



**Securities Investors Association (Singapore)**

7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111

Tel: (65) 6227 2683 Fax: (65) 6220 6614

Email: [admin@sias.org.sg](mailto:admin@sias.org.sg) [www.sias.org.sg](http://www.sias.org.sg)

UEN No: S99SS0111B

GST Reg No: M90367530Y

**Issuer:** Asia Enterprises Holding Limited

**Security:** Asia Enterprises Holding Limited

**Meeting details:**

Date: 18 April 2019

Time: 10.00 a.m.

Venue: 3 Pioneer Sector Walk, Singapore 627897

**Company Description**

Asia Enterprises Holding Limited, an investment holding company, distributes various steel products to industrial end-users in Singapore and the Asia Pacific. Its products include shipbuilding plates/high tensile plates, hot-rolled plates/chequered plates, wide-flanged beams, bulb flats, channels, equal angles/unequal angles/inverted angles, round/square/flat bars, hollow sections, seamless/ERW API grade pipes, and serrated galvanized gratings. The company also processes and sells various steel materials. It serves customers primarily in the marine and offshore, oil and gas, construction, precision metal stamping, manufacturing, and engineering/fabrication industries. The company was founded in 1961 and is based in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=A55](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=A55))

1. As noted in the Message to shareholder (page 1 of the annual report), the operating environment continues to be challenging and recovery remains slow. Business sentiment has been cautious while the group also faced intense competition in the steel distribution industry within Singapore and the region.

While revenue increased by 23% in the financial year, gross profit decreased by (8)%. Gross profit margin dropped from 27.8% in FY2017 to 20.9% in FY2018. In the Financial and business review (page 2), it was disclosed that the group achieved higher average selling prices and a modest increase in sales volume in FY2018.

The decline in gross profit margin was attributed to the higher weighted average cost basis for the group's inventories and certain large orders in the last quarter of the financial year that fetched lower margin.

- (i) Did management embark on a price competition strategy in the face of intense competition to increase revenue?**
- (ii) Given that global steel prices have recovered and the global steel market is expected to be returning to near normal levels of pricing, can management elaborate further on its strategy to capture its fair share of value as the market recovers?**
- (iii) How much pricing power does the group have? Is the group able to pass on the increase in steel prices to its customers to maintain its profit margin?**
- (iv) Does the group expect the increase in business activities in the "Marine & Offshore" segment to be sustained?**
- (v) Given that the level of inventories has increased from \$14.3 million to \$18.4 million, how much of it is due to the increased average cost and how much of it is due to the higher volume of inventories?**
- (vi) Would the company also elaborate further on its inventory replenishment strategy? What is the inventory turnover (in days)?**

2. Other financial assets have increased to \$6.67 million as at 31 December 2018 from \$2.6 million a year ago. This is attributed to the purchase of fixed-income securities as investments for the group.

In Note 15A (page 59 – Other financial assets: Investments in debt asset instruments at amortised cost), the details of the group's fixed-income securities can be seen.

- (i) Would the board help shareholders understand if the group's purchase of long duration bonds is in line with its capital allocation policy?**
- (ii) What is the level of expertise in the group to make investment decisions on the long duration fixed-income securities?**

- (iii)** Specifically, the group has purchased several quoted bonds with fixed interest rates of between 4.70% - 4.75% and maturing in December 2165 to June 2166. **Would the company disclose the issuer(s) of the bonds?** An example of the quoted bond is shown below:

	31.12.2018	
	\$'000	%
Quoted bonds in corporations with fixed interest of 4.75% and maturing on 19 May 2166 (effective rate 2.42%), Singapore – at amortised cost	767	12

- (iv)** What is the level of oversight by the board in relation to the group's investment in fixed-income securities? Is there an investment committee to provide oversight and manage the risks?
- (v)** Given that the group has cash and cash equivalents amounting to \$48.8 million, has the board evaluated if the group is in a position to return excess capital to shareholders?

3. 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.

The current board comprises two independent directors, two non-executive directors and two executive directors.

- (i)** As the chairman of the board is an executive director, did the nominating committee consider if the company had complied with Guideline 2.2 which states that independent directors should make up at least half of the board where the chairman is not independent?

The independent directors, namely Mr Tan Keh Yan and Mr Lee Bon Leong, were appointed on 22 July 2005 and 3 May 2012 respectively.

Mr Tan Keh Yan has served on the board for more than 13 years. In 2022 (when the new rules on independence come into effect), Mr Lee Bon Leong would have served for more than 9 years.

- (ii)** Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?

- (iii) 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?**
- (iv) What is the search and nomination process for directors, especially independent directors?**
- (v) What are 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 the company does not have a majority of independent directors now? This would avoid undue disruption and maintain institutional knowledge and continuity in the board.**

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

<https://sias.org.sg/qa-on-annual-reports/?company=Asia%20Enterprises%20Holding%20Ltd&cid=6351,4523>

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