



**Securities Investors Association (Singapore)**

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**Issuer:** Asia Vets Holdings Ltd.

**Security:** Asia Vets Holdings Ltd.

**Meeting details:**

Date: 25 April 2019

Time: 3.00 p.m.

Venue: NUSS Suntec City Guild House, 3 Temasek Boulevard (Tower 5), #02-401/402 Suntec City, Singapore 038983

**Company Description**

Asia Vets Holdings Ltd, formerly Smartflex Holdings Ltd, is an investment holding company. The Company is principally engaged in the fabrication and packaging of smart card chip modules. It provides integrated circuit (IC) module assembly and testing services for contact and dual interface smart cards, which are used in the banking and finance, pay television, telecommunications and transportation industries. It also provides value added services, which include the loading of software or customer specific data into smart card IC modules. It has a manufacturing facility encompassing an area of over 3,500 square meters in Singapore houses equipment, with wafer mapping and dicing, operating system (OS) loading, and testing and inspection solutions. It provides manufacturing solutions to its customers from Southeast Asia, Europe, India, People's Republic of China (PRC), South America and Korea. Its subsidiaries include Smartflex Technology Pte Ltd and Smartflex Innovation Pte Ltd.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=5RE](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5RE))

1. The acquisition of the entire issued and paid-up share capital of AVH Animal Ark Pte. Ltd. (“AVHAA”) was completed in August 2018.

- (i) With more than eight months of ownership of AVHAA, can the board help shareholders understand if the newly acquired company has performed up to expectations?**
- (ii) What are the lessons gleaned from the entire M&A journey that started with the disposal of the former subsidiaries on 20 July 2016?**

The chairman has further stated that the group will continue to grow the veterinary business both organically and through further acquisitions within in Asia.

- (iii) Are there further opportunities to consolidate the group’s position in Singapore to build up a stronger foundation before any overseas foray?**
- (iv) What are the other attractive markets that would be complementary/synergistic to the group should the company venture into new foreign markets?**

2. The “Impairment assessment of goodwill” is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 34). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

Of the total purchase consideration of S\$9,068,141, the group recognised goodwill of S\$8,404,846 following the purchase price allocation exercise.

As noted in the KAM:

*As at 31 December 2018, the Group has goodwill of S\$8,404,846 and represents 40% of the Group’s total assets.... As part of the annual impairment assessment of goodwill, management has determined the recoverable amount of the group of cash generating units (“CGU”) by estimating value in use based on cash flow projections of the CGU’s business.*

Based on Note 12 (page 64 – Goodwill), the following assumptions were used in the calculation of the value in use:

	<b>2018</b>
Growth rate	0.50%
Budgeted gross margin	50% to 54%
Pre-tax discount rate	10.50%

- (i) Growth rate: Would the board help shareholders understand if the projected growth rate of 0.5% reflects the board's assessment of the actual growth rate of the business?**
- (ii) Budgeted gross margin: On page 4, the chairman has disclosed that the gross profit margin achieved in FY2018 was 41.1%. In the value in use calculation, the gross margin estimates used were 50% to 54%. Would the audit committee consider it prudent to use the higher gross margin of 50% to 54% when the FY2018 gross margin achieved was only 41.1%? What are the operational improvements needed to achieve a gross margin of 50% to 54%?**
- (iii) Sensitivity analysis: Would the audit committee show the changes in the value in use based on different assumptions used?**

3. The group had restricted deposits representing cash held in an escrow account, in accordance with the Catalist Rules. This was released to the company upon completion of the acquisition.

The company received \$17.29 million as a result, and following the acquisition, as at 31 December 2018, cash and cash equivalents amounted to \$11.95 million.

- (i) Has the board re-evaluated the group's optimal capital structure?**
- (ii) At the operational level, does the board expect AVHAA to be cash generative barring any major acquisitions and/or expansion?**
- (iii) How much has the board earmarked for the group's M&A?**
- (iv) Did the board consider a special dividend to right-size the balance sheet to return excess capital to its shareholders if there are no opportunities to meaningfully deploy its cash hoard?**