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Issuer: Asian Micro Holdings Limited

Security: Asian Micro Holdings Limited

Meeting details:

Date: 26 October 2018

Time: 10.00 a.m.

Venue: Orchid Country Club, Emerald Suite, 1 Orchid Club Road, Singapore 769162

Company Description

Asian Micro Holdings Limited, an investment holding company, provides compressed natural gas (CNG) supply and related products and services. The company operates through Tray Washing and Recycling, Trading, and Natural Gas Vehicle Related Business segments. It supplies CNG skids, which are used for storing and transporting CNG to local industries for gas cutting, heat treatment, and power generation, as well as for powering of natural gas engines and off-the-road vehicles. The company also provides clean room grade plastic packaging bags and materials for packaging cleaned finished products in the hard disk drive and semiconductor industries, as well as engages in the recycling and precision cleaning of packaging trays and media/disk cassettes used in these industries. In addition, it offers precision parts cleaning and parts visual inspection, as well as clean room laundry cleaning services; and trades in natural gas vehicle related products, such as bi-fuel conversion kits and cylinders. The company serves customers in the oil and gas, marine and offshore, aviation, shipyard, and manufacturing industries in Singapore, the Philippines, Thailand, and the People's Republic of China. Asian Micro Holdings Limited was incorporated in 1997 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=585)

1. In the Chairman's Message, the following developments in the financial year were highlighted:

- Revenue from continuing operations increased to \$4.59 million
- A net loss from continuing operations of \$0.65 million in FY2018 compared to the net profit from continuing operations of \$0.19 million in FY2017
- Net tangible assets of \$1.71 million as at 30 June 2018 (2017: \$1.96 million)
- Acquisition of four commercial units at Gurney Tower, Penang, Malaysia
- Issued an aggregate of 45,233,700 new shares in the debt capitalisation agreement
- Issuance of an aggregate of 5,875,000 new shares by way of employee bonus shares

(i) Property: Can management provide shareholders with a holistic overview of its strategy for the property development business? Does the group have the financial resources to carry out property development?

(ii) Contract with Rolls-Royce: The group has extended a contract with Rolls-Royce Singapore Pte Ltd for the supply and transportation of Compressed Natural Gas ("CNG") and maintenance of Rolls-Royce's CNG yard until 31 March 2019. **Can management update on the status of the contract? Has the group started negotiation with the client for a renewal of the contract?**

(iii) Trading: The trading segment reported a segment profit of \$94,000 in FY2016 but suffered losses of \$(274,000) and \$(294,000) in FY2017 and FY2018 respectively. Revenue has dropped from \$1.67 million in FY2016 to \$1.4 million in FY2017/FY2018. **What are the main products? What is the profile of the major customer(s)? What are the opportunities in the trading segment for the next 6-18 months?**

(iv) Strategic review: **Would the board consider it timely to carry out a strategic review of the performance of the group to assess the core competencies of the group and its board, its management team and its financial strength and to fine-tune its strategic plan so as to create long-term sustainable value for all shareholders?**

2. In the Report on Corporate Governance, the company has stated that it "*recognises the importance of corporate governance and is committed to upholding high standards of corporate governance, and putting in place effective self-regulatory corporate practices to preserve and enhance long term shareholders' value*" (page 13).

On 21 August 2018, the company announced the re-designation of Mr. Lee Teck Meng Stanley as an independent director. Mr. Lee Teck Meng Stanley was first appointed as a non-executive non-independent director of the company in August 2016.

The nominating committee (NC) has justified the re-designation as follows:

The NC and the Board, having reviewed the independence of Mr Lee Teck Meng Stanley, are of the view that he is independent in character and judgement, for the

purposes of Catalist Rule 704(7) and the Code of Corporate Governance, and there are no circumstances which would likely affect or appear to affect his judgement.

His familial relationship, as a nephew of Mr Lim Kee Liew @ Victor Lim (the Group's Executive Chairman, Chief Executive Officer and Managing Director) and his spouse, Ms. Leong Lai Heng (a Controlling Shareholder and a Director of the subsidiaries of the Company) is not deemed as an immediate family member for the purposes of the Code of Corporate Governance. His familial relationship does not interfere, or be reasonably perceived to interfere, with the exercise of his independent business judgement with a view to the best interests of the company.

- (i) Can the NC elaborate further how it concluded that “there are no circumstances which would likely affect or appear to affect [Mr Lee’s] judgement”? What circumstances did the NC consider? Did the NC consider circumstances that are less likely but nevertheless still possible (i.e black-swan/long tail events)?**
- (ii) Can the board explain how the re-designation of a nephew of the executive chairman, chief executive office and managing director is “committing to upholding high standards of corporate governance”? Does the company have a formal search and nomination process for independent directors?**
- (iii) What is the role of the sponsor in the re-designation of the non-executive director?**

The company has stated that for good corporate governance, Mr. Lim Kee Liew @ Victor Lim had also abstained and recused himself from participating from all discussion and the recommendation on the re-designation of Mr. Lee Teck Meng Stanley.

- (iv) In addition to the above, would Mr. Lim Kee Liew @ Victor Lim (and all his associates) consider voluntarily abstain from the re-election of Mr. Lee Teck Meng Stanley to allow the minorities to vote on Mr. Lee’s re-election as an independent director should he be put up for re-election in the next AGM?**

3. As noted in the Corporate Profile, the group has core businesses in CNG-related services and trading of clean room grade packaging for the hard disk drive and semiconductor industries. The group had also diversified into the investment in, trading of, and development of residential, commercial, retail and industrial properties within Singapore and overseas as and when the opportunities arise.

