk, Singapore 499739

Company Description

Acromec Limited, an investment holding company, provides specialist engineering services in the field of controlled environments in Singapore. The company operates in two segments, Engineering, Procurement and Construction; and Maintenance. It designs and constructs facilities requiring controlled environments, such as laboratories, medical and sterile facilities, and cleanrooms; and provides engineering, procurement, and construction services, such as architectural, mechanical, and electrical and process works. The company also provides maintenance and repair services for facilities and equipment of controlled environments and their supporting infrastructure. It serves hospitals and medical centers, government agencies, research and development (R&D) companies and agencies, R&D units of multinational corporations, tertiary educational institutions, pharmaceutical companies, semiconductor manufacturing companies, and multinational engineering companies. The company was founded in 1996 and is based in Singapore. Acromec Limited is a subsidiary of Ingenieur Holdings Pte. Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=43F)

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

(i) **Engineering, Procurement and Construction (EPC):** In the core EPC segment, the group recognised a revenue of $37.3 million and a gross profit of $1.51 million. The segment result was a loss of $(2.5) million. **Can management quantify the loss attributable to the major pharmaceutical plant project? Excluding the one-off impact of the loss-making pharmaceutical plant project, would the EPC segment have at least achieved break-even in the financial year? Can management help shareholders understand how it intends to capture its fair share of value so that the group generates a return that is commensurate with the risks it has taken to enhance shareholder value?**

(ii) **Liquidated damages:** The group recognised $870,000 in liquidated damages, which represents the estimated costs of compensation required for not completing the construction contracts in accordance with the stipulated schedule. **Can management elaborate if the provision of $870,000 in liquidated damages is also related to the major pharmaceutical plant project in Tuas?**

(iii) **Tender and project management processes: What are the major improvements made to the group's tender and project management processes?**

(iv) **Maintenance: I**n the maintenance segment, the group also reported a loss of $(311,069) on revenue of over $5 million in FY2018, a slight improvement from the loss of $(359,833) in the previous financial year. **What are the key value drivers for the group's maintenance business? How can the group improve the profitability of the maintenance segment?**

(v) **Renewable energy:** The group is looking to finalise a definitive agreement with Chew's Agriculture Pte Ltd for the build-own-operate (BOO) of a renewable energy plant. **For this new business, what are the projected returns on the group's investment? Given that a BOO business-model is capital intensive, how will the group be funding the expansion into the renewable energy business?**

2. On 28 December 2018, the company announced that there are material differences between the unaudited full year results announcement and the audited financial statements for the financial year ended 30 September 2018 as there are indications of impairment in view of material developments affecting a customer after the initial announcement.

(i) **Would management provide more visibility on the profile of the customer who has defaulted?**

(ii) **How does management evaluate the creditworthiness of its customers?**

(iii) Is the group able to obtain more collateral or higher milestone/upfront payments to mitigate the counterparty risks?

Even if the $(802,007) were excluded, the group has trade receivables past due but not impaired amounting to $948,466 as at 30 September 2018, up from $244,171 a year ago. The aging analysis of receivables past due but not impaired is shown in the table below (page 83):

Aging of receivables that are past due but not impaired:

	Group	
	2018	2017
	S$	S$
Less than 30 days overdue	**378,494**	165,260
31 to 90 days overdue	**355,752**	63,609
More than 90 days overdue	**214,220**	15,302
	948,466	244,171

(Source: Company annual report)

(iv) What is the reason for the significant increase in trade receivables that are past due but not impaired?

(v) Can management elaborate further on its efforts to collect the long outstanding debts? Has there been a change in the way the group assesses the creditworthiness of its customers?

(vi) What is the profile of the customers with long outstanding debts?

3. As seen in the Directors' statement, the three executive directors reduced their individual stake in the company by 3 million shares each.

Name of directors and Company in which interests are held	Shareholdings registered in name of director		Shareholdings in which directors are deemed to have an interest	
	At beginning of year	At end of year	At beginning of year	At end of year
	Ordinary shares		Ordinary shares	
Lim Say Chin[(1)]	9,000,000	6,000,000	66,130,645[(2)]	66,130,645[(2)]
Chew Chee Keong[(1)]	9,000,000	6,000,000	66,130,645[(2)]	66,130,645[(2)]
Goi Chew Leng[(1)]	9,000,000	6,000,000	66,130,645[(2)]	66,130,645[(2)]
Yee Kit Hong	100,000	100,000	–	–
Pan Chuan-Chih George	100,000	100,000	–	–
Elaine Beh Pur-Lin	50,000	50,000	–	–

(Source: Company annual report)

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The disposal by the directors via off-market transactions on 30 November 2017 at $0.25 per share for 3,000,000 shares each was reported on SGX on 1 December 2017.

(i) **Can the executive directors help shareholders understand if this was a coordinated effort by the executive directors as part of their regularly scheduled share sale? Are there any further scheduled share sales by the directors?**

(ii) The shares disposed by the executive directors add up to 9 million or a 7.34% stake. **Can the company confirm that it has not received notification of a new substantial shareholder who holds more than 5% of the issued shares?**

The company further carried out a placement of 16 million shares at $0.24 cents per placement share for net proceeds of $3.696 million. For the financial year, net cash used in operating and investing activities amounted to $(7.77) million and $(606,195) respectively. Despite the net proceeds of $3.696 million raised in the financial year, the group ended the year with cash and cash equivalent of $5.74 million, down from $10.23 million.

(iii) **What guidance has the board given to management to improve the cash flow from its operations?**

(iv) **Has the board reviewed its capital management framework and determined the optimal capital structure to support the group's operations and growth?**

(v) **Would the company be looking to carry out a rights issue to strengthen its financial position?**

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

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

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