



**Securities Investors Association (Singapore)**

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UEN No: S99SS0111B

GST Reg No: M90367530Y

**Issuer:** Far East Group Limited

**Security:** Far East Group Limited

**Meeting details:**

Date: 26 April 2019

Time: 11.00 a.m.

Venue: 51 Ubi Avenue 3, Singapore 408858

**Company Description**

Far East Group Limited is a Singapore-based company engaged in the refrigeration and air-conditioning businesses. The Company is involved in the trading of refrigeration parts, servicing of cold rooms, construction and installation of commercial and industrial cold rooms, and all other incidental business of refrigeration. It operates through three segments: Residential and commercial (air-conditioning), which relates to sale and distribution of air-conditioning materials that comprise copper pipes, copper tubes, Class 0 and Class 1 closed cell insulation pipes and sheets, polyvinyl chloride trunkings, electrical wires and refrigerants; Commercial and light industrial (refrigeration), which relates to sale of refrigeration component parts and the Company's range of thermal heat exchangers, and Oil, marine and gas (refrigeration and air-conditioning), which relates to sales and distribution of a range of air-conditioning and refrigeration systems for the oil, marine and gas industry.

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

1. As noted in the CEO's Message, 2018 was a year where management unlocked value with the disposal of several properties and made a great push into complementary businesses and expanded the group's offerings. Would the board/management provide shareholders with better clarity on the following operational matters? Specifically:

- (i) **M-Tech Air-Con & Security Engineering Pte Ltd ("M-Tech"):** The company acquired M-Tech at a purchase consideration of \$7.0 million in cash and 2,982,000 new ordinary shares. The book value and net tangible asset of M-Tech was approximately \$4.7 million. No valuation was commissioned by the company. **Would the board help shareholders understand why no valuation was commissioned by the company?** The aggregate value of the purchase consideration exceeded 50% of the company's market capitalisation. **What was the revenue of M-Tech prior to the acquisition?**
- (ii) **Oil, marine and gas (refrigeration and air-conditioning):** Can management let shareholders know the sentiment on the ground in the oil, marine and gas segment? **What is management's strategy to seize the opportunities when the sector recovers?**

2. The attendance of directors at board and board committee meetings is shown in the table below:

The number of Board and Board Committee meetings held and attended by each Board member for FY2018 is set out as follows:

	Board	Board Committees		
		Audit	Nominating	Remuneration
<b>Number of meetings held</b>	5	2	1	1
	Number of meetings attended			
Ms Loh Pui Lai	5	2*	1*	1*
Mr Loh Mun Yew	5	2*	1*	1*
Mr Leng Chee Keong	5	2*	1*	1*
Mr Hew Koon Chan	5	2	1	1
Mr Mak Yen-Chen Andrew	4	2	1	1
Mr Tan Hwee Kiong	5	2	1	1

\* By Invitation

(Source: Company annual report)

As can be seen from the table above, the non-independent directors (including the executive directors) were invited to all the board committee meetings. Ms Loh Pui Lai and Mr Loh Mun Yew are siblings and have interests in the company exceeding 65%. Mr Leng Chee Keong is the chief operating officer and has interests of 6.86% in the company.

- (i) Can the board help shareholders understand if it is the usual practice for non-board committee members (i.e. the non independent directors) to attend board committee meetings?**
- (ii) Were there specific agenda items or reasons to invite the non-independent directors (including the executive directors) to all the board committee meetings?**
- (iii) What is the dynamics of the board committee meetings when the board committee members may be reviewing and discussing matters that are related to or affect the executive directors?** Such board committee meetings would have included agenda items on performance assessment and remuneration of the executive directors and on the audit/financial reporting/internal controls of the group.
- (iv) Do the invited directors also actively participate in the discussions during the board committee meetings? If so, how are board committee meetings different from the board meeting?**

3. On 2 April 2019, the company announced that there are material differences between the unaudited results (first announced by the company on 28 February 2019) and the audited financial statements for FY2018 after the finalisation of audit by the external auditor.

The external auditor proposed certain reclassifications and adjustments which the management of the company has adopted accordingly.

The variance was as large as \$3.4 million.

The reclassifications included:

- Payroll-related expenses from administrative expenses to distribution and selling expenses
- Value added tax expenses from other operating expenses to administrative expenses
- Other receivables to amount due from joint venture and associates (non-trade)
- Additional accruals for payroll-related expenses and professional fees
- Provision for deferred tax liabilities on fair value gain on unquoted investment

- (i) How can shareholders get assurance from management that the financial statements are prepared in accordance with the Act and SFRS(I)?**
- (ii) Has the audit committee evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**
- (iii) Can the AC update shareholders on the improvement made/to be made to the group's financial reporting systems and processes?**



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A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Far%20East%20Group%20Ltd&cid=6377,4238>

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