In a media interview titled “For owner of 18 real estate firms, the magic is leverage” (published on 9 September 2018, The Sunday Times), Mr Victor Lim revealed that he owns 18 private property companies across the region.

- (i) Can Mr. Lim Kee Liew @ Victor Lim help shareholders understand if he is fully committing his time and efforts to the group, as the Executive Chairman, CEO and Group Managing Director?**

- (ii) As the group has diversified into real estate development and investment, would Mr. Lim be frequently put in a position of conflict as he has 18 private property companies in the region and he appears to be actively managing his private investments?
- (iii) How does the board oversee, manage and reduce any potential conflict of interests, including act of omissions (which would be difficult to judge)?
- (iv) As board directors are fiduciaries, how does Mr. Lim Kee Liew @ Victor Lim demonstrate the duty of loyalty and the duty to avoid conflicts of interest?

[The following question on executive remuneration was sent to the company following the review of the annual report for the financial year ended 30 June 2017. As the company has not responded nor provided better clarity in the annual report, the question has been updated and reposted.]

4. The following financial highlights show the performance of the group over the past 6 years, since FY2013.

FINANCIAL HIGHLIGHTS

	2013	2014	2015	2016 Restated	2017	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
RESULTS OF OPERATION						
Revenue	6,695	6,545	6,047	4,132	4,149	4,593
Net (Loss)/Profit from continuing operations after taxation but before NCI	(1,290)	(445)	263	83	191	(645)
Attributable to :						
Owners of the Company	(1,031)	(602)	609	109	(176)	(609)

(Source: Company annual reports)

Based on the disclosure in Note 28(b) (page 83 – Related party disclosures), the compensation of directors (excluding key management personnel who are not directors) is \$ 901,690 (2017: \$628,983).

Since 2013, the executive directors are Lim Kee Liew @ Victor Lim, Ng Chee Wee and Lin Xianglong Winchester (resigned as an Executive Director of the Company with effect from 3 August 2016). Mr Lin Xianglong Winchester is the son of the Executive Chairman, CEO and Group Managing Director, Victor Lim.

The remuneration of the executive directors, relative to the group's performance and equity base, is compiled from past annual reports and is shown below.

	2013	2014	2015	2016	2017	2018
Directors of the Company	\$585,809	\$976,386	\$531,377	\$582,913	\$628,983	\$901,690
Directors' fees for non-executive directors	\$48,000	\$48,000	\$48,000	\$55,000	\$56,000	\$56,000
Estimated remuneration for executive directors	\$537,809	\$928,386	\$483,377	\$527,913	\$572,983	\$845,690
Remuneration for Mdm. Leong Lai Heng, spouse of Mr. Lim Kee Liew @ Victor Lim, Executive Chairman, CEO	\$150,000 to \$250,000	\$300,000 to \$350,000	\$150,000 to \$200,000	\$200,000 to \$250,000	\$200,000 to \$250,000	\$350,000 to \$400,000
Revenue (\$ '000)	6,695	6,545	6,047	4,132	4,147	4,593
Executive directors' remuneration as a percentage of revenue	8.0%	14.2%	8.0%	12.2%	13.8%	18.4%
Equity attributable to owners of the company (\$ '000)	649	2,487	2,679	3,133	1,803	1,595
Executive directors' remuneration as a percentage of shareholder's equity	82.9%	37.3%	18.0%	16.9%	31.8%	53.0%
Net (loss)/profit attributable to owners of the company (\$ '000)	(1,031)	(602)	609	109	(176)	(609)
Executive directors' remuneration as a percentage of net (loss)/profit attributable to owners of the company	-52%	-154%	79%	484%	-326%	-139%

Over the past 6 years, the cumulative net (loss) attributable to owners of the company is \$(1.7) million while the estimated total remuneration to the executive directors is \$3.90 million. The remuneration paid to Mdm. Leong Lai Heng, spouse of Mr. Lim Kee Liew @ Victor Lim, Executive Chairman, CEO, further increased to \$350,000 to \$400,000 in the FY.

As at the end of FY 2013, shareholders' equity was \$649,000, and the company increased its share capital by \$2.9 million (from a private placement, a debt conversion and the exercise of employee share options in 2014). As at 30 June 2018, shareholders' equity stands at just \$1.595 million.

The RC comprises Mr. Cheah Wee Teong (as chairman), Mr. Chue Wai Tat and Mr. Lee Teck Meng Stanley.

- (i) Can the RC clarify if it has reviewed the service contract(s) entered into between the director(s) and the company? What is the term of the service contract?**

The RC has stated that the remuneration packages of executive directors are set such that the executive directors are adequately but not excessively remunerated compared to other comparable companies in the industry in view of present market conditions and which takes into account the individual's and the company's performance.

- (ii) Has the RC reviewed how the remuneration packages of executive directors reflect the group's remuneration policies?**
- (iii) Has the RC evaluated if the remuneration policies supported the group to meet its objectives and deliver on its strategies?**
- (iv) In view of the performance of the group, has the RC evaluated how it could revise the remuneration framework to better align the interests of executive directors/employees and shareholders?**
- (v) The estimated compensation to executive directors has been between 17%-83% of shareholders' equity. Has the RC evaluated if the remuneration packages of executive directors are comparable to other listed companies with small market capitalisation, and taking into account the performance of the company and that of the executive directors?**
- (vi) From FY2013-FY2018, the cumulative remuneration of Mdm. Leong Lai Heng, spouse of Mr. Lim Kee Liew @ Victor Lim, Executive Chairman, CEO is estimated to be about \$1.525 million. Can the board disclose the job scope and level of responsibilities of Mdm. Leong?**

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

<https://sias.org.sg/qa-on-annual-reports/?company=Asian%20Micro%20Holdings%20Ltd>

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